

ANNUAL 2022 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

ETHR

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

The year of 2022 was defined by widespread cryptocurrency adoption by governmental bodies and corporations alike. In January, Rio de Janeiro, Brazil's second-most populous city, announced plans to allocate 1% of the city's treasury reserves to cryptocurrencies.¹ In the same month, Intel announced it would release a new "ultra-low-voltage" Bitcoin mining chip, which would reduce the energy consumption required to mine the cryptocurrency in an exciting development for the network.² Then, in February, KPMG Canada announced that it would add Bitcoin and Ethereum to its corporate balance sheet, becoming one of the highest profile firms to invest in cryptocurrencies.³ That announcement was followed by one made by State Street Corporation, the largest custodial service provider in the world, in which the firm announced they had plans to launch custodial services for bitcoin and other cryptocurrencies. Then in April, the Central African Republic declared Bitcoin as an official currency, becoming the second nation after El Salvador to accept the cryptocurrency as legal tender.⁵ Later in August, Coinbase, the world's second largest cryptocurrency exchange platform, and BlackRock, the world's largest asset manager, announced a partnership to help institutional investors manage and trade Bitcoin.⁶ The last notable announcement came in October, when America's Oldest Bank, BNY Mellon, announced it will offer cryptocurrency custodial services.⁷

On September 15, 2022, Ethereum's transition from proof-of-work (PoW) to proof-of-stake (PoS) consensus, otherwise known as "The Merge", was successfully completed. The highly anticipated technical upgrade significantly reduces the amount of energy used by the network and provides the framework for Ethereum to lower its fees and massively expand its user base. The Merge did result in a fork, known as ETHW, as Proof of Work miners continued to run their mining infrastructure to mine the token on the Proof of Work system. However, most of the Ethereum community has rejected the legitimacy of the alternate blockchain, and whether the chain has any material value is not necessarily certain.⁸ The next steps of the Ethereum upgrade will be The Surge, The Verge, The Purge, and The Splurge. After all the upgrades have been deployed, the new Ethereum blockchain, known as Ethereum 2.0, is expected to be more scalable, secure, and sustainable, while still being decentralized.⁹

During the year, the cryptocurrency market also faced several considerable challenges such as the collapse of Stablecoin Terra USD and LUNA, Celsius, Voyager Digital, and FTX. In May, the collapse of algorithmic stablecoin TerraUSD (UST) and its sister coin that backed it, Terra (LUNA) resulted in \$40 billion in investor losses and created somewhat of a domino effect throughout the cryptocurrency industry. This collapse damaged consumer confidence in the cryptocurrency market, accelerating the onset of a "crypto winter" and an industry-

wide sell-off that spurs a bank run-style series of withdrawals by Celsius users. Then, in June, Celsius posted a memo informing users that it had frozen their assets, then filed for bankruptcy shortly thereafter in July. Voyager Digital, a crypto brokerage service, also filed for bankruptcy in July. Prior to this filing, it has also paused customer withdrawals.¹⁰ Finally, and perhaps most notably, in November, cryptocurrency exchange FTX and its sister trading firm Alameda Research, filed for bankruptcy on November 11th on concerns about improper use of client funds that led to a run-on deposits, creating an estimate \$8 billion liquidity shortfall.¹¹

Subsequently, investment banks and surviving cryptocurrency firms announced plans to acquire devalued cryptocurrency companies. In December, Goldman Sachs, revealed plans to spend tens of millions of dollars to buy or invest in cryptocurrency companies while valuations are down, and investor interest is dampened. As of December 6, Goldman has invested in 11 digital asset companies that provide services such as compliance, cryptocurrency data and blockchain management, and continues to see cryptocurrency companies as a viable investment opportunity.¹² Later in the month, Binance.US announced that it would acquire bankrupt Voyager Digital's assets for \$1 billion.¹³ In fact, the cryptocurrency exchange outlined plans to continue to explore more acquisition opportunities in an effort to add new assets, users, and capabilities to their platform.¹⁴

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. ETHR offers investors exposure to ether by investing directly in ether, with ETHR's holdings of ether priced based on the ETHUSD_RR, a once-a-day benchmark index price for Ether denominated in U.S. dollars, is a registered benchmark under the European Union's Benchmark Regulation regime.

Sources:

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