

Elwood Blockchain Global Equity Index

Quarter Ended 31 October 2020

Performance data (Total return)

	Quarter	2020 YTD	Since inception
BLOCK Index	0.8%	37.9%	72.5%
MSCI World Net Total Return Index	(0.2%)	(1.4%)	21.4%
Bitcoin	22.7%	94.5%	312.7%

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

Performance chart (Since inception)



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

Analyst commentary

During the quarter ended October 2020, the Elwood Blockchain Global Equity Index generated a total return of 0.8%, in comparison to the MSCI World Net Total Return Index which returned negative 0.2%. Plus500, Qualcomm and Square were the largest positive contributors in the quarter, while Overstock, Nexon and CME were the largest detractors. Following on from the strong performance in the previous quarter, the Index performed broadly in line with the benchmark in the period, as strong performances from some of the financials in the Index, were offset by relatively weak performances from some consumer related names.

At this rebalance point, we have added five new constituents to the Index. The most significant of these is Microstrategy, the US-based business intelligence software company. On 11 August 2020, the company announced that it had adopted Bitcoin as its "primary treasury reserve asset", acquiring 21,454 bitcoin for US\$250 million. Around a month later, on 14 September 2020, the company announced it had invested another US\$175 million into bitcoin, bringing the total investment to US\$425 million, representing 27.4% of the group's current market capitalisation. The group's CEO, Michael Saylor, then went on to articulate his decision by speaking on many cryptocurrency and finance related podcasts, including Peter McCormack's "What Bitcoin Did", Anthony Pompliano's "The Pomp Podcast", Raoul Pal's "Real Vision Finance", Nathaniel Whittimore's "The Breakdown", Keith McCullough's "Hedgeye" and Stephan Livera's Bitcoin podcast; to name just a few. In a few short weeks Michael went from a relatively unknown actor in the blockchain space, to a darling of the Bitcoin community.

At the crux of Michael's reasoning for the investment is that, although the official inflation rate is low and stable at around 2%, asset price inflation has significantly exceeded this, at over 7% per annum. As he puts it: "You are not getting inflation on YouTube & Netflix streaming videos, candy bars made by robots and Dominos Pizza, you are getting inflation on everything you want, an ivy league education, a beachfront house in Miami, an apartment in New York, anything scarce, it is going up 7%". Despite a pandemic crippling the global economy, Apple and Amazon have appreciated in value by around 50% in 2020, with expanding earnings multiples, and the price of 30 year US treasury bonds has increased by around 30%. The US Dollar is therefore identified by Microstrategy as an inappropriate treasury asset, as it will inflate away over the long term and its ability to acquire financial assets is becoming diminished. Large buybacks are also not suitable, since the group needs reserves to convince clients of its ability to survive and fulfil long term contracts. Gold was also considered as unsuitable, as over the long term the supply inflates and the more the gold price appreciates the more it will be mined. Bitcoin was therefore chosen as the most suitable long term store of value.

From our point of view, Microstrategy's decision is interesting, certainly if other listed corporates follow in their footsteps. Several other companies appear to have already emulated the move, for example Square announcing the acquisition of US\$50m of bitcoin on 8 October 2020 and some other small cap companies who have recently acquired bitcoin. A Bitcoin investment can generate a lot of attention, which can be enticing for some CEOs. For us, this is a considerable risk; it is possible that companies with declining revenues or declining profit margins enact this policy to boost the share price and deflect attention from poor business fundamentals. We are keen not to fall for this potential trap and will carefully evaluate company business models and consider potential synergies with any Bitcoin investment.

With the exception of H1 2019, the Bitcoin price appears to have significantly decoupled from the S&P 500 Index for the first time since the Index launched in December 2018. This positive price momentum may have been partly driven by PayPal's announcement on 21 October that it will offer its 346 million active users the ability to obtain exposure to cryptocurrency. This decision appears to have been driven by Square's success in generating earnings from the space (\$17m in gross profit during the June 2020 quarter), rather than an uninformed desire to adopt new technology for its own sake, which has driven corporate adoption of blockchain technology in previous cycles. We consider this earnings driven wave of adoption as healthier for both the shareholders of the corporates involved and the blockchain ecosystem itself. We added three blockchain pure plays to the Index during this rebalance: Hive, Bitcoin Group and Hut 8. This may have improved the ability of the portfolio to generate alpha in the event of falling equity markets and appreciating cryptocurrency prices.

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	US\$233.9 million
ISIN	DE000SLA6ZB5
Number of constituents	47
Inception date	11 December 2018
Portfolio manager	Jonathan Bier

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	BNGX GY
Borsa Italiana	USD	BCHN IM
SIX	USD	BCHS SW

