

Quarter Ended 31 July 2021

Performance data (Total return)

	Quarter	2021 YTD	Since inception
BLOCK Index	(10.8%)	21.9%	196.4%
MSCI World Net Total Return Index	4.8%	15.1%	64.3%
Bitcoin	(28.4%)	40.3%	1,106.0%

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

Performance chart (Since inception)



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

Analyst commentary

During the quarter ended July 2021, the CoinShares Elwood Blockchain Global Equity Index (“Index”) generated a negative total return of 10.8%, in comparison to the MSCI World Net Total Return Index which generated a positive return of 4.8%. Kakao, Oracle and Naver were the largest positive contributors to the Index, while Hive, Canaan and Bitfarms were the most significant detractors. It was a challenging quarter with the Index underperforming broader equities, as cryptocurrency prices declined, after a strong performance earlier on in the year.

Many of the constituents in the Index offer indirect exposure to cryptocurrency and, with declines in cryptocurrency prices, we would expect pressure in some names. We have often discussed the potential of the Index to mitigate some of the downside risks of declining cryptocurrency prices, by investing in underappreciated cryptocurrency-related businesses and the well diversified nature of the exposure. However, this quarter the Index faced a double headwind, that of falling cryptocurrency prices and frothy valuation ratios in some of the cryptocurrency exposed names at the start of the quarter, which have now dissipated, to some extent. These two factors resulted in 15.6% negative alpha compared to the benchmark in the quarter. Cryptocurrency pure plays, which performed very well earlier in the year, were hit the hardest. The positive side of this is that valuation ratios for some of these pure plays now appear more reasonable, although we would certainly not claim these stocks are cheap. The mining operating entities, in particular, now have more favourable valuation ratios. Cryptocurrency prices are still high enough for many of these miners to remain highly profitable, especially as mining difficulty is down considerably since the peak, due in part to a regulatory crackdown in China, which should have a positive effect for the North American entities in the Index. Therefore, we have a positive outlook for miners such as Bitfarms, Hive and Hut 8. Exposure to pure plays at this rebalance point is 30.0% by weight, compared to 34.6% last quarter. This means that 70.0% of the constituents in the Index either have their primary business outside of the cryptocurrency ecosystem or are more exposed to the enterprise blockchain sector. Therefore, although we are by no means calling the bottom with regards to cryptocurrency prices, we now feel more comfortable in that we believe that the portfolio is better positioned to mitigate downside risks to cryptocurrency prices than it was in April, while still maintaining significant indirect exposure to cryptocurrency.

During the quarter the Index was acquired by CoinShares. The plan is to rename the Index, replacing “Elwood” with “CoinShares” in the coming months. The Index analysts will not change as a result of the acquisition, nor will in the methodology or constituent selection process change. It is very much a story of continuing as before, except we will now benefit from a broader depth of expertise, market intelligence and resources from the wider CoinShares research team.

Despite the recent decline in cryptocurrency prices, we still detect considerable optimism in the space. Capital is moving into the ecosystem, with a substantial number of new VC funds being launched, large financial institutions launching businesses in the space and at least six large SPAC deals being announced or progressing in the quarter, with a combined value of around \$32.3bn. Trading platform eToro is involved in a \$10.4bn SPAC deal with Fintech Acquisition, new cryptocurrency exchange Bullish announced a \$9 billion SPAC deal with Far Peak, Stablecoin firm Circle announced a \$4.5bn SPAC deal with Concord, cryptocurrency miner Core Scientific announced a \$4.3bn SPAC deal with Power & Digital Infrastructure, ICE’s cryptocurrency financial services group BAKKT continued with its \$2.1bn SPAC deal with Victory Park and Bitcoin miner Cipher announced a \$2bn SPAC deal with Good Works. Therefore, there is likely to be a plethora of companies coming to public markets, potentially providing further opportunities for the Index. We aim to diligently, carefully and patiently evaluate all of these potential new Index members in the coming months, focusing on their core technical capabilities in blockchain technology and determining if these companies have a genuine sustainable competitive advantage, which will persist as the blockchain ecosystem expands, evolves and matures over the coming years and decades.

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\$1,036.0 million
ISIN	DE000SLA6ZB5
Number of constituents	50
Inception date	11 December 2018
Index 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	EUR	BCHN IM
SIX	USD	BCHE SW
BMV Mexico	MXN	BCHNN MM

