

INVESTORS CONCERNS

INVESTORS CORE CONCERNS ABOUT INVESTING IN CRYPTO HEDGE FUNDS

Investors are mostly concerned about valuation, liquidity, custody and arbitrage when investing in Cryptocurrency funds.

VALUATION/ AUDIT

Investors are concerned about whether public cryptocurrency funds would have the information necessary to appropriately value cryptocurrencies, given their volatility, the fragmentation and general lack of regulation of underlying cryptocurrency markets. Furthermore, investors are concerned about how and which policies would be instituted in order to properly establish the “fair value” of a cryptocurrency fund’s portfolio. Insula funds NAV are precisely valued since Insula has access to low latency/high-frequency data for each of its portfolio components via the secure blockchain. Also, by looking at different exchanges (using Smart Escrow) Insula obtains the best price for each trade it completes improving valuation precision.

LIQUIDITY

Investors are also concerned about maintaining sufficient liquidity such that daily redemptions would be possible, given that most public open-end funds are redeemable on a daily basis. In the portfolio management process at Insula, the first step is a liquidity check. For instance, portfolio managers simulate an order of 50 ETH and if the slippage (market impact) is more than 20%, then the crypto asset is excluded from the investment universe, preventing slippage and liquidity traps when processing orders. Furthermore, through the order execution management system, Insula tackles efficiently the slippage risk that remains. For instance, the fund manager trades the assets on the CoTrader Super-DEX, which combines multiple decentralised exchanges such as Bancor, Kyber, and 0x for maximum liquidity, and hence minimal 7 optimised slippage.

CUSTODY

In light of the underlying novel technical aspects of cryptocurrencies and related cybersecurity threats, Investors inquired as to how funds that planned to directly hold cryptocurrencies would satisfy such custody requirements. However, the advantage of using the Ethereum blockchain is that investors in our non-custodial smart funds maintain complete control over their assets, with transparent proof of fund performance onchain. In fact, the platform works using smart contracts on the Ethereum blockchain that are programmed to allow only investors to pull assets in and out. Once funds are deposited, the fund manager can only trade the assets on the CoTrade. Hence, investors are able to access censorship-resistant financial services whilst remaining in full control of their wealth and personal data.

ARBITRAGE

Next, there are some concerns related to how well a cryptocurrency ETF’s arbitrage mechanism would be able to function in light of the fragmentation, volatility and trading volume of the cryptocurrency marketplace. An ETF’s arbitrage mechanism is the fundamental means by which the market price of the ETF’s shares is kept in line with its NAV. At Insula, the use of decentralized trading protocols tackles the issues aforementioned which prevent efficient price discovery. Typically we use 1Inch and Paraswap (which are DEX Aggregator) which give us the best rates on the market by splitting orders among multiple DEXes in one single transaction.



1 - WHAT DOES INSULA INVESTMENT MANAGEMENT DO IN SIMPLE TERMS?

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2 - WHAT ARE INSULA’S LEGAL STATUS AND COUNTRY OF OPERATION?

Insula investment management is a Decentralised Autonomous Fund (DAF). Insula's investment vehicle is blockchain-based and therefore is not attached to a given jurisdiction.

3 - WHAT ARE THE COSTS THAT INSULA IS INCURRING TO RUN SUCH AN INVESTMENT SYSTEM?

Since Insula has unbiased automation at the centre of its trading operations, costs (such as back-office, administrative costs, technology costs, tax and audit) are limited as they are processed by a machine. Therefore, the only costs that remain are reduced to Legal, Marketing and R&D costs, allowing Insula to run on a lean and extremely competitive model as a Crypto Hedge Fund.

4 - HOW DOES THE INVESTMENT PROCESS WORK?

The investment software has been designed so that only you can deposit or withdraw money with our funds. All we can do is simply use the deposits to carry out our service, which is to trade assets on your behalf. We only accept Ethereum deposit, which allows for such software to exist through a technology known as “smart contracts”. The software code is immutable and protected by ECDSA cryptography. Our investment process is run by algorithms to allow investors to get rid of any form of bias that hinders decision making. Although people are subject to making biased decisions, computers are designed to only make rational decisions.

5 - HOW ARE THE FUND ALLOCATION AND TRADING EXECUTED?

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6 - WHAT ARE THE BIGGEST RISKS WHEN INVESTING IN CRYPTO ASSETS?

