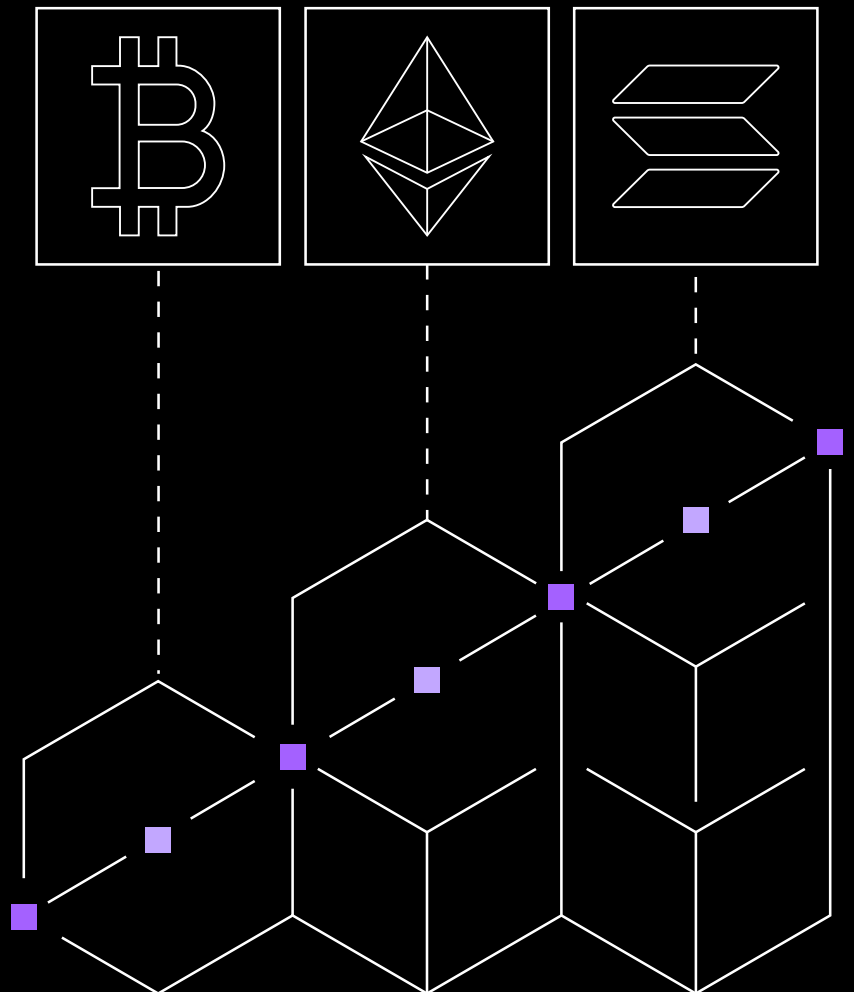


Galaxy Funds

Room for Multiple Winners in Web3

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Bitcoin vs. Ethereum vs. Solana

We see differentiation emerging among the predominant blockchains as the digital asset space matures. With that differentiation, it's clear there's plenty of room in the digital asset class for multiple winners. Bitcoin (BTC) is the strongest store of value digital asset. It has firmly secured its reputation as 'digital gold,' playing an important role in portfolios hedging against global uncertainty. The Ethereum blockchain is proving to be more flexible than Bitcoin, and its open-source rails allow decentralized applications to tap into smart contract capabilities. The Solana blockchain is proving to be quicker than Ethereum by maximizing throughput and information flow and achieving record-setting transactions per second (TPS) processing rates. What follows is a summary of these three blockchains and an analysis of their differentiating features in the unfolding digital asset economy.

Bitcoin

According to the Bitcoin whitepaper, creator Satoshi Nakamoto's goal was to create a digital representation of cash capable of fulfilling the role of today's fiat currency.¹ To do this, bitcoin needed to work as a medium of exchange, a unit of account, and a store of value. Therefore, when Satoshi created bitcoin, he focused on the principles of durability, intrinsic value, and scarcity.

These principles are crucial to how bitcoin functions today. While bitcoin is secure, it clocks in at 7 TPS, making it one of the slowest blockchains. Changes to the Bitcoin blockchain take a long time due to the requirement for a majority of nodes to agree on proposed adjustments. This requirement explains the four-year gap between bitcoin's recent Taproot upgrade and its 2017 upgrade. Other more agile blockchains gain traction across the sphere due to their ability to innovate and achieve consensus quickly. Lastly, bitcoin has a maximum supply due to its programmatic monetary policy, unlike Ethereum which has no limit on its maximum issuance.

