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Bitcoin futures ETF loses 9% a year to fees and contango

Cost of rolling futures contracts from one month to another exacerbates ProShares ETF’s losses

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Investing in a US bitcoin futures ETF just before the underlying derivatives roll over to a new contract adds more than $90,000 of costs per year to an investment of $1 million.

Investors in the ProShares Bitcoin Strategy ETF (BITO) – the first in the US to replicate the performance of bitcoin futures – will pay an average of 8% a year to roll the futures contracts from one month to the next, according to the issuer. The fund mostly invests in front-month futures which expire on January 28, forcing ProShares to swap them for new contracts that expire at the end of February.

Bitcoin futures listed on the Chicago Mercantile Exchange are in contango, meaning the contract expiring at the end of January trades at a lower price than futures with later maturities. The ETF also has a 0.95% annual fee. The fund has plunged 42% since its launch on October 19.

“Investors should know that what they are buying is an asset at an expensive price minus a very expensive fee, and receiving a very poor performance," says Laurent Kssis, from CEC Capital, a UK-based consultancy that specialises in digital assets. "But US investors have no choice, because as far as trading on a regulated exchange goes, there's nothing else out there."

ProShares will try to minimise costs as it rolls its bitcoin futures in the final week of January, according to Simeon Hyman, head of investment strategy at ProShares. The ETF begins the roll with 80% of its futures expiring in January and the remainder in February, according to the firm's website.

BITO's launch roiled the bitcoin futures market. The basis spread – the difference between futures expiring over consecutive months – surged as the fund amassed $1.2 billion of assets in three days.

Spreads tightened in the first two weeks of January. ProShares says that if spreads remain at such levels throughout 2022, investors will pay 4.6% to roll the futures contracts this year.

Other issuers that had planned to launch bitcoin futures ETFs have put their plans on hold or abandoned them altogether. Bitwise has withdrawn its application to the US Securities and Exchange Commission. The firm calculated that contango would cost investors between 5% and 10% a year before compounding. Matt Hougan, Bitwise's chief investment officer, has described bitcoin futures ETFs as having "costs on top of costs, plus added complexity". Hougan did not respond to requests for comment, but has said on Twitter he believes "investors would be best served by spot exposure".

Invesco has shelved its own application for a bitcoin futures ETF. The asset manager could restart the application at any time.

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Laurent Kssis, CEC Capital

The SEC rejected an application by VanEck to issue an ETF investing directly in **bitcoin** last November. VanEck has since launched XBTF, an $18.5 million bitcoin futures ETF in the US.

The head of the asset manager's European business, Martijn Rozemuller, says the bitcoin exchange-traded products approved by European regulators are better investments.

"We chose to have the actual crypto in our exchange-traded product," he says. "We believe there is less cost involved and it's more straightforward. I always like to keep financial products as simple as can be."

Cryptocurrency ETPs are listed on most major European exchanges, including the bourses in Germany, France and Switzerland. The London Stock Exchange does not have any listings because the Financial Conduct Authority has banned retail investors from putting their money in securities linked to the price of cryptocurrencies. It is not possible to stop retail investors from gaining access to securities listed on the LSE.

Custodians look after the digital assets that the European crypto ETPs hold. Coinbase and Bitgo are the largest cryptocurrency custodians, administering $90 billion and $64 billion of assets, respectively, according to a report from **Blockdata** last November.

New York headquartered WisdomTree also offers ETPs in Europe. Jason Guthrie, head of its digital assets operation for the continent, notes that investors in ETPs invested in spot bitcoin only pay management fees for the funds.

"When you contrast that with futures, there's the cost of the roll and what its curve looks like on any given month," he says. "There's so many factors that will impact the aggregate performance of that product. People that just want exposure to bitcoin probably don't want exposure to all the rest of that stuff."

Asset managers wonder why bitcoin futures on the CME trade in contango. Unlike crude oil, bitcoin does not have added costs for exploration, shipping and delivery.

ProShares says it has yet to decide whether to ask the SEC's permission to create an ETF that invests in spot bitcoin. "We are vigilantly reviewing all market developments and opportunities that may add value for investors, and we will continue to consider new and innovative products that meet investor demand within the existing regulatory environment," Hyman says.

Editing by Will Hadfield
