



# **Invesco Elwood Global Blockchain UCITS ETF**

Find the hidden potential in the race to access blockchain

January 2021

**For Professional and Qualified Clients only**



The Invesco Elwood Global Blockchain UCITS ETF aims to capture the upside growth potential of companies involved with blockchain technology. This potential is often hidden within companies that would probably be overlooked by most investors.

The ETF aims to track the performance of the Elwood Blockchain Global Equity Index, constructed by an investment firm specialising in providing institutional investors with exposure to digital assets and blockchain technology.

- **Real earnings potential** not yet fully reflected in company share prices
- **Designed to evolve** with the potential growth of the blockchain technology
- **Diversified** portfolio of global equities across different sectors

## Sizing up the opportunity

You could draw a strong comparison between the internet and blockchain. With blockchain technology still in its early days, the potential for changing the global economy is under-appreciated by the market. This provides an opportunity for investors who can capture this hidden potential.

### The internet started with email

The internet impacts every part of our lives, but the underlying technology was first used simply to share information between two computers. Just imagine if you could have foreseen how that technology would progress and been able to identify companies that would drive global change.

The companies that would find new ways to use the technology are now among the largest in the world: Twitter pioneered a way for us to create information, Dropbox for storing information, Netflix for transmitting information and Apple for consuming information.

### Blockchain is now just beginning

Many companies, particularly in financial services, are already investing millions of dollars in researching and building blockchain infrastructure. There are countless other applications for the technology going through testing or in the consultation phase.

### Blockchain for a diverse range of industries

 <b>Banking</b>	 <b>Asset Management</b>	 <b>Insurance</b>	 <b>Real Estate Sales</b>	 <b>Health care</b>	 <b>Identity security</b>
 <b>Transportation</b>	 <b>Internet Advertising</b>	 <b>Auto Leasing</b>	 <b>Auto sales and registration</b>	 <b>Cloud storage</b>	 <b>Music and entertainment</b>
 <b>Video encoding, storage and distribution</b>	 <b>Legal contracts</b>	 <b>Supply chain management</b>	 <b>Energy</b>	 <b>Government and politics</b>	 <b>Charities</b>
 <b>Law enforcement</b>	 <b>Human Resources</b>	 <b>Credit History</b>	 <b>Publishing</b>	 <b>Education</b>	 <b>Agriculture</b>

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# What is blockchain?

Blockchain is an innovative technology designed to manage the transfer of value and assets

## The definition

A 'blockchain' is simply a ledger, or a complete record, of all transactions and balances in a given system. It was first introduced in 2008 as the public transaction ledger for Bitcoin, the world's first cryptocurrency, but we believe the potential for blockchain to change the global economy extends way beyond that initial application.

As it did with Bitcoin, blockchain is used to capture and store all the details of all transactions related to a specific asset. The transactions do not have to be financial, and the asset could refer to physical assets, contracts, records or other information.

## Why use it

One attraction of using blockchain is that multiple parties can contribute to and trust a single record of ownership without needing to trust each other.

Some of the other objectives/capabilities:

- Increase transparency and ease of auditability
- Reduce the potential for fraud
- Streamline business processes

## Every blockchain will have some similarities:

- Unique address for each user (similar concept to email addresses)
- Transactions
- Ledger containing a complete history of all transactions

You need a blockchain address to request a transaction. In the example of a cryptocurrency, you may request a payment from your blockchain address to someone else's blockchain address. The payment would be the transaction that, once verified as legitimate, is then added to the blockchain ledger. It is then a permanent, traceable and unalterable record.

