

THE MORGAN CREEK BITWISE DIGITAL ASSET INDEX METHODOLOGY

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I. GUIDING PRINCIPLES AND INDEXING APPROACH

The Morgan Creek Bitwise Digital Asset Index was developed to provide institutional investors with a clear, rules-based, and transparent way to track the value of the largest, most liquid cryptoassets. The index is designed specifically as an investable benchmark, with rules around liquidity, custody, and other investability factors built in from the start, as well as screens designed to exclude coins with high degrees of centralized ownership.

The cryptomarket is new and presents many challenges to well-established protocols for indexing traditional assets such as stocks and bonds. The Morgan Creek Bitwise Digital Asset Index aims to combine the best of traditional asset indexing methodologies with appropriate adjustments to adapt those practices to the crypto space.

The guiding principles of the Morgan Creek Bitwise Digital Asset Index include:

- Index decisions must follow a clear, rules-based, and transparent process.
- If the judgment of the Morgan Creek Bitwise Digital Asset Index Policy Committee is required when applying those rules, decisions will be made public with full documentation of the decision-making process.
- The index will take into account investability criteria surrounding liquidity, capital controls, exchange stability, custody limitations, and other factors in a rules-based manner.

II. GOVERNANCE

The Morgan Creek Bitwise Digital Asset Index is governed by the Morgan Creek Bitwise Digital Asset Index Policy Committee, which has responsibility for developing, maintaining, and adjusting the Morgan Creek Bitwise Digital Asset Index methodology, and for verifying the data sources used to calculate the index.

A. Responsibilities: The Committee meets monthly on the 21st of the month (or the first U.S. business day following the 21st of the month), or additionally on an as-needed basis, with the following goals:

- Review and verify all data sources—existing and proposed— contributing to the Morgan Creek Bitwise Digital Asset Index for uptime, accuracy, and robustness
- Review and approve proposed changes to the Morgan Creek Bitwise Digital Asset Index methodology
- Review and approve all methodological decisions that require judgment
- Handle other matters on an as-needed basis

B. Business Day Definition: The index relies on the New York Stock Exchange’s public holiday calendar to determine what counts as a “business day.”

C. Voting: Decisions are made by a simple vote of a majority of the members of the Committee present at the meeting. A quorum of two members is required for a meeting to take place.

D. Committee Members and Bios:

i. Mark Yusko

Mark W. Yusko is the Founder, CEO and Chief Investment Officer of Morgan Creek Capital Management, LLC. Prior to forming Morgan Creek in 2004, he was President, Chief Investment Officer, and Founder of UNC Management Company, the Endowment investment office for the University of North Carolina at Chapel Hill, from 1998 to 2004. Until 1998, Yusko was the Senior Investment Director for the University of Notre Dame Investment Office, where he joined as

the Assistant Investment Officer in October 1993.

ii. Anthony Pompliano

Anthony Pompliano is a Founder and Partner at Morgan Creek Digital Assets. He was previously a Managing Partner at Full Tilt Capital, which was acquired by Morgan Creek in early 2018. Prior to Full Tilt Capital, Pompliano worked as a product manager at Facebook and, earlier, at Snapchat. Pompliano was previously a Sergeant in the United States Army, serving in Operation Iraqi Freedom. He was the Distinguished Leader Graduate of the Warrior Leader Course and a Commandant's List Graduate of the Infantry Leadership School.

iii. Matt Hougan

Matt Hougan is Global Head of Research for Bitwise Asset Management. He oversees development of the Bitwise index methodologies, conducts fundamental research on cryptoassets, and works to educate professional investors on the role cryptoassets can play in a portfolio. Prior to joining Bitwise, Hougan was CEO of Inside ETFs and Managing Director of Global Finance at Informa. Earlier, he was the CEO of ETF.com. Hougan is a member of the ETF Hall of Fame and co-author of the CFA Institute's monograph of ETFs.

III. CRYPTOASSET ELIGIBILITY REQUIREMENTS

The Morgan Creek Bitwise Digital Asset Index was developed to provide institutional investors with a clear, rules-based, and transparent way to track the value of the largest, most liquid cryptoassets, subject to certain criteria. This section outlines the rules governing which assets are eligible to contribute to the index.

