



DIGITAL ASSET MANAGEMENT

# 3iQ ETHER ETF

Interim Management Report of Fund Performance

For the six month period ended June 30, 2023

## **Forward-Looking Statements (“FLS”)**

The interim Management Report of Fund Performance may contain forward-looking statements (“FLS”). FLS means disclosure regarding possible events, conditions or results of operations that is based on assumptions about future economic conditions and courses of action and includes any future-oriented financial information (“FOFI”) with respect to prospective results of operations, financial position or cash flows that is presented either as a forecast or a projection. FOFI is FLS about prospective results of operations, financial position or cash flows, based on assumptions about future economic conditions and courses of action.

FLS can be identified by the use of forward-looking terminology such as “may”, “will”, “should”, “expect”, “anticipate”, “target”, “project”, “estimate”, “intend”, “continue” or “believe”, or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of the Fund may differ materially from those reflected or contemplated in such forward-looking information and statements. Material risk factors that could affect actual results are identified under the heading “Risk Factors” in the Fund’s Prospectus. Investors are also cautioned that FLS is based on several factors and assumptions, including the Fund’s current plans, estimates, opinions and analysis made in light of its experience, current conditions and expectations of future developments, as well as other relevant factors. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

## **Disclosure**

This interim Management Report of Fund Performance contains financial highlights but does not contain the complete interim financial statements of the Fund. You can get a copy of the interim financial statements at your request, at no cost, by calling 1-416-639-2130, by writing to us at 2700 – 161 Bay St, Toronto, Ontario, M5J 2S1 or by visiting our website [www.3iq.ca](http://www.3iq.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the Fund’s proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

# 3IQ ETHER ETF

## MANAGEMENT REPORT OF FUND PERFORMANCE

(Expressed in United States dollars)

### Management Discussion of Fund Performance

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This Management Report of Fund Performance represents the portfolio management team's view of the significant factors and developments affecting the Fund's performance and outlook for the six month period ended June 30, 2023. Every effort has been made to ensure the information contained in this Management Report of Fund Performance is accurate and complete, however, the Fund cannot guarantee the accuracy or the completeness of this material. For more information, please refer to the Fund's prospectus ("Prospectus"). In this report, "Manager", refers to 3iQ Corp., the manager of the Fund. The "Fund" refers to 3iQ Ether ETF. In addition, "net asset value" or "NAV" refers to the value of the Fund as calculated for transaction purposes, on which the discussion of Fund performance is based.

### Investment Objective and Strategies

The investment objectives of the Fund are to seek to provide unitholders of the Fund with exposure to the digital asset ether ("ether") and the daily price movements of the United States dollar price of ether, and the opportunity for long-term capital appreciation. To achieve its investment objectives, the Fund invests in long-term holdings of ether, purchased from reputable ether trading platforms and OTC counterparties, in order to provide investors with a convenient, safer alternative to a direct investment in ether. The Fund does not speculate with regard to short-term changes in ether prices.

### Risk

The risks associated with investing in the Fund remain as discussed in the Prospectus. The Fund is suitable for investors looking for long-term capital appreciation of ether and those who have the capacity to absorb a loss on their investment. The NAV of the units will vary according to the value of ether included in the Fund's portfolio. The value of the ether will be influenced by factors which are not within the control of the Fund or the Manager. The Fund was created to invest in ether and is not expected to have exposure to any other investments or assets. Other than cash or cash equivalents, the Fund will invest substantially all of its assets in ether. The NAV per unit may be more volatile than the value of a more broadly diversified portfolio and may fluctuate substantially over short periods of time. This may have a negative impact on the NAV of the units.

For the six month period ended June 30, 2023, there were no changes affecting the overall level of risk associated with an investment in the Fund. Therefore, the overall level of Fund risk and investor risk tolerance remains as stated in the Prospectus.

### Results of Operations

During the six month period ended June 30, 2023, units of the Fund returned 59.2%.

The net asset value of the Fund was \$22.3 million as at June 30, 2023. Changes since January 1, 2023, were composed of net redemption of units of \$50.8 million, net subscription of units of \$52.9 million and net income from operations of \$7.9 million for the six month period ended June 30, 2023.

The investment performance of the Fund includes income and expenses which vary year over year.

