Future of finance

The Bitcoin Bridge

How the combination of bitcoin within the exchange-traded product wrapper helps more investors get exposure to digital assets

BlackRock®

iCRMH0125U/S-4151138-1/22

Mega forces

Demographic divergence | Digital disruption and AI | A fragmenting world | **Future of finance** | Low-carbon transition

Authors

Samara Cohen
Chief Investment Officer of ETF and Index Investments, BlackRock

Jay Jacobs
U.S. Head of Thematic and Active ETFs, BlackRock

Robert Mitchnick
Head of Digital Assets, BlackRock

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Key takeaways

- In their first year, spot bitcoin exchange-traded products (ETPs) drew unprecedented demand, posting $57 billion in net inflows and accumulating over $105 billion in assets under management (AUM) across various issuers.
- Bitcoin ETPs are facilitating greater exposure to digital assets for investors of all types – from individuals to financial advisors and institutions – who had been interested in crypto but wanted a familiar and efficient wrapper. At the same time, digital asset-native investors are opening brokerage accounts and using ETPs.
- As more investor types gain exposure to bitcoin via ETPs, we get questions around bitcoin's size and role in a portfolio. Increasingly, we see bitcoin as a potential, unique source of diversification.
- The iShares Bitcoin Trust ETF (IBIT) has become a liquid vehicle for both buyers and sellers to adjust their exposure to bitcoin efficiently, even across a breadth of market scenarios.
- Bitcoin ETPs have paved the way for more innovation in how investors get exposure to digital assets, including options on IBIT. And with ETPs representing just 6% of the total supply of bitcoin outstanding, there is room for growth.

Introduction

When spot bitcoin exchange-traded products first launched in the U.S. on Jan. 11, 2024, it represented the creation of a scalable bridge from traditional finance into bitcoin, helping to broaden exposure to the digital asset for a variety of investors. This was a notable milestone in bitcoin's journey from a niche innovation into the first digital asset to gain widespread global adoption.

Wrapping digital assets like bitcoin in regulated financial instruments such as ETPs has helped investors get exposure to these assets through trusted providers on familiar platforms. This bridge to bitcoin has proven to be a two-way on-ramp.

- In the past year, traditional investors have moved into digital assets, spurred by the ability to gain bitcoin exposure in a transparent and liquid wrapper, which also helps them avoid complexities related to holding the digital asset directly.
- Bitcoin ETPs are also expanding the investible universe for digital asset investors. Some of these investors are opening brokerage accounts and using ETPs, possibly for the first time. This is creating an on-ramp for them to broader investment opportunities across other asset classes as well.

Creating more access points is a hallmark of exchange-traded products, which have a long history of innovation. Since the first ETPs debuted in the early 1990s, the technology has empowered investors of all types to easily and conveniently access broad market exposures, as well as more-targeted investments in previously hard-to-reach markets. For many investors, bitcoin had been one such market prior to the launch of bitcoin ETPs, as holding bitcoin directly can often come with operational, tax and custody complexities.

Being able to gain bitcoin exposure via the ETP wrapper has proven to be a compelling combination for investors of all types. In their first year, bitcoin ETPs drew unprecedented demand, posting $57 billion in net inflows and over $105 billion in AUM across various issuers.[1] And it's not just traditional crypto investors – institutions and advisors are turning to the ETPs as they see bitcoin's potential as a portfolio diversifier. In fact, institutions and advisors now comprise about half of AUM for the iShares Bitcoin Trust ETF (IBIT). Bitcoin ETPs are also adding to market liquidity. Throughout 2024, IBIT proved to be a liquid vehicle for both buyers and sellers, as we will discuss later in this paper.

We are still in the early days of these products. Spot bitcoin ETPs are just one way investors can get exposure to bitcoin. Today they remain a small portion of the overall bitcoin market, representing 6% of the total supply of bitcoin outstanding.[2] In this paper, we will look at the past year of bitcoin ETPs: market demand, investor trends and market quality.

1. ETP groupings are determined by BlackRock using Bloomberg data since the inception of spot bitcoin ETPs on Jan. 11, 2024 through Dec. 31, 2024. 2. The Block and Coin Metrics, as of Dec. 31, 2024

2024 Timeline

JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC

Jan. 1
Bitcoin begins year with $828 billion market cap

Jan. 11
Launch of bitcoin ETPs, including iShares Bitcoin Trust ETF (IBIT)

Mar. 1
IBIT becomes fastest ETP to reach $10 billion AUM

Mar. 4
Bitcoin ETPs reach $50 billion AUM

Apr. 20
Bitcoin halving cuts the rate at which new bitcoin is issued in half to 3.125 per block

Jul. 23
Launch of ether ETPs, including iShares Ethereum Trust ETF (ETHA)