Ethereum

The Ethereum whitepaper details how Vitalik Buterin liked the Bitcoin blockchain's technology but felt it wasn't flexible enough for applications.² Seeing this window of opportunity, Vitalik set out to create Ethereum to help developers build decentralized applications with the ability to interact with each other efficiently. The resulting Ethereum blockchain introduced a built-in Turing-complete programming language, allowing anyone to write smart

contracts and decentralized applications. Within each application built on Ethereum, developers can create their own arbitrary rules for ownership, transaction formats, and state transition functions.

The creation of smart contracts initiated the demand for token standards that ensure smart contracts remain composable and compatible with existing decentralized exchanges.³ This environment led to the development of tokens like ERC-20, which opened the door to the creation of NFTs and other smart contract-enabled digital assets. It's worth noting that the Ethereum blockchain was never created with the sole purpose of supporting a cryptocurrency. Instead, the Ether (ETH) cryptocurrency was created to provide an in-house currency for decentralized apps on Ethereum.

All Ethereum users pay fees to use decentralized apps. These fees - referred to as "gas" - are currently high on Ethereum due to congestion and popularity. You may think of this congestion due to popularity as the Ethereum blockchain exceeding its bandwidth to support activity across all apps on the chain. The more users seen operating on the blockchain, the higher the congestion, resulting in more power required for chain processing activity. This increased activity, or congestion, leads to higher gas prices for those transacting on the chain. High gas fee fluctuations impede some users' ability to interact on the chain and have led many to look to other blockchains for lower transaction fees that support smart contract capabilities.

Solana

Anatoly Yakovenko, the creator of Solana, believed that blockchain platforms could scale faster than 15 TPS because payment systems demanded higher transaction speeds (1500+). He, along with a colleague, created the Solana blockchain and its PoH framework as a solution to the slow transaction processing dilemma.

Yakovenko's research resulted in Solana, a web-scale, open-source blockchain protocol, similar to Ethereum, with a stronger focus on digital payment crypto functionality. To achieve the goal of reaching faster transaction processing rates, Anatoly focused on speed over security and decentralization. The result of Yakovenko's priorities produced the Solana blockchain, which we see reaching speeds far surpassing other blockchains.⁴

Solana is less decentralized and suffers from periodic downtimes, as the Solana Foundation has a central point of control over the network. However, these drawbacks are why Solana's gas fees are extremely low, resting currently at less than one cent of a US dollar, which is a significant reason why the NFT boom migrated to Solana this summer.

1) Source: [Bitcoin.org](https://bitcoin.org)

2) Source: [Ethereum.org](https://ethereum.org)

3) Source: [Ethereum.org](https://ethereum.org)

4) Source: [Solana.com](https://solana.com)



Room for multiple winners in Web3

In this nascent asset class with breakthrough technology unfolding in real-time, we see room to explore multiple competitive advantages. The world continues adopting crypto for varying use cases, including Web3, the metaverse, digital payments, and more. Differentiation amongst blockchain capabilities creates room for BTC, ETH, SOL, and additional competitors entering the space to claim a hold on their niche within this market.

Web2 elevated centralization across industries as an interactive and interconnected internet with massive app stores dominated by large media and tech companies. The dependency on centralized gatekeepers across Web2 allows for vulnerability via a single point of failure, making it possible to hack an entire platform from one entry point while encouraging abuse of user data and access, a problem Web3 is addressing.

Multiple leaders emerged in Web2, including Google, Facebook, and Amazon, among others. These tech leaders organized their product offerings in ways that benefited developers and consumers alike. Audience data was essentially monetized in Web2, enabling large tech companies to capitalize on the ability to sell targeted media products and brands to run targeted marketing campaigns.

The natural progression from Web2 to Web3 is fueled by artificial intelligence, blockchain technology, and demand for data autonomy. Just as multiple leaders emerged in Web2, we see room for multiple winners across the blockchain industry within Web3. Different audiences will need the use of various blockchain software based on their personal use cases, including store of value, smart contract enabling, and transaction processing-focused, scalable cryptocurrencies.



