

New frontiers in art and culture are rare. Entirely new artistic mediums are even rarer.

Over the last few years, non-fungible tokens (NFTs) have emerged as the first digitally native medium for art and collectibles. Blue-chip NFTs, in particular, have established themselves as an important category, with iconic examples from collections like CryptoPunks and the Bored Ape Yacht Club selling for millions of dollars at fine-art auction houses like Christie's and Sotheby's.

Investors allocating to NFTs are betting that these and other early examples of digital art will appreciate over time; that the importance of the digital world is ever-growing; and that the ratio of value we assign to our online vs. offline lives will tilt over time toward digits and bits.

With that framing, the opportunity to invest in the foundational pieces of this new digital art form is unique and potentially very exciting.

What is an NFT?

A non-fungible token is a technology through which an individual can register the ownership of a digital good on a blockchain. As such, NFTs act as certificates of ownership, provenance, and authenticity in the digital world, much like a deed or title in the physical world. They permit digital goods to be bought, sold, owned, and collected.

The potential applications of this core idea are enormous. So far, the earliest widespread applications lie in the arts, where the emergence of NFTs has birthed an explosion of creativity, value creation, and use cases in the digital arts and collectibles space.

All of this is secured by blockchain technology — the same that secures networks like Bitcoin, Ethereum, and others.

NFTs Change Our Relationship With Artistic and Cultural Goods

NFTs change how people can own, interact with, and transfer collectibles in at least five important ways:

Digitally Native

NFTs are native to the crypto ecosystem. They are a primary cultural outlet and means of social signaling for the crypto community, which has participated in meaningful wealth creation in recent years.

Community-Enabled

Many of the most valuable NFT projects have been issued in "collections," or editions of hundreds or thousands of related NFTs. Large and vibrant online communities exist around leading collections, with large groups participating in shared communities of expression and ownership, and connecting in both online and offline settings. This can foster network effects more easily than physical art can, allowing items to accrue value beyond their individual appeal.

Liquid and Peer-to-Peer

Owners can exchange artworks in a peer-to-peer and 24/7 liquid market. Contrast this with the traditional art world in which galleries, agents, dealers, auction houses, and other gatekeepers charge hefty fees and create illiquid markets. Additionally, artists can connect directly with the public.

Shareable & Non-Forgeable

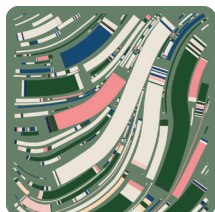
Unlike physical art, NFTs can be infinitely shared while still maintaining a transparent and incorruptible record of ownership. NFTs are easy to replicate but virtually impossible to fake, incentivizing art owners to share and publicize their artwork as widely as possible to make them better-known and therefore more valuable.

Enabling Smart-Contract Functionality

Built on smart contracts, NFTs can be programmed in a way that is impossible with traditional physical art. For example, artists can program NFTs to pay ongoing royalties on future sales. Alternatively, an artist can provide the owners of an NFT with exclusive opportunities to purchase NFTs from a future collection. NFTs can also allow access to special events, merchandise drops, or other opportunities. These unprecedented features can align artists and owners to support the ongoing appreciation of particular works, in a way that is more difficult with traditional forms of art.

About the Bitwise Blue-Chip NFT Collections Index

The Bitwise Blue-Chip NFT Collections Index was developed to track the blue-chip NFT collections in the Arts and Collectibles sector. Collections are screened against criteria such as minimum number of items, liquidity, category, and more, and ranked based on floor market capitalization, which conservatively estimates the market value of a collection by multiplying the lowest-priced item on offer in the collection by the number of items in the collection. The Index's full methodology can be found on the Bitwise website (<https://bitwiseinvestments.com/indexes/nft-methodology>).



Fidenza

Fidenza NFTs are created by a generative algorithm (written by Tyler Hobbs) which produces unique and unpredictable artwork with natural-looking curves.

Release Date: January 2021

of Items: 999

Floor Price:¹ \$156,938 (69 ETH)



Azuki

Created by Zagabond, Azuki NFTs grant access to "The Garden": a virtual space for artists, builders, and Web3 enthusiasts to meet and collaborate. Holders receive access to exclusive drops and experiences.

