



DIGITAL ASSET MANAGEMENT

# 3iQ ETHER STAKING ETF

Annual Management Report of Fund Performance

For the year ended December 31, 2023

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

The annual 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 annual Management Report of Fund Performance contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the annual 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 STAKING ETF

## MANAGEMENT REPORT OF FUND PERFORMANCE

(Expressed in United States dollars)

### Management Discussion of Fund Performance for the year ended December 31, 2023

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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 year ended December 31, 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 Staking 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 year ended December 31, 2023, the Fund's risk increased in relation to the Fund's ether staking activities. The Fund risk and investor risk tolerance remains as stated in the Prospectus and as disclosed in the financial statements.

#### Results of Operations

During the year ended December 31, 2023, units of the Fund returned 89.6% (2022 – (67.7)%).

The net asset value of the Fund was \$28.8 million as at December 31, 2023 (2022 – \$12.3 million). Changes since January 1, 2023, were composed of net redemption of units of \$54.1 million, net subscription of units of \$58.3 million and net income from operations of \$12.3 million for the year ended December 31, 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 year ended December 31, 2023, ether moved from \$1,195 to \$2,306 a return of 93.0%. The Fund's NAV performance over the same period was 89.6%. The Fund's market price return performance was 93.9%.

The ether network's activity in 2023 was a tale of two states, with lackluster on-chain activity underwhelming investors on one hand, while staking innovations allowed ether holders more flexibility on managing and monetizing their staking rewards on the other. With much of the year stuck within a narrow trading range, it was no surprise that ether,

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in 2023, saw a decline in most on-chain metrics such as: a decline in the number of transactions, active addresses, and stablecoin supply issuance. However, with the advent of staking and “Merge” completion in 2022, and the “Shapella” upgrade in 2023, the total number of ether staked on the network grew an impressive 82.6% in 2023. By the end of Q4, ether saw a quick resurgence in most on-chain metrics, including a 30% increase in total value locked on smart contracts, and over \$20 billion in stablecoin inflows. The circulating supply of ether continued on its disinflationary path, thanks to EIP-1559, finishing the year at a -0.28% decline to 120,183,694 ether.

A noteworthy dynamic is the ever-changing demand for ether blockspace that continued in 2023. During 2020, scaling networks (Layer 2) which utilize technologies such as zero-knowledge rollups (ZKRs) and optimistic rollups, made up about 0.5% of total fees of the ether network. By the end of 2023, these networks made up around 10% of total fees of the network, surging over 2000% in just three years. The emergence and interconnectedness of these scaling solutions accompanies ether’s roadmap towards mass adoption of the blockchain. We see fee-conscious users prioritize these scaling solutions in the future, while the ether mainnet acts more as a “network of networks” for finality.

Further developments in ether scaling should create new demand verticals for ether, as like ordinary users, these scaling networks also need to pay fees to settle transactions. These robust ether fee markets should provide favourable tailwinds to the Fund’s staking activities in the coming year.

For the year ended December 31, 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.
- On October 20, 2023 the Fund changed its name from 3iQ Ether ETF to 3iQ Ether Staking ETF.
- On November 1, 2023, the Fund commenced ether staking activities. As at December 31, 2023, the Fund earned revenue from staking activities of 15.6 ether valued at \$41,364.
- On December 28, 2023, Monex Group, Inc., a Japanese financial services public company, announced that it will acquire the majority stake in 3iQ Digital Holdings Inc., the parent company of the Manager. The closing date is not yet determined as the share acquisition is subject to regulatory approval.

From time to time, both a discount and premium to NAV have been observed for the Fund in the year ended December 31, 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 year ended December 31, 2023, the Manager absorbed \$408,665 (2022 – \$408,925) of the Fund’s expenses.

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#### 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 year ended December 31, 2023, \$179,712 (2022 – \$1,496,731) 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.

To commemorate the launch of staking activities in the Fund, the Manager waived management fees effective October 20, 2023 to March 31, 2024.

#### Staking service fees:

The Manager of the Fund is also entitled to receive a portion of the staking rewards generated for the Fund by the staking of ether held in the Fund (net of the sub-custodian staking fees) such that 75% of the rewards accrue to the Fund and 25% of the rewards accrue to the Manager. The staking service fees shall be calculated and paid monthly, in arrears, plus applicable taxes, and is intended to compensate the Manager for the additional work required to administer the staking of ether held in the Fund.

The Manager charged staking service fees of 4.36 ether valued at \$9,718 for the year ended December 31, 2023. Staking service fees payable to the Manager as at December 31, 2023 are 2.83 ether valued at \$6,523.

#### 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.

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## 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 year ended December 31, 2023 and the prior reporting years.