Differences in web2 operating systems

Computer

Mac OS

- Native OS for Apple computer products
- Sleek, user friendly OS
- Has an amazing UI and UX

PERKS

- Streamlined interfacing with other Apple products
- More secure - viruses are most often targeted for Windows devices
- Content creators benefit from applications (music, videos, photos, graphic designs, etc.)
- Considered the most innovative OS

Windows

- Most commonly used
- Popular due to its familiarity: most individuals have grown up using a computer with a version of Windows (from Windows 95 to the current Windows 11)

PERKS

- Largest library of applications
- Largely considered the most beneficial to learn due to the prevalence of Windows-installed computers

Linux

- Considered too sophisticated for many average computer users
- Requires a specific use case to install Linux on the computer

PERKS

- Allows user the most control over computer
- Most secure - built-in firewall and virus protection
- Open-source - can be downloaded by anyone anywhere for free

Mobile Phone

iOS / Apple

PERKS

- Security threats are rare due to the "locked" nature of iOS
- Easy interfacing with other Apple products (Mac, iPad, etc)
- iMessage/FaceTime

Android / Google

PERKS

- 100+ languages
- Available on the largest number of devices
- Most popular phone OS
- Easy file transfer between phone and computer
- More control over your device: alternative app stores, most customizable, open source software (Android is based on Linux)

Blackberry OS / Blackberry

PERKS

- Security (old and simple OS)
- Physical keyboard
- Better battery life
- Does not break as easily as other mobile phones
- Blackberry Hub enables email review without using data



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Investment Risks Generally. An investment in the Fund, involves a high degree of risk, including the risk that the entire amount invested may be lost. The Fund will invest in Digital Assets (such as Bitcoin, Ethereum, other cryptocurrencies or blockchain based assets, including those that represent the Decentralized Finance (or DeFi) portion or sector of the digital assets market) using strategies and investment techniques with significant risk characteristics, including risks arising from the volatility of the global Digital Assets markets and the risk of loss from counterparty defaults. The Fund’s investment program may use investment techniques that involve substantial volatility and can, in certain circumstances, substantially increase the adverse impact to which the Fund may be subject. All investments made by the Fund will risk the loss of capital. No guarantee or representation is made that the Fund’s investment program will be successful, that the Fund will achieve its investment objective or that there will be any return of capital invested to investors in the Fund, and investment results may vary.

Different from Directly Owning Bitcoin, Ethereum or Other Digital Assets.

The performance of the Fund will not reflect the specific return an investor would realize if the investor actually purchased a Digital Asset. Investors in the Fund will not have any rights that Digital Asset holders have.

No Guarantee of Return or Performance. The obligations or performance of the Fund or the returns on investments in the Fund are not guaranteed in any way. Any losses of the Fund will be borne solely by investors in the Fund. Ownership interests in the Fund are not insured by the Federal Deposit Insurance Corporation, and are not deposits, obligations of, or endorsed or guaranteed in any way, by any banking entity.

Regulation. Digital Assets, including Bitcoin, Ethereum and DeFi tokens, are loosely regulated. Ongoing and future regulatory actions may alter, perhaps to a materially adverse extent, the value of a Fund’s investment. If any Digital Asset is determined to be a “security” under U.S. federal or state securities laws or a Digital Asset exchange is determined to be operating illegally, it may have material adverse consequences for Digital Assets due to negative publicity or a decline in the general acceptance of Digital Assets. As such, any determination Digital Asset exchanges are operating illegally or that any Digital Asset is a security under U.S. federal or state securities laws may adversely affect the value of a particular Digital Asset or Digital Assets generally and, as a result, the value of a Fund’s investment.

Exchanges. Exchanges may suffer from operational issues, such as delayed execution, that could have an adverse effect on the Fund. Digital Asset exchanges have been closed due to fraud, failure or security breaches. Any of the Fund’s funds that reside on an exchange that shuts down or suffers a breach may be lost.

Value. Several factors may affect the price of Digital Assets, including Bitcoin, Ethereum and DeFi tokens, including, but not limited to: supply and demand, investors’ expectations with respect to the rate of inflation, interest rates, currency exchange rates or future regulatory measures (if any) that restrict the trading of a Digital Asset or the use of a Digital Asset as a form of payment. There is no assurance that a Digital Asset will maintain its long-term value in terms of purchasing power in the future, or that acceptance of bitcoin payments by mainstream retail merchants and commercial businesses will continue to grow.

Protocol. Many Digital Asset networks, including Bitcoin, Ethereum and DeFi tokens, operate on open-source protocols maintained by groups of core developers. The open-source structure of these network protocols means that certain core developers and other contributors may not be compensated, either directly or indirectly, for their contributions in maintaining and developing the network protocol. Lack of incentives to, or a failure to properly, monitor and upgrade network protocol could damage a Digital Asset network. It is possible that a Digital Asset protocol has undiscovered flaws that could result in the loss of some or all assets held by the Fund. There may also be network-scale attacks against a Digital Asset protocol, which could result in the loss of some or all of assets held by the Fund. Advancements in quantum computing could break a Digital Asset’s cryptographic rules. The Fund makes no guarantees about the reliability of the cryptography used to create, issue, or transmit Digital Assets held by the Fund.

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