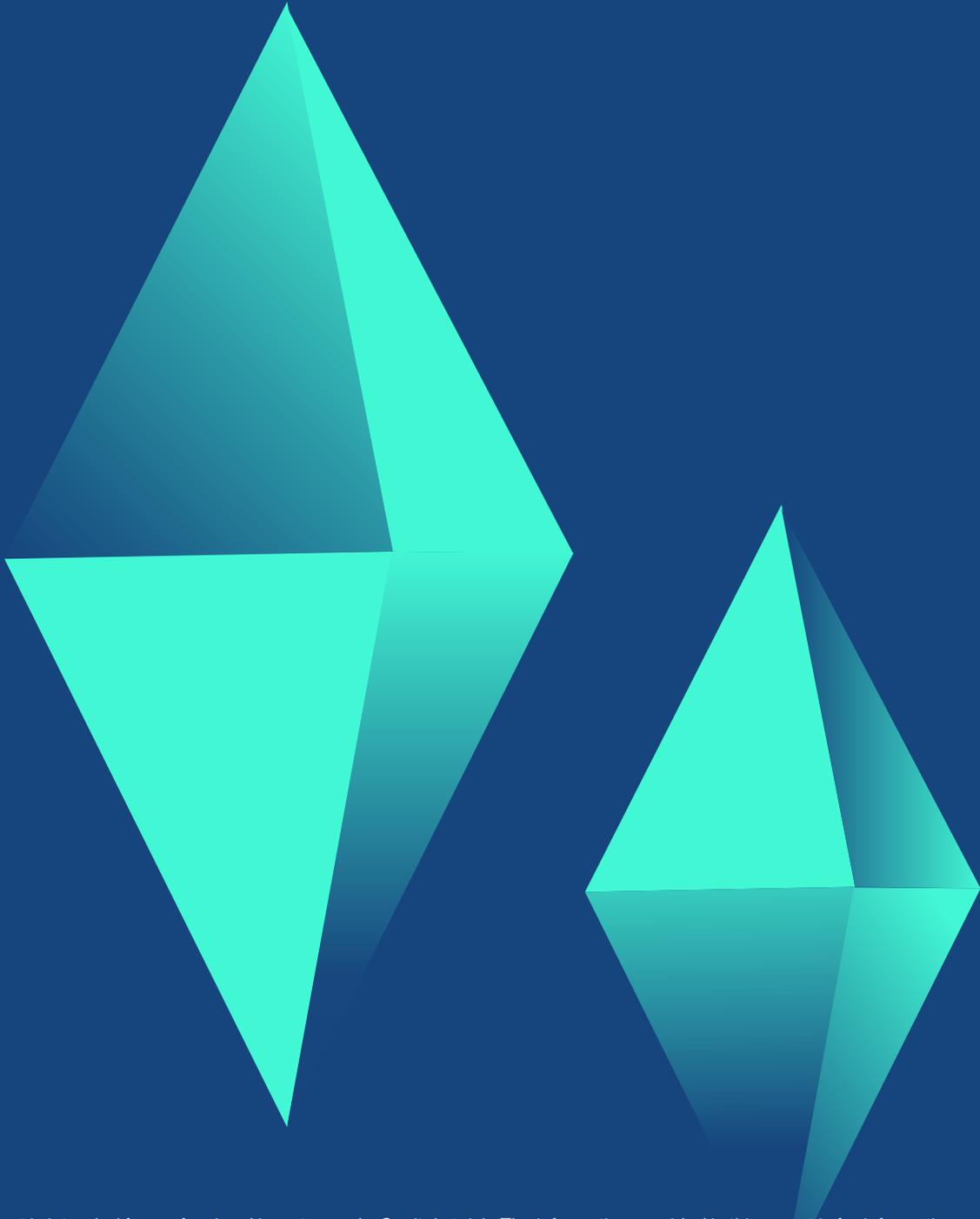


Spring 2024

The Investment Case for Ethereum: A Primer



About ETC Group

ETC Group is bridging the gap between crypto and traditional financial services. Founded in 2019, the company is a first mover in European investment products that provide institutional-grade access to cryptocurrencies.

Blockchain technology and its applications continue to gain acceptance and traction. The world's largest banks, asset managers and transaction service providers are increasingly adopting cryptocurrencies and investing

in the sector. Cryptocurrencies are the fungible payment units of blockchain ecosystems and therefore indispensable for blockchain and co.

ETC Group launched the world's first centrally cleared bitcoin ETP on Deutsche Börse XETRA, Europe's largest ETF trading venue. Since the product listing

in June 2020, the company has become a leading European provider of physically-backed Crypto ETPs. With customer centric innovation at core of its product development approach, ETC Group continues to pioneer the field, having launched the first crypto basket ETP on an MSCI digital asset index in April 2023.

The company consists of an experienced team of financial services professionals and entrepreneurs. Years of experience in both the crypto sector and conventional investment products enable ETC Group to guide traditional investors and their risk and investment committees through the intricacies and novelty of the digital asset ecosystem.

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Executive Summary

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Overview of Ethereum (ETH) and its Evolution

- Ethereum represents a significant evolutionary step in the internet's development, transitioning from Web1 and Web2 to Web3 or the "Internet of Value."
- Since its inception in 2015, Ethereum has developed a diverse ecosystem of decentralized applications (dApps), notably in Decentralized Finance (DeFi).
- Unique to Ethereum is the ability for investors to own a part of its value layer, akin to owning shares in the foundational internet protocol TCP/IP.

Distinguishing Ethereum from Bitcoin

- Ethereum differs significantly from Bitcoin, not just in purpose but also in its consensus mechanisms, scalability, energy consumption, carbon footprint, and yield opportunities.
- Ethereum offers staking yields and a deflationary aspect through its built-in burn mechanism, making its economics similar to dividends and buybacks in traditional equities.

Ethereum's Role in the Digital Economy

- Ethereum is more than a technology platform; it's the basis of a digital economy, providing infrastructure and security for online businesses and collecting transaction fees, similar to taxes in a conventional economy or the Apple / Android app store.
- Its growing adoption is evident in its transaction volume, now comparable to traditional financial payment providers like Visa.

Future Prospects and Tokenization

- Ethereum is poised to lead in the tokenization of assets, a process of digitizing asset value and ownership on the blockchain.
- Its potential market is vast, with a potential Total Addressable Market Value of \$ 1 Quadrillion

Executive Summary

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Valuing Ethereum

- Valuation approaches include network utility, intrinsic value, and cash flow analysis.
- Ethereum's intrinsic value and cash flow become more significant post its transition to proof-of-stake in September 2022, making it a cash flow-generating asset.
- Ethereum's utility and valuation are also driven by its user base and transaction volumes, aligning with Metcalfe's Law.

Ethereum's Revenue and Yield Model

- Ethereum generates revenue from transaction fees paid by users, with validators receiving these fees.
- Investors in Ethereum can earn through transaction fee revenues and the deflationary nature of Ethereum's supply, due to the burning mechanism introduced in EIP-1559.

Comparative Performance and Investment Potential

- Ethereum has outperformed major indices like the Nasdaq 100, showing rapid global adoption and potential for continued growth.
- Predictions suggest that Ethereum could reach \$ 14,000 by 2030 and \$ 82,000 by 2050 based on a global mobile phone adoption model.
- Ethereum exhibits a low correlation to traditional assets like equities makes it a perfect addition to multiasset portfolios thereby significantly enhancing risk-adjusted returns.

Unleashing the Potential of Ethereum: A Deep Dive

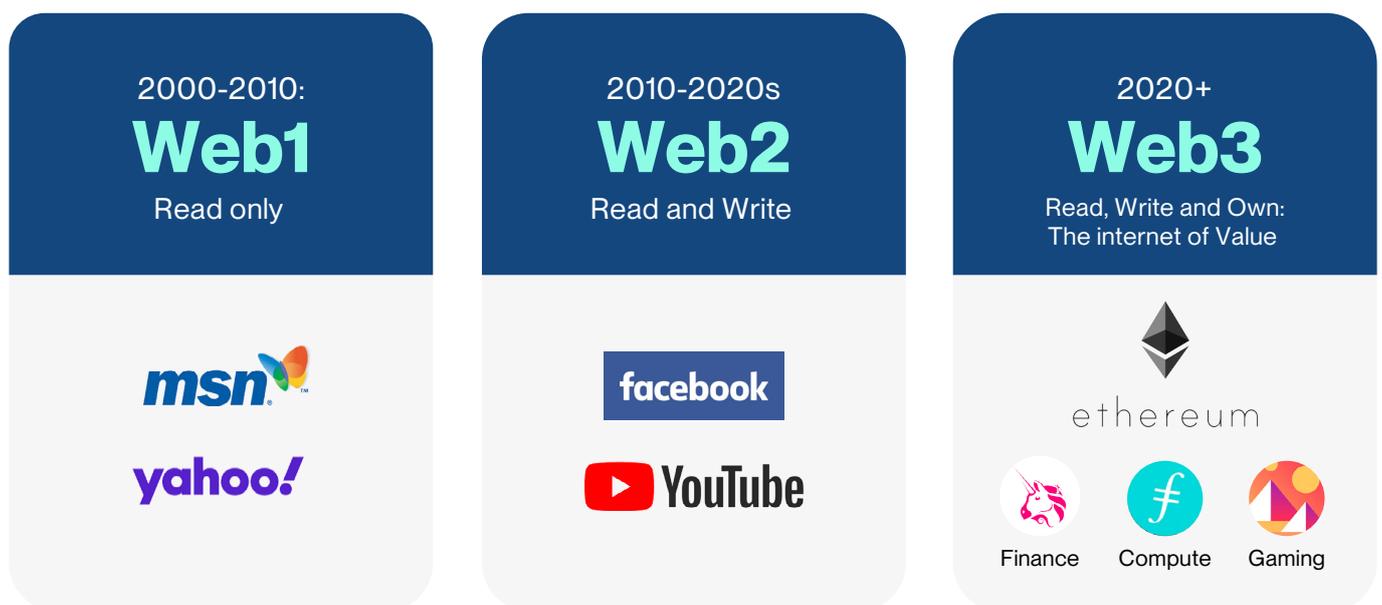
Introduction

The digital landscape has undergone transformative shifts over the years, evolving from the static Web1 era to the interactive Web², and now, to the frontier of Web³. In this dynamic environment, Ethereum, a groundbreaking blockchain platform, stands as the forefront of the “Internet of Value.” This deep dive aims to present a thorough investment case for Ethereum, exploring its historical context, its role in the emerging Web³, and the myriad opportunities it offers to investors.

The Value Layer of the internet

The emergence of Ethereum in 2015 marked a pivotal moment in the evolution of the internet. While Web1 allowed users to only consume information and Web² enabled interaction and content creation, Ethereum, representing Web³, introduces a paradigm shift by enabling users not just to transfer and own information but to transfer and own value. This progression mirrors the transformative journey of the internet, indicating Ethereum’s foundational role in shaping the future of digital interactions.

As we delve deeper into the concept of Web³, Ethereum emerges as a linchpin in this new era. Often referred to as the “Internet of Value,” Web³ envisions a decentralized and user-centric internet where individuals have control over their data and transactions. Ethereum, with its smart contract capabilities, empowers users to engage in peer-to-peer transactions without intermediaries, fundamentally altering the dynamics of value exchange on the internet.



One of Ethereum's groundbreaking contributions is the creation of a robust ecosystem of decentralized applications (DApps). These applications, operating on the Ethereum blockchain, extend beyond simple transactions, mirroring real-world services. Notable among these are Decentralized Finance (DeFi) applications, such as exchanges and borrowing/lending platforms and Non-Fungible Tokens (NFTs) This ecosystem represents a tangible manifestation of Ethereum's utility, offering users functionalities comparable to traditional financial services in a decentralized and trustless manner.

Drawing parallels between Ethereum and traditional tech platforms, such as those built on the Transmission Control Protocol/Internet Protocol (TCP/IP), unveils Ethereum's distinct value proposition. While traditional tech companies are built on top of protocols like TCP/IP, investors cannot directly own shares in this foundational layer. Ethereum, on the other hand, introduces a revolutionary model where investors can own shares not only in the network's transactions but also in the underlying protocol layer itself. This distinctive feature positions Ethereum as a unique investment opportunity, providing ownership in the very fabric of the decentralized internet.

