

Elwood Blockchain Global Equity Index

Quarter Ended 30 April 2021

Performance data (Total return)

	Quarter	2021 YTD	Since inception
BLOCK Index	29.3%	36.6%	232.2%
MSCI World Net Total Return Index	10.9%	9.8%	56.7%
Bitcoin	74.3%	95.9%	1,584.0%

(Sources: Bloomberg, Elwood) (Notes: All figures in USD. The Index launched on 11 Dec 2018)

Performance chart (Since inception)



(Sources: Bloomberg, Elwood) (Note: All figures in USD)

Analyst commentary

During the quarter ended April 2021, the Elwood Blockchain Global Equity Index generated a total return of 29.3%, in comparison to the MSCI World Net Total Return Index which returned 10.9%. Canaan, Hive and Monex were the largest positive contributors, while Bitcoin Group, Qualcomm and NRI were the most significant detractors. Performance this quarter can be characterised as strong during February, as cryptocurrency prices rallied and then volatile for the remainder of the quarter.

Driven in part by a frenzy of IPOs, SPACs and other M&A activity in the cryptocurrency space, this rebalance contains seven new members, five of which we consider as cryptocurrency “pure plays”, businesses where all or the dominant operations are conducted within the cryptocurrency space. After this rebalance, 17 of the 50 Index members will be pure plays. These stocks account for 34.6% of the Index by weight, an increase of 4.0% compared to before the rebalance. While this represents a small increase in exposure, due to the increased number of options available, this exposure is now more diverse and therefore the increased level of risk is moderate.

As we mentioned in our [July 2020](#) note, Defi platforms such as Uniswap and Compound are gaining significant traction. The value of tokens locked in Defi is now around \$62.5bn, compared to US\$3.3bn at the end of July 2020¹. In our view, the technology deployed in Defi is ingenious and highly innovative. These systems have the potential to disintermediate several parts of the financial services industry, mostly in the realm of trading and prime brokerage type services. On the other hand we are sceptical of Defi’s capabilities in consumer banking or areas which involve providing services to non-financial entities. The two areas of particular consequence are automated market makers (entities which ensure decentralised exchanges have sufficient liquidity) and the gradual emergence of onchain collateralized credit markets. The overwhelming majority of Defi use cases are currently based around speculative token trading and obtaining leverage. The unquenchable demand for leveraged exposure to cryptocurrency in this bull run has, in our view, been the primary driver of the Defi boom.

Almost all of the Defi activity takes place on Ethereum or other platforms that can execute Ethereum format smart contracts, such as Binance Smart Chain. As a result, many now find Ethereum considerably more interesting than Bitcoin. One can argue that all Bitcoin is used for is unblockable payments and potentially fast payments using the Lightning network, while on Ethereum there is a wider range of more exciting economic activity from stablecoin issuance, lending markets, decentralised trading platforms and NFT issuances. This can explain Ethereum’s more positive outlook² and stronger price performance year to date, up around 273.9% compared to Bitcoin’s 95.9% price increase. An alternative point of view is that Ethereum’s stronger price performance is a sign we are in the late stages of a bull market cycle, this thesis is supported by the events of 2017/18, where Bitcoin peaked in mid-December 2017 and Ethereum peaked a month later, in mid-January 2018.

The global economy is showing signs of opening up following the COVID shutdown, potentially resulting in an economic boom. There are also burgeoning signs of inflation emerging. Even economists often sceptical about inflationary risks such as Paul Krugman, are now accepting there may be a pick-up in inflation³, albeit transitory in nature. In this environment, central banks may indicate an appetite to taper slightly in the next few months, before eventually reverting back to their normal practice of expansionary monetary policy. At the same time, there may be a greater demand for liquidity in the real economy, as businesses opening up require working capital and people start spending again. If this occurs, a mini liquidity crunch could occur, hitting the prices of overvalued financial assets. The assets with the most leverage could be hit hardest. This could particularly affect cryptocurrencies like Ethereum, which is currently at the center of the Defi collateralized credit machine. In this scenario, the Index, which provides some indirect exposure to cryptocurrencies, could generate significant negative alpha compared to the benchmark. However, the Index has generated 175.5% alpha since inception and in a cryptocurrency bear market, we believe the Index may be able to retain a significant portion of this outperformance. Therefore, the Index may be able to offer investors attractive returns when looked at over the long term, across multiple cryptocurrency price cycles.

