DIVERIFIED AND DOMINANT: THE KT5

INTRODUCTION

The KT5 (Kaiko Top 5) is a multi-asset benchmark within the Kaiko Blue Chip family, designed to track leading digital assets while minimizing concentration risk and single points of failure. In this report, we analyse the index's performance against key benchmarks, assess internal correlations, risk-return metrics, and provide an outlook for 2025—offering insights into the index's investment thesis.

KEY TAKEAWAYS

- KT5 has outperformed leading digital assets.
- Internal correlations are limited.
- Risk ratios have been improving since August.
- Volatility has risen since Q4 2024.

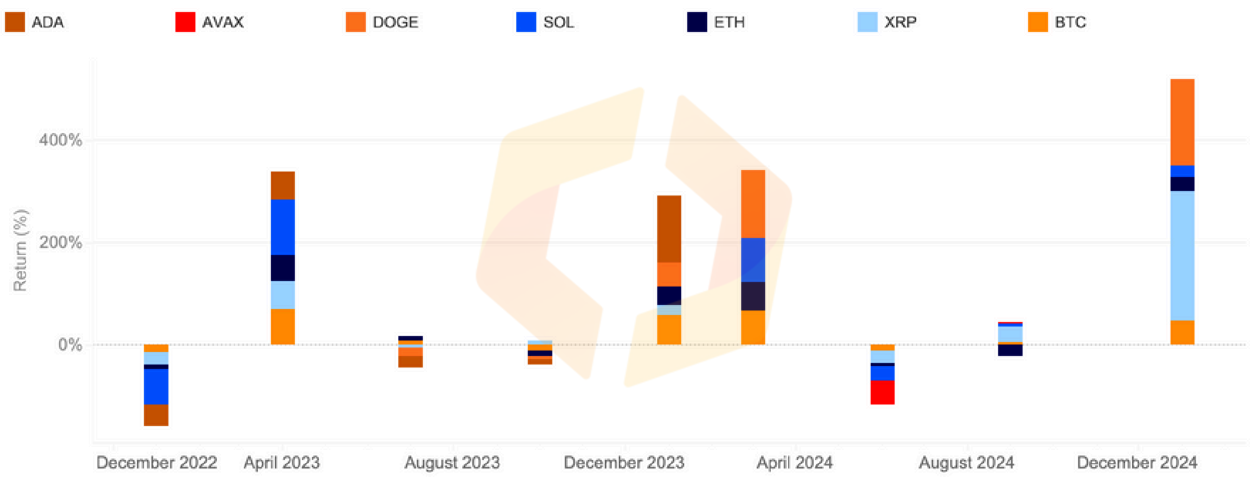
WHICH ARE THE 5 LEADING CRYPTOASSETS ?

The Kaiko 5 Index tracks a basket of the five leading digital assets. The constituents are chosen based on a rigorous vetting process that ranks assets 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.

As of the first quarter of 2025, the KT5 consists of BTC, ETH, SOL, DOGE, and XRP. Previously, the index included other assets such as ADA, AVAX, and BCH.

The index's returns have been driven by different assets throughout its history. Two of the more recent additions to the index, SOL and DOGE, contributed significantly to returns in 2024—as both assets benefited from the improved regulatory outlook after November. As recently as January of last year, ADA was one of the largest contributors to the KT5's returns.

KT5 Index Constituents Contribution to Index Returns



Source: Kaiko Indices and Benchmark Reference Rate data.

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KT5 Performance vs. Benchmarks

Source: Kaiko Indices and Benchmark Reference Rate data.

DIVERSIFIED RETURNS

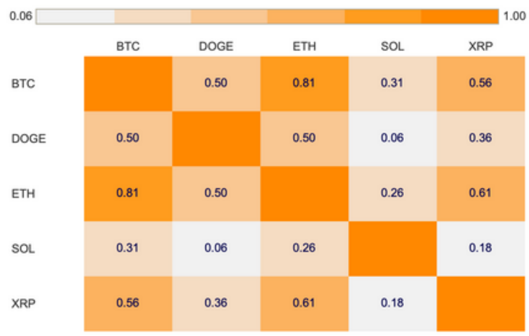
The KT5 has achieved log returns of over 160% since the beginning of 2023. As a result, the index has outperformed ETH by around 50 percentage points over the same period. Although the index might have underperformed BTC recently, it has outperformed in early 2023, and in the month after the U.S. election, the index grew at a greater rate than BTC.

The tailwinds, namely regulatory, that drove growth following the election persist, and the potential for structured products on assets like SOL, XRP, and DOGE will be catalysts in 2025.