” The revolutionary aspect from an investment point-of-view is that, by investing into Ethereum, investors can own shares in Ethereum’s value layer itself which is comparable to owning shares in the Internet itself- which (if ownership were possible) would be valued at \$ 7trn according to a report by Statista.

Internet of Information today...

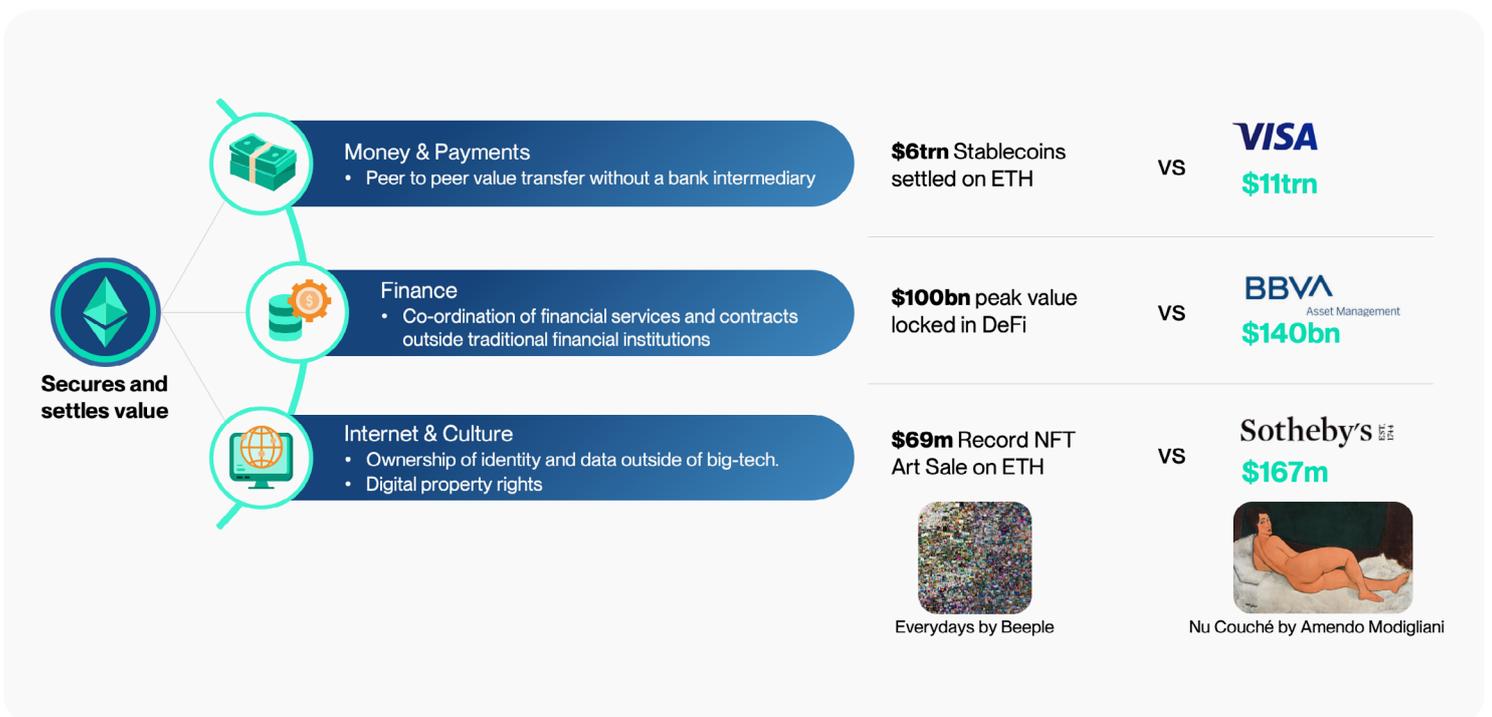


Internet of Value



Ethereum’s evolution surpasses its status as a mere tech platform. It is becoming the bedrock of an entire economic ecosystem, analogous to a country or city. Beyond facilitating transactions, Ethereum provides the essential infrastructure and security for businesses to thrive. In return, it collects “taxes” in the form of transaction fees, highlighting its role as a self-sustaining economic entity. The comparison of Ethereum to a country or city emphasizes its integral role in supporting various industries, similar to the foundational support provided by physical infrastructure.

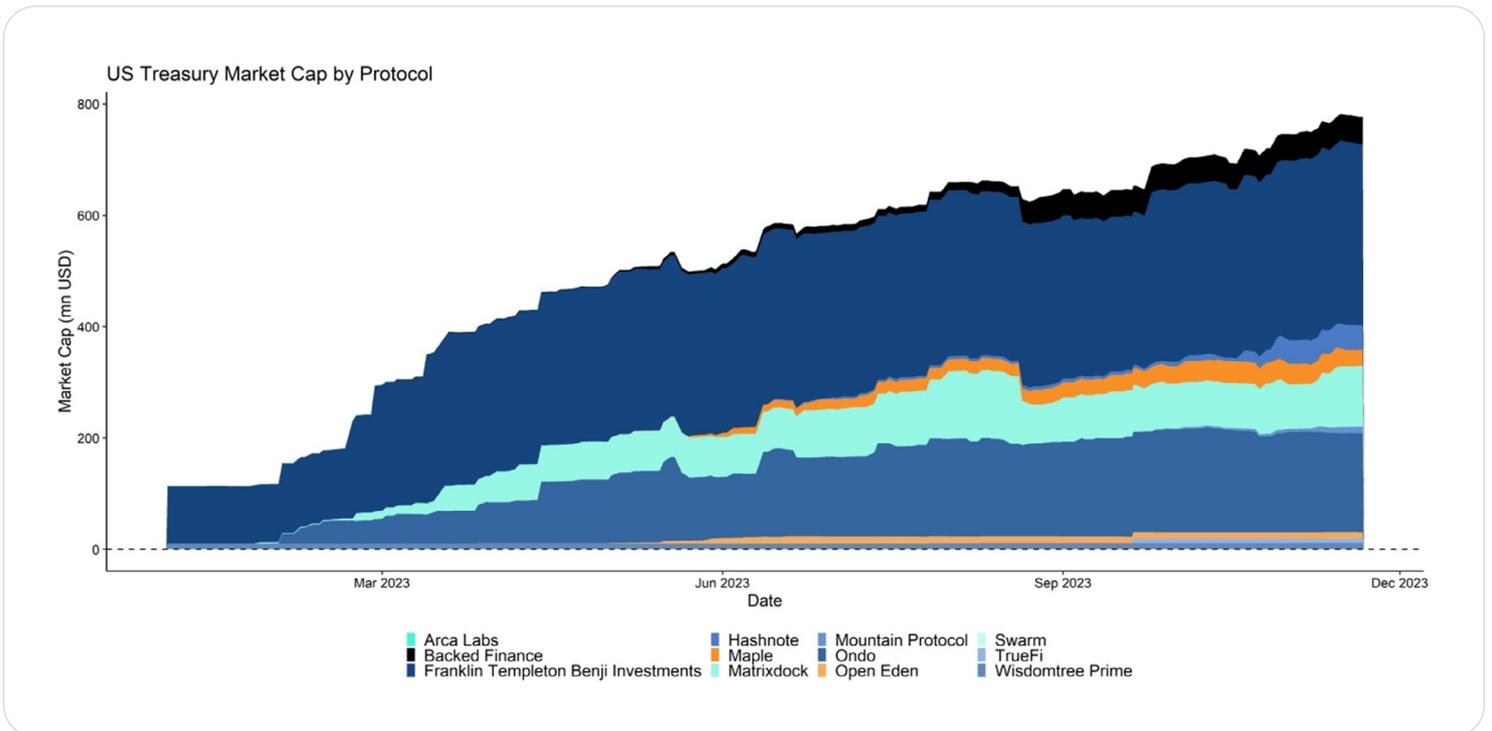
Quantifying Ethereum’s economic impact involves examining its transactional volume and the variety of services it supports. Stablecoins, such as Tether USD (USDT), issued on the Ethereum blockchain, have achieved transactional volumes comparable to traditional financial payment providers like Visa. This expansion goes beyond finance, encompassing sectors like art and collectibles, manufacturing, and supply chains. Ethereum, therefore, emerges not just as a tech platform but as a multifaceted ecosystem supporting a diverse array of economic activities.



Tokenization: The Future of Assets on Ethereum

The tokenization of assets is emerging as one of the most important use cases for blockchains, and Ethereum is at the forefront of this revolution. Asset tokenization involves representing real-world assets on the blockchain, making value transferable over the internet in a decentralized manner, in turn making these assets more liquid, transparent, accessible and auditable. This development has already started, with \$ 60bn of assets already tokenized on the Ethereum blockchain, including \$ 800m of US Treasury bonds.

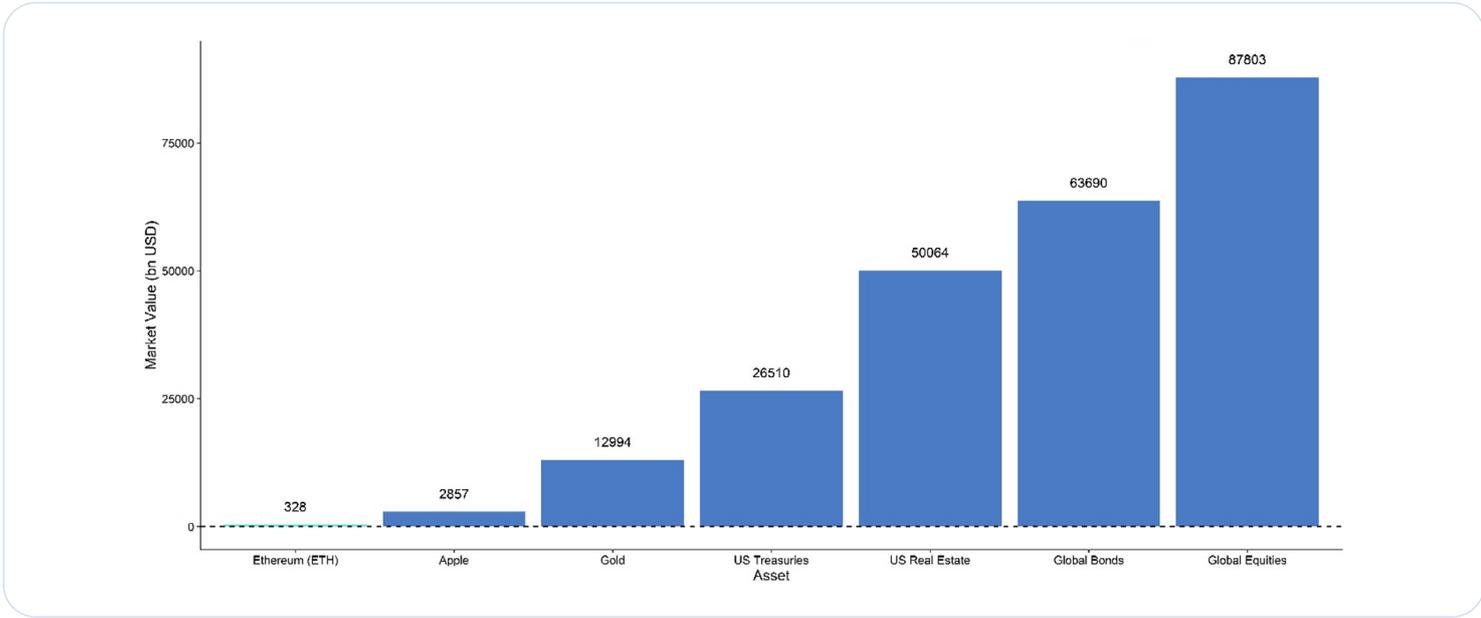
Market Value of Tokenized US Treasuries



Source: rwa.xyz, ETC Group; Data available as of close 2023-11-21

If we extrapolate this to other asset classes that could benefit from tokenization, the addressable market is potentially enormous.

Ethereum's Market Cap vs Other Assets



Source: Glassnode. ETC Group

The increasing recognition of Ethereum's potential is evident in the growing number of major companies experimenting with and building applications on the Ethereum blockchain. The diverse range of companies involved, and the variety of use cases being explored demonstrate Ethereum's unique value proposition.

