

CASTELLAN CAPITAL — LONDON · RESEARCH

Short Thesis:

Solstice Finance (SLX)

Classification	External publication — research & commentary, not investment advice
Date	30 June 2026
Position	Castellan Capital holds a short position in SLX and/or related instruments

1. What Solstice Is

Solstice Finance is a Solana-native DeFi protocol built by Solstice Labs AG, a Swiss "Deus X Enterprise company" wholly funded and operated under Deus X Capital, the \$1 billion investment and operating company. Tim Grant, CEO of Deus X Capital, is a co-founder of Solstice Labs and serves as Chairman, while Ben Nadareski, previously a Vice President of Trading at Galaxy Digital, is co-founder and CEO.

The product stack

- **USX** — an overcollateralized settlement layer backed by audited cash, tokenized Treasuries, and delta-neutral hedged positions, marketed as Solana's largest native dollar settlement asset.
- **eUSX** — a yield-bearing dollar asset backed by delta-neutral strategies (funding rate arbitrage, hedged staking, tokenized U.S. Treasury allocations).
- **strcUSX** — a newer structured-credit vault tokenizing Strategy Inc.'s STRC preferred shares, billed as the first onchain structured credit vault.
- **SLX** — the governance/utility token, launched 25 May 2026, fixed total supply, no initial VC allocation, vesting tied to protocol adoption/TVL.

Backing and claimed scale: the protocol launched 30 September 2025 with over \$160 million in deposited TVL, growing to over \$317 million and later \$508M+ TVL, with 30K+ holders per the company's own site. Solstice Staking AG separately claims to secure over \$1 billion in assets across 8,000+ validator nodes. Institutional backers cited include Galaxy Digital, MEV Capital, Bitcoin Suisse, Auros, and Susquehanna Crypto, with Anchorage Digital reported as a more recent investor.

2. The Short Thesis — Core Pillars

2.1 Extreme token concentration and FDV overhang

- Per third-party wallet analytics, the top 10 wallets hold more than 70% of the SLX supply; Solflare's own risk flags note a large amount of SLX liquidity-pool tokens remain unlocked and flag "not many holders."
- A community account with meaningful following separately put the figure at approximately 95% of supply held by the top 10 wallets — estimates vary by source/snapshot, but multiple independent observers converge on the same structural concern.

- Only 242,845,200 SLX (24.3% of the 1,000,000,000 total supply) is currently circulating, with 22.3% of total supply unlocked at TGE — roughly three-quarters of total supply is still to unlock over time.
- At a recent print, CoinGecko calculated SLX's fully diluted valuation at \$564 million against a market cap of \$137 million — a ~4x gap that historically precedes heavy post-unlock selling pressure across the sector.

2.2 Launch-day conduct and unresolved trust questions

On launch day, SLX dropped from over \$0.22 to around \$0.16 amid heavy selling, and the community accused certain wallets of insider dumping. Solstice's foundation publicly denied this, stating the flagged wallet belonged to a verified market maker, not the team. Whether or not the denial is accurate, the episode is worth noting: trading volume exceeded \$226m over 24 hours despite the project's market cap sitting below \$45m at the time — a volume-to-market-cap ratio more consistent with wash trading or coordinated market-making than organic price discovery. The pattern has continued: late-June data showed 24-hour volume swinging -65.7% day-on-day, a magnitude worth weighing into any liquidity/exit-risk assessment of a short.

2.3 A stablecoin that already depegged to \$0.10

This is the centrepiece of the fundamental case. In late December 2025, USX briefly depegged to as low as \$0.10 before liquidity injections restored it close to parity. Solstice's explanation: the volatility traced to a secondary-market liquidity drain, not a collateral failure, with USX remaining over 100% collateralized and primary redemptions functioning normally — corroborated by blockchain security firm PeckShieldAlert, which attributed the move to thin liquidity pools on venues like Raydium.

