

CASTELLAN CAPITAL — SYSTEMATIC ARBITRAGE SLEEVE

Position Commentary:

CRCL & SLX — 58-Day Review

Document type	Internal position commentary — for investors and investment committee
Period	6 July 2026 → 2 September 2026 (58 days)
Positions	Circle Internet Group (NYSE: CRCL) — Long · Solstice Finance (SLX) — Short
Classification	Confidential — not for further distribution

1. Portfolio Summary

This note summarises Castellan's activity and analysis across two positions in the systematic arbitrage and discretionary macro sleeves over the 58-day period ending 2 September 2026. We established a long position in Circle Internet Group (CRCL) on 6 July 2026 at \$68.34 and a short position in Solstice Finance (SLX) at approximately \$0.650 on the same date. Both positions have moved materially in our favour. Below we set out what we did, why, what changed, and how we are positioned going forward.

EXHIBIT 1: POSITION SUMMARY — 2 SEPTEMBER 2026

	CRCL — Long	SLX — Short
Entry date	6 July 2026	6 July 2026
Entry price	\$68.34	~\$0.650
Current price	~\$90.50	~\$0.068
Return to date	+32.4%	+89.5% (short P&L;)
Annualised (58-day)	+203%	+562%
Current status	HELD — under review	CLOSED — thesis realised

2. Solstice Finance (SLX) — Short Position: Closed

2.1 Why we established the position

We established a short position in SLX at approximately \$0.650 on 6 July 2026, one week after the token reached its all-time high of \$0.6604. Our thesis at entry rested on six structural observations: extreme token concentration in the top 10 wallets (estimated 70–95% of supply); a 24.3% circulating float leaving three-quarters of total supply yet to unlock; a documented secondary-market depeg of the USX stablecoin to \$0.10 in December 2025 (resolved by discretionary liquidity injection rather than mechanism); the strcUSX vault's exposure to Strategy Inc.'s STRC preferred shares, which were already trading below par and under active securities fraud investigation; a volume-to-market-cap ratio on launch day consistent with coordinated market-making rather than organic price discovery; and the mechanical overhang of the Season 2 Flares claim window scheduled for 9 July.

Against these risks we weighed the bull case honestly: a genuine multi-year live yield track record, credible institutional backing through Deus X Capital and Galaxy Digital, and real TVL growth to over \$500M. Our judgement was that the structural supply and collateral risks were substantially underpriced at \$0.650.

2.2 What happened

EXHIBIT 2: SLX PRICE TIMELINE

Date	Price	What we observed
29 Jun 2026	\$0.6604 ATH	All-time high set on Korean exchange listings (Upbit, Bithumb) and momentum. We noted volume-to-market-cap dynamics inconsistent with organic price discovery.
6 Jul 2026	~\$0.650	We established our short position.
9 Jul 2026	\$0.45 → \$0.16	Season 2 Flares unlock claim window opened. Heavy sell pressure from retail claimants. Price fell 32% intraday and continued lower through the week. Exactly the mechanic we modelled.
10 Jul 2026	\$0.164	SLX broke below \$0.20 for the first time. \$53M in volume on a token with insufficient buy-side depth — confirming the secondary liquidity gap we identified in the original analysis.
Jul–Aug 2026	\$0.10 → \$0.07	Continued decline as funding rates normalised (removing squeeze risk), STRC/MSTR collateral deterioration continued, and no new catalysts emerged to support the long side.
2 Sep 2026	~\$0.068	Token 89.7% below ATH. Market cap approximately \$16.5M. We closed the position.

2.3 Why we closed

We closed the SLX short position at approximately \$0.068 on 2 September 2026, realising a return of 89.5% over 58 days. The decision to close was straightforward: the original thesis had fully played out, and the risk-reward of continuing to hold had inverted.

- At \$0.068 and a market cap of ~\$16.5M, the incremental dollar return from any further decline is minimal relative to the execution risk of maintaining a short in a near-illiquid token.
- Every structural risk we identified at entry — unlock pressure, funding dynamics, strcUSX collateral deterioration, secondary liquidity fragility — had materialised and was now reflected in price.
- Holding beyond thesis realisation is not disciplined risk management. We closed and redeployed the capital.

Result: SLX short closed at ~\$0.068. Entry \$0.650. Return +89.5% over 58 days (annualised +562%). The position performed in line with our original structural thesis and ahead of the timeline we modelled at entry.

3. Circle Internet Group (CRCL) — Long Position: Held

3.1 Why we established the position

We established a long position in CRCL at \$68.34 on 6 July 2026 — precisely the stock's June 2025 IPO opening-day price, having retraced from an all-time high of \$298.99. At the time of entry, the stock had fallen 17.55% in a single session on 30 June following the announcement of Open USD (OUSD), a consortium stablecoin backed by 140+ companies including Visa, Mastercard, Stripe, BlackRock, and Coinbase. Our analysis at entry concluded that this selloff was a sentiment-driven overreaction rather than a fundamental re-rating of Circle's business.