## Blockchains may differ in two significant ways:

	Open (permission-less)	Closed (permissioned)
<b>Who can access the blockchain?</b>	Anyone can access the blockchain network  Cryptocurrencies are examples of an open blockchain	Only a defined group of people can access the network  Corporate or bank blockchains tend to be closed networks
<b>How are transactions added to the blockchain ledger?</b>	Transactions are added to the ledger through a process known as "mining"	A central entity determines which transactions should be added to the ledger

## How blockchain works

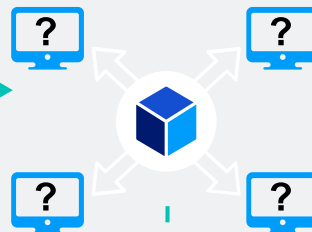
Someone requests a transaction



Transaction can involve a physical asset, cryptocurrency, medical record, legal contract or any other information



The requested transaction is broadcast to all participants ("nodes")

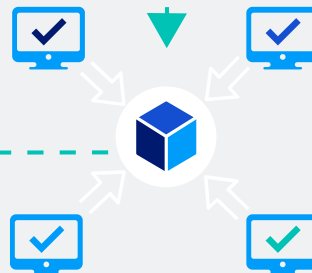


The network of nodes validates the transaction using known algorithms

The transaction is complete



The new block is added to the existing blockchain and is permanent and unalterable



Once verified, the transaction is combined with other transactions to create a new block of data

For illustrative purposes only.

## Blockchain in practice

### Walmart's use of blockchain technology



#### The problem:

What do they do when there is an outbreak of a potentially life-threatening bacteria? For instance, in 2018, when there was e-coli found in lettuce in a certain part of the country. Walmart has a huge supply network of farms across the country, and without a way to trace the origins of its produce, they may be forced to pull all lettuce from the shelves.

#### Blockchain solution:

All of Walmart's lettuce and spinach suppliers are now required to record the movement of produce onto a blockchain database. By tracking it from the farm (and even the specific section of the farm) to the store location, the blockchain provides secure, permanent and unalterable traceability, helping Walmart effectively manage any contamination as soon as it's detected.

This blockchain was developed by IBM. Following a two-year pilot programme, Walmart is rolling it out to more than 100 farms across the country and says it is now using blockchain to track other items from chicken to yogurt.

### The use of blockchain technology in the real estate industry



#### The problem:

With any real estate transaction, there is a lot of paper-shuffling involved. Documents going back and forth between multiple parties by email, fax and courier is costly, inefficient and, particularly when you consider the need to transfer money at various stages, open to fraud.

#### Blockchain solution:

"Smart contracts" are being used increasingly, with the blockchain ledger providing an unalterable, permanent and transparent record between the multiple parties involved throughout the transaction. Each party could also be required to validate each transaction, which reduces the potential for fraud.

### The use of blockchain in health care



#### The problem:

Within health care, patients often have little control when it comes to the confidentiality of their information.

#### Blockchain solution:

Health care organisations across the globe are using blockchain technology as an encrypted digital inventory to store, manage and update client information, without ever compromising security.

## The challenge of investing in blockchain

Blockchain is still an emerging technology, and the investment potential is generally unrealised and may be difficult to access.

The few pure-play companies available today tend to be small and overly exposed to cryptocurrency prices. There are many other companies, however, that have potential to generate real earnings from blockchain technology. But that potential is often hidden from view. The challenge for investors is how to identify and gain exposure to it.

**What is the best way to gain exposure to and evolve with this hidden potential?**

# Capture the opportunity with Invesco Elwood Global Blockchain UCITS ETF

Our ETF uses an index with unique blockchain insights from Elwood Asset Management, an investment firm focused exclusively on digital assets and one of the world's leading experts on blockchain technology.

**Unique blockchain expertise** from Elwood Asset Management, a specialist in digital assets.

**Liquid exposure** to hidden opportunities in blockchain technology growth.

**Portfolio of global equities**, across different sectors and regions.

Not only does the index offer exposure to global companies that participate in the blockchain ecosystem, it also includes companies that are best positioned to benefit from the potential blockchain revolution.

