

Quarterly Index Review - January 2020

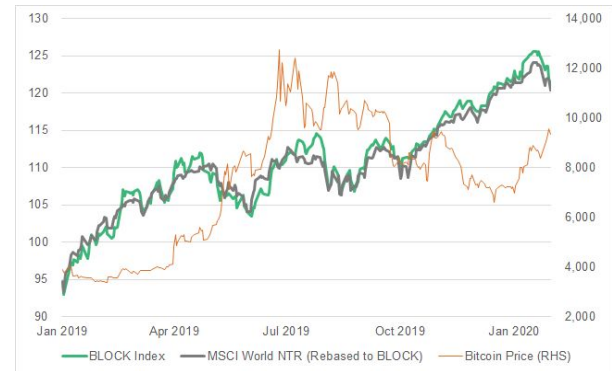
Elwood Blockchain Global Equity Index (BLOCK Index)

Performance overview

During the three months to the end of January 2020, the Elwood Blockchain Global Equity Index increased in value by 5.3%, in comparison to the MSCI World Net Total Return Index which increased in value by 5.2%.

AMD, Line Corp and GMO Internet were the biggest positive contributors to performance for the quarter, while Overstock, Global Unichip and Rakuten were the largest detractors.

Index Performance



(Source: Bloomberg, Elwood. Bitcoin price in USD. All figures in USD)

Analyst Commentary

In line with global equities, the Index had a strong quarter, appreciating in value by 5.3%. The performance would have been even stronger, if it had not been for the outbreak of coronavirus a few weeks before the period end. The virus detrimentally impacted the Index due to the exposure to the semiconductor industry, particularly in Taiwan and fears the virus could dampen production volumes. Before this unfortunate incident occurred, the picture was similar to the previous quarter, with the Index benefiting from the strong semiconductor sector and global internet stocks.

Bitcoin had a reasonably flat quarter, increasing in value by only 1.8%, although within the period there was significant volatility. The Index had a small negative correlation with Bitcoin in the quarter, just like the October 2019 quarter. This is because Bitcoin has gradually started to trade more like a safe haven risk off asset in some periods and therefore often trades in the opposite direction to global equities. However, Bitcoin's safe haven status is far from proven and this trading correlation is not yet statistically significant.

In the quarter, Chinese cryptocurrency mining equipment manufacturer Canaan listed in the United States and is now included in the Index. Canaan is a pure play cryptocurrency company and sales can be very volatile, as many mining operating entities only commit to new orders during periods of sharp cryptocurrency price appreciation. Canaan has been around for a while, since 2013, with the Avalon brand originating in 2012 and the company has experienced several cryptocurrency price cycles. Therefore we believe Canaan may be able to survive the challenging periods ahead and generate strong shareholder returns over the cycle. Stocks like Canaan, which are becoming increasingly important to the Index, should indirectly increase the Index's exposure to the Bitcoin price. Currently, the bulk of the Index remains exposed to global equities, namely technology and financial stocks. This potentially provides the Index a unique set of diversification characteristics, which may result in the opportunity to generate returns in either a risk-on environment or a deleveraging environment where liquidity is constrained. However, we appreciate that this investment thesis is not yet proven.

During the quarter, members of the Elwood Index team visited Hong Kong and Tokyo, where we met with representatives from some potential new constituents and blockchain industry experts, although a planned trip to Shenzhen to visit Chinese names was cancelled due to the aforementioned virus. We also attended a cryptocurrency finance conference in Switzerland, meeting many of the large investors, exchanges and traders in the space. The Index team has recently conducted an extensive analysis into the four listed cryptocurrency mining operating entities. In 2020 we will do more analysis of the exchange space and some of the listed entities in Hong Kong, as well as evaluating the opportunities in the Chinese market. This is due, in part, to President Xi Jinping's recent announcement, where he encouraged investment in blockchain technology.

