A STANDARD FOR BENCHMARKING SUCCESS

INTRODUCTION

Broad-based indices are common place in traditional finance, but a dominant index has yet to emerge in the digital asset space. However, the Kaiko 10 (KT10) index, a multi-asset benchmark within the Kaiko Blue Chip family, is one of the leading options for tracking the broad market performance of investable assets.

The KT10 is designed to track leading digital assets while minimizing concentration risk. In this report we explain how the KT10's design contributes to returns and why ten assets is the ideal broad-based index for this market. In doing so we take a global perspective and look at the products available on these assets.

KEY TAKEAWAYS

- Capping weights have led to diverse returns.
- The investable universe in constituents is vast.
- Country specific influences could drive growth in 2025.
- Volatility is back on the menu since President Trump's election.

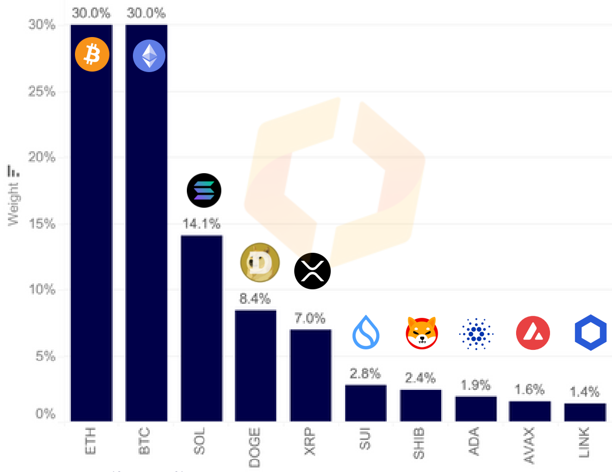
ASSET BREAKDOWN

The KT10 tracks a basket of ten digital assets, selected based on our rigorous asset selection process. Rather than being market cap weighted, constituents are chosen based on an internal vetting process. Eligible assets are then ranked in terms of liquidity and market cap, with a 50% weighting in each case.

No asset can account for more than 30% of the index at rebalance, to mitigate concentration risk. Indices without capping can be heavily tilted to just two assets and therefore not offer an accurate representation of the market at large.

Included in the index are assets from across sectors and themes, with Layer-1's like BTC, ETH, and SOL, as well as memecoins and utility tokens.

KT10 Constituents



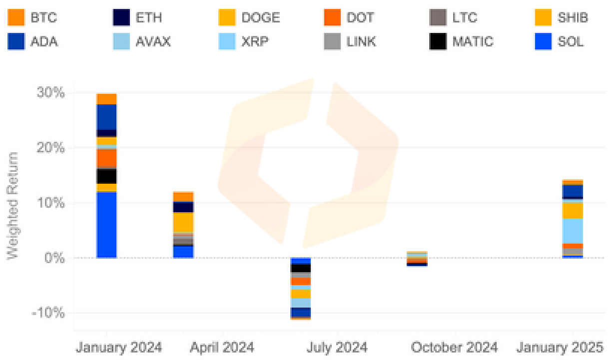
Source: Kaiko Indices.

SHARING THE WORKLOAD

The impact of the vetting and capping process is evident in quarterly returns. The KT10's returns over the past year have come from different areas of the index, with BTC and ETH very often lagging other assets in terms of weighted returns.

In January 2024, ADA and SOL drove growth, while in February, DOGE and BTC had a larger impact on returns. These aren't singular events and have occurred throughout the index's history since inception. This reaffirms the value of the vetting and design process.

Constituents Weighted Return



Source: Kaiko Indices

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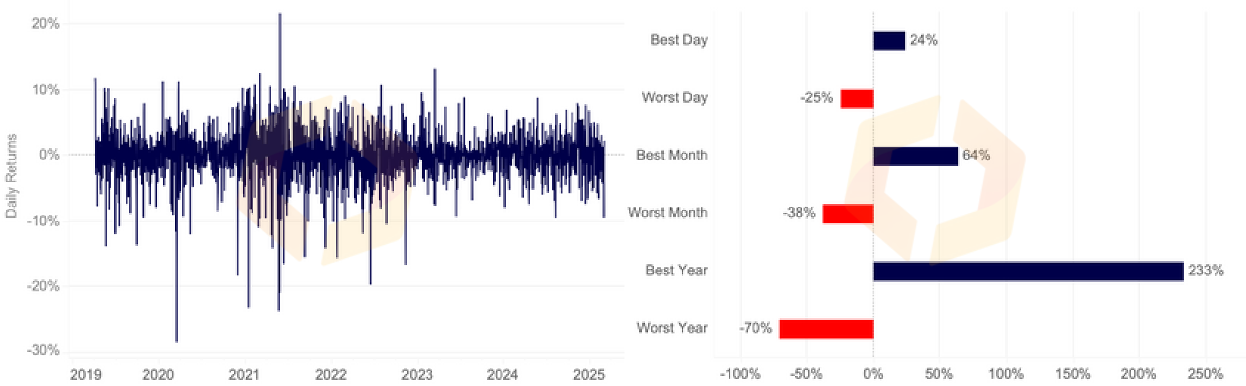
RETURNS PROFILE

Moving beyond individual assets and focusing on the index more broadly, the KT10 has achieved impressive returns. The index has maintained a compound annual growth rate of nearly 60% since inception. What's more, the variability of returns has begun to narrow.