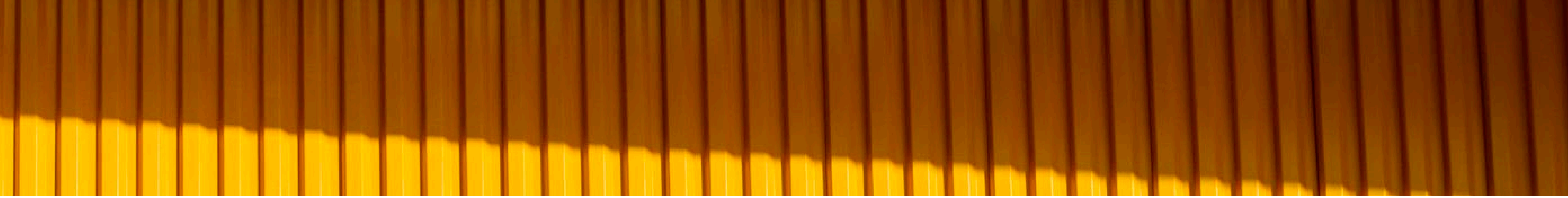
Nov. 19
IBIT options begin trading, the first for bitcoin ETPs

Nov. 20
Bitcoin ETPs reach $100 billion AUM

Dec. 4
IBIT becomes fastest ETP o reach $50 billion AUM

Dec. 31
Bitcoin ends year with $1.8 trillion market cap. Bitcoin ETPs finish with over $105 billion AUM

Source: BlackRock, as of Dec. 31, 2024.



Market demand

Unprecedented as interest in digital assets accelerates

Bitcoin is the world's leading cryptoasset, worth $1.8 trillion and 57% of the overall digital asset market.[3] Bitcoin exists as a decentralized digital asset in which transactions can be conducted directly between two parties without the need for an intermediary, anywhere in the world.

Bitcoin itself launched in January 2009, but until bitcoin ETPs launched in January 2024, the main way for U.S. investors to access the digital asset was through crypto exchanges. But many investors, as we had heard from clients prior to launch, sought exposure through the efficient, familiar and easily accessible exchange-traded product wrapper.

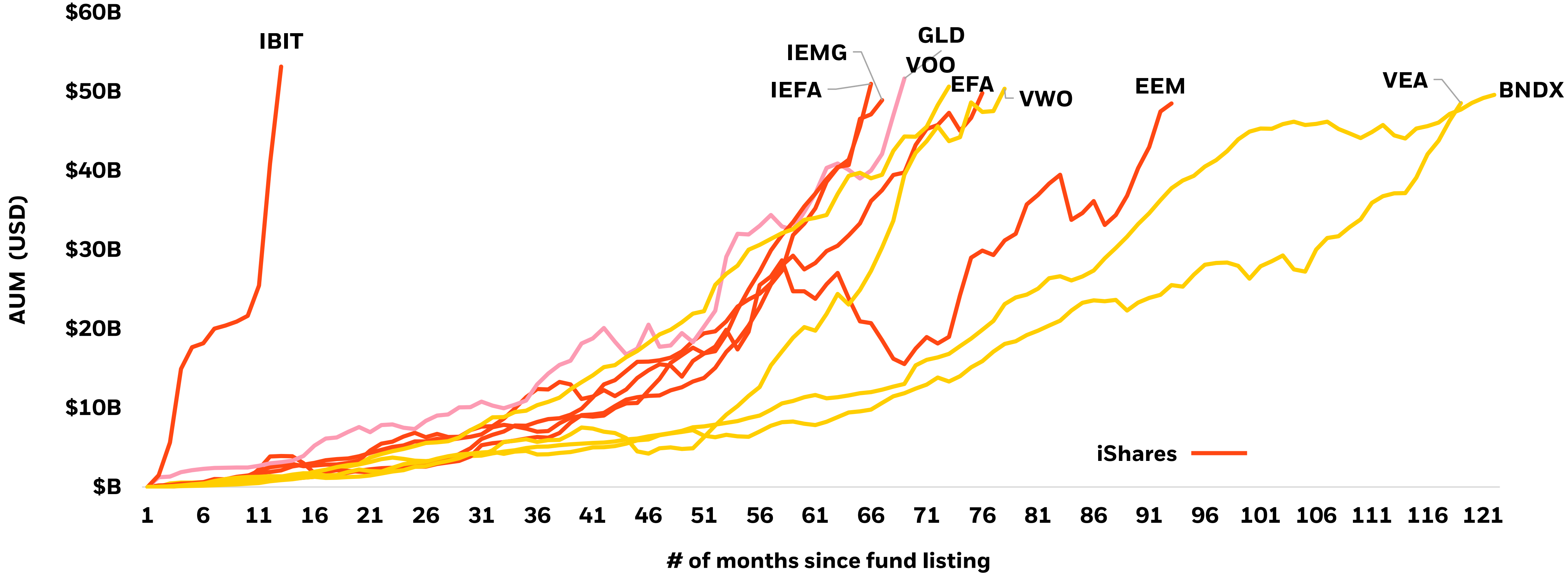
This breakthrough coincided with a moment where interest in digital assets was accelerating due to geopolitical uncertainty, along with other mega forces such as demographic divergence, as younger populations and the middle class expand in many emerging economies. The development of bitcoin's ecosystem infrastructure and the evolution of the regulatory atmosphere also helped create the conditions for bitcoin ETPs.