"This is purely a secondary market liquidity issue that both the Solstice team and our market makers are addressing immediately." — Solstice, official statement, December 2025

This was not a Terra-style death spiral, but it still matters for the short thesis:

- It demonstrates a real liquidity-design flaw — a protocol marketed as "Solana's largest native settlement asset" trading down 90% on secondary markets reveals a blind spot between on-chain collateral and tradeable depth.
- Recovery relied on discretionary, centralized intervention (Solstice and its market makers injecting liquidity) — a meaningful divergence from the "permissionless, institutional-grade" framing in Solstice's own marketing.
- It happened on the flagship, supposedly safest product (USX), raising the question of what happens under stress in the higher-risk wrapped products (see 2.4).

2.4 strcUSX: wrapping a distressed asset as "yield"

Solstice's newest vault, strcUSX, tokenizes Strategy Inc.'s STRC preferred shares (Michael Saylor's Bitcoin-treasury company) — a material and underappreciated risk vector, given STRC's deterioration through June 2026:

- Independent analysts note STRC "present[s] significant risk despite a near-13% yield" because preferred dividends are not covered by recurring cash flows and rely on new issuance or Bitcoin sales.
- STRC hit a fresh all-time low for a third consecutive session, finishing the week nearly 26% below prior levels, as Bitcoin slid toward \$58,000.
- MSTR's market-adjusted NAV fell to 0.99x, limiting its ability to raise fresh capital via share issuance and raising "existential risk" from a Bitcoin dip spiral.

— Preferred terms allow Strategy's management to unilaterally cut the dividend to SOFR or lower, exposing holders to substantial downside.

In short: Solstice has packaged a leveraged, Bitcoin-treasury-linked preferred security — one independent analysts are actively warning investors away from in its native TradFi form — as "onchain structured credit" yield, at the same time its flagship stablecoin has already shown it can lose 90% of its peg under stress. Continued BTC weakness or STRC coverage erosion is a second-order contagion channel into Solstice's broader TVL and the SLX narrative.

2.5 Reserve and regulatory disclosure gaps

— Reserve composition, audit scope (Halborn x3, Sep2), and the Richie May financial-statement review are largely self-disclosed via Solstice's own marketing pages; we were unable to independently verify underlying attestation reports or review standard from public sources.

— Solstice describes itself in different places as having a "MiCA-compliant framework" and as "MiCA notified" — these are materially different regulatory postures (notification/registration vs. full authorization), worth confirming directly with the relevant EU competent authority.

2.6 Token mechanics suppress visible float more than they remove real sell pressure

Solstice markets SLX as deflationary/scarcity-driven, with stSLX offering a 20% target APY in "Cycle 1" running from TGE through 30 June 2026 — today. Worth watching what happens to circulating supply and price once this treasury-funded launch incentive rolls off, given the claim of "real economics... not emissions or speculation" sits uneasily next to a time-boxed APY subsidy.

2.7 Funding-rate dynamics create near-term squeeze risk

Elevated negative funding on SLX perpetuals raises the cost of carrying a short, which can force leveraged short holders to cover into strength regardless of their underlying fundamental view — a dynamic that has reportedly been visible in SLX positioning. If a meaningful share of short interest is funding-rate-sensitive rather than fundamentals-driven, covering pressure can compound any unlock-related supply event (e.g. the 9 July Flares claim window) into outsized volatility in either direction. This cuts both ways for a short thesis: it raises near-term price risk for short holders, but a squeeze driven by funding costs and forced covering — rather than improving fundamentals — does not on its own invalidate the structural concerns above. See Section 8.2 for how this should inform position sizing.

3. Steelmanning the Bull Case (for balance)

— **Track record predates the token.** Solstice's yield products claim a 13.96% net IRR over three years and zero negative months at the strategy level — a live multi-year track record, unusual for the sector.

— **No VC overhang in the traditional sense.** No initial allocation to venture capital firms removes one classic source of forced early selling (though team/foundation/community unlocks remain a meaningful overhang — see 2.1).

— **Real institutional backing.** Deus X Capital, Galaxy Digital, Anchorage Digital and Bitcoin Suisse are credible names; Tim Grant and Ben Nadareski both carry substantive TradFi/digital-asset CVs.

— **Price action has not validated the bear case yet.** SLX traded near \$0.65 as of 29 June 2026, far above its post-launch low of \$0.1398 — momentum and listing catalysts have so far outweighed concentration/depeg concerns in price.

— **The depeg was resolved quickly and primary redemptions never broke** — a legitimate distinction between a liquidity event and a solvency event, with a reasonably fast response.