Since 2021, there have been fewer extreme outliers, particularly on the downside. This trend is evident throughout the index's history, with the worst-performing days, weeks, and months being less extreme than the best. In essence, when things go well, they go really well.



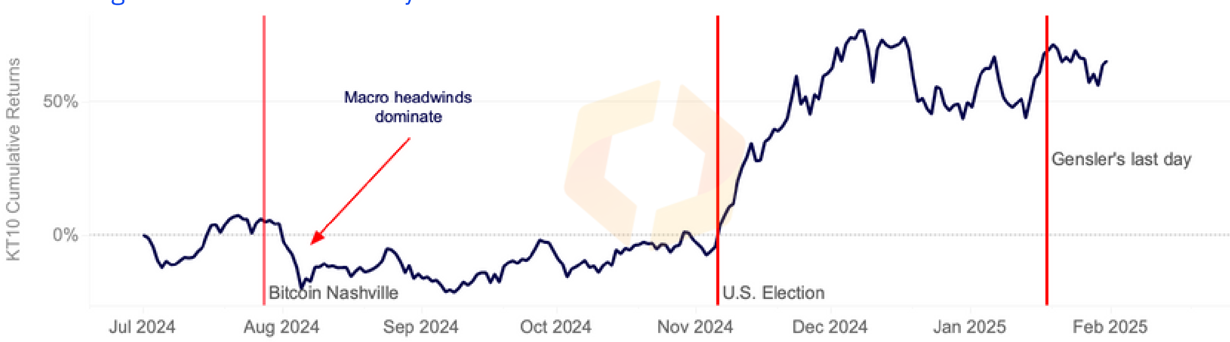
These returns aren't at the expense of excessive risk, as both Sharpe and Sortino scores are above 1, signalling reasonable-to-good risk-adjusted returns.

As noted earlier, there has been an abundance of positive news related to digital assets in the recent past. Indeed since BlackRock filed for a spot BTC exchange-traded fund in the summer of 2023, the market has flourished. There are several regional drivers that could continue to be a source of growth and demand for crypto going forward, which could in turn benefit KT10 constituent assets.

REGIONAL FOCUS: TRUMP, PUMP AND DUMP

Last year's U.S. election was a turning point for crypto, the KT10's performance since July (when Trump first began courting crypto voters) exemplifies this. The index is up over 50% in that time, while some constituent assets are actually unchanged.

KT10 During 2024-2025 Election Cycle



Source: Kaiko Indices performance data.

The U.S. might continue to be a source of regional demand for digital assets, especially in the wake of President Trump's Crypto Strategic Reserve announcement. All five assets earmarked for the reserve—BTC, ETH, SOL, ADA, and XRP—are constituents of the KT10.

If this reserve comes into force, it would essentially create a floor for demand and significantly benefit the index's outlook going forward, as well as the broader crypto market.

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GROWING THE INVESTABLE UNIVERSE OF PRODUCTS

While important factors for most, returns and political tailwinds aren't enough for all market participants. Crypto is a global asset trading 24 hours a day, as a result, investors need access to a range of instruments trading across multiple venues around the world.

The demand for derivatives and spot products on assets, as well as structured products, is only going to grow. These products enable market participants to effectively trade and implement increasingly complex strategies as digital assets mature similarly to traditional markets—moving from vanilla products into more exotic products.

As strategies get more complex so too does the need for risk management. This is where the availability of regulated liquid markets comes in, as we saw when some of the largest hedge funds in the world jumped into digital assets following the launch of spot ETFs. BTC's strong liquidity played a role in enabling these funds to invest, as too did the broad investable universe of products. Hedge funds jumped at the opportunity to trade the basis between spot BTC ETFs and CME BTC futures for instance.

These products don't exist across the entire market though, and the appetite for risk from these funds beyond the staples like BTC and ETH is still quite limited. There is a massive drop in liquidity, with only maybe 10 or 15 assets really having strong enough markets to potentially support ETFs or regulated futures products. As such the frenzy to file for different spot ETFs in the U.S. after Gary Gensler stepped down was encouraging, but the world doesn't begin and end in the states.