The market responded with unprecedented demand. As Figure 1 shows, IBIT became the fastest ETP to reach $10 billion in AUM, 50 days after launch, and to reach $50 billion, in December. Demand held as the months went by, with flows gaining industry-wide and for IBIT toward year-end. (Figure 2)

3. Market cap of bitcoin relative to the market cap of all cryptoassets (excluding stablecoins and wrapped assets). Figures are rounded. Source: Coin Metrics and CoinGecko, as of Dec. 31, 2024.

Figure 1: Number of months for ETPs to reach $50 billion in AUM (USD)

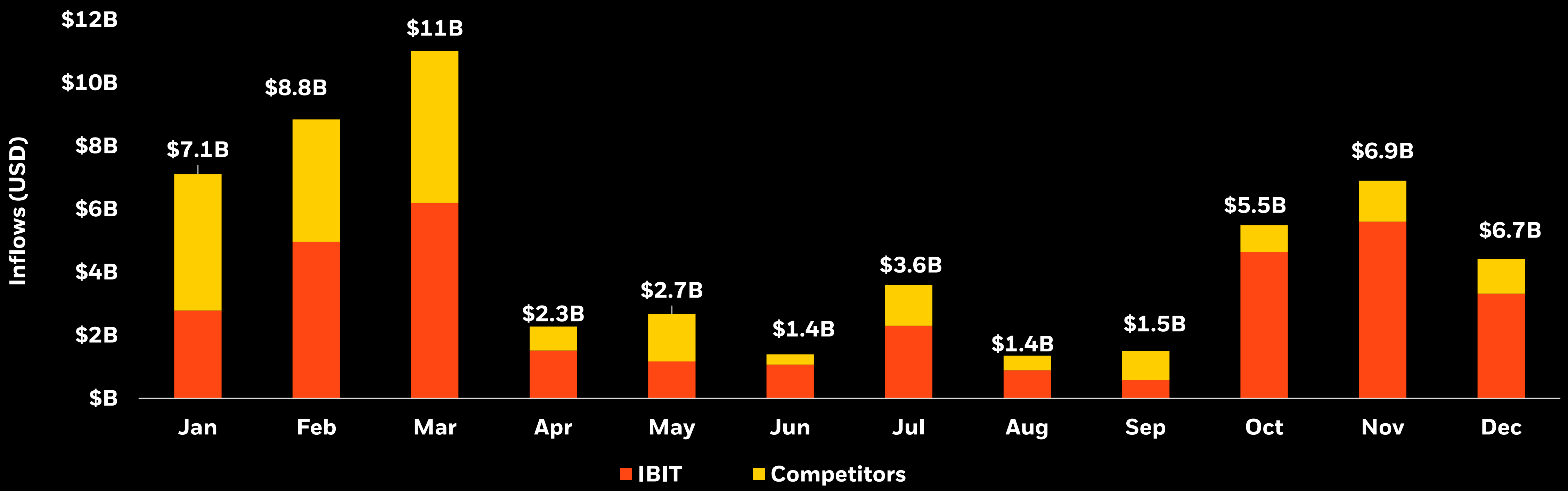
IBIT is the fastest ETP ever to reach $50 billion in AUM



Source: BlackRock Global Business Intelligence, as of Dec. 31, 2024. To better understand the similarities and differences between investments, including investment objectives, risks, fees and expenses, it is important to read the products' prospectuses.

Figure 2: Monthly flows for bitcoin ETPs

IBIT's monthly flows led competitors', seeing strong demand throughout 2024



Source: ETP groupings determined by BlackRock using Bloomberg data since the inception of spot Bitcoin ETPs on Jan 11, 2024 through Dec. 31, 2024. Numbers are rounded.

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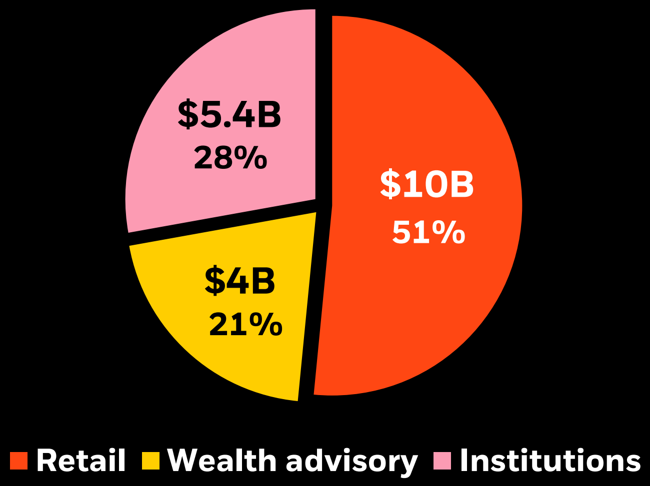
Investors

Mix of investors seek bitcoin ETPs

Demand for IBIT has been driven by a mix of investors – across direct, wealth advisory and institutional channels. Retail, or direct, investors proved to be the strongest early adopters of IBIT, comprising just over half of IBIT's AUM from the U.S. But institutions and advisors now combine to make up the other half. Advisors and institutions tend to have a longer journey to adoption because of the need for extensive due diligence, education and more research.

Figure 3: IBIT U.S. share by segment (USD billions, %)



Source: BlackRock Global Business Intelligence, data through Oct. 31, 2024. Numbers are rounded.

