COINMETRICS
INDEXES

MARKET CONSULTATION

CMBI MULTI-ASSET UPDATE: FOCUS CMBI 10

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TABLE OF CONTENTS

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Introduction

Coin Metrics is committed to ensuring that the CMBI 10 Index continues to remain representative of the market it is intended to track and meets the needs of investors. Regular reviews of index rules are undertaken to ensure they are aligned with stated index objectives. Coin Metrics periodically consults the market regarding significant changes to the index methodologies and a robust governance process exists to facilitate this type of engagement with stakeholders.

Responding to the consultation:

CMBI stakeholders are invited to respond by 24 Apr 2024. The responses will be reviewed by the Coin Metrics Oversight Committee and any changes will be communicated by via an announcement, which will be available on the coinmetrics.io public website

Please submit your response to the consultation to "cmbi-support@coinmetrics.io".

All responses will be treated as confidential.

If you have any questions about this consultation, please contact "cmbi-support@coinmetrics.io".

CMBI 10 Index Background

The CMBI 10 is designed to measure the performance an investor would expect from investing in a diversified basket of cryptoassets, weighted by their free float market capitalization. The 10 largest cryptoassets, defined by an asset's expected 10 year future market capitalization, are selected as the index constituents.

Proposed Changes
Overview

10 Year Expected Supply, *"SplyExp10yr"*, is the sum of all native units counting current supply and including all those expected to be issued over the next 10 years from that interval if the current known continuous issuance schedule is followed. *SplyExp10yr* represents the fully-diluted supply of an asset, a proxy that supposes an asset's maximum supply is in circulation.

Reasons for Change

SplyExp10yr will no longer be supported back to The Merge. Since the Ethereum Merge, this metric was no longer applicable, as the issuance amount for Ethereum no longer follows a set rate. This changed as of the merge when Ethereum transitioned from Proof of Work to Proof of Stake. Thus, as part of this release, Coin Metrics has officially deprecated support for *SplyExp10yr*, as it ceased to accurately capture the economic activity on Ethereum

For more information regarding Coin Metrics' enhancements to its Ethereum metrics, please visit https://coinmetrics.io/eth-supply-updates.

Proposed Changes to Index Methodology

Rank Assets by Current Supply

For eligible assets, the Current Supply (*SplyCur)* is used in place of *SplyExp10yr*.

Rank Assets by Adjusted Free-Float Supply

Here, index constituents are weighted by their adjusted free-float market cap. This unifies the metrics used for both selecting and weighting constituents.

Performance Impact

The two strategies were backtested from April 2021 through March 2024, with a starting value of $1000 on April 1, 2021. For all charts and figures, **SplyCur** represents the strategy where assets are ranked and selected in order of their *Current (total) Supply*. **SplyAdjFF** represents the strategy where assets are ranked and selected in order of their *Adjusted Free-Float Market Capitalization*.

CMBI10 Performance by Selection Metric
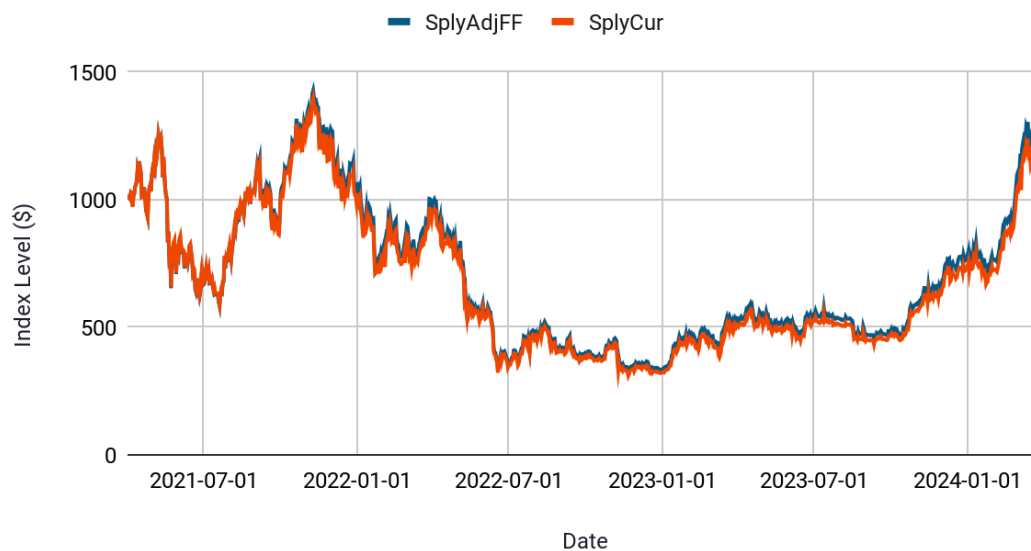
Over the three-year period, *SplyAdjFF* had an annualized return of 8.12%, versus *SplyCur*'s 6.29%. The cumulative returns on the strategies were 126.43% (*SplyAdjFF*) and 120.09% (*SplyCur*). Finally, *SplyAdjFF* and *SplyCur* had Sharpe ratios of 12.57% and 9.76%, respectively.

There were 36 monthly rebalances over the backtesting period. At each rebalance, the constituents chosen by the two strategies were compared. On average, *SplyAdjFF* and *SplyCur* shared 8 constituents month-over-month: meaning at each rebalance, 8 out of 10 constituent assets were shared by both strategies. Thus, the difference in strategies is primarily attributed to the cryptoassets that are ranked 9-12 by their respective market capitalizations. This accounts for the two "smallest" assets chosen for CMBI10.

The *SplyAdjFF* strategy favored assets with a greater portion of their circulating supply available to investors. For example, if two assets had identical total supplies, then the *SplyAdjFF* strategy would assign a greater rank to the asset with fewer locked tokens. Ultimately, this increases the liquidity of the index and improves its investability.

Conclusion

After review, Coin Metrics will select constituents for CMBI10 in order of their Adjusted Free-Float Market Cap. Not only does this provide a suitable replacement for *SplyExp10yr*, but it standardizes the metrics used for constituent selection and constituent weighting. Beginning with the May 2024 Rebalancing, the Adjusted Free-Float Market Cap shall determine both the constituents for CMBI10 <u>and</u> their corresponding weights.