Companies building on ETH

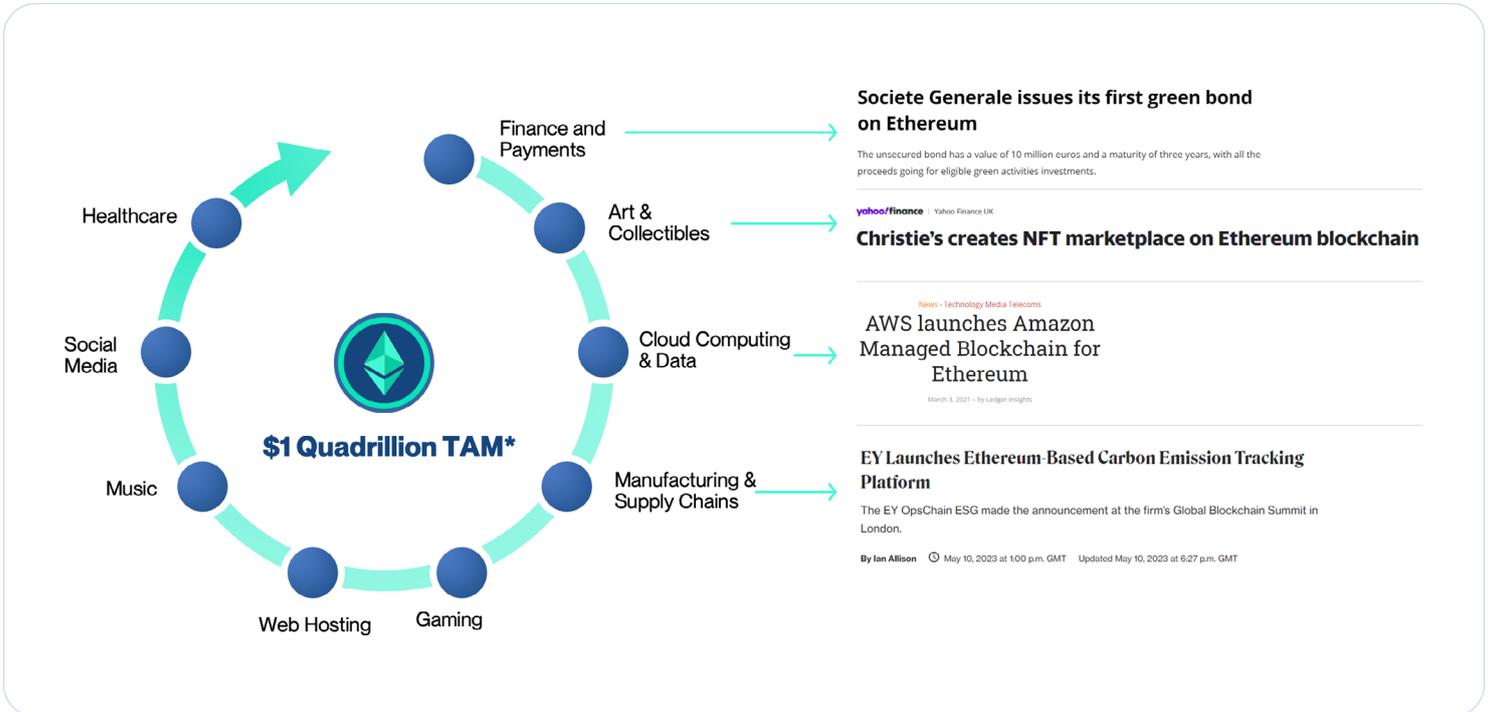
Banks & Financial Service Providers Morgan Stanley, Citibank, ING, JPMORGAN CHASE & CO., Prudential, BMO, Bank of Montreal, CREDIT SUISSE, MetLife, ONTARIO TEACHERS' PENSION PLAN, SYGNUM, INTESA SANPAOLO, Goldman Sachs, BBVA, RBC, bitpay, BNY MELLON, СБЕРБАНК, Morningstar, Rabobank, Santander, fnb, UBS, TD Ameritrade, BARCLAYS, Standard Chartered	Tech Companies Uber, Samsung, Siemens, Cisco, Amazon, Microsoft, Ubisoft, VMware, Cognizant, Alibaba.com, Tencent 腾讯, Intel, Oracle	Insurance AXA, Ping An, John Hancock	Logistics FedEx, MAERSK
Oil & Gas Companies P&G, Shell	Car Manufacturers Mitsubishi Motors, Daimler, Ford, Toyota	Food & Drink Producers ABInBev, Nestle	Pharmaceutical Corporations Walgreens, Pfizer
Oil & Gas Companies P&G, Shell	Accounting & Consulting KPMG, Deloitte, BCG, PwC, EY	Others McDonald's, Walmart Canada, Nike, Virginia media, Perkinscoie, SK telecom	Others George Brown, Major League Baseball
Oil & Gas Companies P&G, Shell	NGOs United Nations, WWF		

Source: Crotodiffer. Cinneamhain Ventures

The total addressable market for value secured on Blockchain, across all use cases could reach \$ 1 Quadrillion based on estimates by the World Economic Forum and Chainlink Labs. This includes markets like Finance & Payments, Art & Collectibles, Manufacturing and Supply Chains.

ETH Total Addressable Market

ETH Addressable Market

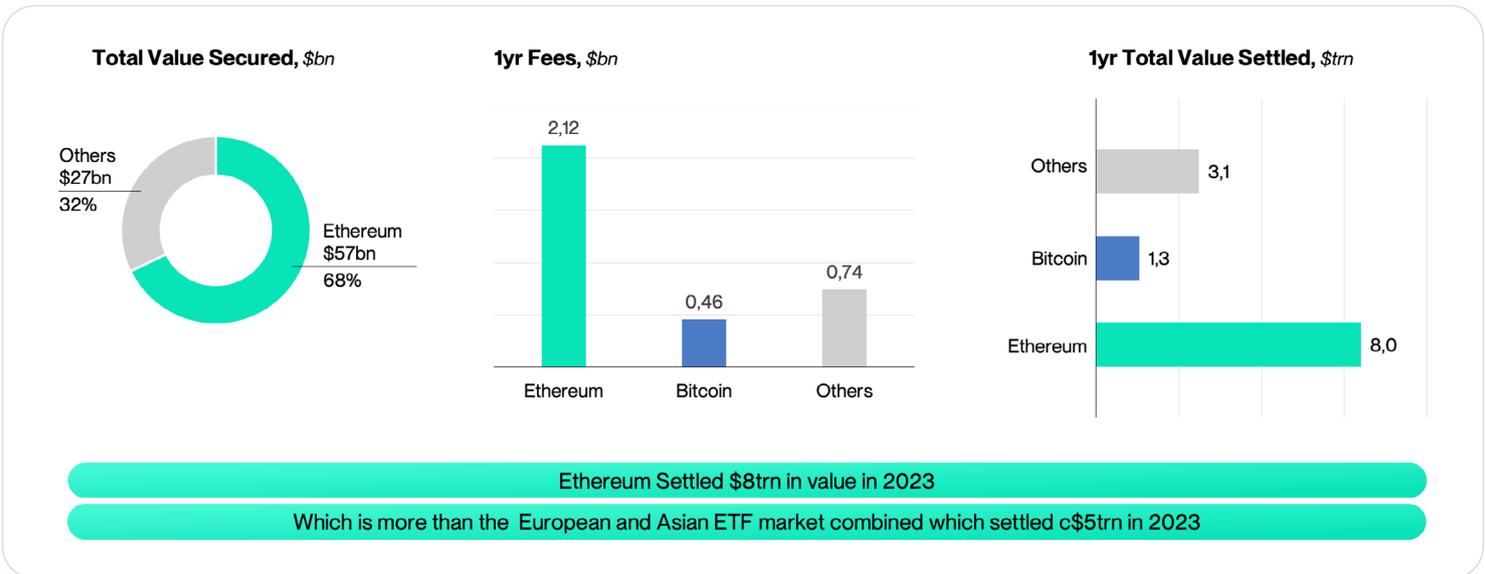


*Source: World economic Forum, BCG, Chainlink

While Bitcoin garners most attention from investors due to its larger market cap, Ethereum is the dominant Crypto asset on various metrics, including; Transaction Fees, Total Value Secured and Total Value Settled, highlighting its role as an emerging economic hub

” Ethereum settled 8 trn USD in value in 2023 which is more than the entire European and Asian ETF market combined which settled around 5 trn USD in 2023.

ETH is THE Dominant Crypto on many metrics



Source: DefiLlama, Coinmetrics (value settled figures need to be checked), Blackrock for ETF volume

To discern Ethereum’s distinct characteristics, it is crucial to contrast it with Bitcoin. While both are categorized as cryptoassets, they serve different purposes within the digital ecosystem while being highly complementary assets.

	Ethereum	Bitcoin
Purpose	Smart Contracts Platform	Peer-to-Peer Money / Store of Value
Inception Date	July 2015	January 2009
Data	Transaction information and autonomous contracts	Transaction information
Consensus Mechanism	Proof-of-Stake	Proof-of-Work
Time to transact (Block Time)	12 Seconds	10 Minutes
Energy Consumption TWhr / Year	0.01	200
Supply	Dynamic	Fixed 21 Million
Issuance Rate	0.74% p.a	1.6% p.a
Burn (buyback) Rate	1.84% p.a	0% p.a
Yield	5.24% p.a	0% p.a
1yr Fees	\$2bn	\$500m
Fee Capture	Token holders participating in Staking	Miners

Bitcoin, often perceived as a store of value and a native payment currency for the internet, contrasts with Ethereum, positioned as the premier smart contract platform for decentralized applications. These differing roles extend to consensus mechanisms, scalability, energy consumption, and the potential to earn yield on a protocol level.

Ethereum's Consensus Mechanism: Staking and Yield Generation

Ethereum's transition to a proof-of-stake (PoS) consensus mechanism has significant implications for its scalability, energy consumption, and the ability of token holders to earn yields. In contrast to Bitcoin, where holding tokens does not generate a yield, Ethereum holders can stake their Ether to validate transactions and earn staking yields. This innovative approach introduces a dividend-like yield for investors, adding a layer of income generation.

While Ethereum's supply is not capped like Bitcoin's, it exhibits a unique supply growth model. Ethereum's algorithmically determined supply growth is generally more disinflationary than Bitcoin and can even be deflationary at times. This is achieved through an inherent burn mechanism- which can be viewed as similar to buybacks in equities. The combination of staking yields and the burn rate within the Ethereum network currently amounts to approximately 4.4% per annum.

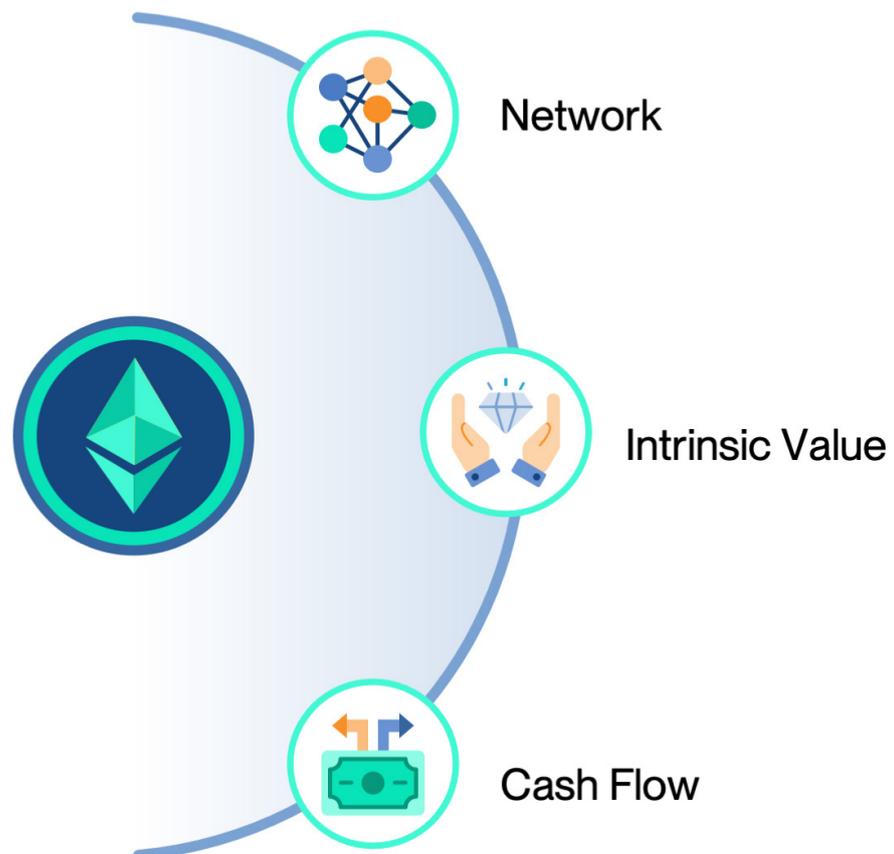
Valuing Ethereum

The beauty of Ethereum is that it is a multi-faceted asset, which can be viewed through several different lenses. Therefore, Ethereum can also be valued using different approaches, considering its network utility, intrinsic value, and cash flow analysis.