Retail

Retail investors in IBIT comprise a wide swathe, stretching from small-dollar investors to ultra-high-net-worth, all of whom who were seeking an easier way to gain bitcoin exposure through the exchange-traded wrapper. Our data also show that many holders of IBIT were new to ETP investing. Through October, 75% of direct buyers had never owned an iShares product before IBIT.[4] This likely reflects a combination of previous crypto investors who were drawn to the ease of the ETP wrapper and new-to-crypto investors who had previously bought only individual stocks before they bought IBIT.

Wealth advisory

Advisors have been more gradual in bitcoin ETP adoption as they educate themselves, although this is gaining momentum. Of the home offices and platforms that have been approved to offer bitcoin ETPs, many still are only on an unsolicited basis, so that clients can request IBIT, but advisors cannot choose to put bitcoin ETPs or IBIT in portfolios. The first solicited brokerage approval at a wirehouse came in August 2024, meaning that advisors can offer bitcoin ETPs to clients, although there are still notable restrictions. Broader solicitation approvals are beginning to gain traction, and we think we will likely see significant growth.

Institutions

Institutional adoption of a newer asset usually takes years as these investors get more familiar with its characteristics. Still, this channel represents a sizable and growing portion of IBIT's AUM, increasing from a 23% share through August to 28% at the end of October.[4] We've seen clients ranging from public pension funds to hedge funds move into IBIT. Some were new to bitcoin investing entirely while others had held it directly or via futures. About half of traditional hedge funds surveyed by PricewaterhouseCoopers have exposure to digital assets, up from 29% in 2023, driven by the launch of bitcoin ETPs.[5]

Looking ahead, we anticipate these trends to continue. Institutions and advisors may see deeper penetration into bitcoin ETPs as they go through due diligence. For example, several of the largest wirehouses and independent brokers are partway through their diligence processes to allow advisors to allocate to bitcoin ETPs on behalf of their clients.

4. BlackRock Global Business Intelligence, data as of Oct. 31, 2024. 5. PricewaterhouseCoopers "6th Annual Global Crypto Hedge Fund Report" October 2024.

Portfolio view

Bitcoin can be a potential source of diversification

Professional investors are on an educational journey with digital assets. In many instances, the first step has been to understand what bitcoin is and how ETPs provide efficient exposure. But increasingly, the next step has been greater education and assessment of this asset's role and size in the context of a diversified portfolio, balancing its volatility against its potential benefits as a unique source of diversification.

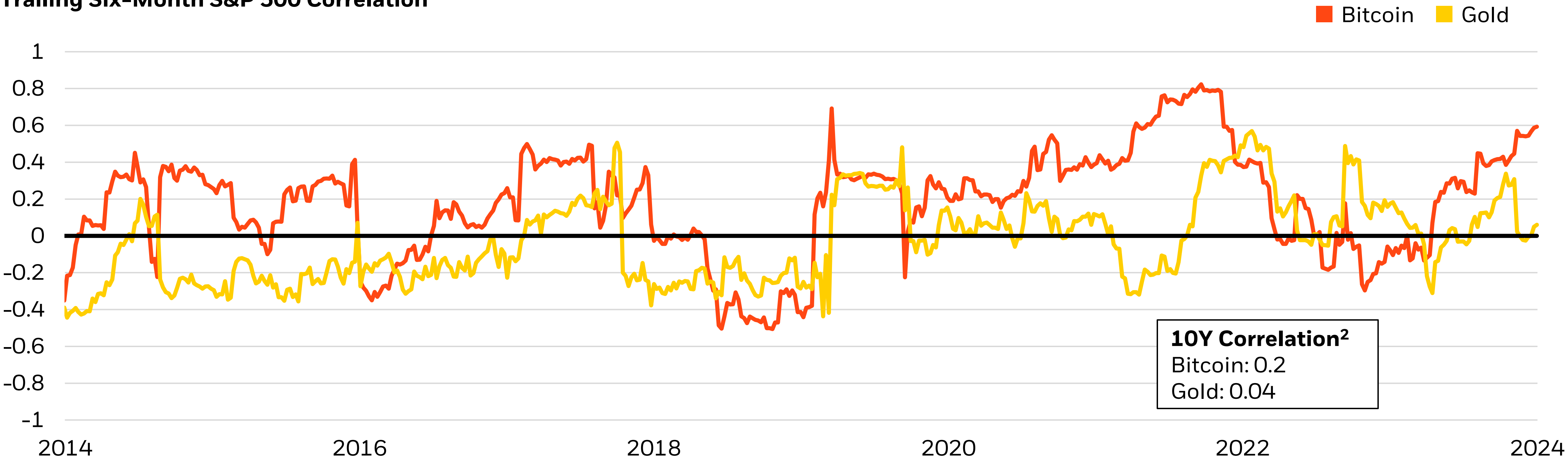
This is one of the most common questions we get from clients. We believe that bitcoin can be a unique diversifier in portfolios, and have analyzed portfolio implications for investors who believe in bitcoin's adoption potential. The following are key considerations.

