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WisdomTree Physical Ethereum



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WisdomTree Physical Ethereum (ETHW) provides investors with a simple, secure and cost-efficient way to gain exposure to the price of ether, the native coin of the Ethereum blockchain. The ETP (exchange-traded product) generates a staking yield, paid by the Ethereum blockchain.

Investing in ether via an ETP allows investors to experience the benefits of traditional financial infrastructure and product structuring. WisdomTree Physical Ethereum allows investors to access ether and receive staking rewards through a risk-managed approach without directly holding the crypto asset, storing private keys or interacting with the blockchain and crypto infrastructure in any way.

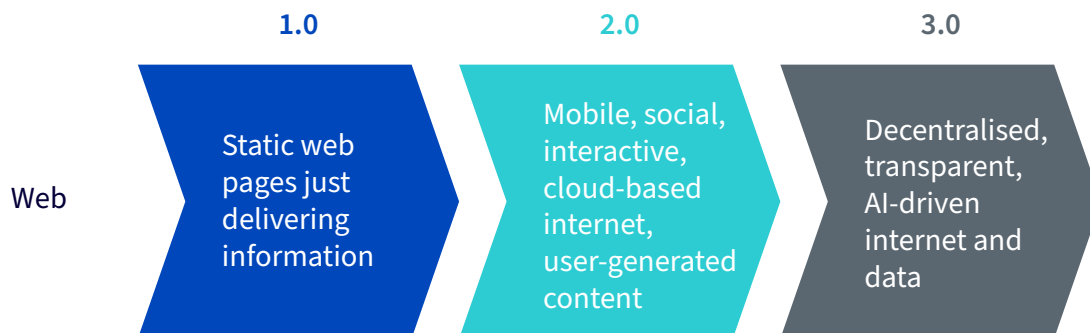
The Ethereum Blockchain

The Ethereum blockchain is a computing environment that enables users to access various decentralized financial services, games and applications through smart contracts. Ethereum was the first network to introduce ‘smart contracts’ or pieces of code on a blockchain, marking a significant breakthrough at the time. Today, Ethereum remains the most widely supported layer 1 smart contract blockchain and is particularly attractive to application developers due to the network’s modularity and composability.

In order to use applications built on Ethereum, users must pay a transaction fee or “gas”. The protocol generates fees every time an application built on the Ethereum blockchain is used.

Ethereum represents a vision of “Web 3.0”. For many, it represents the natural evolution of the internet, owned by everybody, formed for everyone, controlled by no one.

The evolution of the internet



This idea may seem very abstract, but the advantages it could offer are tangible.

Relying on a distributed network has many benefits. The service is always on, secure, immutable, fully transparent and automated, cuts out the middlemen and eventually promises shared data and services without the need to trust any one entity. Currently, Ethereum is the leading platform in the race to Web 3.0.

Staking on Ethereum

The Ethereum blockchain uses a Proof-of-Stake consensus mechanism, which is a way to verify transactions and secure the network. The owner of ether delegates, or stakes, their ether to one of the validator nodes¹ that run the network. This node then validates new entries to Ethereum’s blockchain². In return for helping to update and secure the ledger, validator nodes are probabilistically allocated new ether. The chances of being chosen to validate the next block is proportionate to the amount staked and the amount of time a user has held their asset. In this way, the network rewards participants who are most invested. If the selected node successfully validates a block, then it receives the staking reward.

In exchange for delegating ether, the owner is rewarded with more ether from the network. Staked coins act as a guarantor of the legitimacy of new transactions. If fraudulent transactions are discovered, users will lose a part of their stake or rewards in a slashing event².

Why invest in Ethereum?

- **The future of the internet:** Should Ethereum continue its dominant position as a layer 1 smart contract network, its coin value may be tied to the success of this platform and the ecosystem built around it. Some investors believe there will be a next phase of the internet revolution (often referred to as Web3), and blockchain networks like Ethereum will be integral to this evolution.