Network valuation approaches, focusing on active users and transfer counts, highlight the utility derived from Ethereum’s growing user base.

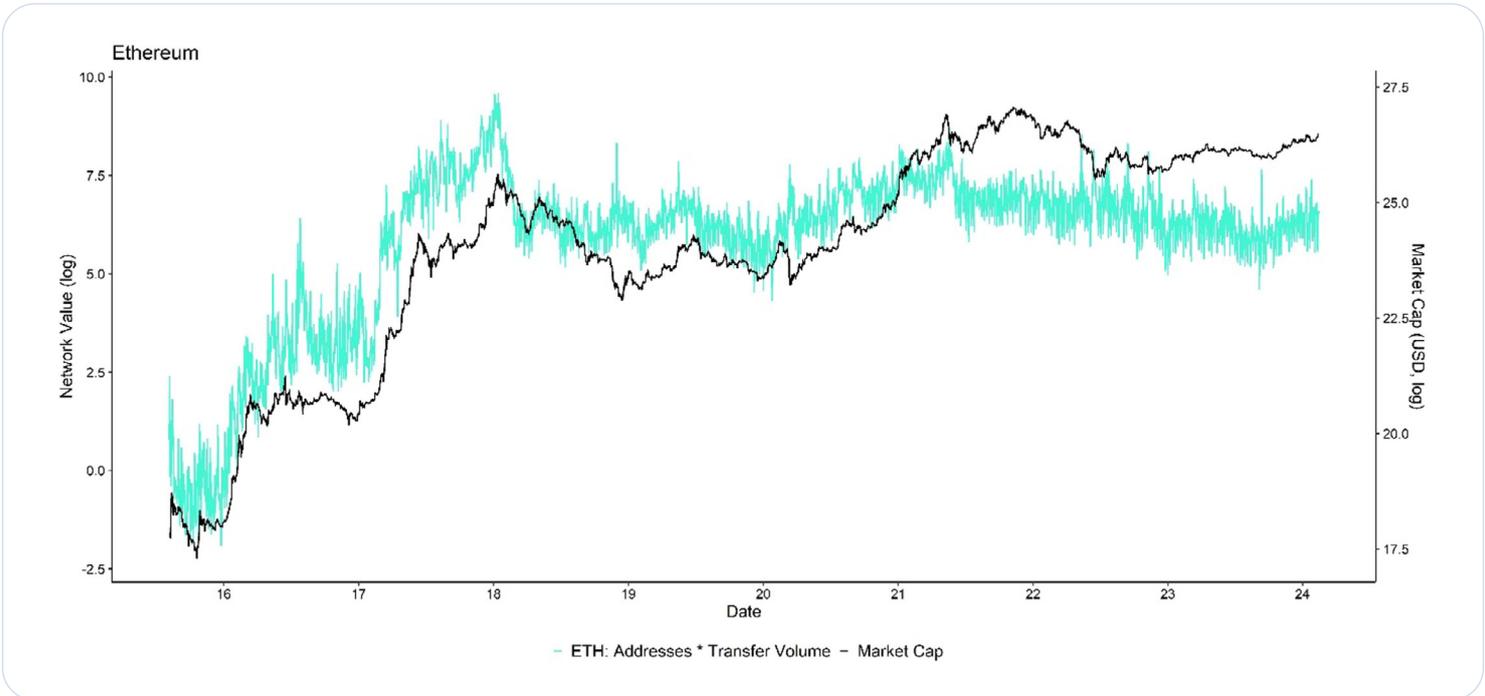
Intrinsic value considerations, which traditionally assessed mining efficiency and energy costs, have evolved with Ethereum’s shift to proof-of-stake. The transition has transformed Ethereum into a cash flow generating asset, leading to valuation approaches centered around future cash flow income streams.

Network approaches usually tend to look at the utilization of the network in terms of active users or transfer count. Intrinsic value approaches tend to look at supply and production costs while cash flow approaches utilize the fact that Ethereum generates recurring cashflows via staking yields.



Look at the network valuation approaches there are several remarks in order. As a general Rule-of-thumb: The value of the network (ie market capitalization) is generally derived from the daily number of network participants (addresses) and transfer volumes.

Ethereum: Network Valuation



Source: Glassnode, ETC Group

This is similar to the notion that the utility of any network rises with the number of users similar to the “Metcalfe’s Law” which postulates that the utility of the network is related to the squared number of network participants.

” The higher either the number of users or the transaction count, the higher the value of the network.

Since the introduction of the proof-of-stake consensus mechanism in September 2022 and the possibility of earning staking rewards, Ethereum has also effectively become a cash flow generating asset. Therefore, another approach to valuing Ethereum centres around the valuation of future cash flow income streams.

The general idea is that the net present value (NPV) of any asset is related to its potential future cash flows that accrue by holding the asset, discounted to today’s value.

Where do the revenues come from?

Ethereum users pay transaction fees to utilize the network – token holders/validators receive those fees.

In general, the cost of deploying and executing a smart contract on the Ethereum network is based on the computational resources used by the contract, which is measured in units of «gas.» Each operation in the smart contract requires a certain amount of gas, and the gas is priced in small fractions of ETH (called «gwei»).

- **Gas:** This is a unit that measures the amount of computational effort required to execute operations. Different operations consume different amounts of gas.
- **Gas Price:** This is the amount of ETH you are willing to pay per unit of gas. You can set a higher gas price to have your transaction processed more quickly.
- **Total Cost:** The total cost of a transaction is the gas used multiplied by the gas price.

The amount of ETH needed to deploy a smart contract can vary significantly based on the complexity of the contract and the current gas prices, which fluctuate

” Structural demand is created for Ethereum itself since Ethereum users need the underlying token (ETH) in order to use the network.

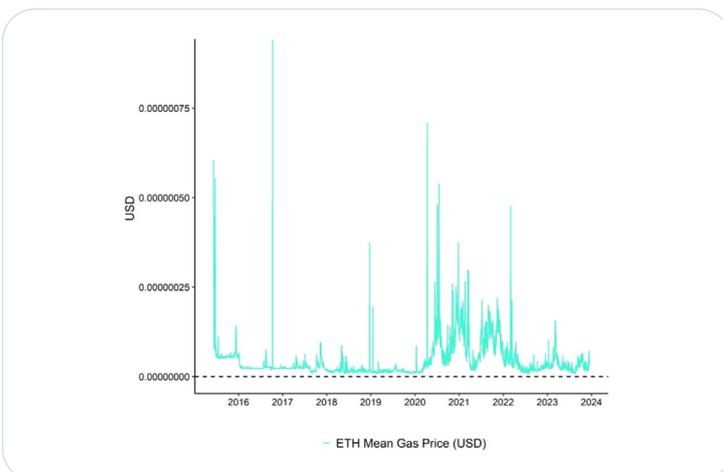
based on network demand. However, it is usually much less than 1 ETH.

For simple contracts, the cost might be a fraction of an ETH, while more complex contracts will cost more.

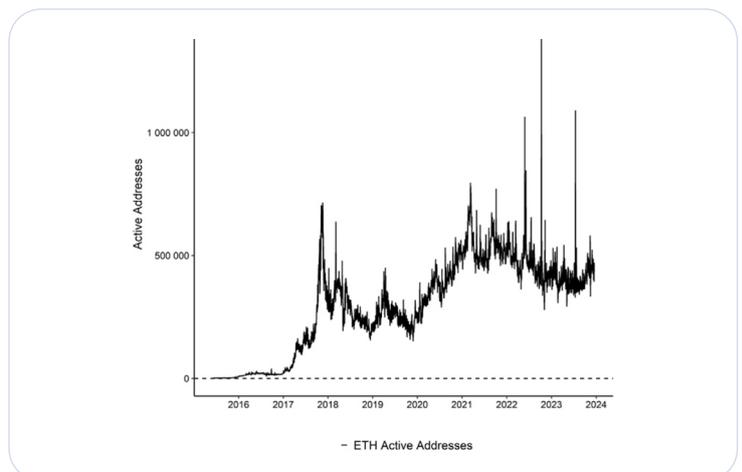
The mean transaction fee measured in USD within the Ethereum network has lately averaged around 0.0001 USD (100th of a USD Cent) while the number of active addresses that transact ETH on a daily basis is currently at around 500k users.

Both metrics, transaction fees and daily active addresses, are highly procyclical and so investors should expect these two metrics to increase during bull markets (which we also expect for 2024) and vice versa.

Ethereum: Mean Transaction Fee



Ethereum: Daily Network Participants



Source: Glassnode, ETC Group

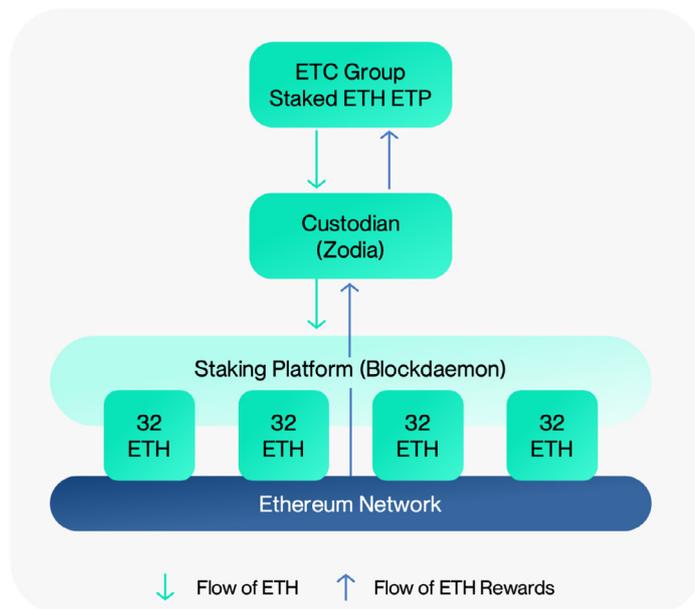
While users pay transaction fees to utilize the Ethereum network, staked Ethereum investors profit from both staking yield and burn rate via negative supply issuance.

How does staking Ethereum work?

Ethereum’s proof-of-stake (PoS) consensus mechanism can be described in a simple way:

- Proof-of-Stake is a method used by Ethereum to secure its network and validate transactions. Unlike the older method, proof-of-work, which requires a lot of computing power and energy, proof-of-stake relies on users ‘staking’ their Ethereum as a way to gain the right to validate transactions.
- Staking: Think of staking like a security deposit. Users lock up a certain amount of their Ethereum (32 ETH for a full validator) as a stake. This stake acts as collateral, ensuring they act honestly. If they try to cheat the system, they can lose part of their stake.
- Validators: In PoS, validators are chosen to create new blocks and validate transactions based on the amount of ETH they have staked and for how long they’ve staked it.
- Creating and Validating Blocks: When chosen, a validator checks and confirms transactions and adds them to the blockchain. This process involves ensuring that the transactions are legitimate and not fraudulent.
- Rewards: Validators receive rewards in the form of transaction fees and new ETH for their work in securing the network. The more you stake, the more potential reward, but also the more you risk if you try to cheat.