Index constituents & performance data

Name	Weight	October 2020 Quarter	2020 YTD
TSMC	5.0%	4.9%	39.8%
CME	3.9%	(8.8%)	(23.9%)
GMO Internet	3.9%	(7.7%)	40.4%
Kakao	3.9%	0.9%	118.5%
Global Unichip	3.9%	(9.0%)	14.9%
Monex	3.9%	12.7%	0.5%
Naver	2.6%	1.1%	58.1%
IG Group	2.6%	6.1%	13.2%
Samsung	2.6%	3.2%	5.2%
Square	2.6%	19.3%	147.6%
ICE	2.6%	(2.2%)	3.0%
Digital Garage	2.6%	6.3%	(15.0%)
NTT Data	2.6%	0.4%	(15.4%)
Rakuten	2.6%	6.4%	12.9%
Overstock	2.6%	(25.8%)	695.7%
Qualcomm	2.6%	17.4%	42.7%
Oracle	2.6%	1.6%	7.7%
Line	2.6%	(2.9%)	4.4%
Nexon	2.6%	(18.0%)	71.9%
Canaan	2.6%	(12.8%)	(64.3%)
NRI	2.6%	13.3%	39.4%
Rio Tinto	2.6%	(4.4%)	1.5%
Broadridge Financial	2.6%	2.9%	13.0%
Plus 500	1.3%	27.8%	76.2%
Banco Santander	1.3%	(6.6%)	(52.4%)
Intel	1.3%	(6.6%)	(24.7%)
SBI	1.3%	10.4%	13.8%
AMD	1.3%	(2.8%)	64.2%
IBM	1.3%	(8.0%)	(13.6%)
Softbank	1.3%	4.5%	50.0%
MUFG	1.3%	8.5%	(23.8%)
Alcoa	1.3%	(0.6%)	(39.9%)
Amazon	1.3%	(4.1%)	64.3%
Microsoft	1.3%	(1.0%)	29.4%
Verizon	1.3%	0.2%	(3.1%)
Facebook	1.3%	3.7%	28.2%
Norsk Hydro	1.3%	0.3%	(24.6%)
Ceres	1.3%	73.0%	67.8%
Nasdaq	1.3%	(7.5%)	14.5%
Aluminum Corp Of China	1.3%	(15.1%)	(36.4%)
Caica	1.2%	(18.3%)	3.4%
Tul	0.9%	6.8%	(8.3%)
Added Constituent(s)			
Microstrategy	3.9%	34.8%	17.1%
Silvergate	1.7%	63.6%	40.5%
Hive	0.7%	4.7%	422.3%
Bitcoin Group	0.5%	(0.0%)	18.4%
Hut 8	0.5%	9.2%	15.5%
Removed Constituent(s)			
General Motors		38.7%	(4.5%)
Barrick Gold		(7.2%)	45.0%
Nippon Gas		2.8%	50.9%
Elwood Blockchain Index	100.0%	0.8%	37.9%
MSCI World (NTR)		(0.2%)	(1.4%)

(Sources: Bloomberg, Elwood)

(Notes: Weighting as at October 2020 rebalance. Investment returns in USD based on the Bloomberg total return function)

Volatility metrics

Realised Volatility	Quarter	2020 YTD	Since inception
BLOCK Index	19.5%	24.0%	20.0%
MSCI World Net Total Return Index	15.3%	27.1%	20.1%
Bitcoin	38.4%	58.4%	62.2%

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

Performance & attribution by sector (GICS)

Performance	Quarter	2020 YTD	Since inception
Communication Services	(0.1%)	51.0%	71.8%
Consumer Discretionary	(4.2%)	277.5%	220.7%
Financials	5.0%	2.9%	17.1%
Information technology	1.7%	17.2%	66.8%
Materials	(5.5%)	(10.0%)	(0.5%)
Utilities	2.7%	50.8%	35.4%
Total	0.8%	37.9%	72.5%

Contribution	Quarter	2020 YTD	Since inception
Communication Services	(0.0%)	7.0%	10.7%
Consumer Discretionary	(0.3%)	23.5%	25.3%
Financials	1.0%	0.6%	4.5%
Information technology	0.7%	7.2%	30.2%
Materials	(0.4%)	(0.5%)	0.6%
Utilities	0.0%	0.7%	0.7%
Total	0.8%	37.9%	72.5%

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

Top constituents by contribution - October 2020 quarter

Contributors	Total return	Contribution
Plus 500	27.5%	0.7%
Qualcomm	17.4%	0.5%
Square	19.3%	0.5%
General Motors	38.7%	0.5%
Monex	12.7%	0.4%

Detractors	Total return	Contribution
Overstock	(25.8%)	(0.9%)
Nexon	(18.0%)	(0.5%)
CME	(8.8%)	(0.3%)
Global Unichip	(9.0%)	(0.3%)
Caica	(18.4%)	(0.3%)

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

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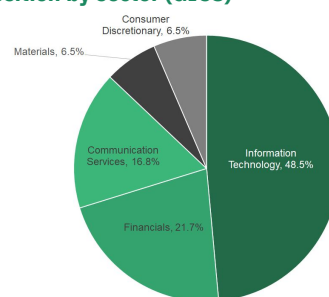
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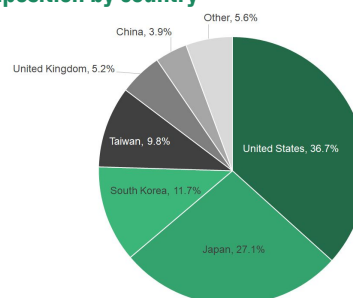
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Composition by sector (GICS)



(Sources: Bloomberg, Elwood) (Note: Data as at October 2020 rebalance)

Composition by country



(Sources: Bloomberg, Elwood) (Note: Data as at October 2020 rebalance)

Composition by market capitalisation

Mega (US\$100bn+)	20.5%
Large (US\$10bn to US\$100bn)	37.5%
Medium (US\$1bn to US\$10bn)	25.9%
Small (Under US\$1bn)	16.0%

(Sources: Bloomberg, Elwood) (Note: Data as at October 2020 rebalance)