

ANNUAL 2021 COMMENTARY

Ether 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

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

Ethereum was the best performing cryptocurrency in 2021. It opened the year at \$730 USD and closed at \$3,682, for a gain of over 404%.¹ The cryptocurrency climbed to \$4,169 on May 11th, at the same time as Bitcoin slumped following Tesla's Elon Musk's announcement that the car manufacturer would no longer accept Bitcoin as payment for its vehicles. Ethereum reached a record high of \$4,870 in November, in the same month that Bitcoin also achieved its record high.

During the year, Ethereum was adopted by several major companies. For example, the ING Group, a Dutch multinational bank, which uses Ethereum to settle payments, bilateral lines of credit, and trading documents. TD Ameritrade, part of discount broker Charles Schwab Corp., uses Ethereum to facilitate smart contract future trades, while the French video game titan Ubisoft Entertainment SA is using Ethereum as the basis for in-game purchases. JPMorgan Chase & Co. is in the meantime looking to integrate its own digital coin (the JPM coin) with smart contracts via Ethereum.²

Regardless of these positive headlines, adoption of Ethereum has been something of a mixed bag during the year according to a report titled "Ethereum in 2021 - A Year In Review" by Fully Crypto. The report states that that on the positive side, the DeFi (decentralized finance space) continued to grow and Ethereum continued to be the blockchain that underpins most of it, while the explosion of non-fungible tokens (NFT) undoubtedly helped Ethereum to achieve record breaking gains this year. However, it's pretty clear that the next generation of crypto, the metaverse and Web 3.0, will not be built on Ethereum, which is troubling for its continued growth.³

Therefore, "Ethereum 2.0, with its deflationary mechanism and transactional overhaul, needs to come quickly in 2022 and be successful almost instantly. Otherwise, projects currently using Ethereum are likely to seek moves to other platforms due to the transaction fees being imposed on users."⁴

When Ethereum completes its transition to Proof-of-Stake (PoS) and away from PoW, or Proof-of-Work, as part of Ethereum 2.0, one of the many improvements will be to the energy efficacy of the Ethereum blockchain. While the current PoW standard consumes as much energy as a medium-sized country to keep the PoW chain safe, with the switch to PoS, energy consumption will drop by a staggering 95.5%. Instead of a medium-sized country, PoS Ethereum will use approximately the same amount of energy as a small American town of just 2100 homes.⁵

During 2021, capital poured into blockchain and crypto companies. According to data from Blockdata, \$23 billion of

funding reached these companies in 2021, which is more than the total amount raised from 2017 to 2020.⁶

On the regulatory front, China banned bitcoin mining and crypto trading outright, while the Bank of England said that the growth of crypto assets poses a potential threat in a Financial Stability Report as it becomes increasingly linked to wider financial networks.⁷

In the U.S., during testimony before the House Financial Services Committee, Securities and Exchange Commission (SEC) Chairman Gary Gensler suggested that Congress could grant federal regulatory oversight authority over cryptocurrency. He said that regulation of crypto exchanges would help protect cryptocurrency investors given that, as of now, the SEC has limited jurisdiction in the crypto space.

Gensler made no specific suggestions for what kind of regulatory regime he might propose for greater oversight by either the SEC or its sister agency, the Commodity Futures Trading Commission (CFTC). However, what is clear is that Gensler is particularly concerned with preventing possible fraud or manipulation around the cryptocurrency markets.⁸

At a corporate level, Coinbase Global, the largest crypto exchange in the US 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.⁹

During the year, online payments company PayPal made several cryptocurrency announcements. The company, which last year added the ability for users to buy, hold and sell cryptocurrency, announced they will allow customers who hold 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.¹⁰ PayPal can transact in Bitcoin, Ethereum, Bitcoin Cash, and Litecoin.¹¹

PayPal will also allow users to withdraw cryptocurrency held in PayPal accounts off-platform and into third-party wallets.¹²

Performance Attribution

ETHR provides investors with exposure to the daily price movements of the U.S. dollar price of Ether while experiencing minimal tracking error by utilizing the benefits of the creation and redemption processes offered by the exchange-traded fund structure.

Sources:

1. <https://finance.yahoo.com/quote/ETH-USDhistory?period1=1609459200&period2=1640908800&interval=1d&filter=history&frequency=1d&includeAdjustedClose=true>
2. <https://www.fool.com/investing/2021/08/18/why-ethereum-is-the-top-cryptocurrency-investment/>
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