

IDX Risk-Managed Bitcoin Trust
IDX Risk-Managed Ethereum Trust

BASE MEMORANDUM

IDX Digital Assets, LLC

Sponsor

Dated November 1, 2022

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ABOUT THIS BASE MEMORANDUM

This Base Memorandum describes certain features that are common to the private placements of common units of fractional undivided beneficial interest (“*Shares*”) in the following investment trusts (each, a “*Trust*” and together, the “*Trusts*”):

- IDX Risk-Managed Bitcoin Trust, a Delaware statutory trust formed on April 12, 2021 under the Delaware Statutory Trust Act (the “*DSTA*”) and governed by the Second Amended and Restated Declaration of Trust and Trust Agreement of IDX Risk-Managed Bitcoin Trust dated as of November 1, 2022, by and among IDX Digital Assets, LLC, as sponsor (the “*Sponsor*”), Delaware Trust Company, as trustee (the “*Trustee*”) and the Shareholders of the Trust.
- IDX Risk-Managed Ethereum Trust, a Delaware statutory trust formed on April 12, 2021 under the DSTA and governed by the Second Amended and Restated Declaration of Trust and Trust Agreement of IDX Risk-Managed Ethereum Trust dated as of November 1, 2022, by and among the Sponsor, the Trustee and the Shareholders of the Trust.

You should read this Base Memorandum and the applicable supplement containing specific information about the terms of an individual Trust and its private placement, referred to herein as the “Trust Supplement” for that Trust, in their entirety to understand fully the terms of that Trust and its private placement.

This Base Memorandum is being furnished on a confidential basis solely to selected accredited investors within the meaning of Rule 501(a) of Regulation D under the Securities Act of 1933, as amended (the “*Securities Act*”) in connection with the private placements of Shares of the Trusts. Each time a Trust offers or sells its Shares, you will be provided a Trust Supplement that will contain specific information about the terms of that private placement and the Shares of that Trust. The Trust Supplement may also add, update or change information contained in this Base Memorandum. The Trust Supplement may also contain information about certain United States federal income tax considerations relating to an investment in the Trust covered by that Trust Supplement. You should read both this Base Memorandum and the relevant Trust Supplement together.

We refer to this Base Memorandum, as supplemented by the most recent Trust Supplement for an individual Trust, as the “*Private Placement Memorandum*” for that Trust.

Any statement contained in this Base Memorandum will be deemed to be modified or superseded to the extent that a statement contained in the most recent Trust Supplement provided to you, or any subsequent document, modifies or supersedes that statement. Any statement that is modified or superseded in this manner will no longer be a part of this Base Memorandum, except as modified or superseded.

DEFINED TERMS

Capitalized terms used without definition are defined under “Glossary of Defined Terms.”

SUMMARY OF SERVICE PROVIDERS

In this Private Placement Memorandum, we refer to the following, collectively with the Sponsor, as the “*Service Providers*”:

- Delaware Trust Company is the Delaware trustee of each Trust (“*Trustee*”).
- Coinbase Custody Trust Company, LLC is the custodian of the digital assets of each Trust (the “*Custodian*”).
- Gryphon Fund Group, LLC is the administrator of each Trust (the “*Administrator*”).
- In addition, the Sponsor may appoint one or more distributors (each, a “*Distributor*”).

IMPORTANT INFORMATION FOR PROSPECTIVE INVESTORS

This Private Placement Memorandum is being furnished on a confidential basis solely to selected accredited investors within the meaning of Rule 501(a) of Regulation D under the Securities Act of 1933, as amended (“*Securities Act*”) in connection with the potential purchase of common units of fractional undivided beneficial interests (“*Shares*”) which represent ownership in each Trust. This Private Placement Memorandum is not to be reproduced or distributed to others without the prior written consent of the sponsor of each Trust, IDX Digital Assets, LLC (the “*Sponsor*”). Each recipient, by accepting delivery of this Private Placement Memorandum, agrees to keep all information contained herein confidential (except as otherwise provided herein) and to use this Private Placement Memorandum for the sole purpose of evaluating a possible investment in either of the Trusts. Notwithstanding the foregoing, each investor (and each employee, representative or other agent of the investor) is authorized to disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of, and any transaction entered into by, either of the Trusts and all materials of any kind (including opinions or other tax analyses) relating to such tax treatment or tax structure that are provided to the investor relating to such tax treatment and tax structure, except for any information identifying either of the Trusts, the Sponsor, any investor or their respective advisors, affiliates, officers, directors, members, employees and principals or (except to the extent relating to such tax structure or tax treatment) any nonpublic commercial or financial information. For this purpose, “tax structure” is limited to the facts relevant to the tax treatment of an investment in any of the Trusts. Acceptance of this Private Placement Memorandum by a recipient constitutes an agreement to be bound by the foregoing terms.

The Shares are neither interests in nor obligations of the Service Providers. The Sponsor may, pursuant to the terms of any applicable agreements, remove or replace one or more of the Service Providers at its sole discretion.

With respect to each Trust, none of the Shares, the Trust’s Digital Asset Custodial Account, the digital assets transferred to such Digital Asset Custodial Account, and the assets of the Trust are insured against loss by the Federal Deposit Insurance Corporation (“*FDIC*”) or any other federal agency of the United States.

This Private Placement Memorandum contains information you should consider when making an investment decision about the Shares. The Trusts and the Sponsor have not authorized any person to provide you with different information, except for certain information as may be provided by a Distributor, if any; however, if a Distributor or anyone else provides you with information that is different or inconsistent with the information set forth herein, you should not rely on it.

No representations or warranties of any kind are made or intended, and none should be inferred, with respect to the economic return or the tax consequences of an investment in the Shares. No assurance can be given that existing laws will not be changed or interpreted adversely.

Prospective investors are not to construe the contents of this Private Placement Memorandum as legal, tax or investment advice. Each prospective investor should consult its own advisors concerning an investment in Shares.

In making an investment decision, investors must rely on their own examination of the relevant Trust and the terms of the offering contemplated by the Private Placement Memorandum, including the merits and risks involved. The Shares have not been recommended by any U.S. federal or state, or any non-U.S. securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of the Private Placement Memorandum. Any representation to the contrary is a criminal offense.

The Shares offered hereby have not been, and will not be, registered under the Securities Act or any state or other securities laws, and will be offered and sold only to “accredited investors” within the meaning of Rule 501(a) of Regulation D under the Securities Act, and in compliance with any applicable state or other securities laws. Neither of the Trusts will be registered as an investment company under the U.S. Investment Company Act of 1940, as amended (the “**Investment Company Act**”). Neither of the Trusts is considered a commodity pool for purposes of the U.S. Commodity Exchange Act, as amended (the “**CEA**”), and the Sponsor is not subject to regulation by the U.S. Commodity Futures Trading Commission (the “**CFTC**”) as a commodity pool operator or commodity trading adviser.

The Shares are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and any applicable state or other securities laws, pursuant to registration or an exemption therefrom. The transferability of the Shares is further restricted by the terms and conditions of each Trust’s respective Trust Agreement, as the same may be amended from time to time (a “**Trust Agreement**,” and collectively, the “**Trust Agreements**”). A copy of the relevant Trust Agreement will be included with each Trust Supplement and should be read carefully by any prospective investor. There may not be a public market for the Shares of either of the Trusts, and there is currently no intention or obligation on the part of any person to register the Shares under the Securities Act or any state or other securities law.

Each investor, either alone or together with a purchaser representative, will be required to make representations that the investor: (i) has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of an investment in a Trust and (ii) is able to bear the economic risks, including a total loss of an investment in the Shares of such Trust.

The Private Placement Memorandum does not constitute an offer to sell, or the solicitation of an offer to buy, any securities in any state of the United States or other jurisdiction where, or to or from any person to or from whom, such offer or solicitation is unlawful or not authorized.

An investment in the Shares involves significant risks. Potential investors should carefully review the information in “Risk Factors.” An investment in a Trust is suitable only for sophisticated investors and requires the financial ability and willingness to accept the high risks inherent in an investment in a Trust. No assurance can be given that the investment objective of any Trust, which is presented under “Activities of the Trusts—Trust Objective” and in the relevant Trust Supplement, will be achieved or that investors will receive a return of their capital. An investor may lose its entire investment.

Each prospective investor is invited to meet with representatives of the Sponsor or the Distributors, as a designee of the Sponsor, and to discuss with, ask questions of, and receive answers from, such representatives concerning the terms and conditions of each offering of Shares, and to obtain any additional information, to the extent that such representatives possess such information or can acquire it without unreasonable effort or expense, necessary to verify the information contained herein. A prospective investor should not subscribe for Shares unless satisfied that it and/or its representative has requested and received all information which would enable it to evaluate the merits and risks of investing in the Shares.

