

# **MSCI Global Digital Assets ex Proof-of- work Index Methodology**

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## 1 Introduction

The MSCI Global Digital Assets ex Proof-of-work Index (“the Index”) aims to represent the performance of a digital assets investment strategy that focuses on digital assets that do not rely on a Proof-of-work consensus mechanism. A Consensus Mechanism, also referred to as consensus protocol, allows a computer network to coordinate a Distributed Ledger. It allows a general agreement to be achieved by all participant nodes. A Proof-of-work consensus mechanism requires substantial computational work for the creation of new blocks. Participants compete among each other to solve a mathematical puzzle; the winner is granted the right to add and/or validate new blocks and receive the associated rewards<sup>1</sup>.

The Index is constructed by selecting and weighting underlying Indexes that represent individual digital assets.

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<sup>1</sup> Rewards can vary by digital asset, consensus mechanism and across time. Rewards are generally defined in terms of fees and newly created digital assets.

## 2 Constructing the MSCI Global Digital Assets ex Proof-of-work Index

### 2.1 Applicable Universe

All<sup>2</sup> individual digital assets benchmarks (herein, “Crypto Reference Indexes”) published by Compass Financial Technologies<sup>3</sup> (herein, “Component Index Administrator”).

### 2.2 Eligible Universe

Crypto Reference Indexes representing digital assets that do not rely on a Proof-of-work consensus mechanism are eligible for inclusion in the Index<sup>4</sup>.

Crypto Reference Indexes from the Applicable Universe satisfying following criteria are not eligible for selection in the Index,

- Indexes representing digital assets identified as Stable coins/Pegged coins/Privacy coins
- Indexes representing digital assets placed in the bottom 5% of the Applicable Universe when ranked in the descending order of volume<sup>5</sup> in US Dollar at the time of rebalance.

### 2.3 Final Universe

At each Quarterly Index Review, digital assets corresponding to Crypto Reference Indexes in the Eligible Universe are ranked in the descending order of their full market capitalization<sup>6</sup> and the top 10 digital assets are identified. Crypto Reference Indexes representing these 10 digital assets are included in the Final Universe. If the Eligible

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<sup>2</sup> Crypto Reference Indexes published by Compass Financial Technologies at least 60 days prior to the Index Review date. Refer to “Compass Crypto Reference Indices - Codes - Rounding” section for a detailed list of available Indexes.

<sup>3</sup> Refer to Compass Crypto Reference Indexes methodology for details on the index construction, at [https://www.compassft.com/wp-content/uploads/CCRI\\_Methodology.pdf](https://www.compassft.com/wp-content/uploads/CCRI_Methodology.pdf)

<sup>4</sup> Data provided by CryptoCompare (<https://data.cryptocompare.com/>). CryptoCompare provides the consensus mechanism type for every digital asset.

<sup>5</sup> Amount in US Dollar of a digital asset traded over the course of a day for a set of exchanges as defined by CryptoCompare (<https://data.cryptocompare.com/>)

<sup>6</sup> Calculated as the product of the price of the digital asset, represented by the corresponding Crypto Reference Index level, and Circulating Supply. Prices as of the previous day and Circulating Supply as of end of previous month prior to the rebalancing date are used for the calculation.

Universe consists of fewer than 10 Crypto Reference Indexes, all constituents of the Eligible Universe are included in the Final Universe.

## 2.4 Index Weighting Scheme

The Crypto Reference Indexes included in the Final Universe (herein, “Component Indexes”) are assigned weights in proportion of the full market capitalization of their corresponding digital assets. The maximum weight to a Component Index will be capped at 30% at each Index Review.

## 2.5 Index Calculation

The Index daily price returns are calculated as weighted-average daily price returns in US Dollar (USD) of the Component Indexes. The latest available daily index returns of the Component Indexes will be used for calculation of the returns of the Index. The Index is available in price variant calculated as per the MSCI Index Calculation Methodology<sup>7</sup>.

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<sup>7</sup> MSCI Index Calculation Methodology available at <https://www.msci.com/index-methodology>

### **3 Maintaining the MSCI Global Digital Assets ex Proof-of-work Index**

#### **3.1 Quarterly Index Reviews**

The Index follows a quarterly rebalance schedule, effective as of the first business day of March, June, September, and December.

The weights of Component Indexes constituting the Index will be announced five business days prior to the effective date of each Quarterly Index Review (QIR). In between the quarterly reviews, the weights of the Component Indexes in the Index will evolve based on the relative daily return performance in USD of the Component Indexes.

#### **3.2 Ongoing Event-Related Maintenance**

There will be no addition to the Component Indexes between two successive Index Reviews. If any Component Index is terminated<sup>8</sup> by the Component Index Administrator, it will be deleted from the Index on the day of termination with an advance notification of two days.

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<sup>8</sup> Please refer to Compass Crypto Reference Indexes methodology (specifically, "Index Calculation" and "Methodology Changes - Maintenance" sections) for details on component index termination, at [https://www.compassft.com/wp-content/uploads/CCRI\\_Methodology.pdf](https://www.compassft.com/wp-content/uploads/CCRI_Methodology.pdf)

## Appendix 1 – Digital Assets Terminology

- **Block:** Data structure representing a batch of transactions, added chronologically to a network.
- **Circulating Supply:** Quantity of a digital asset that is publicly available for trading and circulating on the market.
- **Consensus Mechanism:** Also referred to as Consensus Protocol, allows a computer network to coordinate a distributed ledger. It permits a general agreement to be achieved by all participant nodes.
- **Distributed Ledger:** Network of computers (referred to as nodes) that share and synchronize a database. The data is not centralized and can be shared across the network, allowing participants to own an identical copy of it.
- **Full Market Capitalization:** Calculated as the product of the price of the digital asset, represented by the product of the corresponding Crypto Reference Index level and Circulating Supply.
- **Pegged Coins:** Digital assets that are linked to the specific value of an asset or commodity, not necessarily a stable reserve one, as is the case for Stable Coins (see definition below).
- **Privacy Coins:** Digital assets that preserve anonymity by obscuring the flow of money across their networks.
- **Stable Coins:** Digital asset that is pegged to a stable reserve asset like the U.S. dollar. Are designed to reduce volatility relative to unpegged digital assets.

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