4. Summary Table

Risk factor	Severity	Confidence
Token concentration (top wallets)	High	Medium (estimates vary 70–95%)
FDV / market cap overhang (~76% supply locked)	High	High — company's own tokenomics data
USX depeg event (Dec 2025)	Medium–High	High — multiple corroborating sources incl. PeckShield
strcUSX exposure to deteriorating STRC/MSTR	Medium–High	High — STRC weakness independently confirmed
Reserve / audit disclosure depth	Medium	Low — unverified beyond company claims
Regulatory status (MiCA notified vs authorized)	Medium	Low — unverified, needs direct confirmation
Wash-trading-like volume/mcap ratios	Medium	Medium

5. Recommended Next Steps Before Publication / Position Sizing

1. Pull and independently review the Richie May financial statement review and the most recent Accountable Proof of Solvency attestation directly, rather than relying on Solstice's summary claims.
2. Confirm Solstice's actual MiCA registration status with the relevant EU competent authority (notification vs. CASP authorization).
3. Engage an on-chain analytics firm (Nansen / Arkham) to independently verify current top-holder concentration and the proportion of "team" vs. "market maker" wallets, given the conflicting 70%/95% figures circulating.
4. Track strcUSX TVL and redemption-queue behaviour specifically against STRC/MSTR price action over the coming weeks — the most time-sensitive catalyst.
5. Before this goes out externally with Castellan's name attached, route through your compliance advisor given FCA financial promotion rules — a short thesis on a named company/token published under a regulated UK fund's banner is itself a financial promotion.

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PART II — INSTITUTIONAL DEEP DIVE

Relative Value, Contagion Pathways & Position Construction

6. Relative Value: SLX vs. the Synthetic-Dollar / RWA-Yield Comp Set

SLX does not trade in isolation — it sits in the same category as Ethena (ENA) and Ondo (ONDO), both larger, longer-tenured, and more liquid. A relative-value lens is the most defensible way to frame "is SLX expensive," since absolute TVL multiples in this sector move with the broader risk cycle.

	SLX (Solstice)	ENA (Ethena)	ONDO (Ondo Finance)
Category	Solana delta-neutral synthetic dollar + RWA credit	Synthetic dollar (USDe), category creator/leader	RWA / tokenized Treasuries & equities
Protocol TVL	~\$500-508M (company-reported)	~\$4.8B	~\$3.5B
Market cap (circulating)	~\$137-160M	~\$650-870M	~\$1.5B
FDV	~\$564M	~\$1.06-1.4B	~\$3.0-3.1B
Mcap / TVL	~0.27-0.32x	~0.14-0.18x	~0.42x
% supply circulating	24.3%	~62%	~49%
Distance from ATH	-16% to -39% (volatile, near ATH)	-94% (new ATL 10 Jun 2026)	-86%
Track record	~9 months live (TVL); SLX token 1 month old	~2 years live	~2 years live

6.1 Reading the multiple

— SLX trades at roughly **1.7-2.3x the TVL multiple of Ethena**, the category-defining, far larger, far more battle-tested synthetic-dollar protocol — despite SLX carrying materially higher concentration risk, a shorter operating history as a token, and its own documented depeg event. On a pure relative-value basis, this is difficult to justify fundamentally; it is more consistent with a newly-listed token still in its post-TGE liquidity/narrative premium phase than with a re-rating that reflects durable risk-adjusted value.

— Ethena itself is instructive as a base-rate case: despite \$4.8B in TVL — roughly 9-10x Solstice's — ENA fell to a fresh all-time low on 10 June 2026, down 94% from its 2024 peak, as fee-switch catalysts repeatedly disappointed and TVL growth decelerated. **This is the closest available precedent for how this category re-rates once the launch-liquidity premium fades:** large, credible TVL does not protect the token from a multi-year de-rating once growth slows and unlock supply catches up with demand.

— Ondo, the most mature comp with the deepest institutional partnerships (BlackRock, JPMorgan, Mastercard), trades at the richest Mcap/TVL multiple of the three (~0.42x) — arguably the more appropriate

ceiling for what "premium institutional credibility" should command. SLX trades close to that ceiling despite roughly nine months of live protocol history, a one-month-old token, and the concentration/depeg issues in Section 2. The market is currently pricing Solstice closer to the most credentialed name in the category than to the most analogous one (Ethena).