A. Standard Cryptoasset Eligibility Requirements

The Morgan Creek Bitwise Digital Asset Index will only consider assets that meet the following criteria:

i. Is a cryptographically secured digital bearer instrument

Explainer: The Morgan Creek Bitwise Digital Asset Index uses a broad definition of cryptoassets to capture all coins and tokens associated with public blockchains, including those using a variety of different consensus mechanisms.

ii. Has a price that is not pegged to another cryptoasset, fiat currency, group of those currencies, or hard asset

Explainer: The Morgan Creek Bitwise Digital Asset Index excludes stablecoins and other pegged assets from consideration, as the index is built for investors searching for returns as opposed to stable values.

iii. Is freely traded and can be freely held for the foreseeable future

Explainer: This requirement exists to ensure that assets may be traded and stored in a manner that is acceptable to an institutional investor. It also allows for the removal of assets with known terminations or pending illiquidity, such as those that arise from the announced freezing of a placeholder token at the end of a registration process, among other potential situations.

iv. Trades on two or more eligible cryptoasset exchanges and has no more than 90% of its combined 30-day trailing dollar trading volume on any single eligible cryptoasset exchange

Explainer: This requirement exists to ensure robustness in the exchange ecosystem supporting any given cryptoasset. It guarantees that at least two eligible exchanges support a given asset and that the second (third, fourth, etc.) exchange(s) is (are) sufficiently robust to maintain smooth trading in the event of a failure at any single exchange.

The list and definition of “eligible cryptoasset exchanges” is maintained by Bitwise Index Services, LLC, as part of the Bitwise Crypto Indexes methodology. For more information, please see <https://www.bitwiseinvestments.com/indexes/methodology>

v. Allows for air-gapped cold storage, including offline wallet generation and offline transaction signing

Explainer: This requirement exists to ensure that assets in the indexes can be held in a secure manner. The process for determining if a cryptoasset qualifies under this standard is to:

- 1) Check if that cryptoasset can be custodied either by an established third-party crypto custodian approved by the Morgan Creek Digital Asset Index Policy Committee or by either the Ledger or Trezor hardware wallets.*
- 2) Check for the availability of a custom software wallet that, in the opinion of the Morgan Creek Digital Asset Index Policy Committee, has widespread community support and allows for air-gapped cold storage, offline wallet generation, and offline transaction signing.*

vi. Has no known security vulnerabilities, including critical bugs, undue exposure to 51% attacks, or other factors, as determined by the Morgan Creek Bitwise Digital Asset Index Policy Committee

Explainer: This requirement exists to ensure that the asset is not knowingly exposed to a critical security risk that could lead to a significant loss in value.

vii. Has traded more than 10% of its free-float and inflation-adjusted market capitalization on eligible cryptoasset exchanges over the past 30 days.

Explainer: This requirement exists to ensure that the cryptoassets included in the index are sufficiently liquid to facilitate easy investment and withdrawals.

viii. Has fewer than 30% of its current issuance held by the protocol's foundation or related operating business.

Explainer: This rule is designed to ensure that the assets included in the Morgan Creek Bitwise Digital Asset Index are not unduly centralized in a way that potentially threatens the fundamental value of a decentralized network.

To determine the percentage of a cryptoasset's issuance held by the protocol's foundation or related operating business, the Morgan Creek Bitwise Digital Asset Index Policy Committee takes the following steps:

- 1. Determine if a project has one or more official foundations or related operating companies by accessing the canonical website for the cryptoasset and/or consulting the original offering documents for the cryptoasset's initial coin offering.*
- 2. Search all available official statements, canonical websites or developer commentary from the relevant foundation(s) or operating company to determine the current holdings.*
- 3. If no official information on current holdings is available, assume that 100% of all ICO proceeds are held by the foundation(s) or related operating company. (Note: This rule deliberately takes the worst-case scenario for a cryptoasset in an effort to punish opacity).*
- 4. Divide this number by the current issuance of the coin.*

Note: This process is followed once per month at approximately 4 p.m. ET on the last business day of the month.

B. Loss of Eligibility and Exemptions

i. Normal Loss of Eligibility: Assets will lose eligibility and be removed from all indexes at the next regular reconstitution event if they violate any of the Cryptoasset Eligibility Requirements for 30 consecutive days.