The market analysis, projections, targets, estimates and similar information, including all statements of opinion and/or belief contained herein, are subject to a number of assumptions and inherent uncertainties. Past performance, when available, is not necessarily indicative of future results, and there can be no assurance that targets, projections or estimates of future performance will be realized.

Except as otherwise noted, all references herein to “\$,” “U.S. dollars” or monetary amounts refer to United States dollars.

In the Private Placement Memorandum, unless otherwise stated or the context otherwise requires, “we,” “our” and “us” refers to the Sponsor acting on behalf of relevant Trust.

OFFERING RESTRICTED IN CERTAIN JURISDICTIONS

THE DISTRIBUTION OF THE DOCUMENTS PROVIDED IN CONNECTION WITH THE TRUST AND THE OFFER AND SALE OF THE SHARES OFFERED HEREBY IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. THE INFORMATION PROVIDED BY THE REPRESENTATIVES OF THE TRUST DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY IN ANY STATE, COUNTRY OR OTHER JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION IN SUCH STATE, COUNTRY OR JURISDICTION. THIS OFFERING DOES NOT CONSTITUTE AN OFFER OF SHARES TO THE PUBLIC AND NO ACTION HAS BEEN OR WILL BE TAKEN TO PERMIT A PUBLIC OFFERING IN ANY JURISDICTION WHERE ACTION WOULD BE REQUIRED FOR THAT PURPOSE. SHARES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, AND THE DOCUMENTS PROVIDED IN CONNECTION WITH THE TRUST MAY NOT BE

DISTRIBUTED, IN ANY JURISDICTION, EXCEPT IN ACCORDANCE WITH THE LEGAL REQUIREMENTS APPLICABLE IN SUCH JURISDICTION. SHARES THAT ARE ACQUIRED BY PERSONS NOT ENTITLED TO HOLD THEM WILL BE COMPULSORILY REDEEMED. PROSPECTIVE INVESTORS SHOULD INFORM THEMSELVES AS TO THE LEGAL REQUIREMENTS AND TAX CONSEQUENCES WITHIN THE COUNTRIES OF THEIR CITIZENSHIP, RESIDENCE, DOMICILE AND PLACE OF BUSINESS WITH RESPECT TO THE ACQUISITION, HOLDING OR DISPOSAL OF SHARES AND ANY CURRENCY ISSUES OR EXCHANGE RESTRICTIONS THAT MAY BE RELEVANT THERETO.

Statement Regarding Forward-Looking Statements

The Private Placement Memorandum contains “forward-looking statements” with respect to each Trust’s financial conditions, results of operations, plans, objectives, future performance and business. Statements preceded by, followed by or that include words such as “may,” “might,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential” or “continue,” the negative of these terms and other similar expressions are intended to identify some of the forward-looking statements. All statements (other than statements of historical fact) included in the Private Placement Memorandum that address activities, events or developments that will or may occur in the future, including such matters as changes in market prices and conditions, each Trust’s operations, the Sponsor’s plans and references to each Trust’s future success and other similar matters are forward-looking statements. These statements are only predictions. Actual events or results may differ materially from such statements. These statements are based upon certain assumptions and analyses the Sponsor made based on its perception of historical trends, current conditions and expected future developments, as well as other factors appropriate in the circumstances. You should specifically consider the numerous risks outlined under “Risk Factors” in this Base Memorandum and in the relevant Trust Supplement. Whether or not actual results and developments will conform to the Sponsor’s expectations and predictions, however, is subject to a number of risks and uncertainties, including:

- the risk factors discussed in this Base Memorandum and the relevant Trust Supplement, including the particular risks associated with new technologies such as digital assets and blockchain technology;
- the limitation on the transfer of Shares and the potential limitations on the redemption of Shares;
- the economic conditions in the digital asset industry and market;
- general economic, market and business conditions;
- the use of technology by us and our vendors, including the Custodian, in conducting our business, including disruptions in our computer systems and data centers and our transition to, and quality of, new technology platforms;

- changes in laws or regulations, including those concerning taxes, made by governmental authorities or regulatory bodies;
- the costs and effect of any litigation or regulatory investigations;
- our ability to maintain a positive reputation; and
- other world economic and political developments.

Consequently, all of the forward-looking statements made in the Private Placement Memorandum are qualified by these cautionary statements, and there can be no assurance that the actual results or developments the Sponsor anticipates will be realized or, even if substantially realized, that they will result in the expected consequences to, or have the expected effects on, a Trust's operations or the value of its Shares. Should one or more of the risks discussed under "Risk Factors" or in the relevant Trust Supplement or other uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those described in forward-looking statements. Forward-looking statements are made based on the Sponsor's beliefs, estimates and opinions on the date the statements are made and neither of the Trusts nor the Sponsor is under a duty or undertakes an obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change, other than as required by applicable laws. Moreover, none of the Trusts, the Sponsor, or any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. Investors are therefore cautioned against relying on forward-looking statements.

Industry and Market Data

Although we are responsible for all disclosure contained in the Private Placement Memorandum, in some cases we have relied on certain market and industry data obtained from third-party sources that we believe to be reliable. Market estimates are calculated by using independent industry publications in conjunction with our assumptions regarding the digital asset industry and market. While we are not aware of any misstatements regarding any market, industry or similar data presented herein, such data involves risks and uncertainties and is subject to change based on various factors, including those discussed under the headings "Statement Regarding Forward-Looking Statements" and "Risk Factors" in this Base Memorandum.

KEY OPERATING METRICS

The investment strategy of each Trust is to reflect a dynamic allocation of digital assets as determined by reference to a custom rules-based and risk-managed Index (each, an “*Index*” and together the “*Indices*”), as specified in the relevant Trust Supplement, which Indices are licensed to the Sponsor by IDX Insights, LLC (the “*Index Provider*”) pursuant to an index license agreement (the “*Index License Agreement*”). The Sponsor may make adjustments to this strategy as it deems necessary to account for cash and risk management.

Each Trust’s digital assets are carried, for financial statement purposes, at fair value, as required by the U.S. generally accepted accounting principles (“*GAAP*”). The Administrator will determine the fair value of the digital assets that each Trust holds based on the price provided by the applicable Digital Asset Exchange that the relevant Trust considers its principal market as of 4:00 p.m. GMT on the valuation date. The net asset value of each Trust determined on a GAAP basis is referred to in the Private Placement Memorandum as “*NAV*.”

Each of the Trusts currently operates a redemption program; however, the redemption of Shares is subject to limitations (as described in this Base Memorandum), and the Sponsor may suspend or terminate the redemption program at any time in the Sponsor’s sole discretion, and the Sponsor will terminate the redemption program, in the event that the Share are traded on any Secondary Market. In addition, each Trust may from time to time halt the issuance of Shares.

If the Shares of a Trust are traded on any Secondary Market, there can be no assurance that the value of the Shares of such Trust will reflect the value of the digital assets held by such Trust, less such Trust’s expenses and other liabilities, and the Shares may trade at a substantial premium over, or a substantial discount to, the value of the digital asset held by such Trust, less such Trust’s expenses and other liabilities. The Shares of such Trust may also trade at a substantial premium over, or a substantial discount to, the value of such Trust’s digital assets due to a lack of an ongoing redemption program, potential halts in the issuance of Shares, price volatility, trading volume and closings of Digital Asset Exchanges due to fraud, failure, security breaches or otherwise.

The Administrator will use the relevant Digital Asset Reference Rate to calculate each Trust’s “*Digital Asset Holdings*,” which is the aggregate value, expressed in U.S. dollars, of such Trust’s assets (other than U.S. dollars or other fiat currency), less the U.S. dollar value of such Trust’s expenses and other liabilities, calculated in the manner set forth under “*Determination of Digital Asset Holdings*”. The “*Digital Asset Holdings per Share*” of each Trust is calculated by dividing the relevant Digital Asset Holdings by the number of Shares of the applicable Trust then outstanding. The Digital Asset Holdings and Digital Asset Holdings per Share of each Trust are not measures calculated in accordance with GAAP. The Digital Asset Holdings of a Trust is not intended to be a substitute for that Trust’s NAV calculated in accordance with GAAP.

RISK FACTORS

You should consider carefully the risks described below before making an investment decision. You should also refer to the other information included in the Private Placement Memorandum. See “Glossary of Defined Terms” for the definition of certain capitalized terms used in the Private Placement Memorandum.

Risk Factors Related to Digital Assets

Digital assets were only introduced within the past two decades, and the medium-to-long term value of an investment in the Shares of either Trust is subject to a number of factors relating to the capabilities and development of blockchain technologies and to the fundamental investment characteristics of digital assets.

