

RWM WISDOMTREE CRYPTO INDEX REBALANCE: ADDING POLKADOT AND REMOVING FANTOM

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This year hasn't been a friendly one for [digital assets](#).

Quite frankly, it has been a challenging year for all asset classes, as we have seen market turmoil and drawdown fueled by [inflation](#), tightening [monetary policy](#), war, supply chain issues and political unrest—each with its different levels of impact depending on where you are on the globe.

Keeping things in perspective, we must be reminded that a “crypto winter” isn't anything new for the crypto market.

In the past decade, there have been multiple [drawdowns](#) exceeding 80% before entering another bull run. At the time of writing, the broad crypto market is now around \$950 billion, down roughly 70% from the all-time high of more than \$3 trillion.

These trying times of crypto blowups and contractionary periods are a great reminder of the reasons we diversify within our crypto allocation, structuring positions intelligently in projects with innovative, long-term use cases.

The natural selection currently taking place is revealing the use cases and business models that are unsustainable and poorly capitalized.

Those that survive will likely be primed for the next [bull](#) run, digging their roots deeper and forming the foundation of the crypto ecosystem as it continues to evolve.

Bitcoin: Price Drawdown from ATH



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Source: Glassnode, as of 9/27/22.

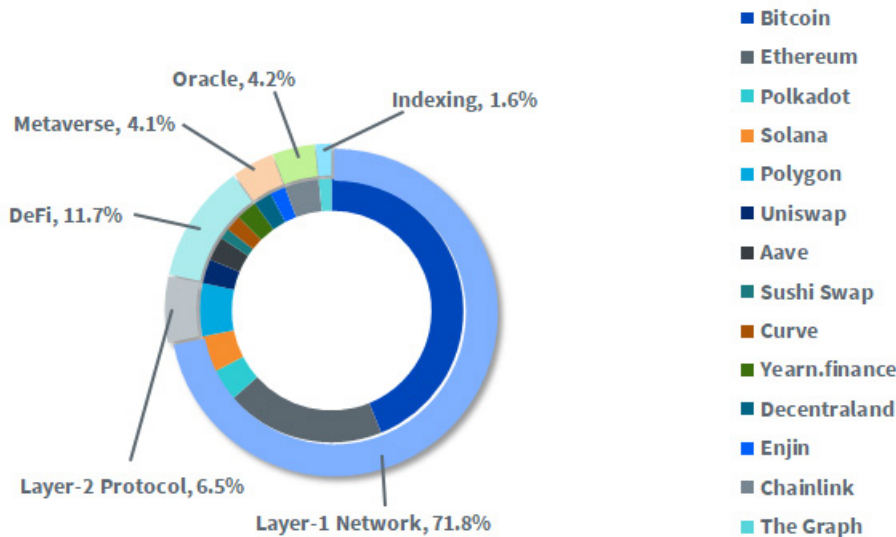
RWM WisdomTree Crypto Index

The [RWM WisdomTree Crypto Index](#) seeks to provide broad and [diversified](#) exposure to crypto assets (sometimes

referred to as cryptocurrencies or crypto)¹, spanning the use cases we believe have true value and form the true foundation of the crypto ecosystem. These include layer-1 networks (e.g., payment systems, smart contract platforms), layer-2 protocols (for interoperability and scaling), oracle networks, crypto indexing services and [decentralized finance \(DeFi\)](#), as well as the [metaverse](#).

The Index includes crypto asset constituents through a methodology and process that considers use cases and importance to the crypto ecosystem. Each crypto asset either plays or has the potential to play an essential role within the crypto ecosystem and/or supplies necessary services for the crypto ecosystem to flourish. The current Index exposures are shown below.

RWM WisdomTree Crypto Index Exposures



Sources: WisdomTree, Messari, as of 10/3/22. The Index was rebalanced on 9/30/22. Weightings are subject to change.

Index Updates

At inception, the Index was allocated 36% to [bitcoin](#), 20% to [ether](#) and 4% to the remaining “[altcoins](#).”

