

ANNUAL 2021 COMMENTARY

Bitcoin ETF

The Evolve cryptocurrency ETFs provides investors with exposure to the daily price movements of the U.S. dollar price of bitcoin and ether while experiencing minimal tracking error by utilizing the benefits of the creation and redemption processes offered by the exchange traded fund structure.

TSX

EBIT

ETF TICKERS: EBIT (UNHEDGED); EBIT.U (USD)

In a year that was marked by substantial price volatility, Bitcoin experienced a 58% increase in price during 2021, opening the year at \$29,374 and closing at \$46,306. Early in the year on April 14, it climbed to \$64,863 and posted an all-time high of \$67,549 on November 27, before falling to its year-end level.¹

Price volatility of Bitcoin was fuelled by a number of factors during the year. In March, Tesla CEO Elon Musk announced via tweet that the electric vehicle manufacturer would accept Bitcoin as payment to buy its cars. Tesla had been investing heavily in Bitcoin as part of its operations, having purchased \$1.5 billion USD of the digital currency earlier this year.²

Musk's tweet triggered a sharp rise in Bitcoin prices but its impact was short-lived as in May, Musk announced that Tesla would no longer allow the purchase of its vehicles with Bitcoin on the back of concerns about the "rapidly increasing use of fossil fuels for Bitcoin mining," triggering a collapse in Bitcoin prices. In addition, Musk announced that Tesla won't be selling some \$2.5 billion worth of Bitcoin it currently holds and is instead open to resuming Bitcoin-based purchases once Bitcoin's mining "transitions to more sustainable energy."³

Another major development which shook the Bitcoin market during the year was China's crackdown on Bitcoin mining and usage. In May, the Chinese government ordered banks and payment firms to prevent cryptocurrency trading and purchases on their platforms.⁴ Trading volumes on major cryptocurrency exchanges fell by more than 40% in June as a result of the Chinese ban and lower volatility overall.⁵

In September, China, which was estimated to account for between 50% and 70% of the world's crypto mining,⁶ put a final nail in Bitcoin operations in the country. Several Chinese government agencies, including the country's securities regulator and the People's Bank of China announced that "all cryptocurrency-related business activities are illegal and vowed to clamp down on illicit activities involving digital currencies."

The agencies also said that overseas crypto exchanges would be blocked from providing services to Chinese residents through the internet.⁷ In a separate statement, China's National Development and Reform Commission said China will gradually start shutting down crypto mining operations, and no new mining projects will be permitted.⁸

In spite of the negative rhetoric on Bitcoin and price volatility, Bitcoin experienced heightened adoption during the year, with institutional players, multinationals, and hedge funds increasing participation in the cryptocurrency.

In October, Mastercard said it is preparing to announce that any of the thousands of banks and millions of merchants on its payments network can soon integrate crypto into their products. This includes bitcoin wallets, credit, and debit cards that earn rewards in crypto and enable digital assets to be spent, as well as loyalty programs where airline or hotel points can be converted into bitcoin.⁹

Visa also announced that it is planning to bring cryptocurrency services to traditional banking platforms in Brazil. The company said that it is working with several cryptocurrency companies in the country to bring cryptocurrency payment cards to the market and hinted at a possible direct integration of bitcoin into payments. Visa also stated they will start testing direct bitcoin payments in the country, which means that transactions will allow bitcoin to be transferred to other accounts directly.¹⁰

PayPal, which last year added the ability for users to buy, hold and sell cryptocurrency, announced they will now allow customers who hold Bitcoin or other digital currencies to convert their holdings into fiat currencies at checkouts to make purchases. The crypto payments will work the same as a credit card or a debit card currently works inside a PayPal wallet. By pushing cryptocurrency as a payment method to its 29 million+ online merchants, PayPal makes itself one of the largest mainstream financial companies to open its network to cryptocurrencies.¹¹ PayPal will also allow users to withdraw cryptocurrency held in PayPal accounts off-platform and into third-party wallets.¹²

One of the biggest news items for Bitcoin in 2021 was El Salvador becoming the the first country to adopt Bitcoin as legal tender, allowing the cryptocurrency to be used in any transaction, from buying a cup of coffee to paying taxes.¹³ The government has promised to install 200 Chivo automatic tellers and 50 Bitcoin attention centers.¹⁴