Index constituents & performance data

Name	Weight	Quarter	2021 YTD
Monex	4.4%	(19.5%)	68.0%
TSMC	4.4%	(3.3%)	10.9%
SBI	4.4%	(15.8%)	3.8%
GMO Internet	4.4%	(11.9%)	(8.0%)
Hive	4.4%	(31.3%)	41.3%
Kakao	4.4%	25.6%	78.5%
Coinbase	4.4%	(20.5%)	n/a
Bitfarms	3.5%	(23.6%)	110.8%
Microstrategy	3.3%	(4.7%)	61.1%
CME	3.3%	5.5%	17.5%
Samsung	2.2%	(6.2%)	(7.5%)
MUFG	2.2%	(0.4%)	21.7%
Silvergate	2.2%	(4.1%)	38.3%
Rio Tinto	2.2%	0.9%	19.1%
Global Unichip	2.2%	3.3%	23.7%
Square	2.2%	1.0%	13.6%
Ceres	2.2%	(14.9%)	7.8%
Oracle	2.2%	15.4%	36.3%
Santander	2.2%	(5.3%)	19.0%
Softbank	2.2%	(31.1%)	(20.0%)
Signature Bank	2.2%	(9.5%)	69.1%
Naver	2.2%	16.9%	40.2%
Tul	1.5%	(27.8%)	13.9%
Digital Garage	1.5%	0.1%	0.8%
Canaan	1.1%	(45.0%)	16.0%
Overstock	1.1%	(14.6%)	45.2%
Voyager	1.1%	(40.1%)	245.9%
NRI	1.1%	4.1%	(9.9%)
Aluminium Corp of China	1.1%	16.9%	72.6%
Intel	1.1%	(6.1%)	9.1%
ICE	1.1%	2.1%	4.5%
NTT Data	1.1%	(0.9%)	13.3%
Rakuten	1.1%	(13.8%)	13.8%
Norsk Hydro	1.1%	6.4%	46.2%
IBM	1.1%	0.5%	14.8%
Qualcomm	1.1%	8.5%	(0.7%)
Alcoa	1.1%	9.6%	74.2%
Verizon	1.1%	(2.4%)	(1.9%)
Tesla	1.1%	(3.1%)	(2.6%)
AMD	1.1%	30.1%	15.8%
Galaxy	1.1%	(41.9%)	95.4%
Bitcoin Group	1.0%	(34.8%)	(52.6%)
Biostar	1.0%	(17.3%)	50.0%
Caica	0.7%	(38.4%)	(0.7%)
BC Technology Group	0.6%	(22.9%)	(15.4%)
CoinShares	0.5%	(50.3%)	n/a
Added constituents			
Aker	3.3%	2.7%	19.6%
Nexon Co	2.2%	(38.2%)	(33.5%)
Hut 8	1.1%	(13.2%)	76.5%
Arcane Crypto	0.5%	18.8%	84.3%
Removed constituents			
Amazon	n/a	(4.0%)	2.2%
Mogo	n/a	(38.8%)	50.9%
Nasdaq	n/a	16.0%	41.6%
Nexon GT	n/a	(19.6%)	(13.0%)
CoinShares Elwood Blockchain Global Equity Index	100.0%	(10.8%)	21.9%
MSCI World Net Total Return Index	n/a	4.8%	15.1%

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

Volatility metrics

Realised volatility	Quarter	2021 YTD	Since inception
BLOCK Index	25.9%	32.4%	23.1%
MSCI World Net Total Return Index	9.9%	12.2%	18.1%
Bitcoin	77.6%	76.4%	65.1%

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

Performance & attribution by blockchain area

Performance	Quarter	2021 YTD	Since inception
Blockchain financial services	(11.0%)	21.6%	144.4%
Blockchain technology solutions	(6.4%)	6.4%	62.0%
Mining hardware	(11.7%)	22.3%	213.4%
Blockchain payment systems	(7.2%)	25.3%	389.3%
Mining operations	(34.2%)	1.4%	252.4%
Energy	6.5%	2.4%	90.2%
Token investments	(4.9%)	60.9%	274.1%
Total	(10.8%)	21.9%	196.4%

Contribution	Quarter	2021 YTD	Since inception
Blockchain financial services	(4.3%)	5.2%	54.7%
Blockchain technology solutions	(1.3%)	1.6%	22.3%
Mining hardware	(1.7%)	4.5%	40.3%
Blockchain payment systems	(0.5%)	1.8%	44.0%
Mining operations	(3.4%)	1.4%	10.8%
Energy	0.3%	2.4%	8.3%
Token investments	(0.2%)	4.7%	14.8%
Total	(10.8%)	21.9%	196.4%

(Sources: Bloomberg, CoinShares) (Notes: All figures in USD. The index launched on 11 December 2018)

Top constituents by contribution - July 2021 quarter

Positive contributors	Total return	Contribution
Kakao	25.3%	1.0%
Oracle	16.0%	0.3%
Naver	16.6%	0.3%
AMD	26.1%	0.3%
CME	6.7%	0.2%

Detractors	Total return	Contribution
Hive	(32.3%)	(1.7%)
Canaan	(45.0%)	(1.3%)
Bitfarms	(23.6%)	(1.1%)
Voyager	(40.0%)	(1.0%)
Coinbase	(20.5%)	(0.9%)

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

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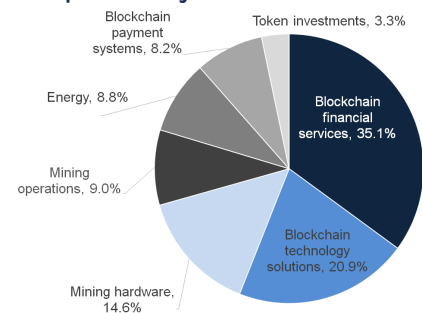
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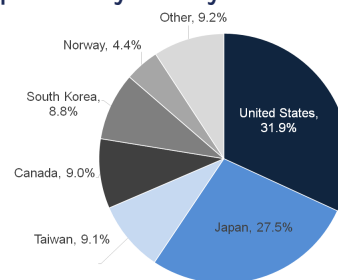
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Composition by blockchain area



(Sources: Bloomberg, CoinShares) (Note: Data as at July 2021 rebalance)

Composition by country



(Sources: Bloomberg, CoinShares) (Note: Data as at July 2021 rebalance)

Composition by market capitalisation

Mega (US\$100bn+)	22.0%
Large (US\$10bn to US\$100bn)	29.7%
Medium (US\$1bn to US\$10bn)	31.2%
Small (Under US\$1bn)	17.1%

(Sources: Bloomberg, CoinShares) (Note: Data as at July 2021 rebalance)