Explainer: Failure to meet any of the Cryptoasset Eligibility Requirements speaks to emergent risks surrounding an asset. The 30-consecutive-day provision avoids unnecessary churn caused by individual-day point failures.

ii. Emergency Loss of Eligibility: Under extraordinary circumstances, assets may lose eligibility and be removed on a same-day basis by a unanimous vote of the quorum of members of the Morgan Creek Bitwise Digital Asset Index Policy Committee. Such emergency removals will take place at 4:00 p.m. ET following the conclusion of the meeting.

Explainer: This rule exists to allow the Morgan Creek Bitwise Digital Asset Index Policy Committee to act quickly in the event of truly extraordinary circumstances, including major security breaches, regulatory action, or identified fraud that imperils the value of an eligible cryptoasset.

iii. Hard-Forks Exemption: Hard Forks are granted a 45-day exemption to rule III.A.iv.

Explainer: Hard forks are new cryptoassets that are granted to holders of existing cryptoassets when portions of the consensus nodes adopt different policies. In the event of a hard fork, holders of an existing cryptoasset end up with ownership of both the original cryptoasset and the new, hard-forked cryptoasset. These hard-fork assets can be significant in size and importance in the marketplace.

To reduce unnecessary turnover in the indexes, hard forks are given a 45-day exemption to the volume-related portions of the Cryptoasset Eligibility Requirements, so that they are not reflexively removed from indexes due to their “newness.”

IV. ASSET PRICING METHODOLOGY

The Morgan Creek Bitwise Digital Asset Index uses the Bitwise Cryptoasset Price (CAP), provided by Bitwise Index Services, LLC, in calculating index values (except in the case of certain Network Distributions, as described in IV.B). This section outlines how Bitwise identifies the CAP for each cryptoasset.

A. Bitwise Cryptoasset Price

The cryptoasset world has two modalities of trading: crypto-to-fiat trading and crypto-to-crypto trading. To create a single unified price for every cryptoasset, all trading pairs must be standardized to price that asset in a single currency (in this case, the U.S. dollar). The steps to do that are listed below in the order that they are followed:

i. Select Quote Cryptoassets: To avoid circular pricing when standardizing crypto-to-crypto trading pairs, Bitwise selects a group of “Quote Cryptoassets.” Quote Cryptoassets are determined on a calendar quarterly basis.

Quote Cryptoassets are those that:

a. Have crypto-to-fiat trading on at least two eligible cryptoasset exchanges that allow for institutional deposits and withdrawals in a noncapital-controlled fiat currency (henceforth called an Eligible Fiat Currency).

Explainer: This rule exists to ensure that institutional investors can sell Quote Cryptoassets for an eligible fiat currency and withdraw funds. The rule requires two eligible cryptoasset exchanges for reasons of robustness and to show independent adoption of the cryptoasset.

b. Are the largest crypto trading pair (measured by trailing 30-day dollar trading volume) for at least one of the 100 largest cryptoassets, as measured by free-float and inflation-adjusted market capitalization (as defined in VI), in each of the past three months.

Explainer: This requirement exists to ensure that Quote Cryptoassets have

strong price discovery and are critical to the ecosystem. Focusing on the top trading pair of a top 100 cryptoasset ensures that each Quote Currency is systemically important for investors, while the three-month requirement ensures that it has staying power within the community.

As of June 30, 2018, Quote Cryptoassets were:

- Bitcoin (BTC)
- Ethereum (ETH)

ii. Calculate Quote Cryptoassets CAPs: Quote Cryptoassets are unique in that Bitwise only considers fiat-to-crypto trades when calculating CAPs, as the goal is to calculate the fiat-convertible price of eligible cryptoassets that have crypto-to-crypto trading pairs.