At a corporate level, Coinbase Global, the largest crypto exchange in the U.S. went public on the Nasdaq in April at a valuation of nearly \$100 billion. Coinbase shares began trading at \$381 a share, a more than 50% jump from the reference price for its stock of \$250 a share. The company listed its shares directly on the Nasdaq, as opposed to selling new stock through an initial public offering.¹⁵



Performance Attribution

EBIT provides investors with exposure to the daily price movements of the U.S. dollar price of Bitcoin while experiencing minimal tracking error by utilizing the benefits of the creation and redemption processes offered by the exchange-traded fund structure. EBIT offers investors exposure to Bitcoin by investing directly in Bitcoin, with EBIT's holdings of Bitcoin priced based on the CME CF Bitcoin Reference Rate, a once-a-day benchmark index price for Bitcoin denominated in U.S. dollars.

Sources:

1. <https://finance.yahoo.com/quote/BTC-USD/history?period1=1609459200&period2=1640908800&interval=1d&filter=history&frequency=1d&includeAdjustedClose=true>
2. <https://www.bbc.com/news/technology-56508568>
3. <https://www.cnbc.com/2021/05/13/why-elon-musk-is-worried-about-Bitcoin-environmental-impact.html>
4. <https://www.reuters.com/technology/chinas-central-bank-urges-financial-institutions-crack-down-cryptocurrencies-2021-06-21/>
5. <https://www.reuters.com/business/cryptocurrency-trading-volumes-slump-40-june-data-shows-2021-07-12/>
6. <https://www.reuters.com/business/cryptocurrency-trading-volumes-slump-40-june-data-shows-2021-07-12/>
7. <https://www.cnn.com/2021/09/24/investing/china-cryptocurrency-ban/index.html>
8. <https://www.cnn.com/2021/09/24/investing/china-cryptocurrency-ban/index.html>
9. <https://www.cnbc.com/2021/10/25/mastercard-says-any-bank-or-merchant-on-its-vast-network-can-soon-offer-crypto-services.html>
10. <https://news.bitcoin.com/visa-plans-to-bring-cryptocurrency-services-to-traditional-banks-in-brazil/>
11. <https://www.reuters.com/article/us-crypto-currency-paypal-exclusive/exclusive-paypal-launches-crypto-checkout-service-idUSKBN2BM10N>
12. <https://www.reuters.com/technology/paypal-allow-users-withdraw-cryptocurrency-third-party-wallets-2021-05-26/>
13. <https://www.nytimes.com/2021/09/07/world/americas/el-salvador-bitcoin.html>
14. <https://www.ctvnews.ca/business/early-stumble-as-el-salvador-starts-bitcoin-as-currency-1.5575423>
15. <https://www.cnn.com/2021/04/14/investing/coinbase-stock-direct-listing/index.html>

Commissions, trailing commissions, management fees and expenses all may be associated with exchange traded mutual funds (ETFs) and mutual funds. Please read the prospectus before investing. ETFs and mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. There are risks involved with investing in ETFs and mutual funds. Please read the prospectus for a complete description of risks relevant to the ETF and mutual fund. Investors may incur customary brokerage commissions in buying or selling ETF and mutual fund units. This communication is intended for informational purposes only and is not, and should not be construed as, investment and/or tax advice to any individual.

The indicated rates of return are the historical annual compound total returns net of fees (except for figures of one year or less, which are simple total returns) including changes in per unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The rates of return shown in the table are not intended to reflect future values of the ETF or returns on investment in the ETF. ETFs are not guaranteed, their values change frequently, and past performance may not be repeated.

Certain statements contained in this documentation constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking information may relate to a future outlook and anticipated distributions, events or results and may include statements regarding future financial performance. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "anticipate", "believe", "intend" or other similar expressions concerning matters that are not historical facts. Actual results may vary from such forward-looking information. Evolve undertakes no obligation to update publicly or otherwise revise any forward-looking statement whether as a result of new information, future events or other such factors which affect this information, except as required by law.