



Investment Thesis

LAY1

Product type

Market-cap weighted
index of the largest Layer 1
blockchains

Key Figures

LAY1 Underlying Assets	Market Capitalization (in billions)
Ethereum	\$244
Binance Coin	\$49
Cardano	\$19
Solana	\$18
Avalanche	\$9

*Underlyings as of May 17, 2022. LAY1 is rebalanced quarterly.

Overview

The 21Shares Layer 1 ETP (LAY1) seeks to track an index comprising the largest Layer 1 blockchains. The weights are proportional to market capitalization, capped at 30% per asset to promote diversification. In addition, the index is rebalanced quarterly to follow the evolution of the crypto space. Layer 1 blockchains – also known as Smart Contract Platforms – represent the foundational infrastructure of Web 3 and its underlying sectors, such as decentralized finance (DeFi), games, art, media and music (NFTs). As a result, LAY1 allows investors to benefit from the growth of the most thriving digital economies. The historical performance of the underlying index has been outstanding, generating a higher risk-adjusted return than Bitcoin and Ethereum since January 2021, as measured by the Sharpe ratio.

Fundamentals

Ethereum

- Ethereum is the largest Layer 1 blockchain by market capitalization and total value locked (TVL).
- With around 4,000 monthly active developers, it is the most vibrant ecosystem where most innovation has taken place.
- Ethereum has generated \$8.1 billion in revenue from user transaction fees in the past year, showing that demand for its blockspace is unmatched.

Emerging Layer 1s

- The success of Ethereum has given rise to competing Layer 1 blockchains with separate communities and different scaling approaches.
- The core value proposition of Layer 1s is the ability to automate away the need for centralized intermediaries.
- The growth of emerging Layer 1s in the past year suggests a multi-chain future. In early 2021, Ethereum's market share by TVL across DeFi represented more than 95%, while today, it accounts for 64%.

Key takeaways

- LAY1 seeks to provide exposure to the largest Layer 1 blockchains by market capitalization.
- Layer 1 blockchains are the foundational infrastructure on top of which user-facing dApps are launched.
- The main advantage of LAY1 over holding the underlying assets comes from the quarterly rebalancing and institutional grade security.

Risk factors

- Geopolitical unrest and regulatory uncertainty.
- Smart contract risk aggravates as ecosystems mature, and TVL grows.
- Scaling risk.

Figure 1:
Vinter LAY1 Index Performance (1-Year)



Data Source for Both Figures:
Vinter (LAY1), Messari (BTC and ETH)

*Color description: Yellow color means higher correlation among assets, grey color means lower or negative correlation among assets. Lower or negative correlated assets have diversification benefits that could improve portfolio risk-adjusted returns.

*04/01/2021 - 16/05/2022

Correlation Matrix			
	LAY1	BTC	ETH
LAY1	1.00	0.73	0.82
BTC	0.73	1.00	0.80
ETH	0.82	0.80	1.00

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