	2023	2022	2021*
<b>The Fund's Net Asset Value (NAV) per unit</b> <sup>(1)(2)</sup>			
<b>Net assets per unit, beginning of period</b>	\$ 4.80	\$ 14.86	\$ 10.00
<b>Increase (decrease) from operations</b>			
Total revenue	0.01	–	–
Total expenses	(0.11)	(0.12)	(0.12)
Realized (loss) gains	(2.67)	(15.14)	0.02
Unrealized gain (loss)	7.00	0.33	(1.14)
<b>Total increase (decrease) from operations</b> <sup>(2)</sup>	4.23	(14.93)	(1.24)
<b>Total annual distributions</b>	–	–	–
<b>Net asset value, end of period</b> <sup>(3)</sup>	\$ 9.10	\$ 4.80	\$ 14.86
<b>Ratios and Supplemental Data</b>			
Total net asset value <sup>(3)</sup>	\$ 28,821,406	\$ 12,317,933	\$315,765,196
Number of shares outstanding <sup>(3)</sup>	3,165,579	2,568,262	21,250,000
Management expense ratio before waivers and absorptions <sup>(4)</sup>	2.88%	1.58%	1.35%
Management expense ratio after waivers and absorptions <sup>(4)</sup>	1.57%	1.26%	1.24%
Trading expense ratio <sup>(5)</sup>	0.00%	0.00%	0.00%
Portfolio turnover rate <sup>(6)</sup>	261.86%	95.06%	6.36%
<b>Net asset value per unit</b>	<b>\$ 9.10</b>	<b>\$ 4.80</b>	<b>\$ 14.86</b>
Closing market price <sup>(3)</sup>	\$ 9.19	\$ 4.74	\$ 14.84

#### Notes:

- (1) This information is derived from the Fund's audited annual financial statements for each year ended December 31 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 year.
- (3) This information is provided as at December 31 of each year.
- (4) Management expense ratio is based on total expenses (excluding distributions, commissions, and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of average daily NAV during the year.
- (5) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average daily NAV during the year.
- (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 year. The higher a fund's portfolio turnover rate in the year, the greater the trading costs payable by a fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

\* For the period April 22, 2021 to December 31, 2021.

# 3iQ ETHER STAKING ETF

## MANAGEMENT REPORT OF FUND PERFORMANCE

(Expressed in United States dollars)

### Financial Highlights

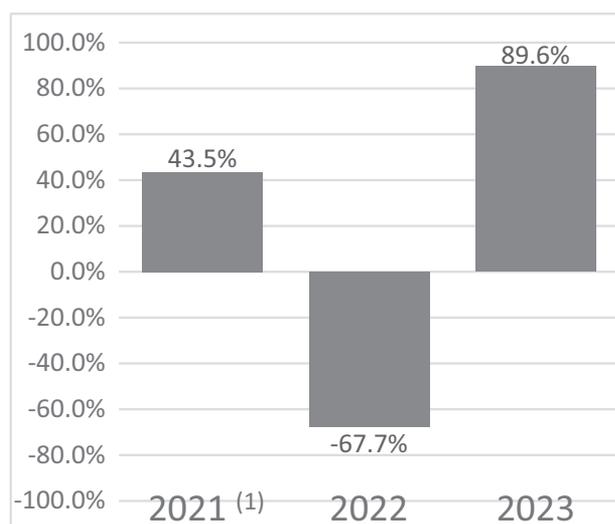
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#### Past performance of the Fund

There were no distributions made by the Fund in the years 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 year would have increased or decreased by the last day of each such year.



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

#### Annual Compound Returns

The following table shows annual compound returns for units with the index shown below, for the year ended December 31, 2023. For a discussion of the Fund's recent performance relative to the index, see Results of Operations.

	Past 1 Year	Since Inception
Units (1)	89.83%	(4.67)%
MVIS MarketVector Ethereum Benchmark Rate (2)	92.91%	(3.22)%

- (1) Annual compound returns are for the period from commencement of operations through December 31st of each year and are net of the Fund's unit issue expenses.
- (2) MVIS MarketVector Ethereum Benchmark Rate maintained by MV Index Solutions GmbH ("MVIS") measures the performance of a digital assets portfolio which invests in ether, utilizing prices from selected exchanges. The index closing value is calculated at 4:00 pm eastern standard time.

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## MANAGEMENT REPORT OF FUND PERFORMANCE

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### Summary of Investment Portfolio as at December 31, 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	100.04	Ether	100.04
		Cash	0.05
		Other assets and liabilities, net	(0.09)
<b>Total Portfolio Allocations</b>	100.04		
<b>Total Net Asset Value (in millions)</b>	<b>\$ 28.82</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.