ETH Staking Explained



Staking ETH is a simple secure way to earn yield while helping to make the ETH more secure

Investors deposit ETH on the blockchain to verify transactions and attest to the stake of the protocol (validate), in return they earn rewards in ETH

32 ETH is required to run an ETH validator

Staking can be considered similar to dividends in equities, but only those stockholders who “vote” have the rights to dividends

ETC Group Staked ETH uses institutional grade service providers to ensure investors ETH are secure

There is **no counterparty risk** associated with Staking, staked ETH remains with the custodian

In addition, investors can profit from the deflationary nature of Ethereum’s supply which is referred to as “burn rate”. EIP-1559 (a software upgrade to the network) introduced a significant change to the Ethereum transaction fee mechanism, including a feature known as the “burn mechanism.”

EIP-1559 introduced a “base fee” for transactions, which is an adjustable fee that changes depending on network congestion. The more congested the network, the higher the fee.

Burning the Base Fee: Instead of this base fee going to Ethereum miners (as transaction fees did previously), it is “burned.” This means it is permanently removed from circulation.

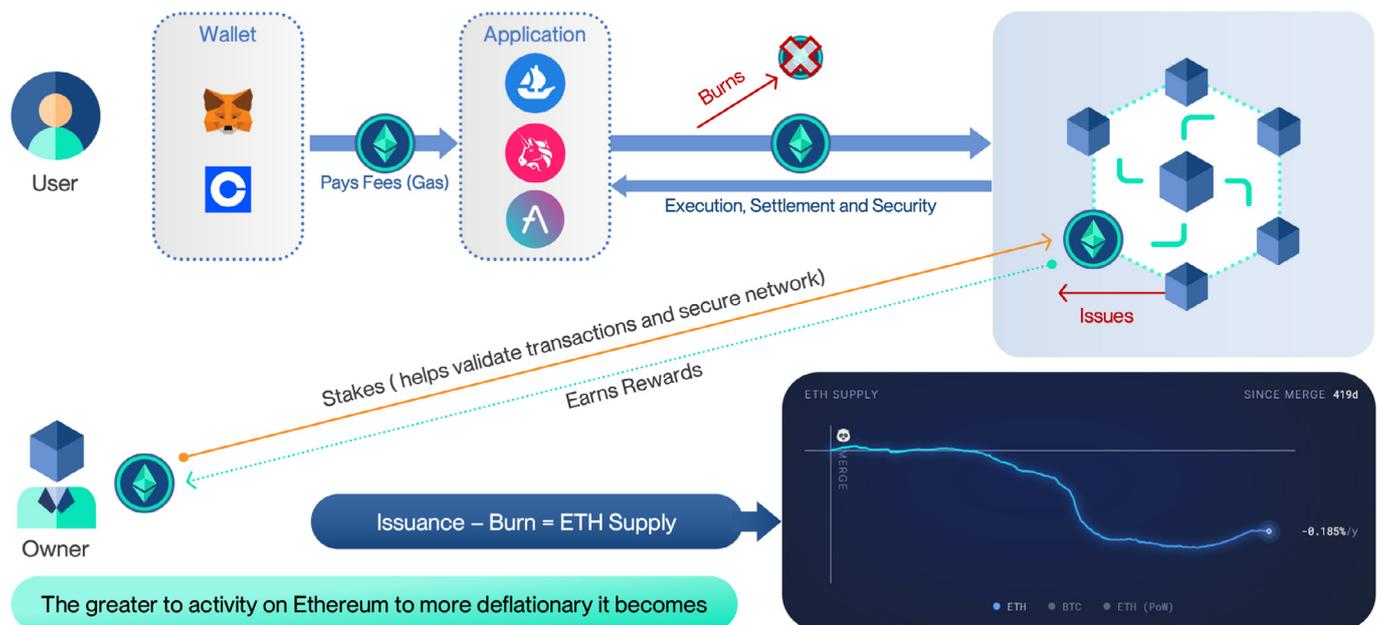
Burning the base fee helps to make Ethereum’s overall supply more predictable and reduce inflation over time. This is because a portion of the ETH supply is continuously being removed.

For users, this mechanism simplifies the transaction fee process and helps in predicting fees, as the base fee provides a more stable and transparent pricing mechanism.

Users can still include a tip with their transactions to incentivize faster processing, especially during times of high demand.

The key takeaway is that EIP-1559’s burn mechanism automatically removes a portion of ETH from circulation by burning the base transaction fees, which helps in regulating Ethereum’s supply and improving the predictability of transaction costs.

The Economics of ETH

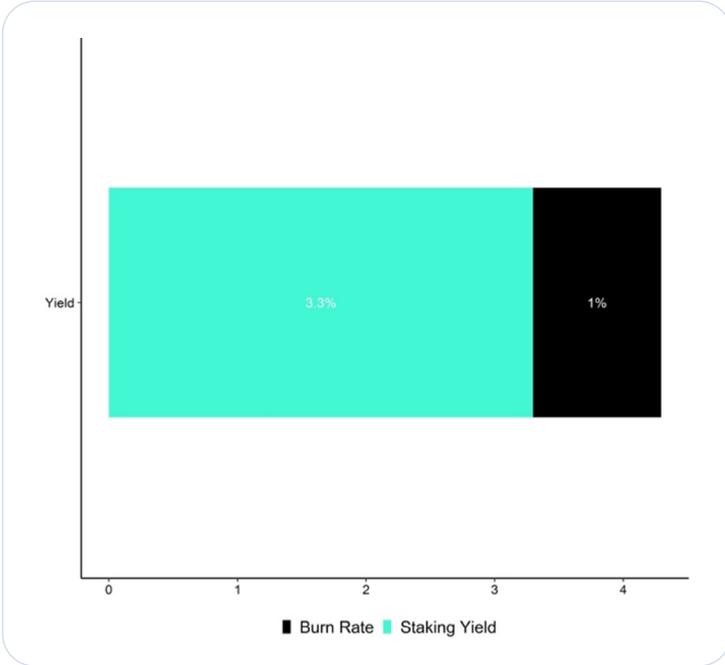


Thus, Ethereum investors potentially earn the following total yield:

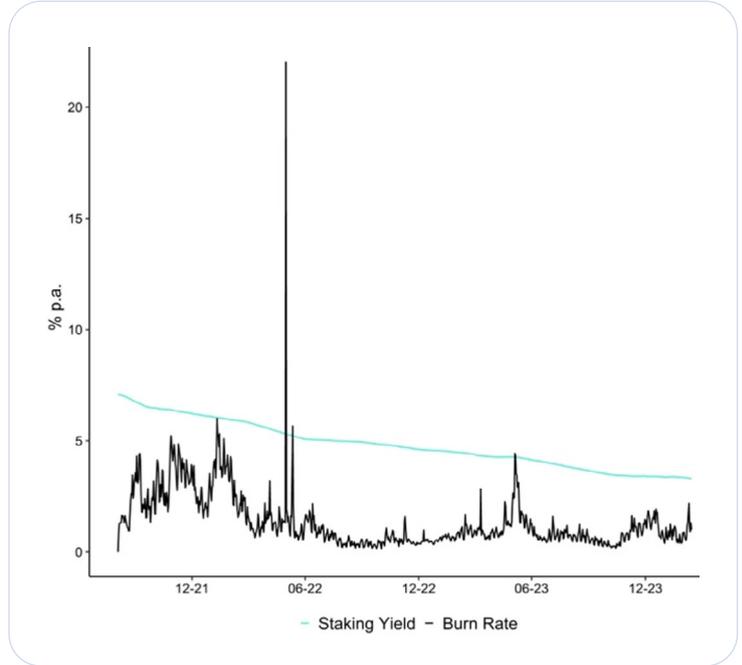
ETH Total Yield = Staking Yield (“Dividends”) + Burn Rate (“Buyback Yield”)

The following charts show the composition of ETH's total yield and the development of those components over time:

Ethereum: Mean Transaction Fee



Ethereum: Daily Network Participants

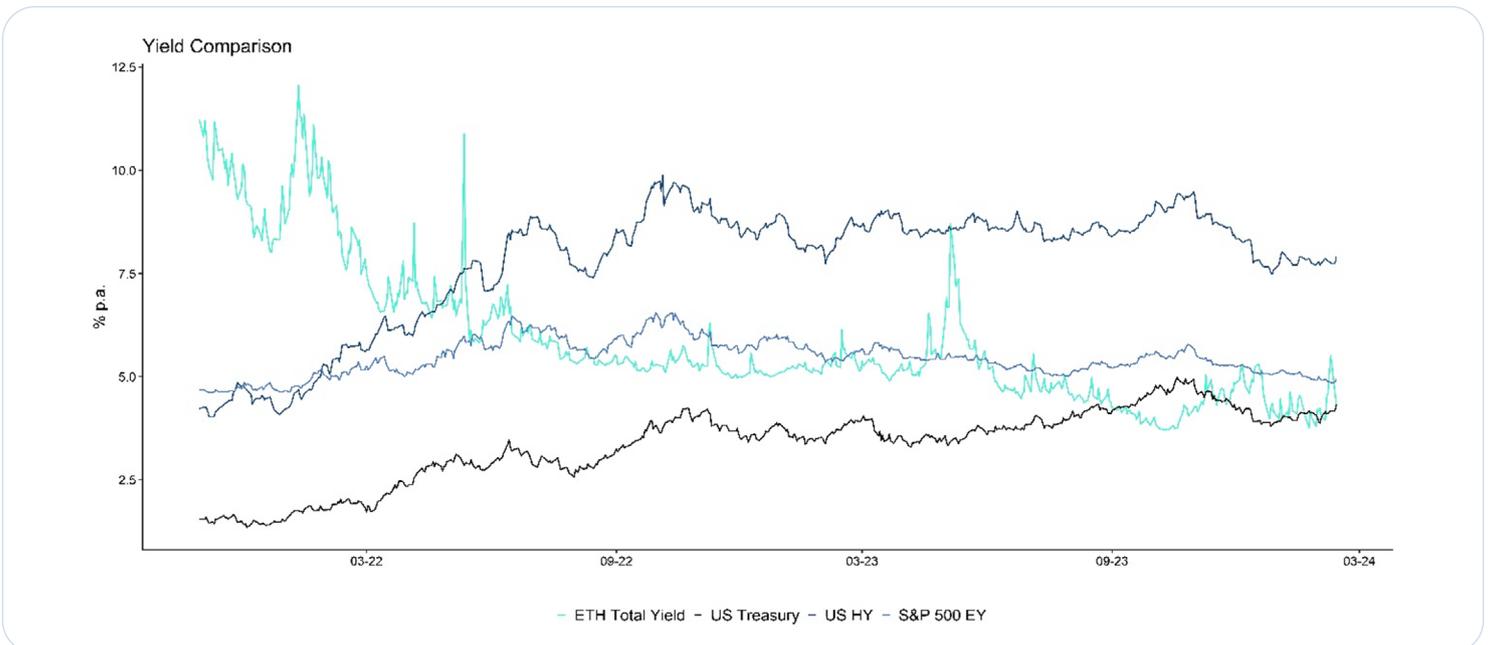


Source: Glassnode, ETC Group

Ethereum's burn rate tends to be highly procyclical while the staking yield has generally trended downwards as more and more network participants have started to stake their Ethereum.