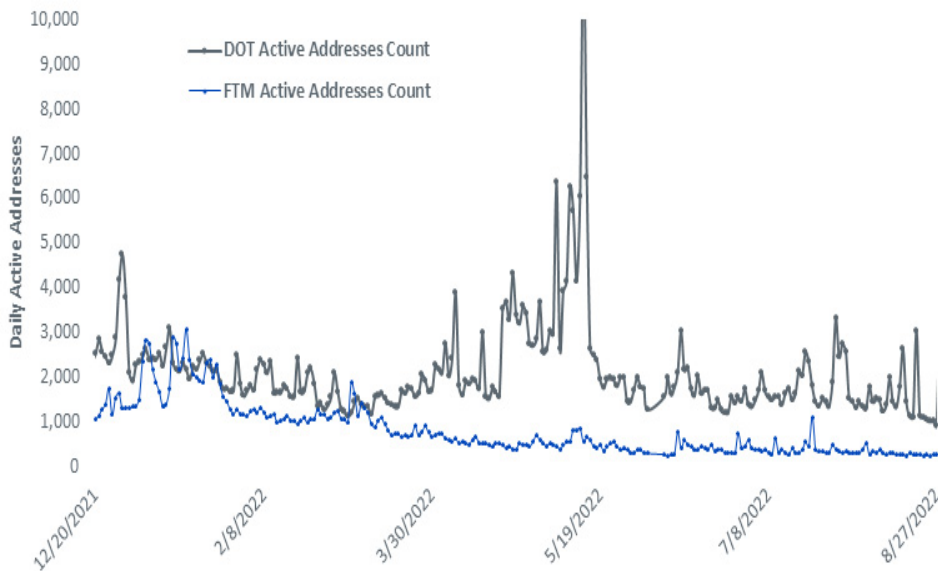
There has been a broad market contraction since inception, with altcoins having suffered the most as they tend to have a high [beta](#) to bitcoin and ether.

As a function of bitcoin contracting the least, its weight has increased significantly since inception. Even with such large fluctuations, the Index has remained well diversified, and even the altcoins have generally retained proper allocations. After reviewing the basket in our monthly committee meetings, the Index was further diversified by making two additions in March—Solana and Curve. The latest addition to the Index is Polkadot, which was added at the end of September after custody became available.

The committee approved a proposal to remove Fantom (FTM) and replace it with Polkadot (DOT), reallocating weight from the over-weight DeFi sector to add DOT at a weight of 4%. Both Fantom and Polkadot are layer-1 smart contract platforms, but DOT has a market cap 10x that of FTM, offering exposure to a market leader in the sector. The weight changes result in a 3% increase in exposure to layer-1 networks and a 3% reduction in DeFi exposure, which is more closely aligned with the broad crypto market, reducing the active weight of the Index.

Furthermore, by reviewing various metrics, there were indications of DOT having more user adoption and ecosystem development than FTM, further justifying the swap. The large discrepancy in daily active addresses between the two highlights this well.

FTM vs. DOT Daily Active Addresses

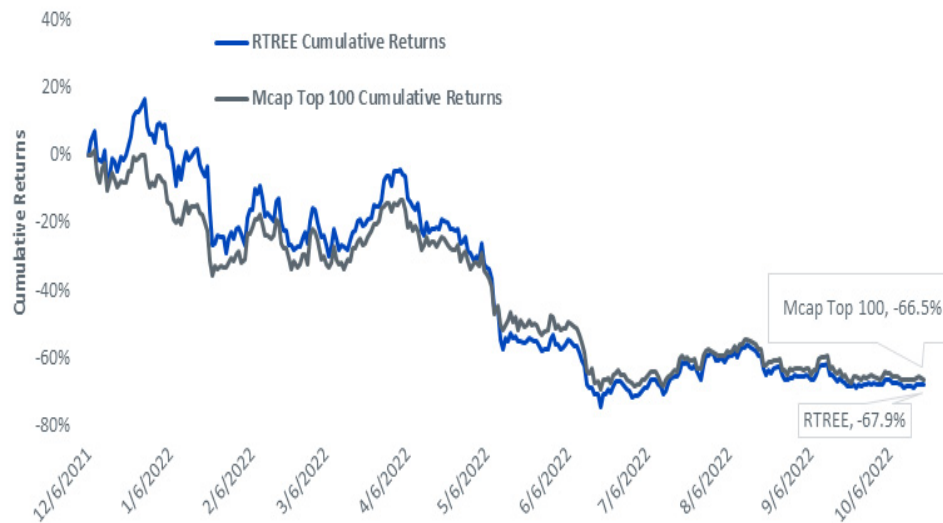


Sources: WisdomTree, Messari, IntoTheBlock, as of 10/26/22. Polkadot (DOT) data is sourced from Messari. Fantom (FTM) data is sourced from IntoTheBlock. Shortened period due to the limited availability of Polkadot data.

The changes made this year have so far served the Index well in terms of diversification, giving strengthened exposure to layer-1 smart contract platforms (SOL and DOT) and DeFi (CRV) through their prominence in such key areas. Performance, on the contrary, has been challenged throughout the wider digital asset ecosystem.