Release Date: January 2022

of Items: 10,000

Floor Price:¹ \$13,176 (6 ETH)



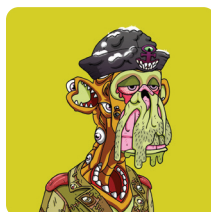
CryptoPunks

Considered the original and most iconic NFT collection. Embraced and owned by brands and celebrity influencers from Jay-Z to Visa as a breakthrough in digital art.

Release Date: June 2017

of Items: 10,000

Floor Price:¹ \$120,897 (53 ETH)



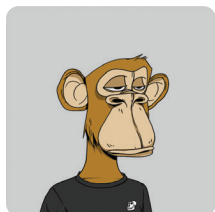
Mutant Ape Yacht Club

Sought-after for its novel method that enables Bored Ape Yacht Club owners to combine an existing ape with three types of configurations to create a new collection of entirely unique "mutated" apes.

Release Date: August 2021

of Items: 20,000

Floor Price:¹ \$11,405 (5 ETH)



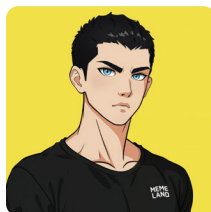
Bored Ape Yacht Club

The first NFT collection to establish significant community engagement both on- and offline. Embraced by major brands and celebrity influencers like Adidas, Steph Curry, and Jimmy Fallon.

Release Date: April 2021

of Items: 10,000

Floor Price:¹ \$62,844 (28 ETH)



The Captainz

Each NFT possesses the ability to unlock and earn MEME, the native currency of Memeland, providing a stream of rewards for its owners. Holders also get access to exclusive events, experiences, and content.

Release Date: January 2023

of Items: 9,999

Floor Price:¹ \$9,581 (4 ETH)



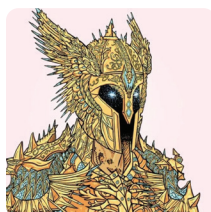
Pudgy Penguins

Pudgy Penguins are unique penguin NFTs with more than 150 traits for mouths, faces, eyes, skins, and backgrounds. Each in the collection features a serene and plain expression.

Release Date: July 2021

of Items: 8,888

Floor Price:¹ \$25,742 (11 ETH)



DeGods

Figures inspired by ancient deities, wearing modern streetwear. Staking DeGods can generate DUST tokens and provide access to the DeDAO, a decentralized autonomous organization that governs the ecosystem.

Release Date: March 2023

of Items: 10,000

Floor Price:¹ \$7,341 (3 ETH)



Chromie Squiggle

The first collection released on the prominent Art Blocks platform. An early example of the potential for the integration between NFTs and DAOs through Squiggle DAO.

Release Date: November 2020

of Items: 10,000

Floor Price:¹ \$18,477 (8 ETH)



Clone X

Launched by RTFKT Studio and Takashi Murakami, this collection has quickly gained popularity due to the ability to customize avatars with wearables in the Metaverse.

Release Date: December 2021

of Items: 20,000

Floor Price:¹ \$2,840 (1 ETH)