Nonetheless, it can generally be observed that Ethereum's total yield (staking yield + burn rate) is uncorrelated to other traditional financial assets' yields which could enhance portfolio diversification in a multi asset portfolio:

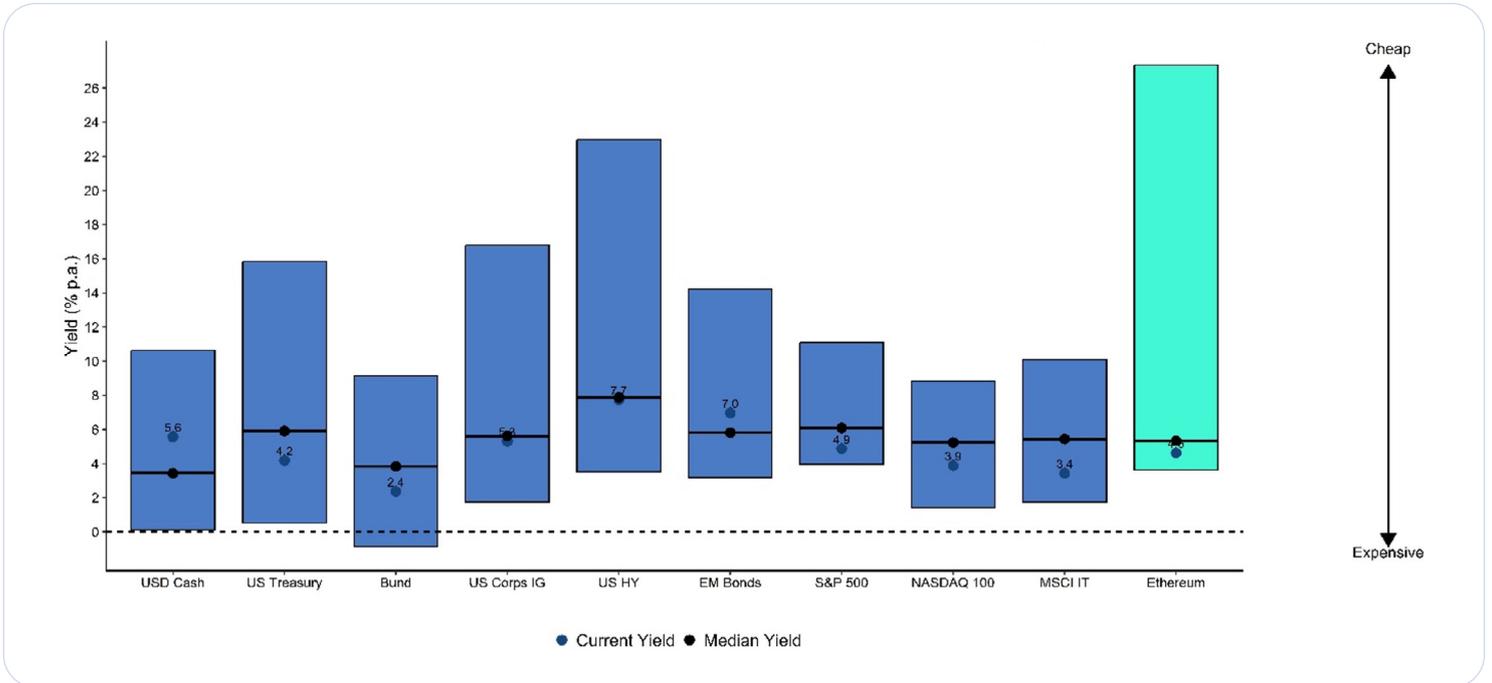
Ethereum Yield vs Other Yields



Source: Glassnode, Bloomberg, ETC Group

In comparison to other traditional financial assets, Ethereum’s total yield is also high, on occasions reaching 27% p.a. in the past.

Asset class valuation ranges (bond yields & equity earnings yields)



Source: Bloomberg, Glassnode, ETC Group
Data back to 1962 where applicable. Data available as of close 2024-02-14

At the time of writing, Ethereum’s total yield is currently at around 4.2% p. a. which is higher than the earnings yield on the Nasdaq 100 Index.

It is important to note though that Ethereum’s total yield is almost risk-free in terms of counterparty risks unlike yields received from companies. The reason is that there is no direct counterparty involved since Ethereum is a decentralized network. Thus, it is more comparable to the safety of a sovereign bond (in terms of counterparty risks) than to a corporate bond.

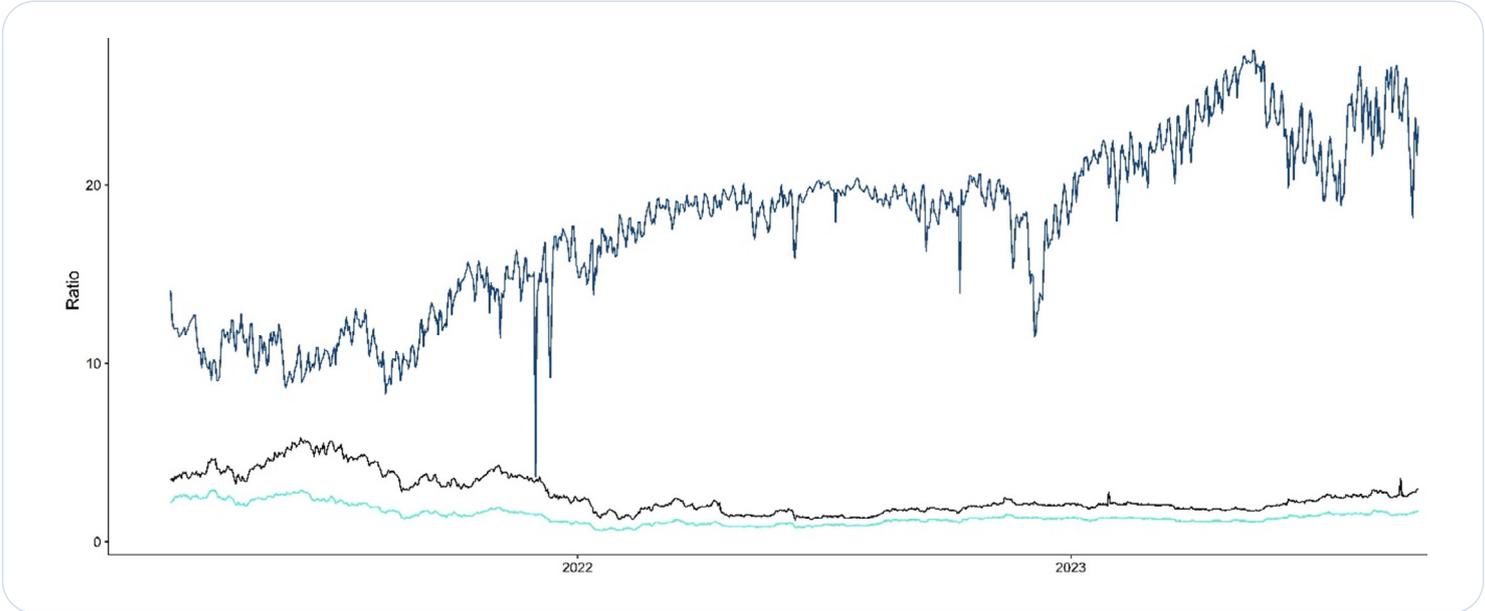
Since Ethereum exhibits recurring cash flows like equities, similar valuation approaches can be applied such as Price-to-Sales or Price-to-Earnings ratios.

We calculate these multiples for Ethereum in the following way:

- Price-to-Book → Market Price / Realized Price (average cost basis of coins)
- Price-to-Sales → Market Price / Total Gas Fees paid within the network.
- Price-to-Earnings → Market Price / (Staking Rewards + Value of Burned Supply)

The following chart compares these different traditional valuation approaches to Ethereum over time:

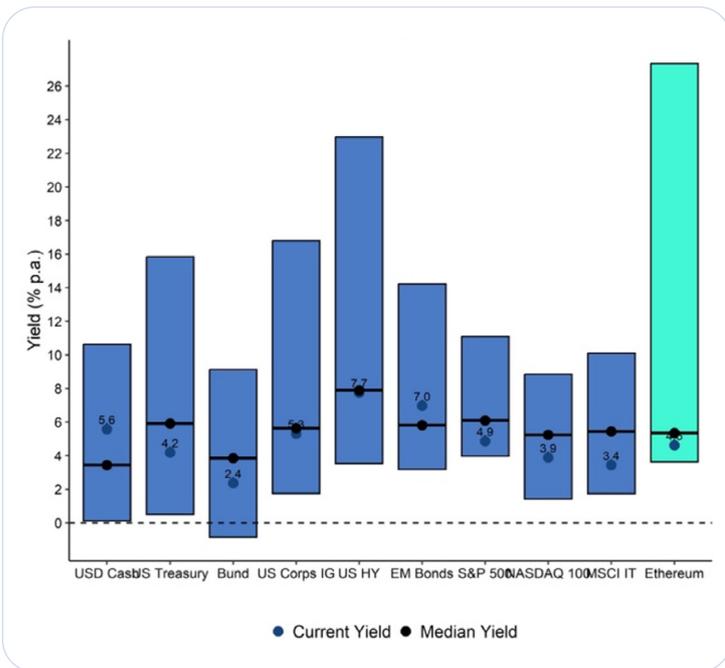
Ethereum (ETH): Different valuation approaches



Source: Glassnode. ETC Group: ETH Sales based on total Gas fees paid (Layer 1 only); Earnings based on staking rewards and burned supply; Book value based on realized price

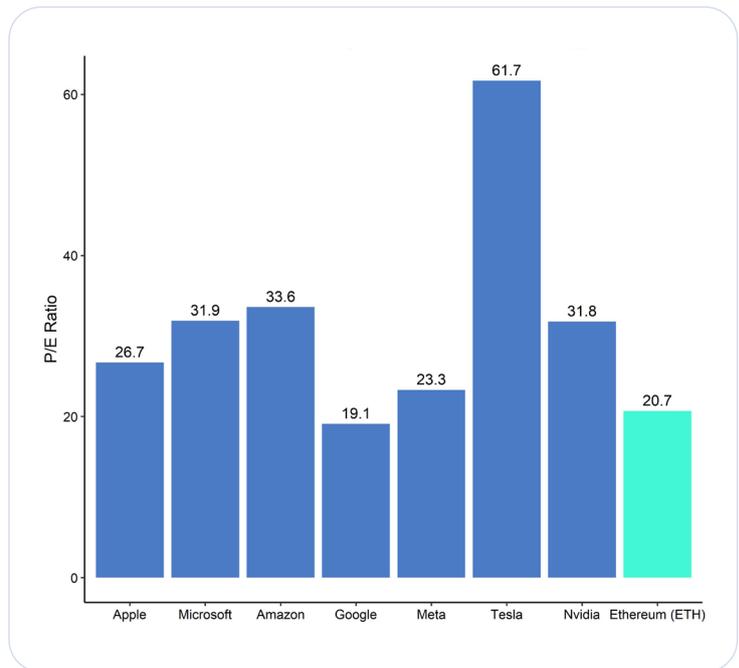
Ethereum exhibits an extremely compelling valuation compared to other “Big Tech” platforms furthermore the potential upside is orders of magnitudes bigger. The following two charts show the relative valuation of Ethereum compared to the so-called “Magnificent 7” stocks within the US equity market.

Asset class valuation ranges (bond yields & equity earnings)



Source: Bloomberg, Glassnode, ETC Group: ETH P/E-Ratio based on staking rewards and burned supply; 12-months forward P/E for Equities; Data available as of close 2024-02-13

P/E Ratio: Ethereum vs US Equities



Source: Bloomberg, Glassnode, ETC Group; ETH P/E-Ratio based on staking rewards and burned supply; 12-months forward P/E for Equities; Data available as of close 2024-02-27

” Based on Price-to-Earnings (P/E) and Price-to-Sales (P/S), Ethereum offers a compelling valuation and has the addressable market to achieve an order of magnitude higher returns in the future.