The CAP for a Quote Cryptoasset is calculated as follows:

1. Aggregate all crypto-to-fiat trading pairs for eligible fiat currencies that take place on eligible cryptoasset exchanges.
2. Transform all non-U.S.-dollar fiat trading pairs into U.S. dollar prices using synchronous data from an established FX reference data provider.
3. Calculate the U.S. dollar volume over the previous hour for each crypto-to-fiat trading pair.
4. Assign each trading pair a contribution weight based on its share of total dollar trading volume in a given asset over the previous hour.
5. Multiply the last traded price (adjusted into U.S. dollars) for each exchange pair by its contribution weight. In the event that no trading price is pulled for a particular trading pair either due to technical reasons or to a lack of trading volume, Bitwise may substitute a fair market value estimate for that price or eliminate that price from consideration.
6. Sum to find the CAP.

iii. Calculate the CAP for Non-Quote Cryptoassets: Many cryptoassets trade (sometimes exclusively) in pairs with other cryptoassets. The process for translating these crypto-to-crypto pairs along with crypto-to-fiat pairs into an aggregate CAP is as follows:

1. Consider crypto-to-fiat trading pairs and crypto-to-crypto trading pairs on eligible cryptoasset exchanges.
2. Exclude all trading pairs that are not denominated in either eligible fiat currencies or Quote Cryptoassets.
3. Transform all non-U.S.-dollar fiat trading pairs into U.S. dollars using synchronous FX data from an established FX data supplier.
4. Use the synchronous CAP for the relevant Quote Cryptoassets to translate crypto-to-crypto pairs into a crypto-to-U.S.-dollar equivalent.
5. Calculate the U.S. dollar volume for each trading pair and assign each pair a contribution weight based on its share of total U.S. dollar trading volume in a given cryptoasset over the past hour.
6. Multiply the last traded price (adjusted into U.S. dollars) by its contribution weight. Note: In the event that no trading price is pulled for a particular trading pair either due to technical reasons or to a lack of trading volume, Bitwise may substitute a fair market value estimate for that price or eliminate that price from consideration.
7. Sum to find the CAP.

B. Extraordinary Exclusions and Pricing

In the event that one or more of the exchanges contributing to a CAP is found ineligible for any reason, and as a result an eligible cryptoasset trades on fewer than two eligible cryptoasset exchanges for a time period, Bitwise reserves the right to assign a daily fair value estimate to that asset until such a time that a CAP can be restored. The fair value process will attempt to incorporate all available pricing sources, considering the validity of those sources and taking into account liquidity concerns and other issues.

Explainer: Cryptoassets must trade on at least two eligible cryptoasset exchanges to receive a CAP and be eligible to enter the Morgan Creek Bitwise Digital Asset Index. It is possible, however, for one or more of those exchanges to lose eligibility, leaving the asset with one (or even zero) eligible cryptoasset exchanges contributing live pricing data. This rule allows for Bitwise to price those assets during the 30-day grace period that eligible cryptoassets have to cure an exchange- or trading-related eligibility violation under rule III.A.iv.

V. NETWORK DISTRIBUTIONS

A. Definitions of Network Distributions

Holders of cryptoassets occasionally receive valuable distributions from a variety of sources. These include:

i. Hard Forks: Hard forks are new cryptoassets that are granted to holders of existing cryptoassets when portions of the consensus nodes adopt different policies. When a hard fork occurs, the Morgan Creek Digital Asset Index will consider the asset with the larger post-fork, free-float and five-year inflation-adjusted market capitalization to be the original coin, and the asset with smaller post-fork, free-float and five-year inflation-adjusted market capitalization to be a new asset.

ii. Emissions: Some cryptoassets provide regular awards to holders in the form of cryptoasset grants, typically in the form of “gas” that powers transactions on the network itself.

iii. Airdrops: An airdrop occurs when a new or emergent cryptoasset is granted to holders of an existing cryptoasset on a one-off or occasional basis.

B. Treatment of Network Distributions

The Morgan Creek Digital Asset Index considers each type of network distribution in a distinct manner:

i. Hard Forks are considered native developments in a given cryptoasset, which can be claimed with limited agency and have the potential to have a meaningful impact of asset returns. As such, if a constituent of the Morgan Creek Digital Asset Index experiences a hard fork, the value of that fork is captured by the index.

When a hard fork occurs, the Morgan Creek Digital Asset Index Policy Committee will evaluate that asset at 4 p.m. ET on the first day that it has a CAP. At that time, the Morgan Creek Digital Asset Index Policy Committee will evaluate whether that coin qualifies for continued inclusion in the index. If the cryptoasset qualifies for inclusion, it will be held by the index until the next regular monthly reconstitution. If the cryptoasset does not qualify for inclusion, it

will be liquidated and the proceeds reinvested in the other constituents in the index immediately.

ii. Emissions are native developments for certain cryptoassets. They are typically a separate and distinct cryptoasset that is distributed to holders of a given cryptoasset on a regular and sometimes effectively continuous basis. To date, the daily value of distributed emissions has been de minimis for any given cryptoasset. This fact informs the treatment of emissions by the index.

