
MAY 2024 CRYPTO BASKET REBALANCE

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01 Jul 2024

An increasing number of institutional investors are choosing to invest in crypto basket exchange-traded products (ETPs) instead of selecting a single crypto exposure (e.g., a Bitcoin ETP, an Ethereum ETP, etc.) for their portfolios. This is a sensible approach for investors who want to be exposed to the new asset class but do not have strong views about which cryptocurrencies may be the most successful over time.

When selecting crypto basket ETPs for their portfolios, institutional investors need to know how they operate. Specifically, they need to understand why certain crypto assets are added to / removed from the crypto basket ETPs, how rebalances work, what risks they expose investors to, and the cost of implementing rebalances.

Active risk screen

WisdomTree's crypto basket ETPs are overseen by the Crypto Index Committee, whose members span many aspects of the business, including digital assets, product development, and research. This Committee applies eligibility criteria and an active risk screen to ensure that unnecessary operational, compliance or regulatory risks are mitigated for the end clients.

For inclusion, crypto assets must, at a minimum:

- be based on permissionless (i.e., public) blockchains
- have a liquid market, a reliable reference price, and a free-float supply
- be under active development but established (by having sufficient trading history, volume and satisfying market capitalisation requirements)

The Crypto Index Committee reviews crypto basket ETPs regularly to monitor potential risks. By way of example, coins could be excluded if:

- they are under regulatory investigation
- have any outstanding know your customer (KYC) or anti-money laundering (AML) issues
- present no clear use case (e.g., meme coins)
- are pegged to the value of another asset

By way of a concrete example, wisdomTree has never included FTX or LUNA in our crypto basket ETPs and has never been affiliated with or exposed to either organisation regarding FTT or LUNA.

Rebalance process

Rebalances, in general, are hard in the crypto space. There are risks associated with them that apply to all issuers. To be best in class, we take the following approach when implementing quarterly crypto basket rebalances:

- on T-1, the rebalance amount is calculated, and a sufficient portion of crypto basket ETP's assets are moved from cold storage wallets to trading wallets
- on T (i.e., rebalance day), the rebalance amount is confirmed, and the relevant positions are traded. Once rebalance trade positions are closed, the assets are transferred back to the cold storage wallets

WisdomTree's rebalance process ensures that only the minimum amount necessary is moved and only for the time required to complete rebalance trades.

It is important to note that WisdomTree instructs the transfer individually per asset and ETP and follows its usual multi-layer security process for the transactions. All trades are monitored and reviewed before being transferred back to the cold storage wallet.

Most recent crypto basket rebalance

In advance of the May 2024 crypto basket rebalance, the Crypto Index Committee identified the need to make changes to the building blocks of [WisdomTree Physical Crypto Market ETP \(BLOC\)](#) and [WisdomTree Physical Crypto Altcoins ETP \(WALT\)](#). Specifically, they decided to add Chainlink (LINK) and remove Cosmos (ATOM).

This decision was driven by Chainlink having large enough market cap for an extended time period and being supported by the custodians, pricing providers, authorised participants, and exchanges (SIX, Euronext, Xetra). Chainlink also met WisdomTree's inclusion criteria, outlined in the section above. Cosmos was removed primarily because of its smaller market cap.

While there were no changes to holdings of [WisdomTree Physical Crypto Mega Cap Equal Weight ETP \(MEGA\)](#), it also went through a rebalance as bitcoin and ether weights were brought back to equal weight.

The slippage costs that the crypto basket ETPs experienced were very much in line with WisdomTree's expectations and past experience.

WisdomTree: an established ETP provider to access cryptocurrencies

WisdomTree offers a curated range of eight physical crypto ETPs that have institutional-grade structure and provide spot price exposure to single coins and diversified crypto baskets. For further details, please see the [WisdomTree Crypto ETP centre](#) and [WisdomTree Crypto ETP Range](#).

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