Correlation: In 2024, bitcoin's correlation with equities continued to share similarities with gold, while its long-term low correlation with equities and bonds persisted. (Figure 4) This was unsurprising, in our view, as bitcoin's long-term fundamental drivers are starkly different, and in many cases inverted, versus most traditional financial assets. Bitcoin's adoption trajectory is likely to be driven by the intensity of concerns over inflationary pressures, geopolitical stability, U.S. fiscal sustainability and U.S political stability. This is the inverse of the relationship that is generally attributed to traditional "risk assets" with respect to such forces.

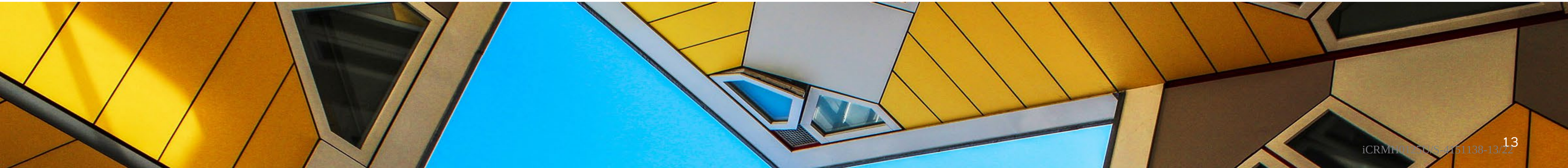
Figure 4: Bitcoin, gold correlation to equities

Bitcoin has generally exhibited a low historical correlation with U.S. stocks, similar to gold

Trailing Six-Month S&P 500 Correlation[1]



Spot price and index performance do not reflect any management fees, transaction costs, or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. 1. 6-month trailing correlation of bitcoin and gold weekly returns to S&P 500 weekly returns from Dec. 2014 to Dec. 2024. Source: Bloomberg Bitcoin Spot Price, Bloomberg Gold Spot Price, S&P Global, and BlackRock calculations, as of Dec. 31, 2024. 2. 10-year correlation of bitcoin and gold weekly returns with S&P 500 weekly returns from Dec. 2014 to Dec. 2024. Source: Bloomberg Bitcoin Spot Price, Bloomberg Gold Spot Price, S&P Global, and BlackRock calculations, as of Dec. 31, 2024.



Performance

Bitcoin's returns in 2024 were 120%, compared with 27% for gold and 26% for the S&P 500. (Figure 5) Since 2014, bitcoin has exhibited annualized returns of 54%, with a disproportionate number of extreme positive return periods, where large price increases significantly outweighed price drawdowns.

Volatility

Throughout 2024, bitcoin continued to exhibit volatility, which the asset has shown since its debut in 2009. Bitcoin's volatility remains elevated at 3.7x that of gold and 1.5x that of the 'Magnificent 7' group of mostly mega-cap tech stocks.[6,7] But bitcoin's volatility has consistently declined alongside the industry's maturation in recent years and sat at 55% at year-end.[8]

6. Annualized one-year trailing volatility of bitcoin compared to that of gold. Source: Bloomberg Bitcoin Spot Price, Bloomberg Gold Spot Price, retrieved from Bloomberg; and BlackRock calculations, as of Dec. 31, 2024. 7. Annualized one-year trailing volatility of bitcoin compared to the average annualized one-year trailing volatility of "Magnificent 7" stocks (AAPL, AMZN, GOOGL, META, MSFT, NVDA, and TSLA). Source: Bloomberg, Bloomberg Bitcoin Spot Price, and BlackRock calculations, as of Dec. 31, 2024. 8. Annualized one-year trailing volatility of bitcoin, as measured by standard deviation. Source: Bloomberg Bitcoin Spot Price and BlackRock calculations, as of Dec. 31, 2024. **Past performance does not guarantee future results.**

Figure 5: Bitcoin has been the top performing major asset class in many years and the lowest in others

Bitcoin performance compared with other select major asset classes[1]

Returns for 2014-2024, %

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Cumulative Return	Annualized Return
SPX 15%	BTC 36%	BTC 120%	BTC 1,375%	AGG 0%	BTC 95%	BTC 305%	BTC 60%	CMT 20%	BTC 157%	BTC 120%	BTC 11,836%	BTC 54%
AGG 6%	SPX 1%	HY 18%	EM 35%	HY -2%	SPX 31%	Gold 24%	SPX 31%	Gold 1%	SPX 27%	Gold 27%	SPX 293%	SPX 13%
HY 2%	AGG 0%	EM 15%	SPX 21%	Gold -3%	EM 21%	SPX 17%	CMT 30%	HY -11%	HY 13%	SPX 26%	Gold 114%	Gold 7%
EM 1%	HY -4%	CMT 14%	Gold 12%	SPX -5%	Gold 18%	EM 14%	HY 5%	AGG -12%	Gold 12%	EM 12%	HY 69%	HY 5%
Gold -3%	Gold -11%	SPX 14%	HY 7%	CMT -9%	HY 14%	AGG 7%	EM 0%	EM -18%	EM 9%	CMT 9%	EM 57%	EM 4%
CMT -18%	EM -14%	Gold 7%	CMT 6%	EM -15%	CMT 10%	HY 7%	AGG -1%	SPX -19%	AGG 5%	HY 9%	AGG 21%	AGG 2%
BTC -58%	CMT -25%	AGG 3%	AGG 4%	BTC -74%	AGG 9%	CMT -3%	Gold -6%	BTC -64%	CMT -2%	AGG 2%	CMT 15%	CMT 1%

