

NICKEL DIGITAL ASSET FUND SPC – DIVERSIFIED ALPHA SP

MONTHLY NEWSLETTER

December 2021

Performance (Composite, Net of All Fees)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	-	3.13%*	3.72%*	3.47%*	4.71%*	-1.46%*	0.32%	0.27%	-0.04%	1.30%	1.04%	-0.31%	17.16%*

*Monthly returns between February - June 2021 reflect the performance of the Founder Share Class ('DA-USD-Institutional'). Monthly returns after June 2021 reflect the performance of the Class A shares ('DA-A-USD Institutional'), which launched July 2021. The YTD return figure reflects the composite performance of the Founder Shares and A Shares for the period.

Introduction and Overview

Nickel Digital Asset Management ("Nickel Digital") is an FCA authorised and regulated investment manager connecting institutional investors with the digital asset markets. Nickel Digital manages a range of investment solutions with differing volatility, return and correlation objectives.

Diversified Alpha SP – Institutional is a non-directional, multi-strategy fund which wraps a portfolio of typically hard-to-access external managers into a single, investible fund.

Commentary

Diversified Alpha delivered a -0.31% net return in December, bringing 2021's performance to +17.16% net, or +18.86% annualised. This closes out our first calendar year near the top end of our 15-20% return target. Looking forward, we are equally pleased with our achievements 'under the hood': we have tremendous confidence in the infrastructure, platform and offering that we are building here.

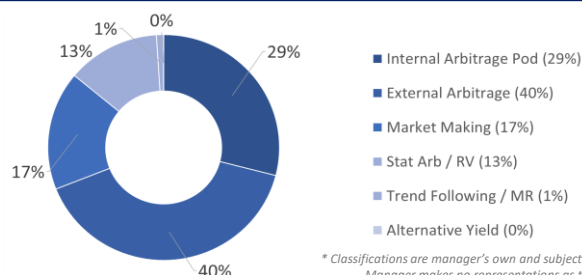
The portfolio had a small (-0.8%) drawdown early in the month, mainly driven by our Relative Value and StatArb basket, which took a hit during the market collapse on 4th December. By and large however, we were pleased with how the majority of our Pods handled what was the most violent crash since May. We had no risk breaches.

Post-crash (the 4th Dec), funding rates flipped to negative, which caused some bleed in our coin-margin positions across a number of Pods. Nevertheless, trading gains in External Arbitrage, Market Making and some residual basis positions in the Internal Arbitrage Pod made up for almost all of these losses, but a quiet end of month prevented us from pushing into positive territory.

The situation was reminiscent of August, where our market-neutral returns were dragged down to a +0.27% performance by some losses in RV / StatArb. This is a style in which we expect to make strong returns on average, punctuated by the occasional (2-4 times a year) drawdown.

We re-opened Alternative Yield / DeFi positions in January. This gives us the opportunity to in-house some of these, rather than farming them out to external allocators (who charge the fund performance fees). This reflects the relative simplicity of some of these trades, and the development of our in-house DeFi capabilities over the past six months (with the dedicated team now four-strong). The simple trades will now be run on a zero-fee basis as part of the Internal Arbitrage Pod. The value-add, much more active trades, which we expect to start putting on later in Q1, will form a fee-paying internal DeFi Pod, as outlined in the Quarterly Letter.

Strategy Breakdown (\$ terms)



Market Review

Markets had their first big reset since May on the 4th December. BTC fell a full 20% in under a day, with a large, violent cascade of liquidations over two minutes accounting for fully half of the move. Funding rates plunged into deeply negative territory, basis across multiple expiries was flattened, implied volatility breached 100% for the first time in months and Open Interest collapsed by at least a quarter across major instruments.

Market structure held up well, with no major incidents outside of the typical exchange latencies and blockchain congestion as traders scrambled to adjust positions and margin. All major indicators normalised within hours, and the market limped back up and settled into a subdued, mostly eventless regime for the rest of the month, closing 2021 out with a whimper, with BTC at \$46,200 and ETH at \$3,680, down 30% and 20% respectively from their all time highs set in November.

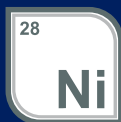
Notably, December saw a strong correlation between the high-flying, loss-making tech darlings (\$U, \$NET, \$TWLO, \$SNOW...) and crypto markets, with the former seemingly leading the latter. Crypto, including BTC, is currently trading as a 'risk-on' asset.