### Market and Fund Performance Review

MarketVector Ethereum Benchmark Rate index maintained by MV Index Solutions GmbH ("MVIS") is used to source the data, with returns calculated net of fees by the Manager.

During the six month period ended June 30, 2023, ether moved from \$1,195 to \$1,923 a return of 61.0%. The Fund's NAV performance over the same period was 59.2%. The Fund's market price return performance was 55.3%.

The total number of ether staked in the network during the six month period grew by over 40% to 23,537,638 ether. Over 20% of the circulating supply of ether on the network is staked, representing approximately \$45.3 billion.

The total number of validators on the network during the six month period grew to 735,511. Ethereum core developers are considering increasing the maximum validator balance from 32 ether to 2,048 ether per validator.

# 3IQ ETHER ETF

## MANAGEMENT REPORT OF FUND PERFORMANCE

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The Manager issued a press release on June 28, 2023, announcing that effective on or about August 28, 2023, the Fund will commence staking ether held in its portfolio. Through staking, the Fund will earn rewards in the form of ether, which will be reflected in the net asset value of the Fund through accretive yield while augmenting the Fund's exposure to ether.

Looking ahead, the implementation of EIP-4844 is anticipated to have a significant impact on layer 2 scaling solutions and the broader ethereum network. This improvement proposal, once implemented, is expected to further enhance the efficiency and scalability of layer 2 solutions, thereby contributing to the growth and adoption of ethereum-based applications.

For the six month period ended June 30, 2023, the Fund has completed the following:

- On April 11, 2023, the Fund changed its name from 3iQ CoinShares Ether ETF to 3iQ Ether ETF following the termination of the CoinShares investment agreement.
- On April 14, 2023, The Ether Fund announced that unitholders would have the option to convert all or part of their units into units of the Fund as an additional option in connection with The Ether Fund's annual redemption.
- On May 31, 2023, 1,342,197 units of The Ether Fund were surrendered for conversion on June 1, 2023, to 5,622,317 units of the Fund valued at \$41,765,944.

From time to time, both a discount and premium to NAV have been observed for the Fund in the six month period ended June 30, 2023. The lowest discount was (0.7)% and the largest premium was 0.6%. This is a function of investors buying and selling a limited number of units on the Toronto Stock Exchange.

### Related Party Transactions

#### Expenses absorbed by the Manager:

In its discretion, the Manager may pay certain expenses of the Fund out of its own monies but any such payments shall not oblige the Manager to make similar payments in the future, and the Manager's payment of such expenses may be discontinued at any time, without notice to unitholders.

During the six month period ended June 30, 2023, the Manager absorbed \$302,798 of the Fund's expenses.

#### Management fees:

The Manager is responsible for managing and directing the undertaking, operations and affairs of the Fund, including managing and directing the investments. The Fund pays an annual management fee to the Manager amounting to 1% of the Fund's net asset value calculated daily and payable monthly, plus applicable taxes, in respect of each of the units of the Fund.

During the six month period ended June 30, 2023, \$113,016 in management fees was charged by the Manager. These transactions occurred in the normal course of operations and the fees are measured at exchange value, which is the amount established and agreed to by the related parties.

#### CoinShares agreement:

On March 31, 2021, the Fund entered into an investment agreement with CoinShares Capital Markets (Jersey) Limited ("CoinShares"). The Manager agreed to rebate CoinShares' proportionate share of management fees and expenses incurred by the Fund in exchange for CoinShares' investment in the Fund.

On September 12, 2022, CoinShares fully redeemed their investment in the Fund thereby terminating the investment agreement.

# 3IQ ETHER ETF

## MANAGEMENT REPORT OF FUND PERFORMANCE

(Expressed in United States dollars)

### Financial Highlights

The following table shows selected key financial information about the units of the Fund and is intended to help you understand the Fund's financial performance for the six month period ended June 30, 2023 and the prior reporting years.