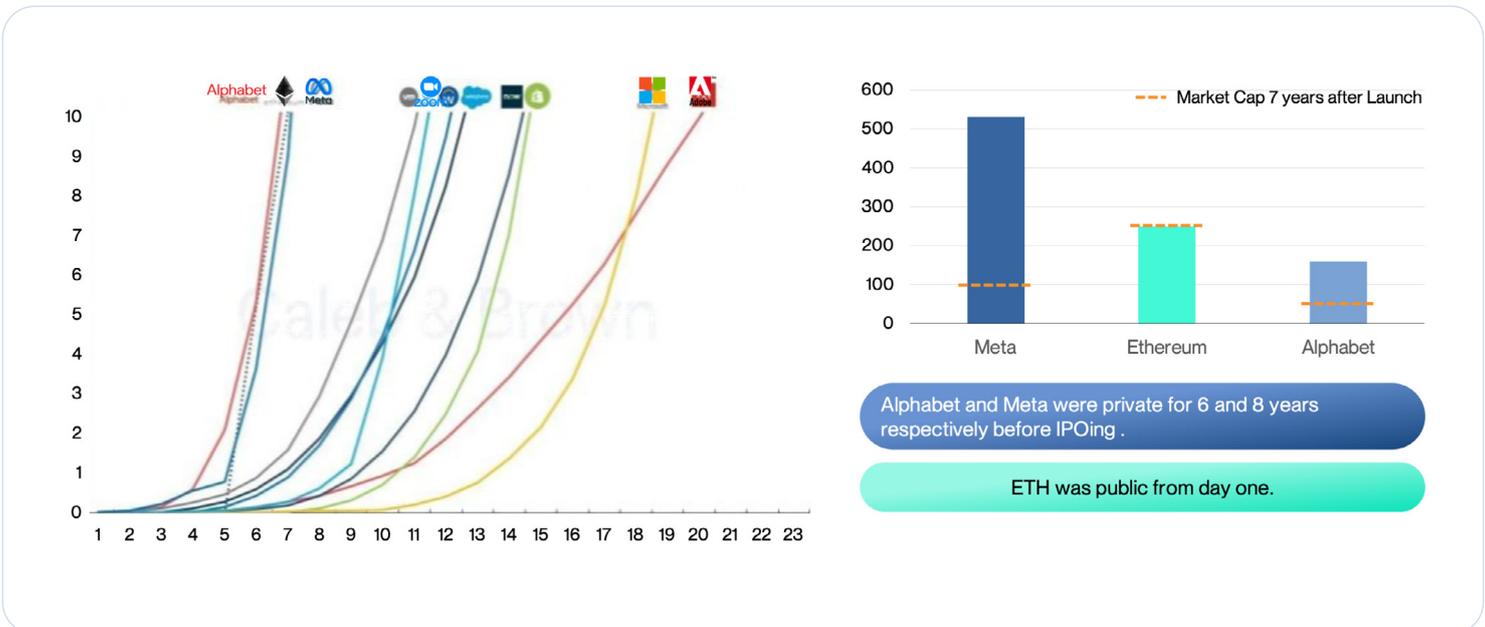
In fact, Ethereum has been one of the fastest growing tech platforms in history. For instance, Ethereum surpassed 10 bn USD in revenue in only 7 years, outpacing almost every company on the planet.

Ethereum Surpasses \$ 10B Revenue in 7 Years

Outpacing Top Software companies by nearly half the time
Revenue — Billion \$US

Market Cap 7 years after Listing

Market Cap — Billion \$



Alphabet and Meta were private for 6 and 8 years respectively before IPOing .

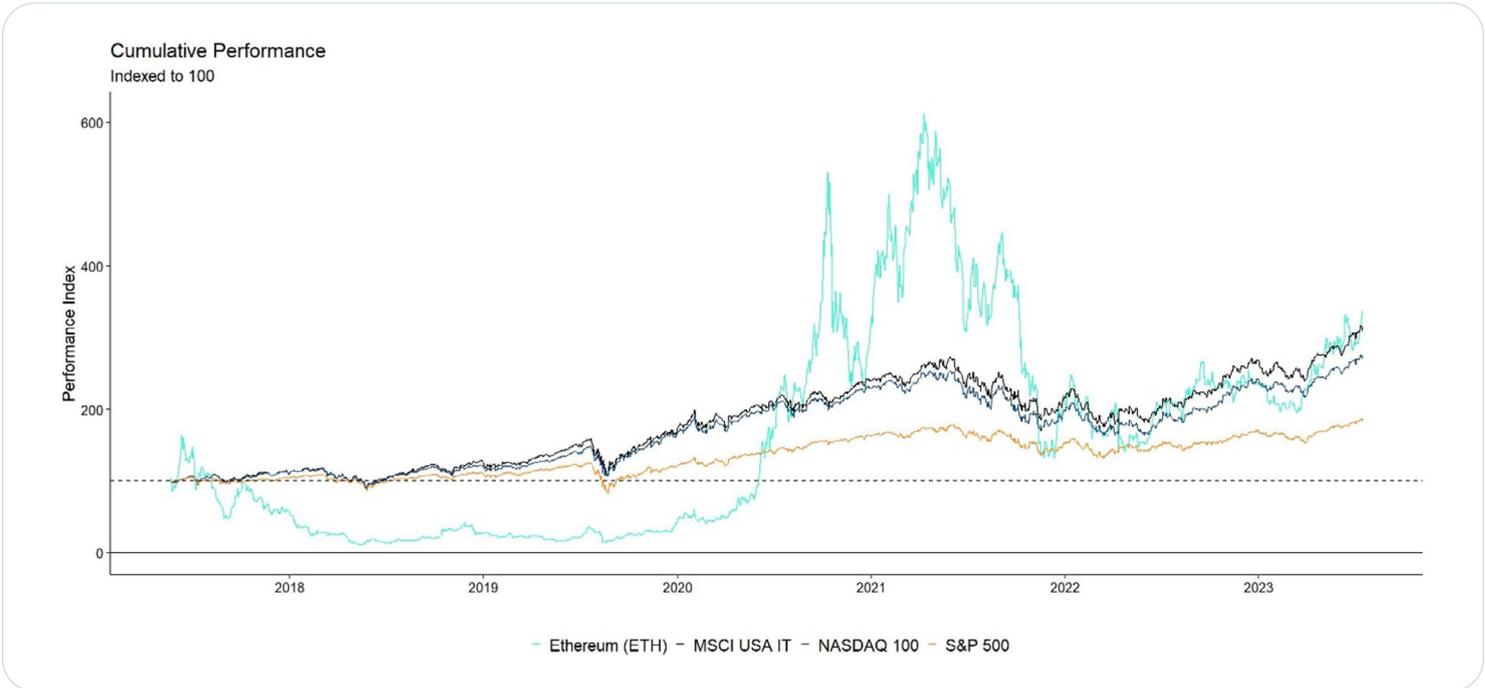
ETH was public from day one.

Sources: Caleb & Brown Research, Token Terminal, Bloomberg

The Investment Case for Ethereum

From a pure investment point-of-view, Ethereum has been the best performing “equity like” investments of the past 5 years outperforming the Nasdaq 100 by a significant margin.

Ethereum is one of the best performing tech investments

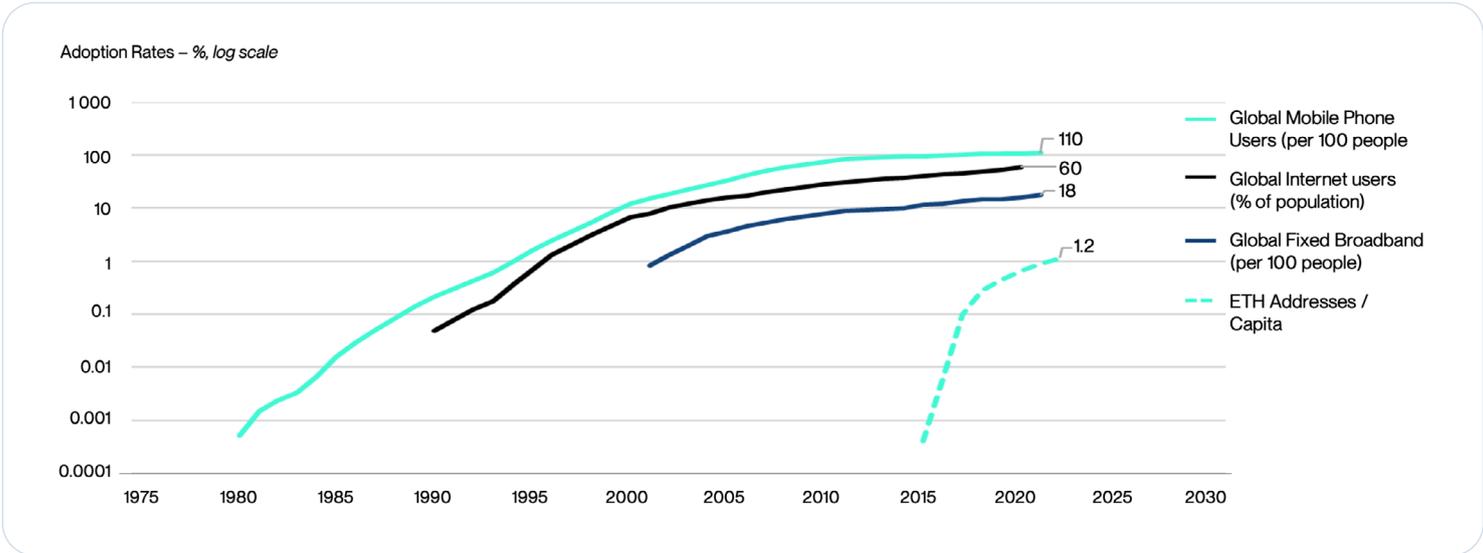


Source: Glassnode, Bloomberg, ETC Group

One of the main reasons for Ethereum’s significant growth since its inception in 2015 is the rapid expansion of users and global adoption of this technology worldwide.

In fact, the technological adoption of Ethereum measured in non-zero addresses per capita is so far outpacing the historical adoption curves of global internet users and mobile phone users.

Global Adoption Rates



Source: World Bank, Glassnode, ETC Group

We expect this trend to continue for the foreseeable future as the technological adoption of cryptoassets like Ethereum is still in its infancy.

For instance, according to survey conducted by Finder, only 15% of surveyed Americans own cryptoassets. Similar adoption rates for the US have been identified in a survey conducted by Statista.

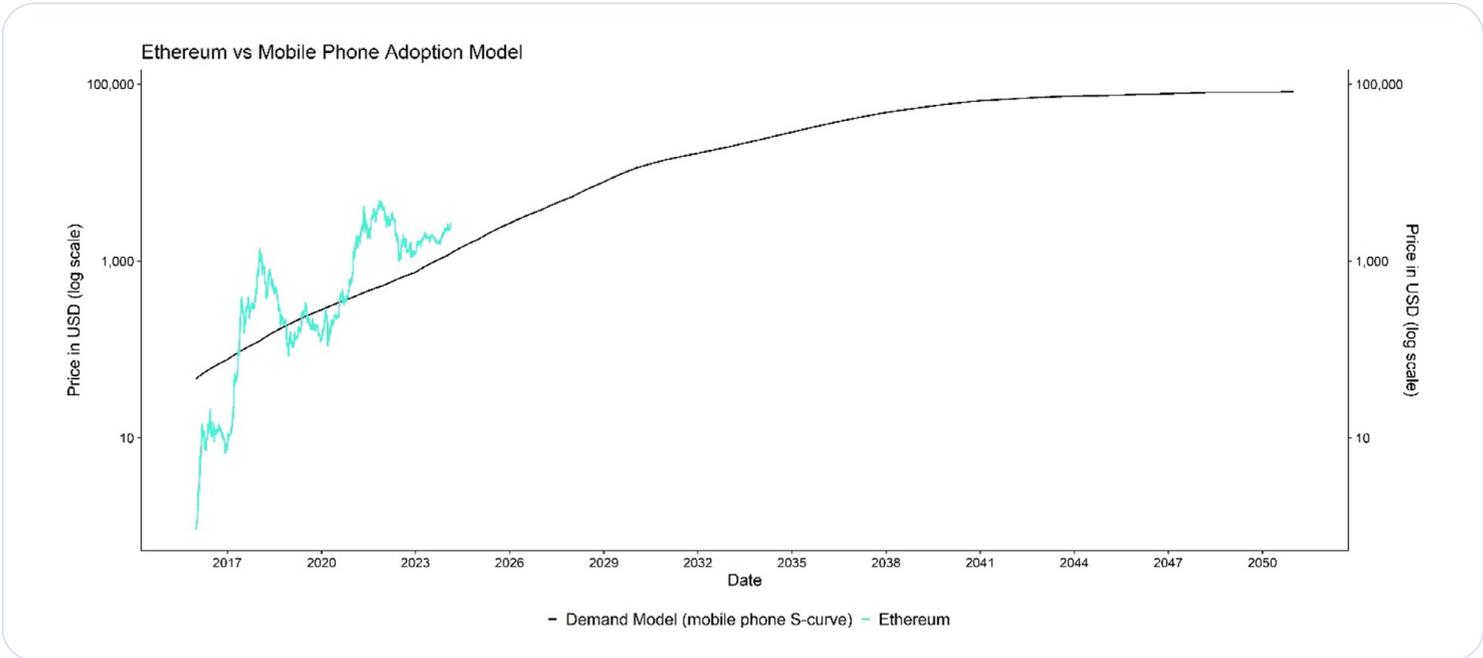
Based on the theory of technological adoption by Rogers (1952), this implies that the adoption of cryptoassets like Ethereum is still in the “early adopters” phase of technological adoption and only at the cusp to “early majority”.