Digital assets were only introduced within the past two decades, and the medium-to-long term value of an investment in the Shares is subject to a number of factors relating to the capabilities and development of blockchain technologies, such as the infancy of their development, their dependence on the internet and other technologies, their dependence on the role played by miners and developers and the potential for malicious activity. For example, the realization of one or more of the following risks could materially adversely affect the value of an investment in the Shares:

- The trading prices of many digital assets, including those held by the Trusts, have experienced extreme volatility in recent periods and may continue to do so. For instance, there were steep increases in the value of certain digital assets, including those held by the Trusts, over the course of 2017, and multiple market observers asserted that digital assets were experiencing a “bubble.” These increases were followed by steep drawdowns throughout 2018 in digital asset trading prices. These drawdowns notwithstanding, Bitcoin and other digital asset prices increased significantly again during 2019 and decreased significantly again in 2020 amidst broader market declines as a result of the coronavirus outbreak. Extreme volatility in the future, including further declines in the trading prices of digital assets held by any Trust, could have a material adverse effect on the value of the corresponding Shares and the corresponding Shares could lose all or substantially all of their value.
- Digital asset networks and the software used to operate them are in the early stages of development. Digital assets have experienced, and we expect will experience in the future, sharp fluctuations in value. Given the infancy of the development of digital asset networks, parties may be unwilling to transact in digital assets, which would dampen the growth, if any, of digital asset networks.
- Digital asset networks are dependent upon the internet. A disruption of the internet or a digital asset network would affect the ability to transfer digital assets and, consequently, their value.

- The acceptance of software patches or upgrades by a significant, but not overwhelming, percentage of the users and miners in a digital asset network could result in a “fork” in such network’s blockchain, resulting in the operation of multiple separate networks.
- Governance of digital asset networks is by voluntary consensus and open competition. As a result, there may be a lack of consensus or clarity on the governance of digital asset networks, which may stymie such network’s utility and ability to grow and face challenges. In particular, it may be difficult to find solutions or marshal sufficient effort to overcome any future problems on such digital asset network, especially long- term problems.
- The foregoing notwithstanding, the protocols for some decentralized networks are informally managed by a group of core developers that propose amendments to the relevant network’s source code. Core developers’ roles evolve over time, largely based on self-determined participation. To the extent that a significant majority of users and miners adopt amendments to a decentralized network based on the proposals of such core developers, such network will be subject to new protocols that may adversely affect the value of the relevant digital asset.
- The creation of digital assets as a medium of exchange is not the sole purpose of some digital asset networks. The Ethereum network, for example, is a digital decentralized ledger protocol that powers smart contracts, and the Ripple network is designed to facilitate cross-currency transactions. The differing focus of any such digital asset could affect its growth and acceptance by users, which may negatively affect its expansion and an investment in the Shares of a Trust holding such digital asset.
- The loss or destruction of a private key required to access a digital asset may be irreversible. If a private key is lost, destroyed or otherwise compromised and no backup of the private key is accessible, a Trust will be unable to access the digital assets held in the Digital Asset Custodial Account corresponding to that private key and the private key will not be capable of being restored by the network of such digital asset.
- Bitcoin has only recently become selectively accepted and other digital assets are not currently widely accepted as a means of payment by retail or commercial outlets, and use of digital assets by consumers to pay any retail or commercial outlets remains limited. Banks and other established financial institutions may refuse to process funds for digital asset transactions; process wire transfers to or from Digital Asset Exchanges, digital asset-related companies or service providers; or maintain accounts for persons or entities transacting in digital assets. As a result, the prices of digital assets are largely determined by speculators and miners, thus contributing to price volatility that makes retailers less likely to accept them as a form of payment in the future.
- Miners, developers and users may switch to or adopt certain digital assets at the expense of their engagement with other digital asset networks, which may negatively impact those networks.

- Over the past several years, digital asset mining operations have evolved from individual users mining with computer processors, graphics processing units and first generation application specific integrated circuit (“*ASIC*”) machines to “professionalized” mining operations using proprietary hardware or sophisticated machines. If the profit margins of digital asset mining operations are not sufficiently high, digital asset miners are more likely to immediately sell tokens earned by mining, resulting in an increase in liquid supply of that digital asset, which would generally tend to reduce that digital asset’s market price.
- To the extent that any miners cease to record transactions that do not include the payment of a transaction fee in solved blocks or do not record a transaction because the transaction fee is too low, such transactions will not be recorded on the blockchain until a block is solved by a miner who does not require the payment of transaction fees or is willing to accept a lower fee. Any widespread delays in the recording of transactions could result in a loss of confidence in the digital asset network.
- Many digital asset networks face significant scaling challenges and are being upgraded with various features to increase the speed and throughput of digital asset transactions. These attempts to increase the volume of transactions may not be effective.
- The open-source structure of many digital asset network protocols means that developers and other contributors are generally not directly compensated for their contributions in maintaining and developing such protocols. As a result, the developers and other contributors of a particular digital asset may lack a financial incentive to maintain or develop the network, or may lack the resources to adequately address emerging issues. Alternatively, some developers may be funded by companies whose interests are at odds with other participants in a particular digital asset network. A failure to properly monitor and upgrade the protocol of a particular digital asset could damage that network.
- Banks may not provide banking services, or may cut off banking services, to businesses that provide digital asset-related services or that accept digital assets as payment, which could dampen liquidity in the market and damage the public perception of digital assets generally or any one digital asset in particular, and their or its utility as a payment system, which could decrease the price of digital assets generally or individually.
- Certain privacy-enhancing features have been or are expected to be introduced to a number of digital asset networks, such as the Ethereum, Zcash and Horizen networks, and exchanges or businesses that facilitate transactions in those digital assets may be at increased risk of having banking services cut off if there is a concern that these features interfere with the performance of anti-money laundering duties and economic sanctions checks.

Moreover, because digital assets have been in existence for a short period of time and are continuing to develop, there may be additional risks in the future that are impossible to predict as of the date of the Private Placement Memorandum.

Digital assets represent a new and rapidly evolving industry, and the value of an investment in the Shares depends on the development and acceptance of those networks.

The first digital asset, Bitcoin, was launched in 2009, and Bitcoins were the first cryptographic digital assets created to gain global adoption and critical mass. Many other digital asset networks have only recently been established. In general, digital asset networks and other cryptographic and algorithmic protocols governing the issuance of digital assets represent a new and rapidly evolving industry that is subject to a variety of factors that are difficult to evaluate. For example, the realization of one or more of the following risks could materially adversely affect the value of an investment in the Shares:

- Many digital asset networks are still in the process of developing and making significant decisions, such as decisions that will affect policies that govern the supply and issuance of their respective tokens. For example, in late 2017, Ripple put in place an escrow lock-up program that cryptographically controls the circulating supply of XRP. Similarly, in November 2019, SDF burned approximately half of all XLM outstanding, although both entities still own a majority of the token supply of their particular networks. See “Overview of The Digital Asset Industry and Market” in the applicable Trust Supplements. If any digital asset network does not successfully develop its policies on supply and issuance, or does so in a manner that is not attractive to network participants, there may not be sufficient network level support for such network, which could lead to a decline in support of and the price of the applicable digital asset.
- Many digital asset networks are in the process of implementing software upgrades and other changes to their protocols. For example, on November 13, 2017, Bitcoin Cash introduced an adjustment to the algorithm that controls mining difficulty because mining difficulty was fluctuating rapidly as large amounts of mining power continuously entered and exited the Bitcoin Cash Network. Similarly, in July 2018, the Horizen network implemented “Super Nodes,” which are nodes that, among other things, rely on a proof-of-stake consensus algorithm to provide additional functionality to the Horizen network by supporting multiple layered side chains. The Ethereum ecosystem switched from proof-of-work to a proof-of-stake consensus algorithm effective September 15, 2022. These developments may introduce bugs or new security risks or may fail to have their intended effect.
- Some digital asset networks may be the target of ill will from users of other digital asset networks. For example, the hard forks that resulted in the creation of the Bitcoin Cash and Ethereum Classic networks were contentious, and as a result some users of the Bitcoin or Ethereum networks, respectively, may harbor ill will toward the Bitcoin Cash and Ethereum Classic networks, respectively, and vice versa. These users may attempt to negatively impact the use or adoption of the other networks, respectively.
- Some digital asset networks, such as the Ethereum network, contain a “difficulty bomb” under which mining will become extraordinarily difficult over time, rendering older versions of the applicable network unusable and encouraging miners to join hard forks

upgrading the protocol. These upgrades may fail to work as expected or miners may choose to not join these forks, leading to a decline in support of and the price of such digital asset.