In fact, other regions are leading the way when it comes to growing the investable universe of products. Spot SOL ETFs have been trading in Brazil since August of 2024, while XRP products launched earlier this year. Meanwhile, in Hong Kong BTC and ETH ETFs (which were initially approved before U.S. products launched) have been trading since May of 2024.

Asset	USA	Europe
BTC	Spot, leveraged, futures, and options	Spot, futures, and options
ETH	Spot, leveraged, futures, and options	Spot, futures, and options
SOL	Spot applications pending, futures set to launch	Spot
DOGE	Spot applications pending, futures available	Spot
XRP	Spot applications pending, futures available	Spot
SUI	Spot	Spot
SHIB	Futures	N/A
ADA	Spot	Spot
AVAX	Futures	Spot
LINK	Spot applications pending, futures available	Spot

*The above list is not exhaustive and doesn't cover APAC as only regulated spot BTC and ETH products exist there.

A product line is classed as available only when offered on a regulated venue, for example spot ETPs in Europe trading on exchanges like SIX, Euronext, or Bourse Frankfurt.

Similarly in the U.S. spot ETPs are available on NYSE Arca for instance, and close-ended funds and private trusts are included for U.S. markets, as these products have begun to convert into spot ETFs. Many more are on the path to conversion, with Grayscale's Cardano, XRP, and SOL trusts all hoping to become spot ETFs in the near future.

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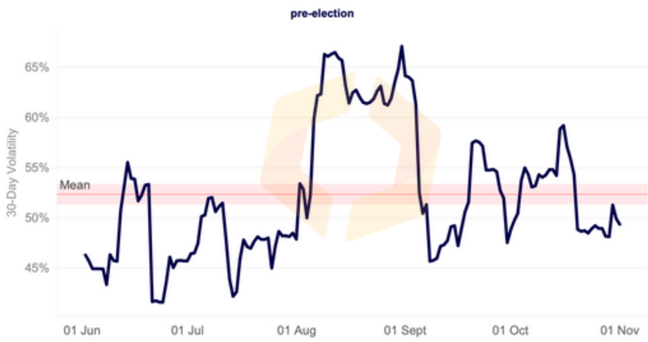
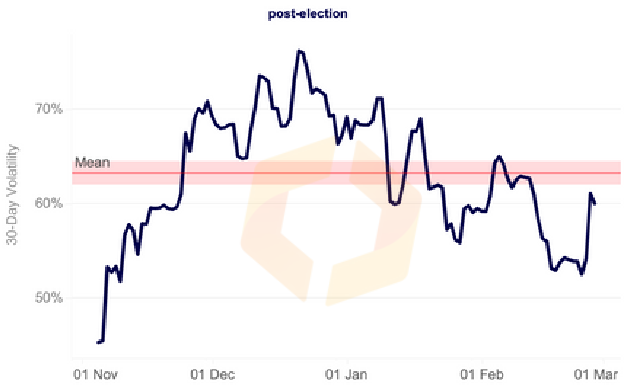
Volatility Returns





Source: Calculations based on Kaiko Indices data.

PAR FOR THE COURSE

Regardless of your views on volatility, its undoubtedly making a comeback. Crypto markets have not been spared and the KT10 rolling 30-day volatility has increased as a result—with a notable uptick since November.

The changing administration in the U.S., and a short lived martial law imposition in South Korea at the beginning of December contributed to this increase. The KT10's mean rolling 30-day volatility has risen to 63%, from 52% prior to November.

When it comes to digital assets, volatility is likely never going to go away. It has been dampened somewhat by the development of the market, and as more investable products come online this should indeed mitigate some of that price action, as more products and active participants help to improve liquidity.

While skeptics use volatility as a stick to beat believers with, others use it as a feature and not a bug. The latter take advantage of the presence of volatility to implement profitable trading strategies—as we saw in November when options traders used long strangles to profit from an uptick in volatility.

CONCLUSION

The digital asset market has matured significantly over the past 18-months, however, the majority of the growth has only focused on a few assets. Undoubtedly BTC has been the major winner, but more assets are beginning to see progress. In fact, every single asset in the KT10 has at least one regulated product tied to it.

There are already ETPs on SOL and XRP in Brazil and Europe, while trusts also exist. The CME is set to launch SOL futures this month, and XRP products are likely not far behind—once the SEC's case with Ripple Labs is settled. Elsewhere, European asset managers have spot ETPs tracking 9 of the 10 constituents.

Why does this matter? The availability of regulated products in structured wrappers is a useful indicator of institutional demand. Institutions are comfortable trading these structures and therefore more likely to be active in those markets. At the same time, the index is populated by assets which pass our size and liquidity vetting, which signifies the existing demand in the underlying crypto markets.

Based on the strong liquidity profile of assets in the index, reasonably high risk-adjusted returns since inception, and evidence of institutional demand, the KT10 offers the ideal means to broadly track the performance of the digital assets market as a whole.

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