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Press Release

VanEck enables staking on its Ethereum ETN

- **Potential additional income: Ethereum investors can generate additional income through staking**

London, UK 16.04.2024 – Asset manager VanEck now enables staking for the VanEck Ethereum ETN and thus creates the opportunity to receive the resulting staking rewards.

“Following Ethereum's switch from the so-called proof-of-work (PoW) to the so-called proof-of-stake (PoS) consensus mechanism, it was clear to us that we would follow the developments in the second most important cryptocurrency,” says Martijn Roezemuller, CEO of VanEck Europe. “By changing the consensus mechanism, Ethereum consumes significantly less computing power and electricity. Staking can now be considered a key aspect of securing and maintaining the integrity of this blockchain network.”

Proof-of-Stake (PoS) is used by blockchain networks such as Ethereum to verify transactions. So-called validators (participants who hold a share in the network) are selected to create new blocks on the blockchain and validate transactions. The likelihood of validators being selected for this is based on the amount of cryptocurrency they hold and are willing to stake as collateral.

VanEck uses the Ether (ETH) from the Ethereum ETN for staking

Staking cryptocurrencies is a process in which the crypto assets (tokens) are placed in a blockchain network and blocked for a certain period of time. The blocked tokens are used to verify transactions in the Ethereum network using the PoS method. In return, the validators receive a share of the transaction fee and the newly mined Ethereum coins (“rewards”), which can generate additional income in addition to potential price gains.

Investors in the VanEck Ethereum ETN do not have to take any steps of their own for staking: VanEck ensures that the Ethereum token underlying the ETN as collateral is used for staking and that any resulting rewards are reinvested daily in the ETN or reallocated to staking. The rewards accrued are reflected in the performance of the ETNs.

Investors are not directly invested in Ethereum coins via the Ethereum ETN. This allows them to buy and sell their ETN units as usual, even if the Ethereum units underlying the ETN are blocked for staking.

The rewards from staking may be reduced by fees charged by the staking service provider, the issuer or other parties involved. Further information on the risks and fees associated with staking can be found in the Base Prospectus of the Exchange Traded Note Programme and in the Final Terms of the VanEck Ethereum ETN.

Despite potential benefits pointed out above, there are some risks related to staking crypto assets. First of all, it is common for users to “vest” or lock up their crypto assets for a specified amount of time under staking terms, meaning they can't withdraw or transfer their assets during this timeframe, even if they need access right away. As a result, investors cannot take advantage of price gains if there are positive moves in prices during the vesting period.

Additionally, in a short period of time, a crypto asset may experience severe market volatility, which could have an effect on the rewards from staking. Therefore, a decline in the price of a coin that you are staking can have a drastic effect on the rewards that you receive from staking, and profits obtained through staking may be countered if the value of the coin drops drastically. Crypto asset bear markets such as the previous one can be considered disadvantageous because they are sustained for such a long period of time. Slashing risk in proof-of-stake (PoS) blockchains involves penalties imposed on validators for malicious or faulty behaviour. Validators stake crypto assets to participate in consensus. If they breach network rules intentionally or unintentionally, they can lose up to the total amount of staked assets. Scenarios triggering slashing include (but not limited to) double signing conflicting blocks, prolonged downtime, Byzantine actions, collusion, and validating invalid data. Penalties vary based on protocols and might include seizing part of the staked funds or temporary suspension. Slashing deters dishonesty and ensures network security by aligning validators' incentives with the blockchain's integrity. Slashing may in some cases result in total loss of staked funds, rewards or a combination thereof. Lastly, staking may result in total loss of funds due to smart contract risk, exploits or bugs in the protocol, or hard forks. Self-custody of staked crypto assets does not circumvent these risks.

Investing in crypto assets can generate passive income by staking them to secure the Blockchain. Nonetheless, delayed delivery may cause rewards made by the network to take a while to reach investors. Therefore, peak traffic on a blockchain network results in delays, a congestion of transactions, and higher transaction fees because demand exceeds supply and network validators can choose which transactions to process. Hence, payouts and re-investment can be delayed. For individuals relying on crypto asset rewards as a source of income or passive earnings, delays can create financial uncertainty. If rewards are delayed for an extended period, it can disrupt cash flow and affect individuals' financial planning. This is particularly relevant for users who depend on regular rewards for living expenses or other financial obligations. The unpredictability of reward delays can make it challenging for individuals to effectively manage their finances.

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* As at: 15.04.2024

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