- The cryptography known as zk-SNARKs that is used to enhance the privacy of transactions on certain digital asset networks, such as the Zcash and Horizen networks, is new and could ultimately fail, resulting in less privacy than believed or no privacy at all, and could adversely affect one's ability to complete transactions on any such digital asset network or otherwise adversely interfere with the integrity of the relevant blockchain. For example, on February 5, 2019, the team behind Zcash announced that it discovered a vulnerability in zk-SNARKs on March 1, 2018 that was subsequently patched in connection with a network upgrade called "Sapling" in October 2018. The vulnerability was a counterfeiting vulnerability that could have allowed an attacker to create fake ZEC on the Zcash network or fake ZEN on the Horizen network without being detected. Although the privacy features prevent one from being certain no ZEC or ZEN were counterfeited, the team behind Zcash found no evidence that counterfeiting occurred prior to the patch and believes the vulnerability has been fully remediated.
- The creators of certain digital asset networks may have relied on procedures that could be vulnerable to allowing malicious actors to counterfeit tokens or cause other potential problems. For example, in implementing a type of cryptography known as zero-knowledge proofs, the creators of Zcash relied on a set of public parameters which allow users to construct and verify private transactions. Generating public parameters is similar to generating a public/private key pair, keeping the public key, and destroying the private key. Due to cryptographic limitations, these parameters had to be generated in the set-up phase of the Zcash network and involved trusted parties generating a public/private key pair. Each of these parties had exclusive access to a piece of the private key, known as a private key shard. If an attacker were to gather such private key shards and assemble a complete copy of the corresponding private key, such attacker could use it to create counterfeit Zcash tokens. The private key could be reconstructed, for example, if every participant involved in this setup process colluded to assemble and exploit the complete private key, or if the systems used to generate the public/private key pair were compromised or flawed in some way.
- Many digital assets have concentrated ownership. For example, as of October 1, 2022, the largest 100 BTC wallets held approximately 15% of the BTC in circulation, the largest 100 ETH wallets held approximately 40% of the ETH in circulation, the largest 100 ADA wallets held approximately 19% of the ADA in circulation and the largest 100 SOL wallets held approximately 32% of the SOL in circulation. Moreover, it is possible that other persons or entities control multiple wallets that collectively hold a significant number of digital assets, even if they individually only hold a small amount, and it is possible that some of these wallets are controlled by the same person or entity. As a result of this concentration of ownership, large sales or distributions by such holders could have an adverse effect on the market price of certain digital assets with highly concentrated ownership.

Moreover, in the past, flaws in the source code for digital assets have been exposed and exploited, including flaws that disabled some functionality for users, exposed users' personal information and/or resulted in the theft of users' digital assets. The cryptography underlying a digital asset held by a Trust could prove to be flawed or ineffective, or developments in mathematics and/or technology, including advances in digital computing, algebraic geometry and quantum computing, could result in such cryptography becoming ineffective. In any of these circumstances, a malicious actor may be able to take the digital assets held by such Trust, which would adversely affect an investment in the Shares of such Trust. Moreover, functionality may be negatively affected such that the digital asset network of a digital asset held by a Trust is no longer attractive to users, thereby dampening demand for such digital asset. In addition, any reduction in confidence in the source code or cryptography underlying digital assets generally could negatively affect the demand for digital assets, including those held by a Trust, and therefore adversely affect an investment in the Shares of one or more of the Trusts.

Proof-of-Stake Risk

Proof-of-stake is a cryptocurrency consensus mechanism for processing transactions and creating new blocks in a blockchain. A consensus mechanism is a method for validating entries into a distributed database and keeping the database secure. While proof-of-work mechanisms require miners to solve cryptographic puzzles, proof-of-stake mechanisms require validators to hold and stake tokens for the privilege of earning transaction fees. Risks relating to proof-of-stake include:

- Proof-of-stake is a newer and less tested approach.
- Proof-of-stake is more complex to implement and maintain and therefore can theoretically result in corrupted blocks.
- Proof-of-stake is more difficult for validators to run and therefore could potentially result in network downtime or other vulnerabilities or penalties for the validators.
- Proof-of-stake networks are still theoretically vulnerable to malicious attacks and bad actors.

All of these risks and more can result in the loss of capital associated with digital assets that implement a proof-of-stake mechanism, whether or not tokens are actually staked.

The Trust may experience loss or theft of its digital assets during the transfer from the Custodian to the Sponsor or to digital asset trading venues.

Under certain circumstances, the Sponsor may gain control of a Trust's digital assets. These circumstances may include withdrawals of digital assets by the Sponsor in order to make certain types of trades. The ability to gain temporary control of even a portion of the Trust's digital assets is restricted to limited number of authorized personnel of the Sponsor. Once the Custodian processes the transaction, the Sponsor has the ability to send the withdrawn digital assets to the delivery address of trading counterparties or trading venues. During any such transfer, the digital assets may be vulnerable to security breaches, including hacking and other efforts to obtain the digital assets, as well as the risk that while digital assets are under the Sponsor's control, an employee of the Sponsor could access and obtain the digital assets. Some of these attempts to obtain the digital assets may be successful, and the Trust may lose some or all of the transferred

digital assets. In addition, digital assets transferred to trading venues (commonly referred to as exchanges) are subject to increased risk of loss or theft due to reliance on the security procedures of the trading venue (when the digital assets are no longer in the custody of the Custodian) and because the same withdrawal procedures required by the Custodian, which are designed to reduce the risk of error or theft, may not be required by trading venues.

A determination that a digital asset is a “security” may adversely affect the value of such digital asset and an investment in the Shares of a Trust holding such digital asset, and result in potentially extraordinary, nonrecurring expenses to, or termination of, such Trust.

The SEC has stated that certain digital assets may be considered “securities” under the federal securities laws. The test for determining whether a particular digital asset is a “security” is complex and the outcome is difficult to predict. Public statements by senior officials at the SEC, including a June 2018 speech by the director of the SEC’s Division of Corporation Finance, indicate that the SEC does not intend to take the position that Bitcoin or Ethereum are currently securities. Subsequently in a March 2019 statement, the chairman of the SEC expressed agreement with certain statements from the June 2018 speech by the director of the SEC’s division of Corporation Finance, including the analysis of federal securities laws that the director applied to Bitcoin and Ethereum. Such statements are not official policy statements by the SEC and reflect only the speaker’s views, which are not binding on the SEC or any other agency or court and cannot be generalized to any other digital asset. Similarly, in April 2019, the SEC’s Strategic Hub for Innovation and Financial Technology published a framework for the analysis of digital assets. However, this framework is not a rule, regulation or statement of the Commission and is not binding on the Commission.

In addition to statements from the SEC and its staff, representatives of certain digital assets are the subject of lawsuits that implicate the federal securities laws. For example, Ripple Labs, Inc., the company that retains a key role in stewarding the development of XRP, is currently a defendant in a federal class-action lawsuit filed by certain XRP holders that alleges that XRP is a security issued by Ripple Labs, Inc. and in an enforcement action brought by the SEC alleging that Ripple Labs, Inc. engaged in an unregistered offering of securities (XRP).

If a digital asset is determined to be a “security” under federal or state securities laws by the SEC or any other agency, or in a proceeding in a court of law or otherwise, it may have material adverse consequences for such digital asset. For example, it may become more difficult for such digital asset to be traded, cleared and custodied as compared to other digital assets that are not considered to be securities, which could in turn negatively affect the liquidity and general acceptance of such digital asset and cause users to migrate to other digital assets. Further, if any digital asset is determined to be a “security” under federal or state securities laws by the SEC or any other agency, or in a proceeding in a court of law or otherwise, it may have material adverse consequences for other digital assets due to negative publicity or a decline in the general acceptance of digital assets. As such, any determination that a digital asset is a security under federal or state securities laws may adversely affect the value of such digital asset and, as a result, an investment in the Shares of a Trust holding such digital asset.

To the extent that a digital asset is determined to be a security, a Trust holding such digital asset and the Sponsor may also be subject to additional regulatory requirements, including under the Investment Company Act, and the Sponsor may be required to register as an investment adviser under the Investment Advisers Act. See “Risk Factors—Risks Related to the Regulation of the Trusts and the Shares—Regulatory changes or interpretations could cause the Trusts and the Sponsor to register and comply with new regulations, resulting in potentially extraordinary, nonrecurring expenses to the Trusts.” If the Sponsor determines a Trust does not comply with such additional regulatory and registration requirements, the Sponsor may terminate such Trust. Any such termination could result in the liquidation of such Trust’s digital assets at a time that is disadvantageous to Shareholders.

Changes in the governance of a digital asset network may not receive sufficient support from users and miners, which may negatively affect that digital asset network’s ability to grow and respond to challenges.

The governance of decentralized networks, such as the Bitcoin and Ethereum networks, is by voluntary consensus and open competition. As a result, there may be a lack of consensus or clarity on the governance of any particular decentralized digital asset network, which may stymie such network’s utility and ability to grow and face challenges. The foregoing notwithstanding, the protocols for some decentralized networks, such as the Bitcoin and Ethereum networks, are informally managed by a group of core developers that propose amendments to the relevant network’s source code. Core developers’ roles evolve over time, largely based on self-determined participation. If a significant majority of users and miners adopt amendments to a decentralized network based on the proposals of such core developers, such network will be subject to new protocols that may adversely affect the value of the relevant digital asset.