The investment universe starts with public global companies in developed and emerging markets and considers companies across the whole blockchain ecosystem. Blockchain-related areas include:

- Cryptocurrency mining hardware, technology operations
- Energy, token investments
- Financial services, payment systems
- Blockchain technology solutions, consulting, or communication services

## Elwood Blockchain Global Equity Index Methodology



### Define universe

- Publicly-traded companies in developed and select emerging markets
- Companies participating or have the potential to participate in the blockchain ecosystem
- Subject to liquidity requirements



### Identify companies

- Identify companies that have potential exposure to growth in blockchain technology
- Focus on proportion of company value that is attributable to blockchain
- Assign Blockchain Category Score from 5 ("Core") to 1 ("Potential")



### Construct index

- Blockchain Category Score
- Liquidity Scale
- UCITS constraints

Rebalance quarterly\*

Source: Invesco, Elwood. \*Rebalances scheduled for last business day in January, April, July and October

### Scoring the companies

Companies that have potential exposure to blockchain technology growth are identified and assigned a Blockchain Category Score. Scores range from 5 ("Core"), where most of the company's value can be attributed to blockchain-related business activities, to 1 ("Potential"), where companies currently do not conduct any blockchain-related business activities, but have assets, expertise, or technology that have blockchain growth potential.

### Assigning weights

Stocks are then weighed based on their Blockchain Category Scores and adjusted for liquidity to ensure tradability, and capped to ensure compliance with UCITS diversification rules.

The index offers exposure to global companies that actively participate in the blockchain ecosystem, and it also includes non-blockchain companies that are well-positioned to capitalise on the potential blockchain technology growth. In general, most of the opportunity lies within companies where it is not yet realised and reflected in valuations.

Blockchain Category Scores					
	5 Core	4 Significant	3 Moderate	2 Developing	1 Potential
% of corporate value attributable to blockchain technology	Majority (typically over 50%) Pure-play companies	Significant (typically 15% to 50%)	Moderate (typically 5% to 15%)	Small (typically 0% to 5%)	0% (companies with assets that have potential in blockchain technology)
		Companies with at least one segment already offering a blockchain-related product, or a company holding a blockchain-related asset			

Source: Invesco, Elwood

# Evolving with the growth in blockchain technology

The index is designed to capture the potential for blockchain-related earnings hiding within existing companies and to evolve as the growth of blockchain technology brings other opportunities to the surface.

## Capturing current opportunities

Most of the index is currently in companies categorised as having either “Developing” or “Potential” exposure to blockchain-related earnings. These are businesses that Elwood has identified as being well-positioned to capitalise on the emerging blockchain technology.