Overall performance data

	1m	3m	Since launch
BLOCK Index	(0.4%)	5.3%	24.8%
MSCI World Net Total Return Index	(0.6%)	5.2%	21.7%
Bitcoin	29.1%	1.8%	176.0%

(Source: Bloomberg, Elwood. All figures in USD)

BLOCK Index performance data by sector

Performance	1m	3m	Since launch
Communication Services	(3.1%)	7.1%	10.2%
Consumer Discretionary	1.0%	(12.6%)	(14.3%)
Financials	3.4%	7.7%	17.6%
Information technology	1.0%	8.0%	43.6%
Materials	(13.2%)	(5.4%)	(4.1%)
Utilities	0.5%	12.9%	(10.7%)
Total	(0.4%)	5.3%	24.8%

Contribution	1m	3m	Since launch
Communication Services	(0.5%)	1.2%	1.8%
Consumer Discretionary	0.1%	(0.9%)	(0.8%)
Financials	0.7%	1.6%	3.9%
Information technology	0.4%	3.6%	19.0%
Materials	1.1%	(0.4%)	(0.3%)
Utilities	0.0%	0.3%	(0.1%)
Total	(0.4%)	5.3%	24.8%

(Source: Bloomberg, Elwood. All figures in USD)

BLOCK Index performance by country of domicile

Performance	1m	3m	Since launch
United States	4.1%	7.8%	28.5%
Japan	(0.7%)	8.3%	17.4%
Taiwan	(4.9%)	(3.6%)	36.1%
South Korea	(3.8%)	4.1%	31.0%
United Kingdom	(6.4%)	5.8%	33.8%
Total	(0.4%)	5.3%	24.8%

Contribution	1m	3m	Since launch
United States	1.5%	2.7%	11.1%
Japan	(0.2%)	2.2%	4.8%
Taiwan	(0.5%)	(0.4%)	4.1%
South Korea	(0.4%)	(0.5%)	1.7%
United Kingdom	(.3%)	0.3%	2.0%
Total	(0.4%)	5.3%	24.8%

(Source: Bloomberg, Elwood. All figures in USD)

Quarterly correlation and volatility metrics

Correlation	January 2020 Quarter
BLOCK Index vs MSCI World Net Total Return	0.66
BLOCK Index vs Bitcoin	(0.10)
Beta	January 2020 Quarter
BLOCK Index vs MSCI World Net Total Return	0.72
BLOCK Index vs Bitcoin	(0.02)
Realised Volatility	January 2020 Quarter
BLOCK Index	8.0%
MSCI World Net Total Return	8.5%
Bitcoin	52.5%

(Source: Bloomberg, Elwood)

(Notes: Based on daily percentage change. All figures in USD)

Performance data by blockchain business area

Performance	1m	3m	Since launch
Blockchain financial services	1.3%	9.0%	12.8%
Mining hardware	(1.5%)	7.3%	49.6%
Blockchain technology solutions	3.2%	5.6%	34.6%
Blockchain payment systems	(3.2%)	(3.6%)	(3.3%)
Energy	(15.4%)	(7.4%)	(10.2%)
Mining operations	3.4%	10.1%	51.4%
Token investments	11.6%	8.5%	12.4%
Total	(0.4%)	5.3%	24.8%

Contribution	1m	3m	YTD
Blockchain financial services	0.4%	2.9%	4.6%
Mining hardware	(0.3%)	1.6%	9.8%
Blockchain technology solutions	0.6%	1.1%	7.5%
Blockchain payment systems	(0.3%)	(0.4%)	(0.4%)
Energy	(1.1%)	(0.5%)	(0.7%)
Mining operations	0.25	0.6%	2.6%
Token investments	0.1%	0.1%	0.2%
Total	(0.4%)	5.3%	24.8%

(Source: Bloomberg, Elwood. All figures in USD)

Top five constituents by contribution - Quarter Ending January 2020

Best	Total return	Contribution
AMD	38.5%	1.0%
Line Corp	34.0%	0.9%
GMO Internet	15.1%	0.8%
Square	21.6%	0.5%
TSMC	8.7%	0.5%

Worst	Total return	Contribution
Overstock	(22.9%)	(0.5%)
Global Unichip	(10.2%)	(0.5%)
Rakuten	(17.8%)	(0.4%)
Alcoa	(32.9%)	(0.4%)
TUL Corp	(18.3%)	(0.4%)

(Source: Bloomberg, Elwood. All figures in USD)