The governance of other networks, such as Ripple and Stellar, is more formally managed by companies. The Ripple and Stellar networks are largely managed by Ripple Labs, Inc. (“**Ripple**”) and the Stellar Development Foundation (also known as Stellar.org) (“**SDF**”), respectively. Ripple and SDF will generally have control over amendments to, and the development of, their respective protocol’s source code. To the extent that Ripple and/or SDF make any amendments to the Ripple or Stellar networks’ protocols, respectively, the Ripple and Stellar networks will be subject to new protocols that may adversely affect the value of XRP and XLM, respectively.

As a result of the foregoing, it may be difficult to find solutions or marshal sufficient effort to overcome any future problems, especially long-term problems, on digital asset networks.

Digital asset networks face significant scaling challenges and efforts to increase the volume of transactions may not be successful.

Many digital asset networks face significant scaling challenges due to the fact that public blockchains generally face a tradeoff between security and scalability. One means through which public blockchains achieve security is decentralization, meaning that no intermediary is responsible for securing and maintaining these systems. For example, a greater degree of decentralization generally means a given digital asset network is less susceptible to manipulation or capture. In practice, this typically means that every single node on a given digital asset network

is responsible for securing the system by processing every transaction and maintaining a copy of the entire state of the network. As a result, a digital asset network may be limited in the number of transactions it can process by the capabilities of each single fully participating node in the network.

Additionally, the nature of decentralization poses unique scaling challenges to blockchains. While many proposed mechanisms seek to address this, there are no guarantees that any or all of them will be executed successfully. This could significantly impair the associated blockchain's utility as well as its token's "store of value".

Many developers are actively researching and testing scalability solutions for public blockchains that do not necessarily result in lower levels of security or decentralization (e.g., off-chain payment channels like the Lightning Network, sharding, or off-chain computations). However, there is no guarantee that any of the mechanisms in place or being explored for increasing the scale of settlement of Bitcoin or any other digital asset network transactions will be effective, or how long these mechanisms will take to become effective, which could adversely impact an investment in the Shares.

If a malicious actor or botnet obtains control of more than 50% of the processing power on a digital asset network, or otherwise obtains control over a digital asset network through its influence over core developers or otherwise, such actor or botnet could manipulate the relevant blockchain to adversely affect an investment in the Shares of a Trust holding such digital asset or the ability of such Trust to operate.

If a malicious actor or botnet (a volunteer or hacked collection of computers controlled by networked software coordinating the actions of the computers) obtains a majority of the processing power dedicated to mining on a particular digital asset network, it may be able to alter the relevant blockchain on which transactions in that digital asset rely by constructing fraudulent blocks or preventing certain transactions from completing in a timely manner, or at all. The malicious actor or botnet could also control, exclude or modify the ordering of transactions. Although the malicious actor or botnet would not be able to generate new tokens or transactions using such control, it could "double-spend" its own tokens (i.e., spend the same tokens in more than one transaction) and prevent the confirmation of other users' transactions for so long as it maintained control. To the extent that such malicious actor or botnet did not yield its control of the processing power on the relevant digital asset network or the digital asset community did not reject the fraudulent blocks as malicious, reversing any changes made to the relevant blockchain may not be possible.

For example, in January 2019, the Ethereum Classic network was the target of a double-spend attack by an unknown actor that gained more than 50% of the processing power of the Ethereum Classic Network. The attack resulted in a reorganization of the Ethereum Classic blockchain that resulted in losses in excess of over \$1.0 million and a subsequent reduction in the market capitalization of ETC.

In addition, in May 2019, the Bitcoin Cash network experienced a 51% attack when two large mining pools reversed a series of transactions in order to stop an unknown miner from taking

advantage of a flaw in a recent Bitcoin Cash protocol upgrade. Although this particular attack was arguably benevolent, certain individuals believe it negatively impacts the Bitcoin Cash network.

Although there are no other known reports of malicious activity on, or control of, the networks of the digital assets currently held by a Trust, it is believed that certain mining pools may have exceeded the 50% threshold on some digital asset networks, such as the Bitcoin network. The possible crossing of the 50% threshold indicates a greater risk that a single mining pool could exert authority over the validation of digital asset transactions, and this risk is heightened if over 50% of the processing power on the network falls within the jurisdiction of a single governmental authority. For example, it is believed that more than 50% of the processing power on the Bitcoin network is located in China. Because the Chinese government has subjected digital assets to heightened levels of scrutiny recently, reportedly forcing several Digital Asset Exchanges to shut down, there is a risk that the Chinese government could also achieve control over more than 50% of the processing power on the Bitcoin network. To the extent that similar events occur on the network of a digital asset held by a Trust, if the network participants, including the core developers and the administrators of mining pools, do not act to ensure greater decentralization of mining processing power of such network, the feasibility of a malicious actor obtaining control of the processing power on such network will increase, which may adversely affect an investment in the Shares of such Trust.

A malicious actor may also obtain control over a digital asset network through its influence over core developers by gaining direct control over a core developer or an otherwise influential programmer. To the extent that a digital asset ecosystem does not grow, the possibility that a malicious actor may be able obtain control of the processing power on the relevant digital asset network in this manner will remain heightened.

Smart contracts are a new technology and ongoing development may magnify initial problems, cause volatility on the networks that use smart contracts and reduce interest in them, which could have an adverse impact on the value of digital assets that deploy smart contracts.

Smart contracts are programs that run on a blockchain that execute automatically when certain conditions are met. Since smart contracts typically cannot be stopped or reversed, vulnerabilities in their programming can have damaging effects. For example, in June 2016, a vulnerability in the smart contracts underlying The DAO, a distributed autonomous organization for venture capital funding, allowed an attack by a hacker to syphon approximately \$60 million worth of ETH from The DAO's accounts into a segregated account. In the aftermath of the theft, certain developers and core contributors pursued a "hard fork" of the Ethereum network in order to erase any record of the theft. Despite these efforts, the price of ETH dropped approximately 35% in the aftermath of the attack and subsequent hard fork. In addition, in July 2017, a vulnerability in a smart contract for a multi-signature wallet software developed by Parity led to a \$30 million theft of ETH, and in November 2017, a new vulnerability in Parity's wallet software led to roughly \$160 million worth of ETH being indefinitely frozen in an account. Initial problems and continued problems with the development and deployment of smart contracts may have an adverse effect on the value of ETH, ETC, XLM and other digital assets that rely on smart contract technology. As an example, in May 2022, the LUNA token experienced a significant decline when the "stablecoin" associated with the Terra Luna protocol became unpegged to the USD. This catalyzed a "bank run" for liquidity

which severely impacted the price of both the Terra Luna stablecoin (UST) as well as the protocol token (LUNA). In part, this was a function of a failure of the protocol to collateralize sufficiently, a failure of the smart contracts governing the peg and a failure of the governance structure to plan or deal with these issues, including potentially bad actors and insider trading. As a result, holders of LUNA and/or UST have lost substantially all their capital.

A temporary or permanent “fork” could adversely affect an investment in the Shares.

Many digital asset networks operate using open-source protocols, meaning that any user can download the software, modify it and then propose that the users and miners of the currency adopt the modification. When a modification is introduced and a substantial majority of users and miners consent to the modification, the change is implemented and the network remains uninterrupted. However, if less than a substantial majority of users and miners consent to the proposed modification, and the modification is not compatible with the software prior to its modification, the consequence would be what is known as a “hard fork” of the network, with one group running the pre-modified software and the other running the modified software. The effect of such a fork would be the existence of two versions of the digital asset running in parallel, yet lacking interchangeability. For example, in August 2017, Bitcoin “forked” into Bitcoin and a new digital asset, Bitcoin Cash, as a result of a several-year dispute over how to increase the rate of transactions that the Bitcoin network can process.

Forks may also occur as a network community’s response to a significant security breach. For example, in June 2016, an anonymous hacker exploited a smart contract running on the Ethereum network to syphon approximately \$60 million of ETH held by The DAO, a distributed autonomous organization, into a segregated account. In response to the hack, most participants in the Ethereum community elected to adopt a fork that effectively reversed the hack. However, a minority of users continued to develop the original blockchain, now referred to as “Ethereum Classic” with the digital asset on that blockchain now referred to as Ether Classic, or ETC. ETC now trades on several Digital Asset Exchanges.

A fork may also occur as a result of an unintentional or unanticipated software flaw in the various versions of otherwise compatible software that users run. Such a fork could lead to users and miners abandoning the digital asset with the flawed software. It is possible, however, that a substantial number of users and miners could adopt an incompatible version of the digital asset while resisting community-led efforts to merge the two chains. This could result in a permanent fork, as in the case of Ether and Ether Classic.