Our original entry thesis rested on three pillars: (i) USDC transaction volume was growing faster than reserve rates were falling, making the core revenue model more resilient than the market was pricing; (ii) the Circle-Coinbase revenue-sharing agreement was due for renegotiation in August 2026, and regulatory developments had materially shifted bargaining power toward Circle — we modelled an improvement in terms as the base case; and (iii) the \$222M Arc blockchain presale at a \$3B FDV, backed by BlackRock, Apollo, and a16z, was entirely excluded from guidance and consensus models, representing an asymmetric embedded option.

3.2 What changed — an honest account

Fifty-eight days in, the position is up 32.4% to approximately \$90.50. The path has been volatile, and several developments have changed the analytical picture in ways that require honest acknowledgement.

EXHIBIT 3: MATERIAL DEVELOPMENTS SINCE ENTRY

Development	What we observed	Impact on original thesis
Q2 2026 Earnings 5 August 2026	Revenue \$701M, +7% YoY, missed ~\$717M consensus. EPS \$0.18, beat \$0.16 consensus — fourth consecutive beat. USDC circulation \$73.3B at quarter end, down sequentially from \$77B in Q1. Average circulation reached an all-time high of \$76.5B. Coinbase deal renewed on existing terms. Other revenue guidance doubled to \$310–330M, incorporating \$180M of Arc presale revenue recognition. RLDC margin guidance raised to 41.7–43.7%.	Coinbase renewal unchanged — our bear case on that specific catalyst. Arc confirmation materially ahead of our base case. Revenue and sequential USDC decline create near-term earnings pressure.
Coinbase Deal Renewed Existing Terms	Circle confirmed on the Q2 earnings call that the Coinbase partnership was renewed without disclosed changes to the economics. The Hyperliquid arrangement — where approximately 90% of Hyperliquid's USDC sits on Coinbase's platform — means Circle receives near-zero economics on Hyperliquid's significant USDC volume. CFO declined to detail the precise split.	This was our explicit bear case in the original scenario analysis and it occurred. The margin improvement we modelled from renegotiation has not materialised. We treat this as a meaningful miss against our original thesis.
Arc Mainnet 16 September 2026	Arc mainnet confirmed for 16 September 2026. Founding validators include BlackRock (deploying BUIDL), DTCC, Visa, Mastercard, Goldman Sachs, JPMorgan, Standard Chartered, Galaxy, ICE, and Sumitomo Corporation. Testnet processed over 500 million transactions across 3 million wallets. Management confirmed \$180M of Arc presale revenue will be recognised in 2026 as product milestones are achieved.	This is materially ahead of our original base case for Arc. We modelled it as a free option excluded from consensus — it is now partially priced and has a hard launch date with credible institutional validators. The embedded option has begun converting to reality.

Development	What we observed	Impact on original thesis
Chelsea FC Sponsorship 28 August 2026	Circle announced as Chelsea FC's principal shirt sponsor for the 2026/27 Premier League season. USDC branding on men's, women's, and academy shirts. Deal value not disclosed; reports place the annual figure at approximately £65M (~\$88M). First cryptocurrency firm as principal shirt sponsor of a Premier League club.	Strategically logical for USDC brand reach and global adoption. However, \$88M/year in sponsorship costs represents a material commitment at a time when the market is focused on distribution cost discipline. Net negative on near-term profitability; neutral-to-positive on long-run adoption.
WSJ — Bank Stablecoins 26 August 2026	The Wall Street Journal reported that major and regional US banks have begun actively exploring issuing their own stablecoins under the GENIUS Act framework. Stock fell approximately 3% on the day.	We flagged this as a medium-term structural risk in our original Section 8 risk matrix. It is now accelerating rather than remaining theoretical. The GENIUS Act, which we characterised as legitimising Circle's moat, also provides the regulatory framework for well-capitalised bank competitors.
Morgan Stanley Cut 3 August 2026	Morgan Stanley cut their price target from \$106 to \$38 and maintained Underweight, citing structural OUSD risk and lowering long-run USDC supply forecasts by 33% for 2027 and 44% for 2028. Their ex-Arc valuation was characterised as approximately \$25/share.	The most bearish institutional view in the market, and one we take seriously. We disagree with the 33–44% USDC supply haircut but cannot dismiss the structural logic. We are monitoring OUSD adoption data as the primary empirical test.

3.3 Where our original analysis held up

- **OUSD overreaction thesis confirmed.** CRCL recovered from ~\$61 post-earnings to ~\$90, consistent with our framing of the June 30 selloff as sentiment-driven rather than fundamental. OUSD has not launched at scale. Our six-argument case against the market's panic has held.
- **Volume growing faster than rates falling.** USDC's share of stablecoin transaction volume reached approximately 70% in June 2026, up from 36% in the prior-year quarter. Circle Payments Network reached \$23B annualised volume by 31 July. The transaction utility thesis underpinning the long is intact.
- **Arc is de-risking ahead of schedule.** The September 16 mainnet launch with BlackRock, DTCC, and JPMorgan as founding validators is materially stronger than what we modelled as base case. \$180M of Arc presale revenue is now flowing through the income statement.
- **Agentic finance is real.** USDC and the X402 protocol are processing 99.3% of agentic payments across 900+ paid services in the Circle Agent Marketplace. This is a use case we identified early that is beginning to show in operating metrics.