Past performance does not guarantee future results. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Certain sectors and markets perform exceptionally well based on current market conditions and iShares and BlackRock Funds can benefit from that performance. Achieving such exceptional returns involves the risk of volatility and investors should not expect that such results will be repeated. Index and spot price performance does not represent actual Fund performance. For actual fund performance, please visit www.iShares.com or www.blackrock.com. 1. Asset classes shown include major liquid asset classes available to U.S. investors. Bitcoin returns calculated using Bloomberg Bitcoin Spot Price. SPX is represented by the S&P 500 Index (TR). EM is represented by the Dow Jones Emerging Markets Index (TR). AGG is represented by Bloomberg U.S. Aggregate Bond Index (TR). HY is represented by Bloomberg U.S. Corporate High Yield Bond Index Value Unhedged (TR). Gold returns calculated using the spot exchange rate of gold against the U.S. dollar index. CMT is represented by Dow Jones Commodity Index (TR). All returns rounded to the nearest percent. Source: Bloomberg and BlackRock calculations, as of Dec. 31, 2024.

Market quality

Bitcoin ETPs bolster liquidity

In just one year, IBIT has become a liquid vehicle for both buyers and sellers to adjust their exposure to bitcoin efficiently. In general, ETPs have typically been able to bring enhanced liquidity and price discovery to more opaque parts of the markets. These effects can take several years to play out, but we have seen IBIT in its first year providing additional liquidity in a breadth of market scenarios. One way we examine this is by measuring the ratio of an ETP's secondary market activity to its primary market activity, called the "STP ratio."

STP ratio: Exchange-traded products have two layers of liquidity: primary market liquidity, which is provided by the underlying securities or instruments of the ETP, and secondary market liquidity, which is provided by the ability to trade ETPs on exchange. This means that ETPs are net contributors to market liquidity. At a minimum, an ETP will be as liquid as its underlying securities or instruments; however, many ETPs can provide even greater market liquidity than their underlying instruments.

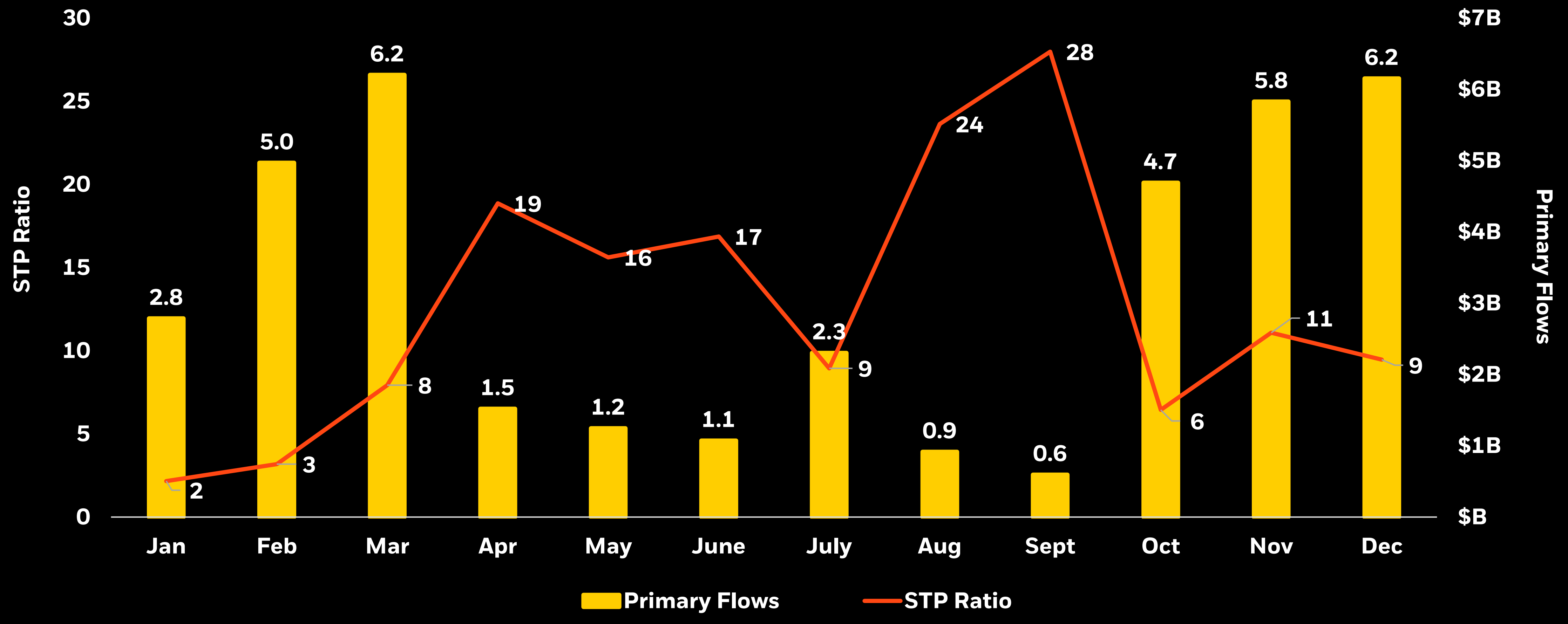
The STP ratio can help measure the depth of the secondary market – a dimension of market quality – by illustrating how well the interest of buyers and sellers is balanced on exchange. Higher STP ratios suggest that ETP trading is being efficiently processed on exchange with minimal market impact (i.e., bitcoin does not need to be bought or sold to adjust for changes in investor demand).