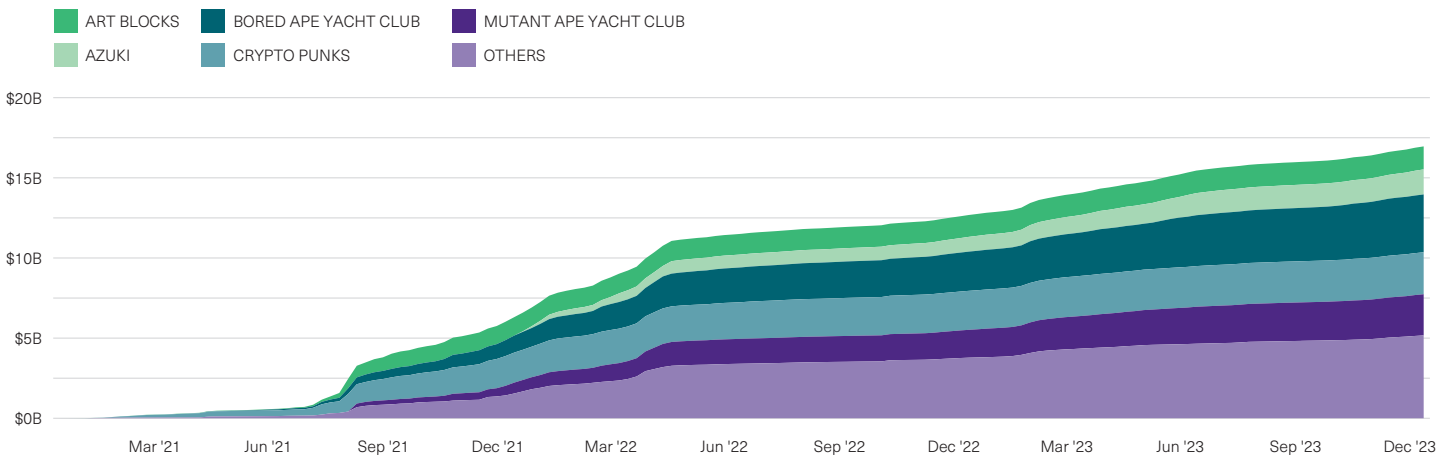
(1) Source: Bitwise Asset Management with data from OpenSea as of December 31, 2023. Floor price is the term for the lowest-priced item for sale in the collection. Prices in ETH may vary due to rounding. Indexes are unmanaged and do not include the effect of fees. One cannot invest directly in an index.

NFTs Are Already Here in a Big Way

While the first known NFT was created in 2014, it was only in 2017 that the first iconic collections were launched, and only in 2020 that they started to attract attention from the public at large. NFTs are primarily bought and sold on digital marketplaces that function similarly to eBay or an automated fine-art auction house. The digital art and collectibles NFT market has been growing rapidly: Trading volume surpassed \$975 million in Q4 2023.

Trading Volume of Art and Collectibles NFTs Has Been Surging

Cumulative trade volume of Art and Collectibles NFTs between January 3, 2021, and December 31, 2023 (USD billions)



Source: Bitwise Asset Management with data from The Block. Art Blocks category includes Chromie Squiggle and Fidenza.

The market has penetrated beyond the digital ecosystem to impact the traditional art world. Both Sotheby's and Christie's, the world's leading art auction houses, now regularly auction digital works and NFTs, which they categorize as cutting-edge contemporary art. Christie's announced in September 2021 that it had surpassed \$100 million in NFT sales, with CEO Guillaume Cerutti noting: "[T]he NFT market is here to stay. We will continue to invest in the opportunities NFTs offer us to deeply engage with new audiences and artists, an exciting new generation of collectors, and more expansive and inclusive markets."

About Bitwise

Bitwise Asset Management is the largest crypto index fund manager in America. Thousands of financial advisors, family offices, and institutional investors partner with Bitwise to understand and access the opportunities in crypto. For six years, Bitwise has established a track record of excellence managing a broad suite of index and active solutions across ETFs, separately managed accounts, private funds, and hedge fund strategies. Bitwise is known for providing unparalleled client support through expert research and commentary, its nationwide client team of crypto specialists, and its deep access to the crypto ecosystem. The Bitwise team of more than 60 professionals combines expertise in technology and asset management with backgrounds including BlackRock, Millennium, ETF.com, Meta, Google, and the U.S. Attorney's Office. Bitwise is backed by leading institutional investors and has been profiled in Institutional Investor, Barron's, Bloomberg, and The Wall Street Journal. It has offices in San Francisco and New York. For more information, visit www.bitwiseinvestments.com.

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NFTs are an extremely new artistic and cultural phenomenon, and interest in such artwork could wane. If the demand for NFT artwork diminishes, the prices of NFT items could be negatively affected. The market for NFTs can be subject to shallow trade volume, extreme hoarding, low liquidity and high bankruptcy risk. NFTs are also subject to risks and challenges associated with intellectual property rights and fraud.

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