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Cipher Chain Partners LP
Quarterly Investor Letter – Q4 2025

Dear Cipher Chain Partners,

As we close 2025, it is useful to step back from short-term market fluctuations and focus on the forces that ultimately drive outcomes in decentralized finance: liquidity, incentives, and regulation. In DeFi, these variables are unusually transparent. Liquidity becomes stablecoin supply. Incentives become activity. Regulation becomes either friction or acceleration.

The year began with optimism. The transition to a more crypto-constructive U.S. administration created expectations for renewed capital formation, broader participation, and a more durable regulatory foundation. While progress on the policy and infrastructure fronts has been real, 2025 ultimately unfolded in a more complex and, at times, counterintuitive manner - particularly with respect to DeFi activity and retail participation.

For the full year, Cipher Chain Partners generated a return of approximately 8.51% (~11% APY in Q4) with a Sharpe ratio of 1.29. While we remained profitable and preserved capital throughout the year, results came in modestly below our long-term target. We believe this reflects an environment in which infrastructure advanced faster than activity, and where macro liquidity conditions constrained risk-taking more than prevailing narratives suggested.

Stablecoin Liquidity and DeFi Activity

Throughout 2025, DeFi continued to mature beneath the surface. Protocol resilience improved. On-chain execution became cheaper and more reliable. Institutional tooling around custody, risk management, and settlement advanced meaningfully. Stablecoin infrastructure, in particular, reached new scale and sophistication.

Yet despite these advances, DeFi activity, especially from retail participants, lagged expectations. Organic risk appetite remained muted, and leverage was deployed more selectively than in prior cycles. In our view, this divergence does not reflect a lack of product-market fit, but rather the impact of tighter liquidity conditions on capital formation.

Stablecoins remain the monetary base of the decentralized economy. While their supply and institutional adoption continued to grow, the cost of capital and opportunity cost of leverage limited downstream activity. Historically, activity tends to lag liquidity inflections rather than lead

them. We believe the infrastructure built over the past two years positions the ecosystem well for a reacceleration when financial conditions ease.

Regulatory Progress

Regulatory clarity continued to improve over the course of the year, particularly around stablecoins. The passage of a federal stablecoin framework in the United States marked an important milestone, providing clearer guardrails around issuance, reserves, and oversight. Globally, regulators have increasingly converged on principles around transparency and consumer protection.

We view these developments as constructive over the long term. Clearer rules reduce uncertainty, lower operational risk for institutional participants, and support broader adoption of on-chain settlement infrastructure. While regulatory regimes remain uneven and evolving, the direction of travel is increasingly toward clarity rather than ambiguity.

Market Environment

Macro liquidity conditions played a central role in shaping outcomes this year. While inflation trended lower and rate expectations shifted, funding markets repeatedly reminded participants that balance-sheet constraints still matter. Treasury issuance, reserve management, and quarter-end funding dynamics periodically absorbed liquidity and dampened speculative activity.

Late in the year, policymakers took steps to stabilize funding conditions, including ending balance-sheet runoff and implementing reserve-management measures. While framed as technical actions, these shifts reduced tail-risk in the financial system and are meaningful for risk assets at the margin.

Crypto markets reflected this tension. Prices repriced meaningfully during the quarter, yet underlying DeFi infrastructure remained resilient. Stablecoin liquidity stayed elevated, on-chain volumes remained robust, and volatility created pockets of relative value for disciplined, liquidity-aware strategies.

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Outlook for 2026

Looking ahead, we are cautiously optimistic.

We believe a lower-rate environment, continued regulatory clarity, and improving liquidity conditions could allow DeFi activity to better align with the infrastructure that has already been built. For market-neutral strategies, these environments often prove attractive: dispersion widens, funding spreads normalize, and structured yield opportunities re-emerge without requiring directional exposure.

While 2025 finished slightly below our return objectives, it served as a year of validation for our framework. Our systems were tested in a lower-activity environment, risk controls proved resilient, and the opportunity set entering 2026 appears broader and more aligned with our strengths.

As always, our priorities remain unchanged: protect capital, compound prudently, and remain adaptable as markets evolve.

We appreciate your continued trust and partnership. On behalf of the entire team at Cipher Chain Capital, we wish you and your family a happy holiday season and a prosperous New Year. We look forward to navigating the opportunities ahead together.

Sincerely,

Cipher Chain Capital