Since IBIT's inception, the overall STP ratio has been 9:1, meaning there was only $1 of creation/redemption activity in the underlying security for every $9 of IBIT traded in the secondary market.[9] As Figure 6 shows, the STP ratio steadily increased in the first three quarters and fell in the fourth as primary flows surged. Eight of IBIT's top 10 single-day inflows took place starting from the end of October 2024, with the largest on Nov. 7 at $1.12 billion. For comparison, the STP ratio for all of iShares' U.S. ETFs was 6.6 in 2024.

9. Bloomberg data, as of Dec. 31, 2024.

Figure 6: IBIT's secondary to primary ratio and monthly flows (USD billions)

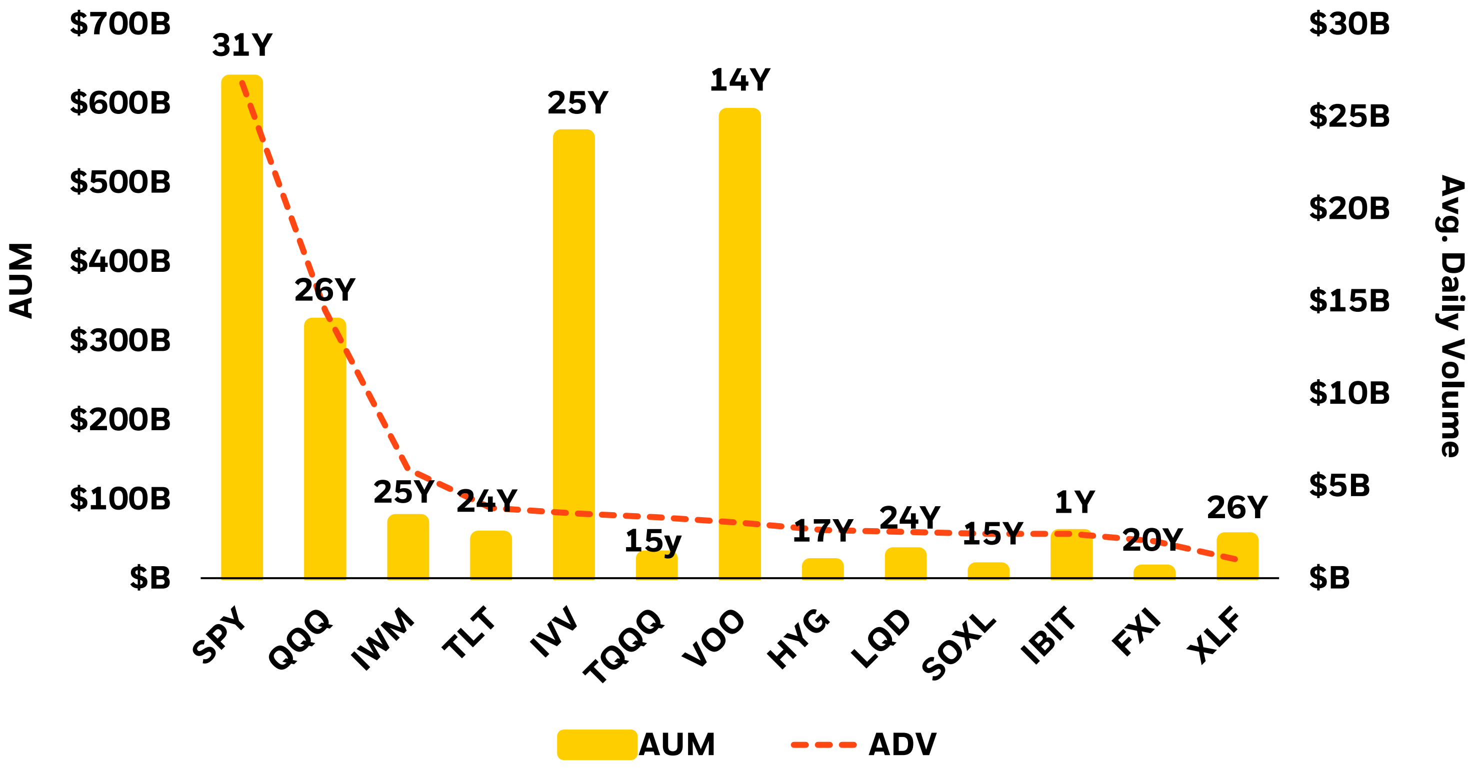
IBIT's STP ratio averaged 9:1 in 2024



Source: Bloomberg, as of Dec. 31, 2024.

Figure 7: IBIT ranks as one of the most-traded ETPs in the U.S.