In addition, many developers have previously initiated hard forks in the Bitcoin blockchain to launch new digital assets, such as Bitcoin Cash, Bitcoin Gold, Bitcoin Silver and Bitcoin Diamond, as well as the Bitcoin Cash blockchain to launch a new digital asset, Bitcoin Satoshi’s Vision. To the extent such digital assets compete with a digital asset held by one of the Trusts, such competition could impact demand for such digital asset and could adversely impact an investment in the Shares of such Trust.

Furthermore, a hard fork can lead to new security concerns. For example, when the Ethereum and Ethereum Classic networks split in July 2016, replay attacks, in which transactions from one

network were rebroadcast to nefarious effect on the other network, plagued Ethereum exchanges through at least October 2016. An Ethereum exchange announced in July 2016 that it had lost 40,000 Ether Classic, worth about \$100,000 at that time, as a result of replay attacks. Similar replay attack concerns occurred in connection with the Bitcoin Cash and Bitcoin Satoshi's Vision networks split in November 2018. Another possible result of a hard fork is an inherent decrease in the level of security due to significant amounts of mining power remaining on one network or migrating instead to the new forked network. After a hard fork, it may become easier for an individual miner or mining pool's hashing power to exceed 50% of the processing power of the digital asset network that retained or attracted less mining power, thereby making digital assets that rely on proof-of-work more susceptible to attack.

A future fork in the network of a digital asset held by a Trust could adversely affect an investment in the Shares of such Trust or the ability of such Trust to operate.

Shareholders may not receive the benefits of any forks or "airdrops."

In addition to forks, a digital asset may become subject to a similar occurrence known as an "airdrop." In an airdrop, the promoters of a new digital asset announce to holders of another digital asset that such holders will be entitled to claim a certain amount of the new digital asset for free, based on the fact that they hold such other digital asset.

Shareholders may not receive the benefits of any forks, a Trust may not choose, or be able, to participate in an airdrop, and the timing of receiving any benefits from a fork, airdrop or similar event is uncertain. We refer to the right of a Trust to receive any such benefit as an "***Incidental Right***" and any such virtual currency acquired through an Incidental Right as "***IR Virtual Currency***." There are likely to be operational, tax, securities law, regulatory, legal and practical issues that significantly limit, or prevent entirely, Shareholders' ability to realize a benefit, through their interests in a Trust, from any such Incidental Rights or IR Virtual Currency. For instance, the Custodian may not agree to provide access to the IR Virtual Currency. In addition, the Sponsor may determine that there is no safe or practical way to custody the IR Virtual Currency, or that trying to do so may pose an unacceptable risk to such Trust's holdings in digital assets, or that the costs of taking possession and/or maintaining ownership of the IR Virtual Currency exceed the benefits of owning the IR Virtual Currency. Additionally, laws, regulation or other factors may prevent Shareholders from benefitting from the Incidental Right or IR Virtual Currency even if there is a safe and practical way to custody and secure the IR Virtual Currency. For example, it may be illegal to sell or otherwise dispose of the Incidental Right or IR Virtual Currency, or there may not be a suitable market into which the Incidental Right or IR Virtual Currency can be sold (immediately after the fork or airdrop, or ever). The Sponsor may also determine, in consultation with its legal advisors, that the Incidental Right or IR Virtual Currency is, or is likely to be deemed, a security under federal or state securities laws. In such a case, the Sponsor would irrevocably abandon, as of any date on which the Trust holding such Incidental Right or IR Virtual Currency creates Shares, such Incidental Right or IR Virtual Currency, if holding it would have an adverse effect on the Trust and it would not be practicable to avoid such effect by disposing of the Incidental Right or IR Virtual Currency in a manner that would result in Shareholders of such Trust receiving more than insignificant value thereof. In making such a determination, the Sponsor expects to take into account a number of factors, including the definition of a "security" under

Section 2(a)(1) of the Securities Act and Section 3(a)(10) of the Exchange Act, *SEC v. W.J. Howey Co.*, 328 U.S. 293 (1946) and the case law interpreting it, as well as reports, orders, press releases, public statements and speeches by the SEC providing guidance on when a digital asset is a “security” for purposes of the federal securities laws.

The Trusts intend to inform the Custodian that each Trust will irrevocably abandon, as of any date on which a Trust creates Shares, any Incidental Rights or IR Virtual Currency to which such Trust would otherwise be entitled as of such date and with respect to which it has not taken any other action on or prior to such date. In order to avert abandonment of an Incidental Right or IR Virtual Currency, a Trust would need to send a notice to the Custodian of its intention to retain such Incidental Right or IR Virtual Currency. The Sponsor intends to evaluate each future fork or airdrop on a case-by-case basis in consultation with each Trust’s legal advisors, tax consultants and the Custodian. Any inability to recognize the economic benefit of a hard fork or airdrop could adversely affect an investment in the Shares of such Trust. See “Activities of the Trusts—Incidental Rights and IR Virtual Currency.”

In the event of a hard fork of the network of a digital asset held by a Trust, the Sponsor will, if permitted by the terms of the relevant Trust Agreement, use its discretion to determine which network should be considered the appropriate network for such Trust’s purposes, and in doing so may adversely affect the value of the Shares of such Trust.

In the event of a hard fork of the digital asset network of a digital asset held by a Trust, the Sponsor will, if permitted by the terms of the relevant Trust Agreement, use its discretion to determine, in good faith, which peer-to-peer network, among a group of incompatible forks of such digital asset network, is generally accepted as the network for such digital asset and should therefore be considered the appropriate network for such Trust’s purposes. The Sponsor will base its determination on a variety of then relevant factors, including, but not limited to, the Sponsor’s beliefs regarding expectations of the core developers of such digital asset, users, services, businesses, miners and other constituencies, as well as the actual continued acceptance of, mining power on, and community engagement with, the network of such digital asset. There is no guarantee that the Sponsor will choose the digital asset that is ultimately the most valuable fork, and the Sponsor’s decision may adversely affect the value of the Shares of such Trust as a result. The Sponsor may also disagree with investors and security vendors on what is generally accepted as such digital asset and should therefore be considered the digital asset going forward for such Trust’s purposes, which may also adversely affect the value of the Shares of such Trust as a result.

If the digital asset award for solving blocks and transaction fees for recording transactions on any particular digital asset network are not sufficiently high to incentivize miners or other transaction validators, miners or other transaction validators may cease expending processing power or other resources, or demand high transaction fees, which could negatively impact the value of the relevant digital asset and an investment in the Shares of the Trust holding such digital asset.

If the digital asset awards for solving blocks and the transaction fees for recording transactions on any particular digital asset network are not sufficiently high to incentivize miners or other transaction validators, miners or other transaction validators may cease expending processing

power or other resources to solve blocks and confirmations of transactions on the blockchain could be slowed. A reduction in the processing power or other resources expended by miners or other transaction validators on a digital asset network could increase the likelihood of a malicious actor or botnet obtaining control.

Miners and other transaction validators have historically accepted relatively low transaction confirmation fees on most digital asset networks. If miners or other transaction validators demand higher transaction fees for recording transactions in the blockchain on any particular digital asset network or a software upgrade automatically charges fees for all transactions on such digital asset network, the cost of using the relevant digital asset may increase and the marketplace may be reluctant to accept such digital asset as a means of payment. Alternatively, miners or other transaction validators could collude in an anti-competitive manner to reject low transaction fees on a particular digital asset network and force users to pay higher fees, thus reducing the attractiveness of such digital asset network. Higher transaction confirmation fees resulting through collusion or otherwise may adversely affect the attractiveness of a digital asset network, the value of such digital asset and an investment in the Shares of a Trust holding such digital asset.

Any name change and any associated rebranding initiative by the core developers of a digital asset may not be favorably received by the digital asset community, which could negatively impact the value of such digital asset and an investment in the Shares of the Trust holding such digital asset.

From time to time, digital assets may undergo name changes and associated rebranding initiatives. For example, Bitcoin Cash may sometimes be referred to as Bitcoin ABC in an effort to differentiate itself from any Bitcoin Cash hard forks, such as Bitcoin Satoshi's Vision, and in the third quarter of 2018, the team behind Zen rebranded and changed the name of ZenCash to "Horizen." We cannot predict the impact of any name change and any associated rebranding initiative on the relevant digital asset. After a name change and an associated rebranding initiative, a digital asset may not be able to achieve or maintain brand name recognition or status that is comparable to the recognition and status previously enjoyed by such digital asset. The failure of any name change and any associated rebranding initiative by a digital asset may result in such digital asset not realizing some or all of the anticipated benefits contemplated by the name change and associated rebranding initiative, and could negatively impact the value of the relevant digital asset and an investment in the Shares of the Trust holding such digital asset.

Risk Factors Related to the Digital Asset Markets

The value of the Shares of a Trust relates directly to the value of the digital assets then held by such Trust, the value of which may be highly volatile and subject to fluctuations due to a number of factors.