1 A node is a computer that runs the Ethereum software.

2 The network ‘burns’ the stake = removes it from the token supply.

- **Staking yield:** Staking allows an ether holder to earn rewards by holding the asset and being willing to delegate ('stake') it in the blockchain's transaction verification process. Ethereum uses a Proof-of-Stake consensus mechanism, which is a method of verifying and securing transactions on the blockchain. In 'staking' the owner delegates ether into a validator node, which verifies the transactions and secures the network. The owner then receives a 'staking reward'. The current estimate for Ethereum's annual staking yield is 4-8%, depending on, among other things, the number of validators, the number of transactions on the network, the usage of maximum extractable value (MEV) technology and how ether is staked. Given Ethereum is the most popular smart contract network, its staking yield serves as a benchmark in the industry for comparing other staking yields. WisdomTree Ethereum has activated staking and provides a staking yield to investors.
- **Diversifying crypto allocation:** Most institutional investors allocate to relatively liquid and large crypto assets, such as bitcoin and ether. These blockchains have very different use cases and hence it makes sense to diversify. Bitcoin's blockchain primarily functions as a peer-to-peer payment system although it can also be viewed as "digital gold", an anti-fiat asset³. Ethereum, on the other hand, is a layer 1 smart contract network, which enables users to access decentralized applications, decentralized autonomous organizations (DAOs) and non-fungible tokens (NFTs).

Key information – Ethereum staking

Staking reward	4-8% APY (annual percentage yield) on average on the staked amount ⁴
Ether inflation rate	Slightly deflationary to mildly inflationary (0.5%) (May 2023) ⁵
Reward frequency	Usually around 2-5 days ⁶
Unbonding time ⁷	Variable, usually > 5 days
Custodians of ETHW	Coinbase and Swissquote
Slashing ⁸	Automatic slashing is applicable

3 Anti-fiat asset in this context means that the supply of the asset is not dependent on central bank money printing.

4 Source: Ethereum.org; stakingrewards.com

5 Source: Ethereum.org; Ultrasound.money. In November 2022 Ether turned deflationary, which means more Ether was burned (removed from token supply) than new Ether was issued per year.

6 Depends on whether the validator has chosen to have its reward withdrawn at next epoch.

7 Unbonding is the time taken to unlock the staked Ether from validator's smart contract node.

8 The penalty imposed on malicious nodes that attempt to approve false entries on the distributed ledger.

Ether in an ETP with WisdomTree

Investors often turn to the ETP structure to provide additional protection for their investments:



SECURITY – Safely storing digital assets is not only about protecting against hacks, but also protecting against the inadvertent loss of private keys. Investing in cryptocurrencies through an ETP structure could allow investors to transfer the expensive and time-consuming burden of managing private keys to the issuer and to benefit from institutional-grade safeguarding of assets in cold storage⁹.



TRANSPARENCY – Transparency is a core component of the ETP structure. A cryptocurrency ETP could offer a core measure of confidence for investors by enabling access to the issuer’s website, which discloses exactly how many coins are represented by the outstanding ETP shares.



ETP STANDARDISATION – Product standardisation is a key aspect of the ETP wrapper that benefits investors in cryptocurrencies. Trading, holding and accounting for investments in ETPs are well established and the provision of crypto exposure in this format could allow for such investments to fit within an investor’s existing systems, processes and risk management. Additionally, providing crypto exposure in an ETP format could allow for benefits from standard market features that many investors rely on. Centralised clearing, an exchange listing on a recognised venue and standard settlement practices all lower the operational and counterparty risk of making investments.



LIQUIDITY – ETPs tend to bring a centralisation of liquidity to asset classes. This could be especially impactful in the crypto space as the current ecosystem is quite fragmented, with trading taking place across many venues with no common settlement infrastructure. An investor would need to separately establish connectivity to several venues in order to access their liquidity. Investment in an ETP essentially outsources this responsibility to specialist market makers with trading infrastructure to manage several exchange connections.

Cryptocurrency exposures by WisdomTree

WisdomTree aims to address the needs of investors within the cryptocurrency landscape by delivering exposures to unique digital assets. WisdomTree’s Ethereum ETP taps into WisdomTree’s tradition of innovation and leverages the firm’s deep expertise in physically-backed ETPs.

⁹ Cold storage refers to the offline storage of private keys.

Product information: WisdomTree Physical Ethereum

Ticker	Exchange	ISIN	Bloomberg Code	Listing Currency	Base Currency	TER%
WETH	Xetra	GB00BJYDH394	WETH GY	EUR	USD	0.35
ETHW	SIX	GB00BJYDH394	WETH SW	EUR	USD	0.35
ETHW	SIX	GB00BJYDH394	ETHW SW	USD	USD	0.35
ETHW	SIX	GB00BJYDH394	ETHWCHF SW	CHF	USD	0.35
WETH	Euronext(FR)	GB00BJYDH394	WETH FP	EUR	USD	0.35
ETHW	Euronext(NL)	GB00BJYDH394	ETHW NA	USD	USD	0.35

TER: Total Expense Ratio.

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