MYTH BUSTING

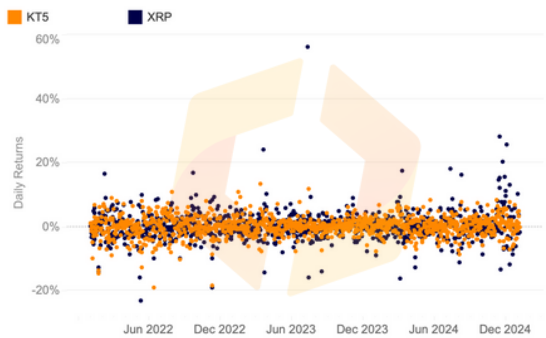
Skeptics of crypto indices argue that the industry is too highly correlated, reducing the value of index investing. However, this perspective overlooks key factors. When analyzing the return correlations of the constituent assets in the KT5, we see significant variation. While some pairs, like BTC and ETH, exhibit high correlation, this is not the case across the board. For example, SOL has a very low correlation (0.06) with DOGE, and XRP's correlation with SOL is just 0.18. These differences demonstrate that crypto indices can offer meaningful diversification benefits.

Internal KT5 Index Correlation



Source: Kaiko Indices data.

KT5 vs. XRP Daily Price Returns



Source: Kaiko Indices and Benchmark Reference Rate data.

Secondly, as shown above, if an investor had chosen to hold only ETH over the past two years, they would have underperformed both BTC and the index. While they could have invested in other assets within the index, each comes with its own trade-offs.

For example, an investor holding XRP since 2023 would have achieved higher cumulative returns than the index. However, depending on their risk tolerance and loss limits, they might not have been able to hold onto XRP for that long. In fact, XRP underperformed both the index and the broader market for most of the past two years, with the bulk of its gains occurring in the fourth quarter of 2024.

Why does this matter? Most investment managers would have struggled to justify holding XRP over that period, as their performance is typically assessed at least quarterly. As shown in the daily returns chart, XRP's returns were less consistent with the index and more prone to extreme losses. However, the index still captured XRP's upside after the election while tracking broader market trends in the interim. Without a crystal ball, predicting which digital assets will rally—and when—is impossible. Index investing helps mitigate selection risk while ensuring exposure to upside opportunities across a broad range of assets.

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Sortino Ratio

Source: Kaiko Indices data.

RISK-ADJUSTED RETURNS

The KT5's rolling Sortino ratio has been solid over the past two years, averaging around 2. The Sortino ratio measures risk-adjusted performance by focusing on downside volatility, unlike the Sharpe ratio, which accounts for both upside and downside risk. A score above 2 is generally considered very good; as such, it's fair to say the KT5 index offers solid risk-adjusted returns.

The rolling Sortino ratio has been trending higher since the third quarter of 2024. This could be due to higher excess returns, lower downside risk, or a combination of both. Looking at volatility can help provide further insight.

KT5 Realized Volatility

Source: Kaiko Indices data.

VOLATILITY TRENDS

The KT5's rolling 6-month volatility trended lower between November 2022 and mid-2024. This decline in realized volatility was likely due to reduced trading activity and stagnant market conditions. Following the collapse of FTX at the end of 2022, market activity slowed as institutions and large investors became cautious about investing in digital assets.

The recent uptick in volatility has coincided with rising prices and a resurgence in trading activity. This increase in volatility suggests that the rising Sharpe ratio is more likely driven by higher excess returns rather than a reduction in downside risk.

POWERING PERPS

The KT5 is already in use as the index powering Gemini's pioneering basket perps. With this index, Kaiko supported the launch of index perpetuals on Gemini Derivatives, the dedicated non-US derivatives platform by Gemini.

As one of the few index perpetual products available to traders on centralized platforms, this offering fills a critical gap in the market by broadening diversification options for investors and enabling them to explore innovative trading strategies in a reliable and trusted environment.

CONCLUSION

The KT5 stands out as a diversified index in the burgeoning digital asset space. Its quarterly rebalancing mechanism is key to its adaptability and ensures the index remains responsive to changes in trading activity. As we noted at the beginning of the report, ADA drove returns in January 2024 but was absent from the index by the fourth quarter, as DOGE and XRP drove returns.

Looking ahead, we believe that the potential tailwinds for individual assets are varied enough to suggest that returns won't be overly reliant on single points of failure. Potential exchange-traded fund (ETF) approval could catalyze institutional inflows for XRP, SOL, and DOGE. Meanwhile, the two largest assets in the index, BTC and ETH, already have actively traded ETFs, and prices have become less sensitive to flows in these markets. BTC's growth will be driven by more than ETF flows—it will also depend on factors such as continued buying from corporations and sovereign wealth funds in 2025. ETH has long been in need of regulatory clarity, and once there is greater certainty on issues such as staking, the asset should benefit.

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