Product description

The Index aims to offer exposure to listed companies that participate or have the potential to participate in the blockchain or cryptocurrency ecosystem. The Index is calculated and distributed by Solactive and is rebalanced quarterly.

Index details

Bloomberg ticker	BLOCK Index
Strategy AUM (estimate)	US\$1,280.2 million
ISIN	DE000SLA6ZB5
Number of constituents	50
Inception date	11 December 2018
Portfolio manager	Jonathan Bier (FCA)

Investment products

Invesco have launched an exchange traded fund which aims to provide the performance of the Index.

Exchange	Currency	Ticker
London Stock Exchange	USD	BCHN LN
London Stock Exchange	GBP	BCHS LN
Borse Frankfurt	EUR	BNGX GY
Borsa Italiana	USD	BCHN IM
SIX	USD	BCHE SW
BMV Mexico	MXN	BCHNN MM

¹ <https://debank.com/>

² <https://ipfs.io/ipfs/QmVaQzvQJPT2vA4X1rbEQumhi6Hsi4uHoHqQV3fUps8duC?filename=Ethereum%20Investment%20Memo%20.pdf>

³ <https://www.nytimes.com/2021/03/22/opinion/us-inflation-stimulus.html>

Index constituents & performance data

Name	Weight	Quarter	2021 YTD
TSMC	4.2%	2.6%	14.7%
SBI	4.2%	17.2%	23.2%
Monex	4.2%	51.3%	108.7%
GMO Internet	4.2%	5.2%	3.8%
Hive	4.2%	102.0%	105.7%
Kakao	4.2%	28.7%	42.1%
Microstrategy	4.2%	6.5%	69.1%
CME	3.1%	11.6%	11.4%
Silvergate	3.1%	15.2%	44.3%
Canaan	3.1%	174.3%	111.0%
Bitfarms	3.1%	107.8%	176.0%
Digital Garage	2.1%	21.2%	0.7%
Rio Tinto	2.1%	15.1%	18.1%
Global Unichip	2.1%	2.5%	19.8%
Samsung	2.1%	(0.2%)	(1.4%)
Square	2.1%	13.4%	12.5%
Ceres	2.1%	35.7%	26.6%
MUFG	2.1%	20.4%	22.1%
Nexon	2.1%	6.2%	8.3%
Oracle	2.1%	26.0%	18.1%
Naver	2.1%	4.8%	19.9%
Santander	2.1%	33.1%	25.7%
Bitcoin Group	2.1%	(9.1%)	(27.4%)
Voyager	2.1%	250.7%	477.8%
NRI	1.0%	(8.3%)	(13.5%)
Tul	1.0%	109.2%	57.7%
Aluminium Corp of China	1.0%	71.3%	47.6%
Caica	1.0%	37.6%	61.2%
Amazon	1.0%	8.1%	6.5%
Intel	1.0%	4.3%	16.2%
ICE	1.0%	7.0%	2.4%
AMD	1.0%	(4.7%)	(11.0%)
NTT Data	1.0%	8.9%	14.3%
Nasdaq	1.0%	19.8%	22.1%
Rakuten	1.0%	29.3%	32.0%
Overstock	1.0%	5.0%	69.9%
Norsk Hydro	1.0%	43.9%	37.4%
IBM	1.0%	20.7%	14.2%
Softbank	1.0%	17.1%	16.2%
Qualcomm	1.0%	(10.7%)	(8.4%)
Alcoa	1.0%	103.6%	59.0%
Biostar	1.0%	99.3%	81.3%
Verizon	1.0%	6.7%	0.5%
Added Constituents			
Coinbase	4.2%	n/a	n/a
Signature Bank	2.1%	52.6%	86.9%
BC Technology Group	1.3%	51.7%	9.7%
CoinShares	1.1%	n/a	n/a
Galaxy Digital	1.0%	300.2%	236.5%
Mogo	1.0%	121.7%	146.4%
Tesla	1.0%	(10.6%)	0.5%
Removed Constituents			
Facebook		25.8%	19.0%
Broadridge Financial		12.7%	4.0%
Plus 500		11.3%	3.5%
Hut 8		46.7%	103.4%
IG Group		23.2%	9.5%
Elwood Blockchain Index	100.0%	29.3%	36.6%
MSCI World (NTR)	n/a	10.9%	9.8%

