

Elwood Blockchain Global Equity Index

Quarter Ended 31 January 2021

Performance data (Total return)

	2021 YTD	Quarter	Since inception
BLOCK Index	5.6%	48.9%	156.9%
MSCI World Net Total Return Index	(1.0%)	16.4%	41.3%
Bitcoin	16.6%	144.2%	902.4%

(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 January 2021, the Elwood Blockchain Global Equity Index generated a total return of 48.9%, in comparison to the MSCI World Net Total Return Index which returned 16.4%. Microstrategy, Silvergate and Canaan were the largest positive contributors in the quarter, while Caica, Plus 500 and Verizon were the largest (and only) detractors. The Index had a strong quarter, driven by the appreciation of cryptocurrency prices, and the booming cryptocurrency and blockchain related businesses embedded within many of the Index constituents. Despite this one major theme driving returns, the portfolio benefited from this in a reasonably diversified manner. Companies with different business models in a variety of geographies capitalised on this trend, with a surprisingly large number of contrasting approaches:

- Microstrategy, the US based business intelligence software company, with its raw Bitcoin exposure,
- Silvergate, a US corporate bank, offering banking and deposit services to the blockchain industry,
- Canaan, a Chinese based cryptocurrency mining ASIC chip manufacturer,
- Monex, the Japanese online brokerage firm, with a crypto-asset exchange,
- Hive, a Canadian listed Ethereum miner,
- Hut 8, a Canadian listed Bitcoin miner,
- Bitcoin Group, a German based cryptocurrency trading platform, and
- Ceres, a Japanese marketing loyalty points business, with investments in crypto-asset exchanges.

In many ways, this was the quarter where the primary investment thesis of the Index was finally successfully demonstrated. The flip side of this is that the exposure to this highly volatile space is now even clearer. Our argument that the cryptocurrency exposure in the Index was under-appreciated by the market, mitigating away the downside risk, is less relevant than it once was. However, this favourable characteristic of the portfolio is still present, only to a more limited extent.

On 17th December 2020, one of the largest cryptocurrency spot exchanges and custodians in the world, Coinbase, announced it had submitted an S-1 form with the SEC, implying that the company intends to conduct an IPO in the coming months. Also in the quarter, in January 2021, the power struggle between the two largest shareholders of the world's largest cryptocurrency ASIC manufacturer appears to have been resolved. Micree Zhan looks set to control the company going forward, while his rival, Jihan Wu, will relinquish control and focus on other projects. This bitter battle had been a major stumbling block in the progression of Bitmain's IPO and the company may now push ahead with it again; third time's the charm. If these two industry behemoths go public, a significant proportion of corporate value in the blockchain space will exist on public markets, which could be a positive development for the Index.

While the 2017 cryptocurrency bubble was primarily driven by Asian retail, the bubble of 2020 appears to have been driven by corporate America. As such, we are witnessing large inflows into US listed cryptocurrency products and large valuation premiums for US listed blockchain stocks. In contrast to 2017, when ICOs were seen as the easiest and most effective method of raising capital, now equity offerings and IPOs have entered the scene as a viable option. However, the gamification of the stock market (which we discussed in our [July 2020 letter](#)) has become even more apparent in recent days with the volatility of Gamestop. We are seeing exuberant retail-driven valuations in some of the US listed blockchain names, in companies without a track record of delivering sustainable earnings. Some of these companies are capitalising on this opportunity and raising money in equity offerings. Therefore, whether these companies can successfully deploy this capital or if much of it will be destroyed like in previous cryptocurrency cycles is an open question. With respect to these names, we have a somewhat prudent stance.

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	US\$556.9 million
ISIN	DE000SLA6ZB5
Number of constituents	48
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	BNXG GY
Borsa Italiana	USD	BCHN IM
SIX	USD	BCHE SW