Index members & performance

Name	Weight	2018	2019	2020 YTD	January 2020 Quarter
GMO INTERNET	5.5%	(20.5%)	44.5%	2.7%	15.0%
TSMC	5.0%	(1.0%)	57.2%	(4.4%)	8.9%
CME	4.8%	32.1%	9.7%	8.2%	7.2%
GLOBAL UNICHIP	4.0%	(20.0%)	22.2%	(2.1%)	(10.1%)
KAKAO	3.8%	(27.7%)	43.6%	0.1%	9.8%
AMD	3.4%	79.6%	148.4%	2.5%	38.5%
LINE	3.1%	(16.2%)	43.7%	0.6%	33.8%
INTEL	2.8%	4.2%	30.7%	6.8%	13.7%
SQUARE	2.7%	61.8%	11.5%	19.4%	21.6%
NVIDIA	2.7%	(30.8%)	76.9%	0.5%	17.7%
PLUS500	2.6%	66.9%	(26.5%)	0.1%	13.6%
NASDAQ	2.6%	8.2%	33.9%	8.7%	17.3%
NAVER	2.6%	(32.5%)	47.6%	(7.0%)	7.2%
DIGITAL GARAGE	2.6%	(13.7%)	87.3%	(11.0%)	13.1%
SAMSUNG ELECTRONICS	2.5%	(24.7%)	43.1%	(2.3%)	10.1%
IG GROUP	2.5%	(20.2%)	35.9%	(3.1%)	8.7%
NTT DATA	2.5%	(7.1%)	25.1%	6.5%	8.1%
NIPPON GAS	2.5%	0.2%	(8.6%)	(0.3%)	12.7%
QUALCOMM	2.4%	(7.6%)	60.7%	(3.3%)	6.9%
INTERCONTINENTAL EXCHANGE	2.4%	8.1%	24.5%	7.8%	6.1%
NOMURA RESEARCH INSTITUTE	2.4%	(19.4%)	77.3%	4.0%	4.3%
RIO TINTO	2.3%	(5.5%)	40.9%	(9.8%)	3.8%
MONEX	2.3%	20.7%	(25.4%)	(1.1%)	(1.2%)
ORACLE	2.2%	(3.0%)	19.3%	(0.6%)	(3.3%)
NEXON	2.0%	(52.6%)	2.4%	(10.0%)	(13.3%)
RAKUTEN	1.9%	(26.9%)	28.8%	(8.1%)	(17.9%)
OVERSTOCK	1.7%	(78.7%)	(48.1%)	15.2%	(22.9%)
TUL CORP	1.6%	(13.8%)	18.5%	(14.2%)	(18.2%)
MICROSOFT	1.4%	20.8%	57.6%	7.9%	19.1%
CERES	1.3%	(25.0%)	(24.3%)	(3.8%)	(4.5%)
AMAZON	1.3%	28.4%	23.0%	8.7%	13.1%
SOFTBANK	1.3%	(16.1%)	33.0%	(4.5%)	7.5%
SBI	1.2%	(3.4%)	13.1%	11.8%	8.3%
FACEBOOK	1.2%	(25.7%)	56.6%	(1.6%)	5.4%
BARRICK GOLD	1.2%	(5.4%)	38.5%	(0.3%)	6.9%
IBM	1.2%	(22.5%)	23.6%	7.2%	8.7%
MUFG	1.1%	(31.7%)	16.6%	(3.7%)	(0.6%)
VERIZON	1.1%	11.3%	13.9%	(2.2%)	(0.7%)
GENERAL MOTORS	1.1%	(15.0%)	14.0%	(8.8%)	(9.2%)
ALUMINUM CORP OF CHINA	1.1%	(55.0%)	6.5%	(13.6%)	(0.4%)
ALUMINA	1.0%	(2.6%)	15.7%	(9.6%)	(6.6%)
BANCO SANTANDER	1.0%	(27.9%)	(2.6%)	(6.0%)	(1.7%)
NORSK HYDRO	1.0%	(38.9%)	(14.3%)	(15.1%)	(10.7%)
RIOT BLOCKCHAIN	0.8%	(94.7%)	(25.8%)	20.5%	(13.5%)
ALCOA	0.8%	n/a	(19.1%)	(35.1%)	(32.9%)
HUT 8	0.4%	n/a	n/a	18.2%	(33.9%)
Elwood Blockchain Index		n/a	28.6%	(0.4%)	5.3%
MSCI World (NTR)		(8.7%)	27.7%	(0.6%)	5.2%
New Index Constituents					
CANAAN		n/a	n/a	(1.6%)	(33.3%)
SILVERGATE CAPITAL		n/a	n/a	(0.8%)	31.5%