3.4 Where our original analysis missed

- **The Coinbase renegotiation did not improve.** This was our primary margin catalyst and our explicit base case. It did not occur. We underestimated Coinbase's ability to renew on existing terms despite the regulatory headwinds we correctly identified.
- **Sequential USDC supply decline in Q2.** USDC fell from \$77B at Q1 end to \$73.3B at Q2 end. We did not model a sequential decline. While year-on-year metrics remain strong, the sequential softness is a data point we take seriously.
- **Chelsea sponsorship adds opex we did not model.** An \$88M/year commitment was not in our cost assumptions and compresses the margin profile we built into our valuation.

3.5 Current position and forward view

We continue to hold the CRCL long position. The original thesis is narrower than at entry — the Coinbase renegotiation miss removes a significant margin catalyst — but the remaining pillars are intact and the Arc mainnet on

16 September is the next material data point.

At approximately \$90.50, the position is up 32.4% from entry. The analyst consensus sits at approximately \$103 (average of 27 analysts), implying approximately 14% further upside from current levels — a substantially thinner risk-reward than the 108% available at our entry price. We are not adding to the position at current levels. Our internal valuation, incorporating the Coinbase renewal miss and the Chelsea opex addition but also the Arc de-risking, implies a through-cycle fair value range of \$95–120.

EXHIBIT 4: INTERNAL SCENARIO FRAMEWORK — SEPTEMBER 2026

Scenario	Key conditions	Internal fair value	vs current (~\$90.50)
Downside	OUSD gains meaningful adoption (>\$15B supply within 6 months of launch); bank stablecoins launch under GENIUS Act and erode USDC share; Arc fails to generate commercial transaction volume post-September 16; reserve rates continue falling without volume offset	\$55–65	-28 to -40%
Base	OUSD adoption tracks below USDG precedent; Arc generates early institutional transaction volume; CPN begins fee monetisation in H2 2026; reserve rate compression continues but USDC volume growth more than compensates; Coinbase deal terms remain flat	\$95–110	+5 to +21%
Upside	Arc achieves significant DeFi and TradFi adoption; BlackRock BUIDL deployment on Arc drives institutional network effects; OUSD fails to launch at scale; Coinbase deal terms improve at next review; Chelsea partnership drives measurable USDC retail adoption	\$150–175	+66 to +93%

3.6 What we are watching

- **Arc mainnet launch — 16 September 2026.** The launch itself is expected. What matters is the first 30–60 days of commercial metrics: transaction volume, fee revenue, developer activity, and whether the DTCC and BlackRock commitments translate into live settlement activity. We will reassess position sizing on the basis of these first data points.
- **OUSD launch and early supply data.** Once OUSD goes live, we will track weekly supply. Below \$5B in the first 90 days would confirm our overreaction thesis. Above \$15B would require a prompt reassessment of the long.
- **Q3 2026 earnings (expected November).** The first quarter to fully incorporate the Hyperliquid/Coinbase economics, the first Arc commercial revenue line, and the Chelsea opex. This is the most important earnings release for this position since entry.
- **CPN monetisation.** Management guided for monetisation beginning in H2 2026. Any disclosed fee revenue from CPN would represent the first material diversification away from reserve income and would be read positively.
- **Bank stablecoin announcements.** We are watching for any major US bank publicly confirming a stablecoin issuance timeline. This would be the most significant structural headwind to emerge since OUSD.

4. Current Portfolio Status

EXHIBIT 5: CASTELLAN POSITION LOG — 2 SEPTEMBER 2026

Ticker	Name	Direction	Entry	Entry date	Current	Return	Status
CRCL	Circle Internet Group	Long	\$68.34	6 Jul 2026	~\$90.50	+32.4%	Held

Ticker	Name	Direction	Entry	Entry date	Current	Return	Status
SLX	Solstice Finance	Short	~\$0.650	6 Jul 2026	~\$0.068	+89.5%	Closed 2 Sep 2026

We are currently scanning for new opportunities across digital asset infrastructure, stablecoin-adjacent equities, and decentralised finance protocols. A separate note will be circulated once a new position is established.

This document is a confidential investor communication produced by Castellan Capital Ltd. It describes positions held by Castellan Capital and the reasoning behind those positions. It does not constitute investment advice, a solicitation, or a recommendation for any third party to buy, sell, or hold any security or digital asset. Past performance of Castellan's positions is not indicative of future results. Digital asset markets are highly volatile; equity markets carry their own risks. This document is directed at existing and prospective professional and qualifying investors only and is not for further distribution. This document has not been approved as a financial promotion under the Financial Services and Markets Act 2000. © 2026 Castellan Capital Ltd. All rights reserved.