Performance Update

RWM WisdomTree Crypto Index Cumulative Returns vs. Top 100 Market Cap Weighted Basket



Cumulative Returns

	MTD	QTD	YTD	1MO	3MO	6MO	SI
RTREE	0.1%	0.1%	-70.7%	-1.3%	-17.3%	-60.3%	-67.9%
MCAP Top 100	-2.4%	-2.4%	-64.3%	-4.1%	-17.5%	-55.9%	-66.5%

Source: WisdomTree, Messari as of October 19, 2022. The RWM WisdomTree Crypto Index (RTREE) was rebalanced on September 30, 2022, which removed Fantom (FTM) and added Polkadot (DOT).

The RWM WisdomTree Crypto Index was not immune to the contraction that the market has seen since its inception last year. Looking at year-to-date numbers, the Index is down nearly 70%, a few percentage points lower than the broader crypto market.

The reason for this is the Index’s natural over-weight in altcoins.

Compared with the [market cap-weighted basket](#), bitcoin and ether allocations in the Index have a natural under-weight with a combined weight of roughly 50% at the start of the year, compared to a combined weight of 70% in the market basket.

This is required to make room for the altcoin exposures within other layer-1 and layer-2 blockchain solutions, as well as the metaverse, DeFi and infrastructure.

As mentioned above, the altcoins tend to have a high beta to bitcoin and ethereum, resulting in additional volatility in these assets. As a result, as the broad crypto market has sold off, the altcoins generally have not held up as well as the two crypto “[blue chips](#),” bitcoin and ethereum. Even with struggling performance, our long-term conviction across the basket and broader crypto market has not wavered.

Beta to BTC Since Index Inception (12/6/21)

BTC	YFI	ETH	LINK	UNI	MANA	GRT	SOL	SUSHI	ENJ	CRV	MATIC	FTM	AAVE
1	1.14	1.14	1.2	1.24	1.27	1.3	1.31	1.34	1.39	1.41	1.41	1.43	1.5

Sources: WisdomTree, Messari, as of 7/25/22.

Remaining sanguine, the crypto market has shown signs of bottoming through on-chain metrics and development milestones, even amidst strong macro headwinds. These indications are more pronounced when you take a long-term perspective toward investing in the asset class. These come in the form of bitcoin’s [Puell Multiple](#) and [MVRV ratio](#), as well as the success of the Ethereum merge. On the contrary, monetary tightening and recession fears have compressed prices, as crypto has been trading with a high correlation to tech stocks such as those in the Nasdaq 100. With crypto-specific metrics competing with those of the macro environment, macro has been the clear winner in terms of driving pricing to date. As macro headwinds ease, we would expect positive crypto-specific indicators such as those above to lead to price recovery.

For those interested in more on the RWM WisdomTree Crypto Index (RTREE), please check out our full [RWM WisdomTree Crypto Index Update](#).

¹ Crypto assets are complex, generally exhibit extreme price volatility and unpredictability and should be viewed as highly speculative assets. Diversification does not eliminate the risk of experiencing investment losses.

Important Risks Related to this Article

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DEFINITIONS

Digital asset : Anything that is stored digitally and is uniquely identifiable that organizations can use to realize value.

Inflation : Characterized by rising price levels.

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Drawdowns : Periods of sustained negative trends of return.

Bullish : a position that benefits when asset prices rise.

Diversification : A risk management strategy that mixes a wide variety of investments within a portfolio.

Decentralized Finance (DeFi) : A system by which financial products become available on a public decentralized blockchain network.

Metaverse : The metaverse is a digital reality that combines aspects of social media, online gaming, augmented reality (AR), virtual reality (VR), and cryptocurrencies to allow users to interact virtually.

Bitcoin (the currency) : A digital currency (also called a cryptocurrency) created in 2009, which is operated by a decentralized authority as opposed to a traditional central bank or monetary authority.

Ethereum : A decentralized, open-source blockchain with smart contract functionality. Ether is the native cryptocurrency of the platform.

Altcoin : Altcoins are generally defined as all cryptocurrencies other than Bitcoin.

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

Market capitalization-weighting : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

Baskets : The composition of an ETF in terms one creation/redemption unit.

Blue chip : Stocks that have the reputation for quality, reliability and the ability to operate profitably in good times and bad.

Puell Multiple : Calculated by dividing the daily issuance value of bitcoins (in USD) by the 365-day moving average of daily issuance value.

Market Value to Realized Value (MVRV) ratio : An asset's market capitalization divided by realized capitalization.