Fund Information

Investment Manager	Nickel Digital Asset Management
Auditor	KPMG
Administrator	Trident Fund Services
Custodian	Copper Technologies
Inception Date	01 February 2021
Share Class Currency	US Dollars
Legal Structure	Cayman Islands SPC
Minimum Investment	\$1,000,000
Fund AUM (1 Jan 2022)	\$116 million
NAV Reporting	Monthly
Subscriptions	Monthly, 3 days notice
Redemptions	Monthly, 90 days notice
Management Fee, pa	2%
Performance Fee, pa	20%
ISIN	KYG6562G1468

Contact Information

Nickel Digital Asset Management, 34 St James's Street
London SW1A 1HD, United Kingdom
+44 20 7947 0300 / ir@nickel.digital / www.nickel.digital



NICKEL DIGITAL ASSET FUND SPC – DIVERSIFIED ALPHA SP

CONFIDENTIAL: NOT FOR RE-DISTRIBUTION – FOR PROFESSIONAL INVESTORS ONLY

DISCLAIMER

This document is provided by Nickel Digital Asset Management Limited (“Nickel”) for information purposes only and is not for distribution. Nickel Digital Asset Management Limited (FRN: 918770) is authorised and regulated by the United Kingdom Financial Conduct Authority (“FCA”). Nickel acts as the Investment Manager to Nickel Digital Asset Fund SPC and its underlying segregated portfolios Digital Asset Arbitrage SP – Institutional, Digital Gold SP – Institutional, Diversified Alpha SP - Institutional and DeFi Liquid Venture SP – Institutional (each a “Fund” and together the “Funds”).

The information in this document is intended only for the person(s) or entity to which it is addressed and is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulations. This document does not constitute or form part of any offer to issue or sell, or any solicitation of an offer to subscribe or purchase, any investment, including shares in Nickel or any of the Funds (“Shares”), nor shall it or the fact of its distribution form the basis, or be relied on in connection with, any contract. Investing in any of the Funds involves a high degree of risk. Any person intending to invest in Shares must be able to bear the risks involved and must meet the suitability requirements relating to an investment in the Shares. An applicant for Shares may not rely on this document for the purposes of making an investment decision. Applications can only be made at the relevant time on the basis of the offering documents of the Fund(s) available at such time, which contain important information (including investment objective, policies, risk factors, tax implications and relevant qualifications). Tax treatment depends on individual circumstances and may be subject to change in the future. Potential investors should seek their own independent financial and tax advice. Shares shall not be offered or sold in any jurisdiction in which such offer or sale would be unlawful until the requirements of the laws of such jurisdiction have been satisfied. None of the products or services referred to in this communication are available to the general public in any jurisdiction.

This document may contain confidential and/or privileged material and any review, retransmission, dissemination, copying, disclosure or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited. While all of the information in this communication is believed to be accurate, neither Nickel nor its officers, directors, employees, agents, controlling persons or affiliates makes any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this document, and nothing contained herein is, or shall be relied upon as, a promise or representation, whether as to past or future facts or results. Assumptions, estimates and opinions contained in this document constitute information we received from reliable sources as of the date of the document and are subject to change without notice. Third party information utilised herein has been obtained from, or is based on, sources believed by Nickel to be reliable but is not guaranteed as to its accuracy or completeness and should not be relied upon. All information contained in this document is obtained from sources which Nickel believes to be reliable, but which have not been independently verified. Each of the Funds’ performance data is verified by the administrator, and market data is sourced from Bloomberg amongst other data sources. Any index information presented herein is included merely to show the general trend in the relevant markets in the periods indicated and is not intended to imply that the Fund portfolio was or will be similar to the indices either in composition or element of risk. Past performance is not an indication of future results, and the value of investments may go down as well as up; and returns may also be affected by exchange rate fluctuations in non-USD denominated investments. There is no guarantee that the Fund(s) will achieve its investment objectives. All Fund(s) performance shown is net of all fees and expenses. Nickel nor its officers, directors, employees, agents, controlling persons or affiliates will be liable for any inaccuracies, errors or omissions in the material or in the transmission or delivery of all or any part thereof or for any damage arising from any of the foregoing.

This document may be issued in the United Kingdom by Nickel to, and/or is directed at, only persons that have been categorised as professional investors or eligible counterparties. This document is not intended for distribution in the United States or for the account of U.S. persons (as defined in Regulation S under the United States Securities Act of 1933, as amended) except to persons who are “accredited investors” and “qualified purchasers” in each case as defined under applicable US federal securities laws, thereby also qualifying as “qualified eligible persons” as defined in Rule 4.7 under the United States Commodity Exchange Act, as amended. The Fund(s) will not be registered as an investment company under the Investment Company Act and any securities offered will not be registered under the Securities Act or qualified under any applicable state securities statutes.

The privacy notice of Nickel is available upon request. The privacy notice sets out how Nickel holds and uses personal data relating to individuals, including investors and individuals connected to investors. The recipient must provide the privacy notice to (i) each individual whose personal data the recipient has provided or will provide to Nickel (such as a director, partner, trustee, employee, agent or direct or indirect owner) and (ii) any other individual connected with the recipient as may be required by Nickel.

Nickel Digital Asset Management Limited is registered in England and Wales (Company Number: 12306648).