Index constituents & performance data

Name	Weight	2021 YTD	January 2021 Quarter
TSMC	5.0%	11.8%	40.3%
Microstrategy	5.0%	58.9%	269.5%
Monex	3.8%	38.0%	115.9%
Kakao	3.8%	10.4%	36.2%
Silvergate	3.8%	25.2%	316.2%
GMO Internet	3.8%	(1.3%)	6.5%
CME	3.8%	(0.2%)	22.8%
Samsung	2.6%	(1.3%)	51.3%
Square	2.6%	(0.8%)	39.4%
SBI	2.6%	5.1%	8.9%
Ceres	2.6%	(6.7%)	28.7%
MUFG	2.6%	1.5%	14.4%
Nexon	2.6%	2.0%	19.7%
Oracle	2.6%	(6.2%)	8.1%
Naver	2.6%	14.4%	20.7%
Santander	2.6%	(5.6%)	53.4%
Canaan	2.6%	(23.1%)	109.2%
Global Unichip	2.6%	16.8%	55.6%
Rio Tinto	2.6%	2.6%	35.8%
Hive	2.6%	1.8%	398.5%
Digital Garage	2.3%	(16.9%)	(3.3%)
Bitcoin Group	1.9%	(20.1%)	111.6%
Hut 8	1.4%	38.6%	297.9%
Norsk Hydro	1.3%	(4.5%)	65.2%
Qualcomm	1.3%	2.6%	27.2%
Intel	1.3%	11.4%	26.3%
ICE	1.3%	(4.3%)	17.2%
NTT Data	1.3%	5.0%	27.8%
Nasdaq	1.3%	1.9%	12.2%
NRI	1.3%	(5.7%)	14.2%
Rakuten	1.3%	2.1%	1.3%
Overstock	1.3%	61.8%	38.3%
TUL	1.3%	(24.6%)	84.2%
IBM	1.3%	(5.4%)	8.2%
Softbank	1.3%	(0.8%)	19.3%
Alcoa	1.3%	(21.9%)	39.3%
Amazon	1.3%	(1.6%)	5.6%
Verizon	1.3%	(5.8%)	(2.9%)
Facebook	1.3%	(5.4%)	(1.8%)
Broadridge	1.3%	(7.8%)	3.1%
IG Group	1.3%	(11.1%)	6.2%
AMD	1.3%	(6.6%)	13.7%
Plus 500	1.3%	(7.0%)	(3.6%)
Aluminum Corp of China	1.3%	(13.9%)	39.7%
Caica	1.1%	17.1%	(0.0%)
Added Constituent(s)			
Bitfarms	1.8%	32.8%	567.2%
Biostar	1.3%	(9.0%)	6.4%
Voyager	0.6%	64.7%	805.9%
Removed Constituent(s)			
Microsoft	n/a	4.3%	14.9%
Line	n/a	n/a	n/a
Elwood Blockchain Index	100.0%	5.6%	48.9%
MSCI World (NTR)	n/a	(1.0%)	16.4%

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

Volatility metrics

Realised Volatility	2021 YTD	Quarter	Since inception
BLOCK Index	29.1%	22.7%	20.6%
MSCI World Net Total Return Index	12.1%	14.2%	19.5%
Bitcoin	94.5%	68.7%	63.1%

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

Performance & attribution by sector (GICS)

Performance	2021 YTD	Quarter	Since inception
Communication Services	3.9%	18.9%	104.3%
Consumer Discretionary	20.1%	15.4%	269.9%
Financials	8.6%	62.7%	90.4%
Information technology	5.5%	58.5%	164.3%
Materials	(8.1%)	43.2%	42.4%
Utilities	n/a	n/a	35.7%
Total	5.6%	48.9%	156.9%

Contribution	2021 YTD	Quarter	Since inception
Communication Services	0.5%	3.1%	17.5%
Consumer Discretionary	0.8%	0.9%	32.9%
Financials	1.9%	13.0%	23.2%
Information technology	3.0%	28.9%	76.9%
Materials	(0.5%)	3.2%	5.1%
Utilities	n/a	n/a	0.8%
Total	5.6%	48.9%	156.9%

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

Top constituents by contribution - January 2021 quarter

Contributors	Total return	Contribution
Microstrategy	269.5%	9.2%
Silvergate	316.2%	5.8%
Canaan	109.2%	3.8%
Monex	115.7%	3.6%
Hive	393.3%	3.3%

Detractors	Total return	Contribution
Caica	(0.2%)	(0.0%)
Plus 500	(3.3%)	(0.0%)
Verizon	(2.9%)	(0.0%)
Facebook	(1.8%)	0.0%
Line	0.3%	0.0%

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

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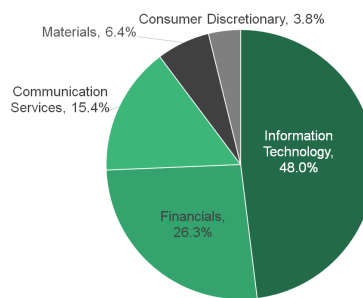
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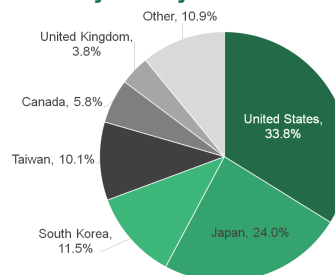
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Composition by sector (GICS)



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

Composition by country



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

Composition by market capitalisation

Mega (US\$100bn+)	23.0%
Large (US\$10bn to US\$100bn)	25.7%
Medium (US\$1bn to US\$10bn)	31.7%
Small (Under US\$1bn)	19.7%

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