(Sources: Bloomberg, Elwood) (Notes: Weighting as at April 2021 rebalance. Investment returns in USD based on the Bloomberg total return function)

Volatility metrics

Realised Volatility	Quarter	2021 YTD	Since inception
BLOCK Index	42.2%	37.6%	23.3%
MSCI World Net Total Return Index	11.9%	11.0%	18.8%
Bitcoin	68.6%	75.3%	63.7%

(Sources: Bloomberg, Elwood) (Notes: Based on daily percentage change. All figures in USD. The index launched on 11 Dec 2018)

Performance & attribution by blockchain area

Performance	Quarter	2021 YTD	Since inception
Blockchain financial services	22.5%	30.7%	171.9%
Blockchain technology solutions	16.3%	13.7%	73.0%
Mining hardware	44.8%	38.5%	254.9%
Blockchain payment systems	20.6%	35.1%	427.4%
Mining operations	63.7%	83.3%	356.1%
Energy	50.0%	37.3%	78.6%
Token investments	6.1%	69.1%	293.3%
Total	29.3%	36.6%	232.2%

Contribution	Quarter	2021 YTD	Since inception
Blockchain financial services	7.9%	10.5%	66.2%
Blockchain technology solutions	3.8%	3.3%	26.3%
Mining hardware	7.5%	6.8%	46.2%
Blockchain payment systems	1.5%	2.5%	47.7%
Mining operations	3.5%	4.2%	16.0%
Energy	2.7%	2.1%	8.2%
Token investments	1.0%	5.2%	16.1%
Total	29.3%	36.6%	232.2%

(Sources: Bloomberg, Elwood) (Notes: All figures in USD. The Index launched on 11 Dec 2018)

Top constituents by contribution - April 2021 quarter

Total return	Total return	Contribution
Canaan	174.3%	4.5%
Hive	103.9%	2.4%
Monex	51.3%	2.1%
Bitfarms	107.1%	1.9%
Voyager	248.0%	1.7%

Detractors	Total return	Contribution
Bitcoin Group	(9.1%)	(0.2%)
Qualcomm	(10.8%)	(0.1%)
NRI	(8.3%)	(0.1%)
AMD	(4.7%)	(0.0%)
Samsung	0.4%	0.0%

(Sources: Bloomberg, Elwood) (Note: All figures in USD)

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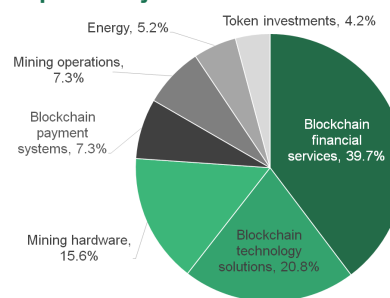
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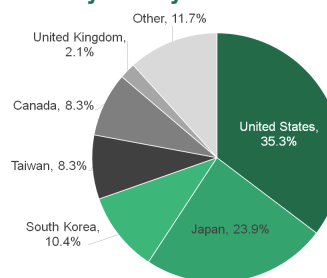
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Composition by blockchain area



(Sources: Bloomberg, Elwood) (Note: Data as at April 2021 rebalance)

Composition by country



(Sources: Bloomberg, Elwood) (Note: Data as at April 2021 rebalance)

Composition by market capitalisation

Mega (US\$100bn+)	20.8%
Large (US\$10bn to US\$100bn)	27.0%
Medium (US\$1bn to US\$10bn)	36.4%
Small (Under US\$1bn)	15.8%

(Sources: Bloomberg, Elwood) (Note: Data as at April 2021 rebalance)