The Morgan Creek Digital Asset Index is designed to be investable and replicable. Given the small values involved, it would not be practical for investment funds handling regular inflows and outflows to accurately track the index if it accrued emissions on a daily basis, whether it hoarded those emissions over time or liquidated them daily. As a result, the Morgan Creek Digital Asset Index methodology ignores emissions for index calculation purposes.

It is our expectation that funds tracking the index *will* accrue emissions and periodically liquidate them to deliver excess returns to shareholders.

Note: The Morgan Creek Digital Asset Index Policy Committee regularly monitors the crypto ecosystem and may adapt a different treatment of emissions if the value of said emissions becomes significant.

Note also: The Morgan Creek Digital Asset Index Policy Committee considers emissions different than staking rewards, which require agency and can involve liquidity restrictions. Because of the agency and potential risks involved, the Committee considers staking rewards akin to securities-lending revenue, and therefore not relevant to index valuation.

iii. Airdrops are an important part of the crypto ecosystem. They are not, however, native to the internal return drivers of any given cryptoasset. Importantly, they also require agency on the part of cryptoasset holders to claim, and the act of claiming those assets can potentially put holders of a given cryptoasset at risk.

As such, and particularly given that most airdrops are of de minimis value (and often illiquid), the Morgan Creek Digital Asset Index does not incorporate their value into the index. It is our expectation that fund managers tracking the

Morgan Creek Digital Asset Index may well take action to idiosyncratically claim valuable airdrops, and that the value of those airdrops will return to those funds as excess returns.

C. Pricing of Network Distributions

Pricing of cryptoassets is provided by Bitwise Index Services, LLC.

Bitwise follows its standard CAP pricing approach if that is available. If no CAP is available, for example, if a network distribution trades on fewer than two eligible cryptoasset exchanges, Bitwise reserves the right to assign a fair value estimate to that asset. The fair value process will attempt to incorporate all available pricing resources, considering the validity of those sources and taking into account liquidity concerns, launch, and adoption risks for new cryptoassets and other issues.

Explainer: Network Distributions, such as hard forks, can have meaningful value even before they satisfy the requirements to have an official CAP (for instance, there can be a multiday lag between a hard fork occurring and the availability of a new cryptoasset on two or more eligible cryptoasset exchanges). This rule allows Bitwise to assign a fair value estimate to those assets to ensure that the indexes capture their value in a timely fashion. As soon as a CAP is available, it becomes the controlling price for that cryptoasset.

VI. MARKET CAPITALIZATION, FREE-FLOAT ADJUSTMENT, AND INFLATION ADJUSTMENT

The Morgan Creek Bitwise Crypto Index aims to capture the importance of each cryptoasset in the ecosystem, as measured by the aggregate value investors assign to that asset. To do so, the index must capture the free-float and inflation-adjusted issuance of a given cryptoasset. The responsibility for calculating the free-float and inflation-adjusted market capitalization of each asset is handled by Bitwise Index Services, LLC.

A. Free-Float Adjustment

It is common practice in equity indexes to remove any noncirculating shares from market-cap calculations. These include, for instance, government-held shares that are likely to never trade, and shares held by corporate treasuries.

Adjusting cryptoassets for free float is necessary as well. Coins may launch with a large stated and potential issuance, but with a significant majority of supply held outside of the liquid market. For the purposes of its market-cap-weighted indexes, Bitwise will remove from consideration:

- All premined coins (coins that are allocated to developers of a project prior to the public release of that project) that remain in the control of foundations or business entities affiliated with the creation of the cryptoasset.
- Block rewards of the cryptoasset that are formulaically given to the principals, foundations, or business entities affiliated with the creation of the cryptoasset.
- Other factors as determined by Bitwise.

Issuance will be returned to the free-float circulation in the event there is public announcement that assets have been sold into the public market.

Free-float adjustments are made on a monthly basis at 4 p.m. ET on the last business day of each month and are set until the following month.