For a given crypto asset, the largest risks are volatility and adoption risk. Volatility is self-explanatory. This is easy to see by looking at historical prices of any crypto asset. Adoption risk is the risk that the protocol and network of a given crypto asset fail to materialize as the protocol developers anticipated. This is analogous to the risk of investing in startup companies – most will fail. The best way to mitigate that risk is to diversify. Diversification is proven to be an effective way to reduce risk in all asset classes. For this reason, Insula aims to be market neutral through diversification.

7 - HOW DOES INSULA MAKE MONEY?

We charge 3000 Insulas per hour to deliver a person to person interactions, as well as 30% performance fees on our investment vehicles.

8 - HOW IS INSULA'S LEGAL AND CORPORATE DECENTRALIZED STRUCTURE ORGANIZED?

Our valuation structure is hybrid:

- Publicly listed Blockchain Decentralized Autonomous Corporation + Distributed Private Equity Network of private limited liability companies.
- In the case of server hack or bankruptcy, we have numerous backup websites and private company structures in a variety of different jurisdictions and legal systems.

9 - ARE ETHEREUM AND OTHER CRYPTOCURRENCIES RECOGNISED AS "SECURITIES" UNDER THE SECURITIES ACT OF 1933?

Many of the very large cryptocurrencies like Bitcoin and Ethereum are probably not "securities", and can probably be classified as "digital currencies" for now. Other cryptocurrencies or tokens would need to be examined on a facts and circumstances basis. For such an inquiry, I believe the Coinbase Securities Law Framework (See Appendix A) is a great place to start.

10 - DO I NEED AN ADVISOR TO BUY CRYPTOCURRENCY?

No. We believe that learning how to buy, sell and trade cryptocurrencies is important for all investors. We encourage all of our clients and prospects to open an account with a cryptocurrency exchange (eg.Coinbase) as part of their individual crypto learning process. Just like understanding how to trade stocks and having experience doing so helps make us better investors, the same is true for digital asset investing. Nevertheless, the learning process may be time-consuming, which is why we have developed consulting services which aim to deepen our client's knowledge of subjects such as cybersecurity, compliance, market research and smart contract.

11 - WHAT ARE THE USE CASES FOR CRYPTOCURRENCY?

There are many use cases for cryptocurrencies; however, on a macro level, two use cases are in high demand. In countries where governments poorly manage their money supplies, creating hyperinflation, the citizens of these countries have protected their wealth by moving commerce into cryptocurrencies. Businesses and individuals needing to send payments across international borders have also become strong supporters of cryptocurrencies because they offer international remittance capabilities that are faster and less expensive than current methods.

12 - HOW IS THE FUND VALUED?

The fund's NAV is continuously calculated by our administrator. Clients are provided with an interface with a login so they may see the changes in their account value on a daily basis. Available metrics are current client holdings, current client profit.

13 - ARE YOU GOING TO TRADE DERIVATIVES?

Absolutely not. Derivatives do not fall within the scope of our investment thesis. Moreover, derivatives are regulated, where Insula seeks to remain invested only on unregulated cryptocurrencies.

14 - DO YOU ACCEPT INVESTMENTS IN FIAT MONEY?

Insula only accepts investments in Ethereum.

15 - ARE YOU USING LEVERAGE (MARGIN TRADING)?

Not at the moment. We plan to connect with liquidity providers, talks have started to connect API's

16 - WHAT HAPPENS TO MY FUNDS IF INSULA INVESTMENT MANAGEMENT LTD BANKRUPTS AND/OR ITS WEBSITE CRASHES/GETS HACKED?

Nothing can happen to your funds, ever! Everything is still in your very own Web3 wallet, in your own hands forever, while our investment vehicles are deployed & active on the immutable Blockchain until infinity, without the need for any human intervention to proceed to deposit & withdrawal. Thanks to Insula's proprietary innovation, counter-party & bankruptcy risk is a nightmare from the past. We chose to offer a disinter-mediated, transparent & secure investment solution to our clients. With Insula, your crypto is stored on a Blockchain, the only place where crypto belongs to.

17 - IS THE RESEARCH CONDUCTED BY INSULA BIASED?

In line with its mission statement, Insula's research is conducted in a collaborative way that limits researcher idiosyncratic bias. Conducting its research as a decentralized network of academics around the world, Insula adds some much needed rigorous definitional and taxonomy to the cryptocurrency sphere.