The value of the Shares of a Trust relates directly to the value of the digital asset then held by such Trust and fluctuations in the price of such digital asset could adversely affect an investment in the

Shares of such Trust. The market price of a digital asset held by a Trust may be highly volatile, and subject to a number of factors, including:

- An increase in the global supply of such digital asset;
- Manipulative trading activity on digital asset exchanges, which are largely unregulated;
- The adoption of such digital asset as a medium of exchange, store of value or other consumptive asset and the maintenance and development of the open-source software protocol of the applicable digital asset network;
- Forks in the applicable digital asset network;
- Investors' expectations with respect to interest rates, the rates of inflation of fiat currencies or such digital asset, and digital asset exchange rates;
- Consumer preferences and perceptions of such digital asset specifically and digital assets generally;
- Fiat currency withdrawal and deposit policies on Digital Asset Exchanges;
- The liquidity of Digital Asset Markets;
- Investment and trading activities of large investors that invest directly or indirectly in such digital asset;
- Volatility resulting from a "short squeeze," when short sellers are forced to cover their short positions in a digital asset;
- An active derivatives market for such digital asset or for digital assets generally;
- Monetary policies of governments, trade restrictions, currency devaluations and revaluations and regulatory measures or enforcement actions, if any, that restrict the use of such digital asset as a form of payment or the purchase of such digital asset in the Digital Asset Markets;
- Global or regional political, economic or financial conditions, events and situations, such as the novel coronavirus outbreak;
- Fees associated with processing a transaction of such digital asset and the speed at which such transactions are settled;
- Interruptions in service from or failures of major Digital Asset Exchanges;
- Decreased confidence in Digital Asset Exchanges due to the unregulated nature and lack of transparency surrounding the operations of Digital Asset Exchanges;

- Increased competition from other forms of digital assets or payment services; and
- The applicable Trust’s own acquisitions or dispositions of such digital asset, since there is no limit on the number of tokens of such digital asset that the applicable Trust may acquire.

In addition, investors should be aware that there is no assurance that the digital asset held by a Trust will maintain its value in the long or intermediate term. In the event that the price of such digital asset declines, the Sponsor expects the value of an investment in the Shares of the applicable Trust to decline proportionately.

The value of a digital asset as represented by the applicable Digital Asset Reference Rate or by a Trust’s principal market may also be subject to momentum pricing due to speculation regarding future appreciation in value, leading to greater volatility that could adversely affect an investment in the Shares. Momentum pricing typically is associated with growth stocks and other assets whose valuation, as determined by the investing public, accounts for future appreciation in value, if any. The Sponsor believes that momentum pricing of many digital assets has resulted, and may continue to result, in speculation regarding future appreciation in the value of the digital assets held by the Trusts, inflating and making the applicable Digital Asset Reference Rate more volatile. As a result, any digital asset held by a Trust may be more likely to fluctuate in value due to changing investor confidence, which could impact future appreciation or depreciation in the applicable Digital Asset Reference Rate and could adversely affect an investment in the Shares of such Trust.

The Trusts face liquidity risks which could make it impossible to prevent or minimize a loss or realize a gain.

Liquidity risk exists when particular holdings of a Trust would be difficult to purchase or sell, possibly preventing such Trust from selling such illiquid digital assets at an advantageous time or price, or possibly requiring such Trust to dispose of other digital assets at unfavorable times or prices in order to satisfy its obligations.

The Trusts face risks related to the coronavirus (COVID-19) outbreak, which could negatively impact the value of a Trust’s holdings and significantly disrupt its operations.

The coronavirus (“**COVID-19**”) will in the short-term, and may over the longer term, adversely affect the economies and financial markets of many countries, resulting in an economic downturn that may adversely affect demand for digital assets generally and impact the value of, and demand for, the digital assets held by a Trust. Although the magnitude of the impact of the COVID-19 outbreak or the occurrence of other epidemics or pandemics on the digital assets held by the Trusts remains uncertain, the continued spread of COVID-19 and the imposition of related public health measures and travel and business restrictions have resulted in, and will continue to result in, increased volatility and uncertainty in the Digital Asset Markets. In addition, we rely on third party service providers to perform certain functions essential to the operation of a Trust. Any disruptions to a Trust’s or a Trust’s service providers’ business operations resulting from business restrictions, quarantines or restrictions on the ability of personnel to perform their jobs could have an adverse impact on such Trust’s ability to access critical services and would be disruptive to the operation of such Trust.

Due to the unregulated nature and lack of transparency surrounding the operations of Digital Asset Exchanges, they may experience fraud, security failures or operational problems, which may adversely affect the value of digital assets and, consequently, an investment in the Shares.

Digital Asset Exchanges are relatively new and largely unregulated. Furthermore, while many prominent Digital Asset Exchanges provide the public with significant information regarding their ownership structure, management teams, corporate practices and regulatory compliance, many Digital Asset Exchanges do not provide this information. As a result, the marketplace may lose confidence in Digital Asset Exchanges, including prominent exchanges that handle a significant volume of digital asset trading.

For example, in 2019 there were reports claiming that 80-95% of Bitcoin trading volume on Digital Asset Exchanges was false or non-economic in nature, with specific focus on unregulated exchanges located outside of the U.S. Such reports may indicate that the Digital Asset Exchange Market is significantly smaller than expected and that the U.S. makes up a significantly larger percentage of the Digital Asset Exchange Market than is commonly understood. Nonetheless, any actual or perceived false trading in the Digital Asset Exchange Market, and any other fraudulent or manipulative acts and practices, could adversely affect the value of digital assets held by a Trust and/or negatively affect the market perception of such digital assets.

In addition, over the past several years, some Digital Asset Exchanges have been closed due to fraud and manipulative activity, business failure or security breaches. In many of these instances, the customers of such Digital Asset Exchanges were not compensated or made whole for the partial or complete losses of their account balances in such Digital Asset Exchanges. While smaller Digital Asset Exchanges are less likely to have the infrastructure and capitalization that make larger Digital Asset Exchanges more stable, larger Digital Asset Exchanges are more likely to be appealing targets for hackers and malware and may be more likely to be targets of regulatory enforcement action. For example, the collapse of Mt. Gox, which filed for bankruptcy protection in Japan in late February 2014, demonstrated that even the largest Digital Asset Exchanges could be subject to abrupt failure with consequences for both users of Digital Asset Exchanges and the digital asset industry as a whole. In particular, in the two weeks that followed the February 7, 2014 halt of Bitcoin withdrawals from Mt. Gox, the value of one Bitcoin fell on other exchanges from around \$795 on February 6, 2014 to \$578 on February 20, 2014. Additionally, in January 2015, Bitstamp announced that approximately 19,000 Bitcoin had been stolen from its operational or “hot” wallets.

Further, in August 2016, it was reported that almost 120,000 Bitcoins worth around \$78 million were stolen from Bitfinex, a large Digital Asset Exchange. The value of Bitcoin immediately decreased over 10% following reports of the theft at Bitfinex. In July 2017, the Financial Crimes Enforcement Network (“**FinCEN**”) assessed a \$110 million fine against BTC-E, a now defunct Digital Asset Exchange, for facilitating crimes such as drug sales and ransomware attacks. In addition, in December 2017, Yopian, the operator of Seoul-based Digital Asset Exchange, Youbit, suspended digital asset trading and filed for bankruptcy following a hack that resulted in a loss of 17% of Yopian’s assets. Following the hack, Youbit users were allowed to withdraw approximately 75% of the digital assets in their exchange accounts, with any potential further distributions to be made following Yopian’s pending bankruptcy proceedings. In addition, in

January 2018, the Japanese Digital Asset Exchange, Coincheck, was hacked, resulting in losses of approximately \$535 million, and in February 2018, the Italian digital asset exchange, Bitgrail, was hacked, resulting in approximately \$170 million in losses. In May 2019, one of the world's largest Digital Asset Exchanges, Binance, was hacked, resulting in losses of approximately \$40 million.

Negative perception, a lack of stability in the Digital Asset Markets and the closure or temporary shutdown of Digital Asset Exchanges due to fraud, business failure, hackers or malware, or government-mandated regulation may reduce confidence in digital asset networks and result in greater volatility in the prices of digital assets. Furthermore, the closure or temporary shutdown of a Digital Asset Exchange used in calculating any of the Digital Asset Reference Rates may result in a loss of confidence in a Trust's ability to determine its Digital Asset Holdings on a daily basis. These potential consequences of a Digital Asset Exchange's failure could adversely affect an investment in the Shares of either of the Trusts.

As another example, in May 2022, the LUNA token experienced a significant decline when the "stablecoin" associated with the Terra Luna protocol became unpegged to the USD. This catalyzed a "bank run" for liquidity which severely impacted the price of both the Terra Luna stablecoin (UST) as well as the protocol token (LUNA). In part, this was a function of a failure of the protocol to collateralize sufficiently, a failure of the smart contracts governing the peg and a failure of the governance structure to plan or deal with these issues, including potentially bad actors and insider trading. As a result, holders of LUNA and/or UST have lost substantially all their capital.