Explainer: This rule exists to ensure that the crypto indexes capture the investable portion of the global cryptoasset market. They are set monthly both for practical

purposes and to ensure that the resulting index can be tracked by investable products in a reasonable fashion without daily rebalancing.

B. Five-Year Inflation Adjustment

Cryptoassets are different from traditional stocks and bonds in that most assets have a built-in inflationary expectation; that is, the number of coins outstanding today is expected to change as new coins are mined, distributed, deliberately destroyed (burned), or intentionally and permanently lost from the network. Bitwise accounts for future issuance by making a data-driven, conservative estimate of issuance five years in the future, and using that issuance in all market-capitalization calculations.

To determine the estimated outstanding issuance of each coin five years in the future, Bitwise takes the following steps:

- i. Programmatic:** If issuance is programmatically built into the network protocol, Bitwise uses that rule set to calculate the estimated five-year issuance.
- ii. Guidance-Driven:** If issuance is not programmatic but there is either direct guidance from founders or widespread community agreement on the range of estimated inflation going forward, Bitwise will use the most conservative reasonable estimate of future issuance to calculate the estimated five-year issuance.
- iii. Default To Zero:** In all other cases, no additional issuance is included in the five-year forecast, and the current free-float-adjusted outstanding issuance is used.

Inflation adjustments are made on a monthly basis at 4 p.m. ET on the last business day of each month and are set until the next month.

Explainer: This rule set exists to ensure that Bitwise captures the community's aggregate view of the value of each cryptoasset. The use of a five-year time horizon (as opposed to either current issuance or terminal issuance) represents a realistic estimate of how investors discount long-dated future issuance back to fair value. Inflation adjustments are set monthly both for practical purposes and to ensure that the resulting indexes can be tracked by investable products in a reasonable fashion.

VII. INDEX SPECIFICATIONS

The Morgan Creek Bitwise Digital Asset Index aims to capture the total returns of leading investable cryptoassets, subject to the guidelines listed above. The index tracks a basket of the top 10 eligible cryptoassets as measured and weighted by free-float and five-year inflation-adjusted market capitalization.

A. Base Date and Base Level

The base date for the Morgan Creek Bitwise Digital Asset Index, using backtested data, is January 1, 2017. The index's base level on that day was 964. This level was arbitrarily chosen because it was the price of bitcoin in U.S. dollars at midnight UTC on that day.

The inception date for live data on the Morgan Creek Bitwise Digital Asset Index is August 27, 2018. All data before this date is backtested data.

B. Reconstitution and Buffer Zones

i. Reconstitution: The Morgan Creek Bitwise Digital Asset Index is reconstituted at 4:00 p.m. ET on the last business day of each month.

Explainer: The selection of 4:00 p.m. ET on the last business day of the month is intended to ensure that the index is reconstituted at a time of normal trading liquidity.

ii. Buffer Rules

a. Market Capitalization: The Morgan Creek Bitwise Digital Asset Index uses a "5% market capitalization buffering rule" to limit unnecessary turnover. An eligible cryptoasset that is held in the index will only be removed if there is an eligible cryptoasset that exceeds its inflation-adjusted, free-float market capitalization by 5% as of 4 p.m. ET on each of the five-consecutive days up to and including the reconstitution.

Explainer: Buffer Zones are common practice in traditional asset indexing and are used as tools to reduce noneconomic switching of assets due to inconsequential or fleeting differences in market capitalization.

C. Real-Time Level and Daily Index Level

i. Daily Index Level: The Morgan Creek Bitwise Digital Asset Index produces one official daily level at 4 p.m. ET. This level incorporates all network distributions that occur prior to the strike time.

This daily index level will be distributed each day by 5 p.m. ET, unless data or other issues preclude or delay the publication of an accurate price. In that event, the level will be distributed as soon as reasonably possible.

ii. Real-Time Level: The Morgan Creek Bitwise Digital Asset Index will distribute a “Real-Time Level” more frequently than the daily level. This level does not incorporate the value of network distributions that occur between publications of the Daily Index Level, and should be considered an estimated level. There will be no attempt to correct or amend historical Real-Time Levels to adjust for network distributions or data corrections that occur; rather, levels will be updated on a go-forward basis.