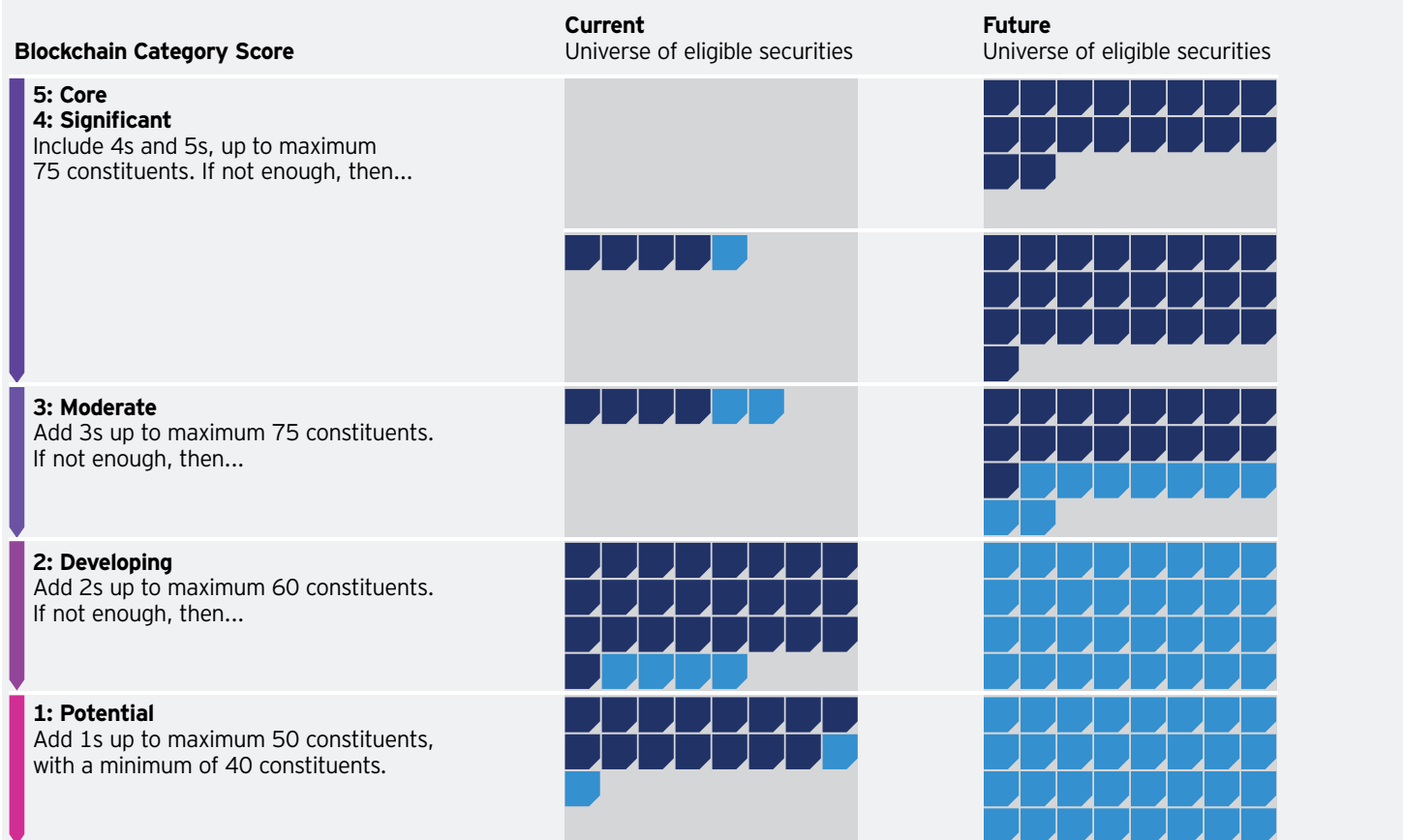
At present, the most recognised application of blockchain is cryptocurrencies, but this will likely change over time as more companies develop and adopt the technology. This natural evolution should lead to a greater number and variety of companies with blockchain as a core business. This index is designed to evolve and capture these new opportunities as they develop.

## Evolving with the future

The selection process adjusts to the emerging opportunity by prioritising more blockchain-exposed companies in both selection and weighting. This robust methodology gives investors access to the potential upside related to the growth of blockchain technology through a well-diversified global portfolio of high-quality stocks.

### How our index adjusts with future blockchain growth

■ Index constituents ■ Eligible securities



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# Invesco Elwood Global Blockchain UCITS ETF

- Liquid and diversified exposure to blockchain growth
- Physically replicated
- Ongoing charge of just 0.65% p.a.

## About the ETF

<b>ETF</b>	Invesco Elwood Global Blockchain UCITS ETF				
<b>Index</b>	Elwood Blockchain Global Equity Index (BLOCK)				
<b>Base currency</b>	USD				
<b>Distribution policy</b>	Accumulating				
<b>ISIN</b>	IE00BGBN6P67				
<b>Ongoing charge</b>	0.65%				
<b>Replication</b>	Physical				
<b>Exchange</b>	LSE	LSE	Xetra	Borsa Italiana	SIX
<b>Trading currency</b>	USD	GBP	EUR	EUR	USD
<b>Ticker</b>	BCHN LN	BCHS LN	BNXG GY	BCHN IM	BCHE SW

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## Please get in touch if you have any questions.

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**Value Fluctuation:** The value of investments, and any income from them, will fluctuate. This may partly be the result of changes in exchange rates. Investors may not get back the full amount invested.

**Sector concentration risk:** As this fund has significant exposure to one or a small number of sectors, investors should be prepared to accept a higher degree of risk than for an ETF with a broader investment mandate.

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Data as at 31 Dec 2020 unless otherwise stated.

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