ETPs with the highest three-month average daily trading volume (ADV), with assets under management (AUM) and fund age



Note: Years indicate length of time in market

Bid-ask spread: IBIT has become a top ETP in terms of its use as a financial instrument, with large volumes. IBIT also already has a robust options market (see 'Crypto ETP innovation'). Further underscoring IBIT's liquidity and easier trading, the fund's bid-ask spread, on average, in the fourth quarter was 2 bps, tighter than IBIT's first month spread at 5 bps – indicating healthy market quality. This compares with an average bid-ask spread for all U.S. iShares ETPs of 11 bps in the fourth quarter.

Source: Bloomberg, spread and ADV information calculated for three-month period from Oct. 1-Dec. 31, 2024. IBIT fund inception was Jan. 11, 2024. Other fund information sourced from the public websites of each respective fund manager. To better understand the similarities and differences between investments, including investment objectives, risks, fees and expenses, it is important to read the products' prospectuses. All currency figures are shown in U.S. Dollars (USD). A basis point (bps) is one hundredth of one percent (e.g. one basis point = 0.01%).

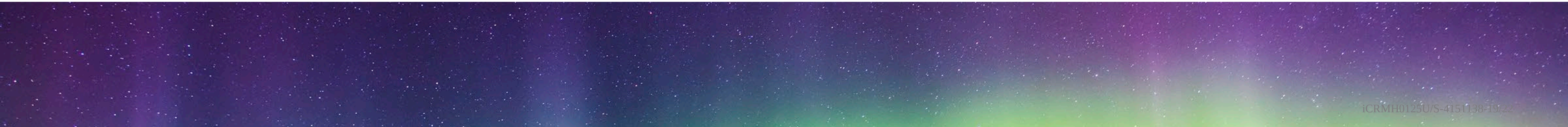
Crypto ETP innovation

Ether ETPs, IBIT options

Bitcoin ETPs also paved the way for more digital asset access in 2024, with ether ETPs and IBIT options.

Ether ETPs: In July, ETPs were launched giving exposure to ether, the native token on the Ethereum network and the second-largest cryptocurrency by market cap after bitcoin at $405 billion.[10] The iShares Ethereum Trust ETF (ETHA) has quickly attracted substantial interest, though not to the same degree as IBIT. ETHA took in $1 billion of flows in less than a month and had the fifth-largest first month of inflows out of all ETPs launched in 2024, with IBIT at the top.[11]

10. CoinGecko, as of Dec. 31, 2024. 11. Bloomberg, as of Dec. 31, 2024.



Ether and bitcoin are both well-recognized digital assets, with a combined market cap of $2.2 trillion.[12] But they have distinct value propositions and use cases for investors.

- Bitcoin's investment narrative as an emerging global monetary alternative is more clear to traditional finance investors. It is largely seen as an instrument to hold wealth and potentially hedge against inflation and economic instability.
- Ethereum is a highly programmable blockchain that provides infrastructure for a diverse range of assets and use cases. It is valued for its flexibility and ability to support more sophisticated applications beyond simple value transfers.[13]

IBIT options: Options for IBIT launched in November 2024, giving investors another way to gain exposure to bitcoin. We believe the availability of IBIT options is a positive step for bitcoin markets and will ultimately help to make them more efficient. It will also allow flexibility for different investor types to customize the nature of their exposure to bitcoin – a key consideration for investors given bitcoin's volatile nature.

For example, we see investors with concentrated bitcoin positions using options for risk management or to help generate income. IBIT options were the first to market among competing bitcoin ETPs, with monthly and weekly contracts listed, providing investors with enhanced choice and flexibility. IBIT options traded a record $3.4 billion on launch day, totaling 596,000 contracts, and volumes have grown since then.[14]

12. CoinGecko, as of Dec. 31, 2024. 13. For more, see the iShares.com article "Bitcoin vs. Ethereum: Similarities, differences and considerations," published July 2024. 14. Bloomberg as of Dec. 31, 2024.

Looking ahead

Bitcoin ETPs have helped pave the way for adoption of digital assets into the traditional financial ecosystem in three key ways: greater regulatory clarity, education and accessibility.

We expect wider adoption will take time. Providers like BlackRock are continually engaging with clients on their journeys of exploration around this new asset, helping to educate around the most pertinent questions investors grapple with. Wealth advisory and institutional investors may make more progress with due diligence and platform approvals.

We believe that regulatory frameworks for bitcoin and other digital assets will continue to develop and provide further clarity to investors and digital asset market participants. We expect the development of these frameworks in the near- and mid-term to be driven by broad recognition of the utility and diversification benefits that bitcoin can provide to investors, coupled with the U.S. administration taking office in 2025 and bipartisan members of Congress prioritizing the issue. As these regimes are put into place, we anticipate continued growth and wider adoption of this asset class.

We believe bitcoin and ether are still early in their journeys. Although the exact path they take is unknown, it's clear that investors are seeking exposure to these assets in new ways.

17. For more, see BlackRock papers "Bitcoin: A unique diversifier" and "Sizing bitcoin in portfolios."

Contributors:

Rebecca Bintrim

Emily Fredrix Goodman

Wendy Hu

William Hughes

Matt Kunke

Samantha Merwin

Kevin Tang

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