To forecast potential future developments, we have looked at past stages of global mobile phone adoption and superimposed them on the current trajectory of Ethereum wallet adoption. Thereafter, we extrapolated the development of ETH wallet adoption and the potential price trend.

More specifically, we expect Ethereum to reach **\$ 14,000 by 2030** and **\$ 82,000 by 2050** based on this global mobile phone adoption model.

” Retail adoption rates across the globe are still relatively low, especially in developed countries, which is why we think that there is still significant growth potential for Ethereum’s adoption.

Tech adoption of Ethereum is still in its infancy and promises outsized returns



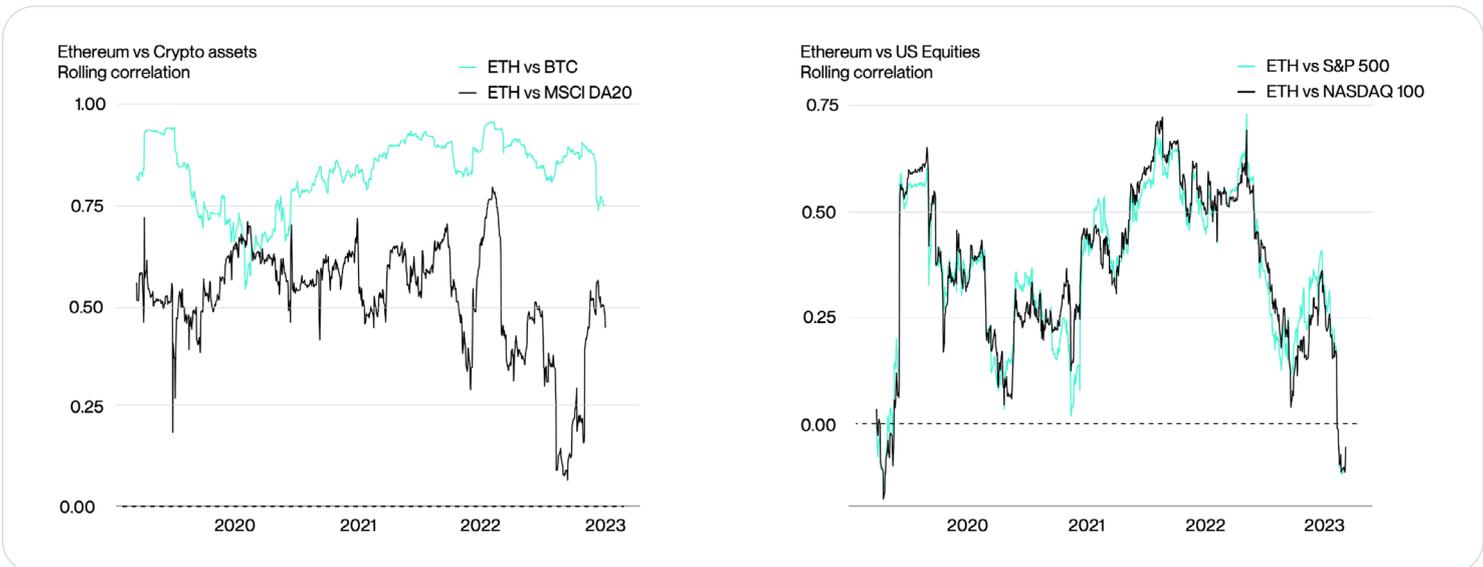
Source: World Bank, Glassnode, ETC Group: Based on a linear regression between non-zero addresses & price
Forecast based on historical mobile phone adoption; Past performance not indicative of future returns.

” At the time of writing, this implied an expected return for Ethereum of approximately 29.8% p.a. on average until 2030.

Ethereum is also generally uncorrelated to equities offering additional diversification as following charts demonstrate.

Over the past 3 months, Ethereum’s performance has been completely uncorrelated to the performance of major US equity indices such as the S&P 500 or the NASDAQ 100.

Ethereum (ETH): 3 months rolling correlations



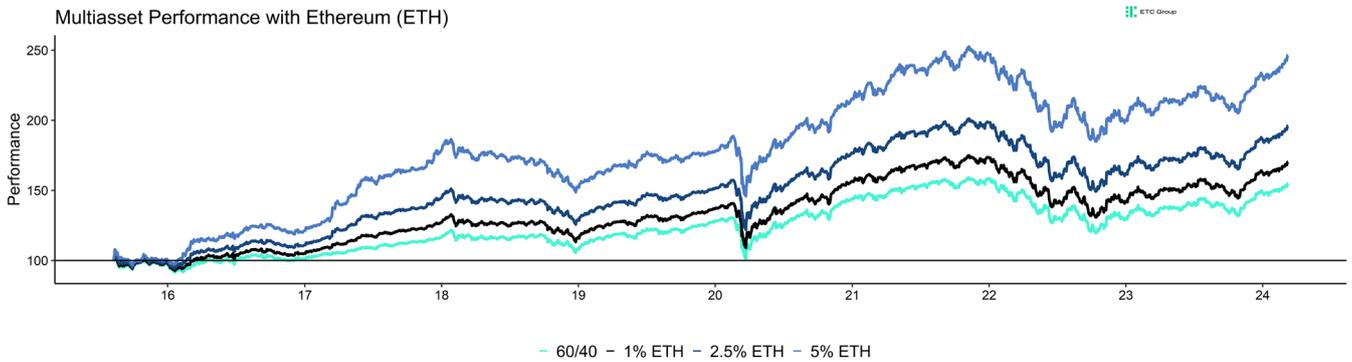
Source: Glassnode, Bloomberg, ETC Group

” A small investment into Ethereum can significantly enhance multi asset portfolio returns both in absolute and risk-adjusted terms.

The following chart and table show how small investments into Ethereum have significantly increased the portfolio Sharpe Ratio with only minimal increases in portfolio volatility and drawdowns.

Multi asset investors were generously overcompensated for the increase in risk as an allocation of only 5% in Ethereum has more than doubled risk-adjusted returns compared to a standard 60/40 portfolio consisting of stocks and bonds only.

Ethereum (ETH): 3 months rolling correlations



	60/40 Portfolio	1% ETH	2.5% ETH	5% ETH
Cumulative Return (%)	154.6	170.1	195.9	246.4
Annual Return* (% p.a.)	7.4	9.1	11.6	15.9
Volatility (% p.a.)	11.7	11.8	12.2	13.6
Sharpe Ratio	0.35	0.48	0.66	0.89
Max Drawdown (%)	24.8	25.2	25.8	26.8

Source: Bloomberg, ETC Group; Monthly rebalancing; Sharpe Ratio was calculated with 3M USD Cash Index as assumed risk-free rate; DA20 allocation is taken out of equity allocation of 60%, bond allocation remains at 40%; Past performance not indicative of future returns.

Conclusion

The exploration of Ethereum as a pivotal platform within the Web³ ecosystem reveals its unparalleled potential to revolutionize the digital and economic landscapes. Ethereum's inception not only marked the transition from static and interactive web phases to an era where value can be owned and transferred freely but also positioned itself as a critical infrastructure in the burgeoning "Internet of Value." Its smart contract capabilities, coupled with a robust ecosystem of decentralized applications, offer transformative opportunities for peer-to-peer transactions without intermediaries, redefining the dynamics of value exchange.

The tokenization of real-world assets on Ethereum has opened up a new frontier for blockchain technology, making assets more liquid, transparent, and accessible. With \$ 60 billion already tokenized, including significant assets like US Treasury bonds, the potential for growth is immense. This, along with Ethereum's ability to offer a unique investment opportunity where investors can own a piece of the network's value layer itself, underscores its revolutionary impact on the investment landscape.

Moreover, Ethereum's transition to a proof-of-stake consensus mechanism not only enhances its scalability and reduces its energy footprint but also introduces a new model of yield generation for token holders. This shift, coupled with its inherently deflationary supply mechanism, positions Ethereum as a compelling asset with a multifaceted value proposition that extends beyond traditional tech platforms.

The economic significance of Ethereum is further highlighted by its role as a foundational layer for a vast array of industries, mirroring the impact of traditional infrastructures on economic ecosystems. Its capacity to facilitate transactions comparable to major payment providers, support for diverse economic activities, and the introduction of a decentralized financial system underscore its potential to reshape the global economic landscape.

As we stand on the cusp of widespread adoption, the investment case for Ethereum is robust. Its rapid growth, driven by technological innovation and global adoption, positions it as a leading asset in the digital age. The anticipated continuation of this trend, alongside Ethereum's uncorrelated nature to traditional equities, presents a unique opportunity for portfolio diversification and enhanced returns.

The journey of Ethereum is far from complete. As we delve deeper into the era of Web³, the potential for Ethereum to further cement its status as a cornerstone of the new internet, and a key driver of the digital economy, is undeniable. Investors and enthusiasts alike are invited to partake in this transformative journey, as Ethereum continues to unfold its vast potential, promising not just returns, but a redefinition of how value is created, exchanged, and owned in the digital age.

Ethereum Investment Strategies

ETP Group offers a number of strategies to gain exposure to the investment opportunity of Ethereum



Physical Ethereum

The ETC Group Physical Ethereum ETP is a physically-backed exchange traded product that offers delta-one investment exposure to the performance of ETH.

Primary ticker	ZETH
ISIN	DE000A3GMKD7
WKN	A3GMKD
TER	1.49 %

[Learn more →](#)



Ethereum Staking

The ETC Group Ethereum Staking ETP offers investors exposure to the performance of ETH, while capturing staking rewards. It is an institutional-grade, low cost, and liquid vehicle to leverage ETH staking for maximum investor outcome.

Primary ticker	ET32
ISIN	DE000A3G90G9
WKN	A3G90G
TER	0.65 %

[Learn more →](#)



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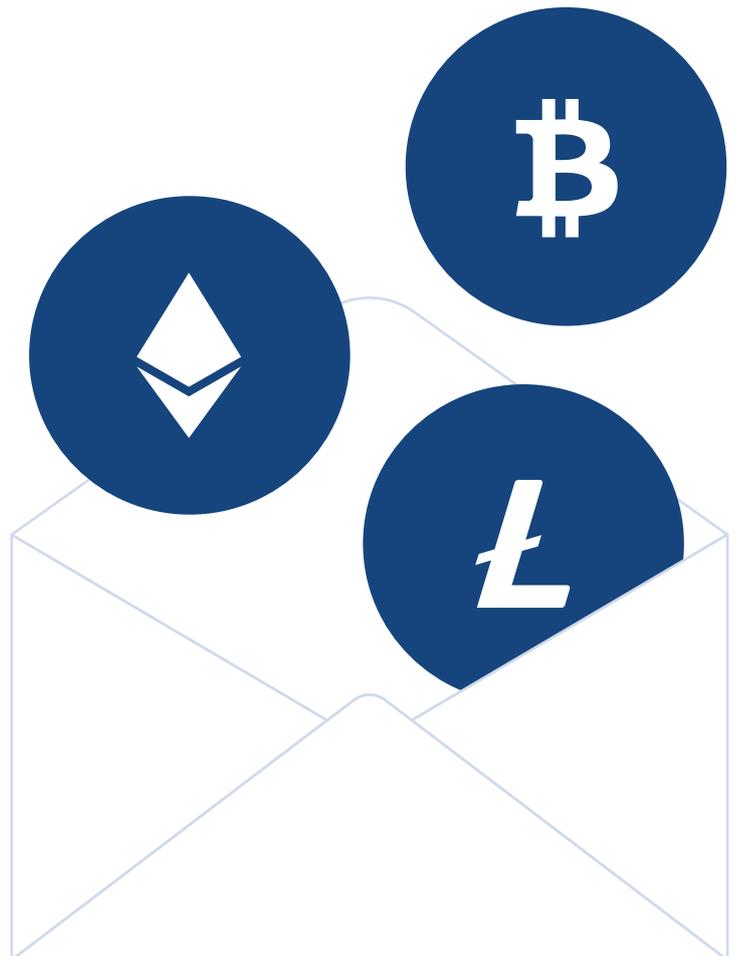
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