6.2 Pair-trade framing

For a desk expressing this view with reduced directional crypto-beta risk, the comp set supports a relative-value construction (long basket of ENA/ONDO, short SLX, or simply short SLX against a broader "Solana DeFi" or "synthetic dollar" index) rather than an outright directional short, which is fully exposed to broad market beta and the squeeze dynamics flagged in Section 2.7. This does not eliminate the idiosyncratic risks below — it isolates them.

7. Deep Dive: strcUSX Contagion Pathway - Update

Since our preliminary note, the underlying collateral risk in Strategy Inc. (the issuer behind STRC, which strcUSX tokenizes) has deteriorated meaningfully and is no longer a forward-looking risk - it is a live, unfolding event:

- **STRC has traded as low as \$71.25**, roughly 29% below its \$100 stated/par value, before a partial recovery - Strategy responded by raising the STRC variable dividend rate to 12.00% (from 11.25%) effective for July 2026 record dates, explicitly to defend the peg. A preferred share requiring repeated dividend hikes to hold par is a structurally different risk profile from the "cash-like, stable value" framing under which strcUSX markets the underlying exposure.
- **MSTR common stock is down approximately 82% from its July 2025 peak of \$455.90**, and traded as low as \$82.31 in late June 2026 - its lowest level since early 2024.
- **Strategy's enterprise mNAV (market cap + debt + preferred, minus cash, divided by BTC holding value) fell below 1.0x** - meaning the market now values the company below the liquidation value of its own Bitcoin holdings, a level that historically signals acute stress in the bitcoin-treasury-company cohort.
- **Rosen Law Firm has announced it is investigating potential securities fraud claims against Strategy**, covering all five of its publicly traded securities - MSTR, STRF, STRC, STRK, and STRD - alleging the company may have issued materially misleading business information to investors. This is an investigation, not a finding or filed suit, and may not proceed further; it is nonetheless a material, citable fact as of this note and the single most significant new risk input since our preliminary pass.
- Strategy has responded defensively: pausing further Bitcoin purchases (22-28 June 2026), expanding its USD reserve to \$2.55 billion, and announcing a \$1 billion "digital credit" (i.e., preferred share) buyback program - actions consistent with a company managing a liquidity/confidence problem in real time, not routine treasury management.

"STRC dividend rate has been increased by 50 bps to 12.00%... Our corporate objective is for STRC to trade over time at \$99-\$100." - Michael Saylor, Strategy Inc., June 2026

7.1 Why this matters disproportionately for Solstice

strcUSX is marketed by Solstice as "the first onchain structured credit vault," wrapping STRC inside a DeFi-composable token. The contagion mechanics worth tracking explicitly:

- **Redemption-queue mismatch.** If strcUSX depositors attempt to exit faster than the underlying STRC position can be liquidated at fair value (especially with STRC itself thin and volatile), strcUSX is structurally exposed to the same secondary-market liquidity gap that caused the December 2025 USX depeg - but this time the underlying asset is itself impaired, not merely illiquid.
- **Headline/reputational contagion.** A securities fraud investigation into the literal underlying collateral of a flagship Solstice product is the kind of headline that can trigger redemption runs across the whole Solstice product suite (USX, eUSX, SLX) regardless of whether strcUSX's specific TVL is large - sentiment contagion within a single-issuer DeFi stack does not require proportionate exposure.
- **Disclosure gap.** We were unable to locate Solstice's current public disclosure of strcUSX's specific TVL, redemption terms, or what (if any) haircut/buffer is applied to the STRC collateral given its now-realized volatility - this is a priority item for direct diligence (see Section 9).

