INTERVIEW WITH AYLA KREMB

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The co-founder of a $10 million crypto hedge fund breaks down the firm's 2 DeFi yield farming strategies — and shares a network that offers a killer APR

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AYLA KREMB

COO

Diffuse Inc

COO of Diffuse, 10 years of emerging tech fundraising, startup commercialization, operator, incubator & manager of alternative asset funds.

Alya Kremb is co-founder and chief operating officer of the $10 million crypto hedge fund Diffuse.

Kremb breaks down the firm's two DeFi yield farming strategies that generate attractive returns. She shares a yield farming pool that offers a prelaunch APR of 90,000%, according to its website.

Even with bitcoin and ethereum notching new all-time highs, the opportunities in crypto are so plentiful that digital asset hedge fund Diffuse is constantly incubating new strategies and launching about one fund per quarter.

Founded in 2019 by emerging-tech veteran Ayla Kremb and high-frequency trader Kenny Estes, Diffuse, which started out as an alternative asset manager, only got into crypto in October last year.

"Neither of us was super bullish on crypto specifically. But after the DeFi summer, we saw that there's a real opportunity to replace a lot of the functions that are currently executed in the financial world by using technology in a different way," Kremb told Insider in an interview.

The duo grew fascinated by decentralized finance, which refers to financial services such as trading, borrowing, and lending that are automated by software instead of executed by middlemen.

Kremb and Estes started incubating two DeFi-oriented trading strategies on their own balance sheet. They tested them out until January this year before launching them as funds and raising external capital. Starting in June, the firm raised $10 million in just 90 days for the two DeFi strategies and an index product tracking the top 30 cryptocurrencies ranked by market cap, according to Kremb.

The two DeFi trading strategies are able to notch attractive returns and draw in external investors at such a rapid speed because they operate in the highly complex and risky world of DeFi yield farming. At its core, DeFi yield farming is a way to lock up cryptocurrencies and get rewards in the form of tokens for doing so. These reward tokens can then be deposited in other liquidity pools to earn even more rewards there.

Yield farming became all the rage when Compound (COMP), a DeFi lending protocol that allows users to earn double-digit interest on their crypto deposits, started to attract a large number of users to its platform last June. From there, other DeFi platforms such as Aave (AAVE) boomed during what the industry calls the "DeFi summer."

2 DEFI YIELD FARMING STRATEGIES

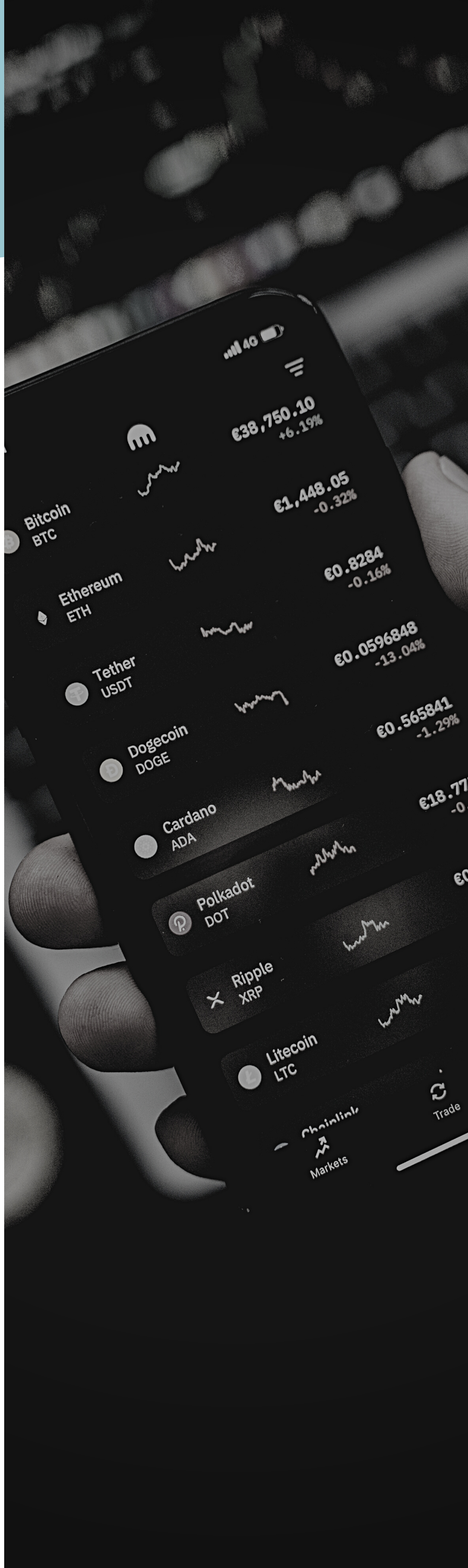
Diffuse offers two types of yielding farming strategies.

For investors who are bullish on crypto and want to maximize their returns with DeFi, the firm takes so-called blue-chip tokens including bitcoin (BTC), ethereum (ETH), and polygon (MATIC), and stake them in different pools.

To differentiate from competitors, the firm only stakes tokens in emerging pools, which are either in the pre-launch phase or just hours within the launch. The firm has hired an analyst whose full-time job is to find these new pools through intense research. It also borrows certain assets and stakes those with extra leverage to juice the returns.

"This is not your Aave kind of farming activity," Kremb said. "Some of the returns in these pools on launch day is 75,000% APR, and then that declines down to about 50% or 60%.

For example, one of the emerging pools the team has been monitoring is called Farmers Only, which is an upcoming yield farm built on the Avalanche (AVAX) blockchain. The yield farm has a USD Coin (USDC) pool that offers a prelaunch annual percentage rate of 90,000%, according to its website. Kremb estimates that such returns would decay to around 50% to 100% within two to three weeks of launch. Farmers Only, which is set to launch yield farming on October 23 at 8 pm UTC, also has a Tether (USDT) pool with a prelaunch APR of 374,103%, as of Thursday afternoon, according to its website.



For investors who want DeFi yields but minimum volatility, Diffuse's second strategy involves staking USDC and USDT, which are stablecoins pegged to the US dollar at a one-to-one ratio, in emerging pools in a similar fashion. Because stablecoins do not fluctuate in value, investors avoid doubling market exposure that staking bitcoin or ethereum would.

HIGH REWARD, HIGH RISK

Of course, the insane returns of these DeFi yield farming strategies come with a caveat. Yield farmers could encounter "hard rug pulls" and "soft rug pulls," which would result in the loss of principal capital and the loss of rewards tokens, respectively, Kremb said.

Even billionaire investor Mark Cuban could not avoid being rug pulled. In June, he got hit by losses in Titan, a DeFi token that crashed to $0 from $65 after whale accounts allegedly unloaded their shares and triggered panic selling.

Kremb said Diffuse has put in processes that protect investors against such risks.

To prevent a hard rug pull, the team uses a few third-party code review sites like RugDoc before putting on a trade.

"We don't go into things that have questionable developers or where the code is certified to be fishy," she said.

She explains that the team has also insulated themselves against a soft rug pull by claiming all their rewards at least daily. "Every couple of hours, we pull out the rewards, so that really minimizes our exposure massively," she added.

Despite the fat returns, Kremb does not think retail investors should replicate these strategies by themselves due to the time, money, and high risks involved. She estimates that an investor needs to put in at least $2 million to $3 million of capital and four hours of daily work in order to execute these strategies.

"We have automated a lot of the processes but we've spent a lot of tech dollars to automate it," she said.

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