Teroxx Digital Asset Fund

Investment Process

STRATEGY OVERVIEW / Factsheet / INVESTMENT PROCESS within the target investment

The **Teroxx Digital Assets AIF** implements Teroxx's in-house trading strategy, which originates from the equity index futures sector and has been successfully applied to digital assets for the last 6 years. The strategy is automated and traded by an in-house developed software.

STRATEGY within the target investment

The strategy in the fund is an in-house development of the Teroxx team. It has the advantage that it has been traded over the last 6 years and has already proven its robustness.

The focus of Teroxx is to automate the use of the two most important characteristics of liquid markets: the trend momentum effect and the typical fluctuation in the price volatility pattern of a market.

Temporary intermittent effects in the markets are avoided to ensure the longevity of the strategy.

The main objective is the execution of long trades with the same characteristics of the overall market phases. To take advantage of the autocorrelated trend behaviour of these markets, we concentrate on maximizing each trade when market conditions are favourable. For each entry a tight initial stop is maintained. This leads to a profile in which, although many trades balance each other out, individual trade series with a regular sequence result in the desired winners. This results in a very good statistical expectation value at a moderate frequency, which leads to an interesting performance with moderate temporary drawdowns.

TRADED MARKETS

The Teroxx strategy trades exclusively in highly liquid digital assets. Due to the complete automation, trading is done 24 hours a day, 7 days a week. Currently the top 30 crypto-assets by market cap are part of the strategy (stablecoins are excluded from the market-cap criterium)

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TECHNOLOGY

The automated trading software is implemented in C# (listings from key-value pairs), which allows full flexibility. Since no third-party middleware is used, the highest quality of implementation and maximum stability can be achieved. In addition, no compromises had to be made due to limitations of the third-party software.

RISK CHARACTERISTICS

The strategy was developed with an emphasis on minimal risk and drawdown. During the development of the strategy, special care was taken to design the money management in such a way, that even in extreme market downturns, such as those that occurred in 2008 or 2000-2003 and 2020, no drawdown of more than 20 percent should occur. This goal is achieved by limitation of any kind of leverage and the application of a specially developed stop management system. The broad diversification of crypto-asset combinations reduces individual market drawdowns within the strategy. In the unlikely event that the strategy is invested in all markets with maximum Leverage invested at the same time, a maximum leverage of four (4) would be achieved. In most cases, the strategy is not invested or is invested with a leverage of less than one (1).

The risk of overnight gaps in longer trades known in conventional markets does not exist at the spot levels in the crypto market.

It was very important in the development of the strategy that no increase in risk occurs after losses takes place, to avoid any kind of fat tail risk. For every open position there is always a stop in the market.

BROKERAGE and counterparty risks

As a broker, it is very important to choose high quality and trustworthy partners and to spread the risk over several different regulatory approved parties. Any type of broker with questionable business practices is avoided. In addition. Good pricing, sophisticated institutional level technology and an excellent direct market access worldwide are important to us.

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The selection of transaction decisions in the investment process

To ensure a rule-based investment process, which is carried out through automated sequences or also by the support of computer-based systems, the following parameters are established:

I. IInvestment universe - quarterly selection of traded assets (top 30 according to market capitalization, stablecoins excluded).

II. Define trading pair per assets, which has the highest 24 hours trading volume. (Mostly USDT, alternatively USDC, USD or Euro). Here the total assets are spread over different exchanges to reduce counterparty risks.

III. Distinction between spot and derivatives trading. Leverage of maximum three in derivatives trading - increased diversification as only one third of the investment amount is used. Risk is adequately adjusted.

IV. Opening of a position with a maximum allocation of 10 percent per asset. This serves the risk optimization and ensures the independence of individual assets and the avoidance of cluster risks.

V. Stop loss is based on position size, resulting in position and money management. The maximum risk per position is 8 percent.

VI. Trailing stop-loss of each position ensures that the built-up stop-loss floors are automatically tightened when the position is in the profitable range. For each movement that increases the profit of the trade, the trailing stop loss is increased by a factor of 2. loss is increased by a factor of 2 until the break-even point is reached and the capital risk from the trade is 0.0 percent. Then the trailing stop loss is pulled upwards with a factor of 1, so that a stop out of the position in the profitable area, but smaller movements do not immediately trigger the hedge.

VII. After a position has been closed, a new position can be taken at any time in the respective asset at any time. There is no downtime or similar since the possibility of long and short of long and short trading often contrary movements can make quick decisions necessary.

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DECISION, INTRODUCTION AND RULES OF A PROCESS

Opening a position depends on many different factors. Different strategies are used strategies are used, which are then combined in the overall picture or act individually act, to be able to measure the respective success. By the simultaneous use of different indicators, which all together must give a clear buy or sell signal, the positions are built up. These are, among others, trend-following, Momentum, mean reversion, and confirmation of support levels. Liquidity in the market is also important, as it has no fixed value, but is subject to strong fluctuations. A quarterly value is set, which is the 24-hour volume an asset must have at least to be traded. Currently this amounts to 100 million in a trading pair (e.g., BTC/USDT). Increasing liquidity is often a sign of volatile movements in the market, which also makes it an important indicator for the trading.

Risk management is always designed for optimization and capital preservation, which becomes subject to a fixed value and expiry.

Therefore, all actions must be in accordance with the risk management and must be implemented. Since "news" often creates volatility and strong inefficiencies, it is also important to always pay attention to important news and events. That is why "news supported trading" has also been included in the investment spectrum.