8. Quantitative Risk Framework

8.1 Scenario analysis (illustrative, not a price target)

Scenario	Trigger	Mechanism	Indicative outcome for short
Base case	Gradual unlock-driven supply growth; no new depeg/credit event	FDV overhang (Section 2.1) compresses Mcap/TVL multiple toward ENA-like levels over 2-4 quarters	Thesis plays out slowly; carry cost (funding/borrow) is the dominant determinant of realized P&L; not direction
Bear case (for the short, i.e. bullish SLX)	Continued exchange listings, BTC/SOL beta rally, funding-driven squeeze	Momentum and listing catalysts (Section 3) dominate; negative funding forces short covering (Section 2.7)	Short likely stopped out or materially underwater before fundamentals matter; this has been the realized path May-June 2026
Tail case (for the short, i.e. bearish SLX)	strcUSX/STRC contagion event, a second USX depeg, or a confirmed regulatory/audit problem	Redemption run across USX/eUSX/strcUSX simultaneously erodes the TVL base that underwrites SLX's entire utility/scarcity narrative (Section 2.6)	Disproportionate downside given current concentration and thin secondary liquidity (Section 2.1-2.2); the December 2025 episode is the closest precedent for the speed of such a move

8.2 Carry and squeeze risk - the dominant near-term variable

For a directional short, the structural/fundamental case (Sections 2 and 7) is necessary but not sufficient - it says nothing about **when** the market re-prices it, and a short can be fundamentally correct while being carried out on funding costs first. Elevated negative funding (reportedly visible in SLX perpetual markets, though we could not independently verify the specific rate quoted internally) raises the cost of carrying a short and can force leveraged short covering irrespective of fundamentals - compounding any unlock-related supply event into outsized two-way volatility. This is a standalone risk factor independent of whether the long-run thesis is correct, and should be sized and monitored separately from the fundamental view.

8.3 Position construction considerations

- **Outright short (spot borrow or perp):** highest fundamental purity, highest carry/squeeze exposure given the concentration and funding dynamics in 2.1-2.2 and 2.7. Position sizing should explicitly account for the realistic possibility of a violent, funding-driven adverse move before any catalyst in Section 7 plays out.

- **Relative value (short SLX / long ENA or ONDO, per Section 6.2):** reduces category beta and the risk of being squeezed purely on idiosyncratic SLX listing/momentum flows, at the cost of basis risk if the whole synthetic-dollar/RWA category re-rates together (e.g., on a broad risk-off move where correlations go to 1).
- **Sizing discipline:** given (i) thin SLX derivatives liquidity, (ii) the magnitude of recent intraday/weekly swings (e.g., 167%+ weekly moves cited in Section 2 sourcing), and (iii) top-heavy holder concentration, conventional position-sizing heuristics calibrated to large-cap liquid shorts likely understate the risk here and should be discounted accordingly.

9. Monitoring Dashboard - What to Watch Weekly

1. SLX circulating supply vs. the published unlock schedule (next scheduled: ~17.3M SLX / 1.7% of total supply around 25 July 2026; Flares Season 2 claim window resolves around 9 July 2026 per Solstice's own update) - track actual on-chain unlock vs. realized sell-side flow.
2. USX peg stability and on-chain DEX liquidity depth (Raydium and other Solana venues) - the December 2025 depeg's proximate cause was thin secondary liquidity, which is a structural condition, not a one-off event, and could recur.
3. strcUSX TVL, redemption terms, and any disclosed STRC collateral haircut - alongside STRC's own price versus its \$100 par and Strategy's monthly dividend-rate resets.
4. Strategy Inc. corporate actions (further dividend changes, BTC sales/purchases, debt actions) and any progression of the Rosen Law Firm investigation beyond the announcement stage.
5. SLX perpetual funding rates and open interest across major venues - a sustained move toward less-negative/positive funding would reduce squeeze risk and strengthen the fundamental short case's timing.
6. Top-holder concentration via an independent on-chain analytics provider - re-pull periodically rather than relying on a single snapshot, given the conflicting 70%/95% estimates currently circulating.
7. Any formal MiCA registration confirmation or enforcement action from an EU competent authority.

Part II reflects additional desk-level research conducted after the initial note and incorporates company filings, third-party market data, and legal-press reporting available as of 30 June 2026. Figures sourced from third-party trackers (CoinGecko, CoinGlass, Tokenomics.com, DeFiLlama) may diverge slightly between providers and snapshots; where this occurred we have noted the range rather than a single point estimate. As with Part I, this is not investment, legal, or financial advice, and nothing here has been confirmed with Solstice, Strategy Inc., or any regulator directly.