(Source: Bloomberg, Elwood)

(Notes: Weighting as at 31 January 2020, performance return in USD)

Valuation data

	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4
Elwood Blockchain Global Equity Index					
PE	13.1	15.2	14.5	16.6	19.6
Price/Book	2.2	2.5	2.5	2.5	2.6
EV/Sales	1.3	1.6	1.8	1.9	1.9
Dividend Yield	3.0%	2.3%	2.9%	2.3%	2.2%

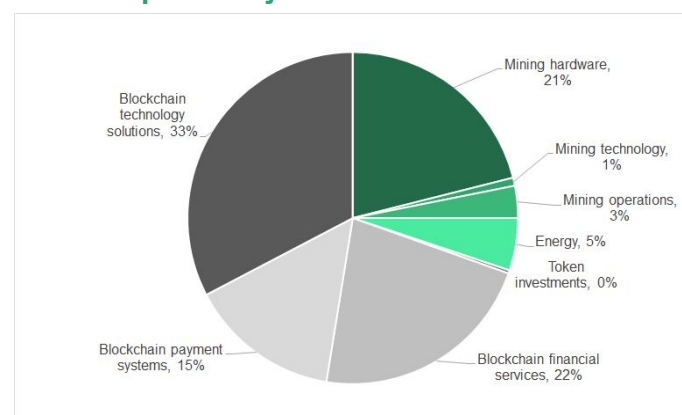
MSCI World Net Total Return Index

PE	15.0	16.8	17.6	17.9	19.5
Price/Book	2.1	2.4	2.4	2.4	2.6
EV/Sales	1.8	2.0	2.1	2.1	2.2
Dividend Yield	2.7%	2.5%	2.5%	2.5%	2.4%

(Source: Bloomberg, Elwood)

(Notes: PE ratio based on current market capitalisation, positive earnings only and sales, profits and dividends over the last rolling 12 months. All figures in USD)

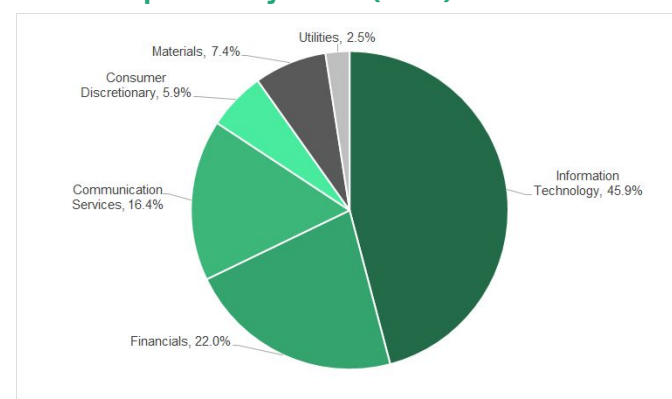
Index composition by blockchain business area



(Source: Bloomberg, Elwood)

(Note: Data as at January 2020. All figures in USD)

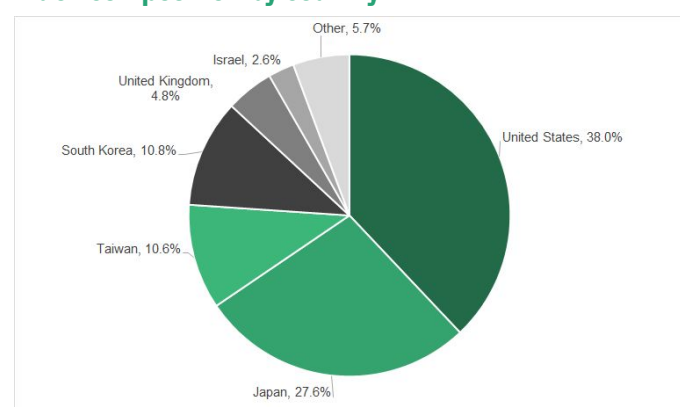
Index composition by sector (GICS)



(Source: Bloomberg, Elwood)

(Note: Data as at January 2020. All figures in USD)

Index composition by country



(Source: Bloomberg, Elwood)

(Note: Data as at January 2020. All figures in USD)

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