	June 30, 2023	December 31, 2022	December 31, 2021*
<b>The Fund's Net Asset Value (NAV) per unit (1)(2)</b>			
<b>Net assets per unit, beginning of period</b>	\$ 4.80	\$ 14.86	\$ 10.00
<b>Increase (decrease) from operations</b>			
Total revenue	–	–	–
Total expenses	(0.06)	(0.12)	(0.12)
Realized (loss) gains	(2.52)	(15.14)	0.02
Unrealized gain (loss)	5.29	0.33	(1.14)
<b>Total increase (decrease) from operations (2)</b>	<b>2.71</b>	<b>(14.93)</b>	<b>(1.24)</b>
<b>Total annual distributions</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net asset value, end of period (3)</b>	<b>\$ 7.64</b>	<b>\$ 4.80</b>	<b>\$ 14.86</b>
<b>Ratios and Supplemental Data</b>			
Total net asset value (3)	\$ 22,269,917	\$ 12,317,933	\$ 315,765,196
Number of shares outstanding (3)	2,915,579	2,568,262	21,250,000
Management expense ratio before waivers and absorptions (4)	4.76%	1.58%	1.35%
Management expense ratio after waivers and absorptions (4)	1.75%	1.26%	1.24%
Trading expense ratio (5)	0.00%	0.00%	0.00%
Portfolio turnover rate (6)	265.12%	95.06%	6.36%
<b>Net asset value per unit</b>	<b>\$ 7.64</b>	<b>\$ 4.80</b>	<b>\$ 14.86</b>
Closing market price (3)	\$ 7.36	\$ 4.74	\$ 14.84

#### Notes:

- (1) This information is derived from the Fund's interim financial statements for June 30, 2023 and audited annual financial statements for December 31, 2022 and 2021 and is not a reconciliation of beginning and ending net assets per unit.
- (2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period.
- (3) This information is provided as at June 30, 2023, December 31, 2022 and 2021.
- (4) Management expense ratio is based on total expenses (excluding distributions, commissions, and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of average daily NAV during the period.
- (5) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average daily NAV during the period.
- (6) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in the period, the greater the trading costs payable by a fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

\* For the period from commencement of operations April 22, 2021 to December 31, 2021.

# 3IQ ETHER ETF

## MANAGEMENT REPORT OF FUND PERFORMANCE

(Expressed in United States dollars)

### Financial Highlights

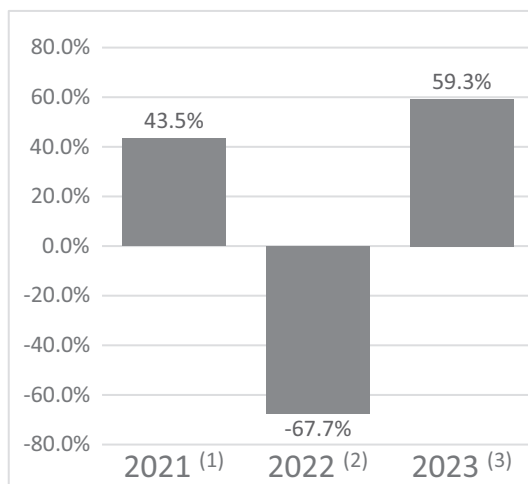
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#### Past performance of the Fund

There were no distributions made by the Fund in the periods shown. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. The performance of the Fund in the past does not necessarily indicate how it will perform in the future.

#### Year-by-Year Returns

The following bar chart represents the performance of units of the Fund. The bar chart shows, in percentage terms, how much an investment made on the first day of each period would have increased or decreased by the last day of each such period and year.



<sup>(1)</sup> Total return for the period from commencement of operations April 22, 2021 to December 31, 2021.

<sup>(2)</sup> Total return for the year January 1, 2022 to December 31, 2022.

<sup>(3)</sup> Total return for the period from January 1, 2023 to June 30, 2023.

# 3IQ ETHER ETF

## MANAGEMENT REPORT OF FUND PERFORMANCE

(Expressed in United States dollars)

### Summary of Investment Portfolio as at June 30, 2023

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The following table shows selected key financial information about the Fund.

<b>Portfolio Composition</b>		<b>All Holdings</b>	
<b>Sector Allocation</b>	<b>% of Net Assets Value</b>	<b>Issuer</b>	<b>% of Net Assets Value</b>
Digital assets	100.00	Ether	100.00
		Cash	–
		Other assets and liabilities, net	–
<b>Total Portfolio Allocations</b>	100.00		
<b>Total Net Asset Value (in millions)</b>	<b>\$ 22.30</b>		<b>100.00</b>

The Investment Portfolio may change due to ongoing portfolio transactions of the Fund. Quarterly updates of the Investment Portfolio are available within 60 days of each quarter end.