The Sponsor relies on the Indices, which could contain flawed models and data, to make its management decisions.

While the Sponsor has discretion to make adjustments for cash and risk management, the Sponsor will primarily rely on the Indices in making its trading decisions. The Indices in turn relies heavily on quantitative models and information and data, both proprietary as well as supplied by third parties ("***Models and Data***"), to rank digital assets, provide risk management insights, and to assist in managing the Trusts holdings.

When Models and Data prove to be incorrect or incomplete, any decisions made in reliance thereon expose the Trusts to potential risks. Some of the models used by the Sponsor for the Trusts are predictive in nature. The use of predictive models has inherent risks. Because predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data. In addition, there is an inherent risk that the quantitative models used by the Sponsor may not be successful in forecasting movements in digital assets, protocols, networks, or in determining the weighting of holdings positions that will enable the Trusts to achieve their objectives.

All models rely on correct data inputs. If incorrect market data is entered into even a well-founded model, the resulting information will be incorrect. However, even if market data is input correctly, "model prices" will often differ substantially from market prices, especially for holdings with less liquidity or more complex characteristics, which is commonly the case for all digital asset exposures.

The Index Provider makes no warranty, express or implied, as to the results to be obtained by any person or entity from the use of either Index for any purpose. Index information and any other information calculated and/or disseminated, in whole or part, by the Index Provider is for informational purposes only, not intended for trading purposes, and provided on an “as is” basis. The Index Provider does not warrant that Index information will be uninterrupted or error-free, or that defects will be corrected. The Index Provider also does not recommend or may any representations as to possible benefits from any securities or investments, or third-party products or services. Shareholders should undertake their own due diligence regarding securities and investment practices.

Each Digital Asset Reference Rate has a limited history and a failure of a Digital Asset Reference Rate could adversely affect an investment in such Trust.

Each Digital Asset Reference Rate has a limited history and is an average composite reference rate calculated using volume-weighted trading price data from various Digital Asset Exchanges chosen by the Administrator. The Digital Asset Exchanges chosen by the Administrator have also changed over time. Although each Digital Asset Reference Rate is designed to accurately capture the market price of the digital asset it tracks, third parties may be able to purchase and sell such digital assets on public or private markets not included among the Digital Asset Exchanges of such Digital Asset Reference Rate, and such transactions may take place at prices materially higher or lower than the Digital Asset Reference Rate. Moreover, there may be variances in the prices of digital assets on the various Digital Asset Exchanges, including as a result of differences in fee structures or administrative procedures on different Digital Asset Exchanges. To the extent such prices differ materially from the Digital Asset Reference Rate, investors may lose confidence in the Shares’ ability to track the market price of such digital asset, which could adversely affect an investment in a Trust.

The Digital Asset Reference Rate used to calculate the value of a Trust’s digital assets may be volatile, and purchasing activity in the Digital Asset Exchange Market associated with the issuance of Shares or selling activity following redemptions, if permitted, may affect the relevant Digital Asset Reference Rate and Share trading prices, adversely affecting an investment in the Shares of such Trust.

The price of digital assets on public Digital Asset Exchanges have a very limited history, and during this history, digital asset prices on the Digital Asset Markets more generally, and on Digital Asset Exchanges individually, have been volatile and subject to influence by many factors, including operational interruptions. While each Digital Asset Reference Rate is designed to limit exposure to the interruption of individual Digital Asset Exchanges, the relevant Digital Asset Reference Rate, and the price of digital assets generally, remains subject to volatility experienced by Digital Asset Exchanges, and such volatility could adversely affect an investment in the Shares.

Furthermore, because the number of Digital Asset Exchanges is limited, each Digital Asset Reference Rate will necessarily be calculated by reference to a limited number of Digital Asset Exchanges. If a Digital Asset Exchange were subjected to regulatory, volatility or other pricing issues, the Administrator would have limited ability to remove such Digital Asset Exchange from the group of trading venues used by it to calculate the relevant Digital Asset Reference Rate, which

could skew the price of the digital asset as represented by such Digital Asset Reference Rate. Trading on a limited number of Digital Asset Exchanges may result in less favorable prices and decreased liquidity of one or more digital assets and, therefore, could have an adverse effect on an investment in the Shares.

Purchasing activity associated with acquiring digital assets required for the issuance of new Shares may increase the market price of digital assets on the Digital Asset Markets, which will result in higher prices for the Shares of a Trust holding such digital assets. Increases in the market price of digital assets may also occur as a result of the purchasing activity of other market participants. Other market participants may attempt to benefit from an increase in the market price of digital assets that may result from increased purchasing activity of digital assets connected with the issuance of new Shares. Consequently, the market price of digital assets may decline immediately after such Shares are created. The selling activity associated with sales of digital assets withdrawn from a Trust in connection with the redemption of the Shares may decrease the market price of digital assets on the Digital Asset Exchange Market, which will result in lower prices for the Shares of such Trust. Decreases in the market price of digital assets may also occur as a result of sales in Secondary Markets by other market participants. If the relevant Digital Asset Reference Rate declines, the trading price of the Shares of the applicable Trust will generally also decline.

Competition from the emergence or growth of other methods of investing in digital assets could have a negative impact on the price of the digital assets held by a Trust and adversely affect an investment in the Shares.

Investors may invest in digital assets through means other than an investment in the Shares, including through direct investments in digital assets and other potential financial vehicles, possibly including securities backed by or linked to one or more digital assets and digital asset financial vehicles similar to the Trusts. Market and financial conditions, and other conditions beyond the Sponsor's control, may make it more attractive to invest in other financial vehicles or to invest in such digital assets directly, which could limit the market for, and reduce the liquidity of, the Shares of one or both of the Trusts. In addition, to the extent digital asset financial vehicles other than the Trusts tracking the price of one or more digital assets are formed and represent a significant proportion of the demand for any particular digital asset, large purchases or redemptions of the securities of these digital asset financial vehicles, or private funds holding such digital asset, could negatively affect the Digital Asset Reference Rate, the Digital Asset Holdings, the NAV, the NAV per Share and the price of the Shares of one or both of the Trusts. In addition, as described below, the SEC has not yet approved the listing on a national securities exchange of any digital-asset focused exchange-traded fund. If the SEC were to approve any such fund in the future, such a fund may be perceived to be a superior investment product offering exposure to digital assets compared to one or both of the Trusts, because the value of such fund's shares would be expected to more closely track the fund's net asset value than do Shares of each of the Trusts. Investors may therefore favor investments in such funds over investments in one or both of the Trusts. Any weakening in demand for the Shares compared to such digital asset fund shares could cause the value of the Shares to decline.

Failure of funds that hold digital assets or that have exposure to digital assets through derivatives to receive SEC approval to list their shares on exchanges could adversely affect an investment in the Shares.

There have been a growing a number of attempts to list on national securities exchanges the shares of funds that hold digital assets or that have exposures to digital assets through derivatives. These investment vehicles attempt to provide institutional and retail investors exposure to markets for digital assets and related products. The SEC has repeatedly denied such requests. On January 18, 2018, the SEC’s Division of Investment Management outlined several questions that sponsors would be expected to address before the SEC will consider granting approval for funds holding “substantial amounts” of cryptocurrencies or “cryptocurrency-related products.” The questions, which focus on specific requirements of the Investment Company Act, generally fall into one of five key areas: valuation, liquidity, custody, arbitrage and potential manipulation. The SEC has not explicitly stated whether each of the questions set forth would also need to be addressed by entities with similar products and investment strategies that instead pursue registered offerings under the Securities Act, although such entities would need to comply with the registration and prospectus disclosure requirements of the Securities Act. Furthermore, NYSE Arca previously withdrew its application with the SEC to list Grayscale Bitcoin Trust (BTC) (“***BTC Trust***”) on a national security exchange. Requests to list the shares of other funds on national securities exchanges have also been submitted to the SEC, to which the SEC issued disapproval orders. More recently, the Chicago Board Options Exchange (“***CBOE***”) withdrew a request to list the shares of the VanEck SolidX Bitcoin Trust in September 2019 and the SEC issued disapprovals of NYSE Arca’s requests to list the shares of the Bitwise Bitcoin ETF Trust in October 2019 and shares of the United States Bitcoin and Treasury Investment Trust in February 2020. The exchange listing of shares of digital asset funds would create more opportunities for institutional and retail investors to invest in the Digital Asset Market. If exchange-listing requests are not approved by the SEC and further requests are ultimately denied by the SEC, increased investment interest by institutional or retail investors could fail to materialize, which could reduce the demand for digital assets generally and therefore adversely affect an investment in the Shares.

The Trusts may be subject to counterparty risk in certain circumstances.

Each of the Trusts may be subject to counterparty risk in certain circumstances. See “ACTIVITIES OF THE TRUSTS – Strategies Behind the Trusts – “*Minimize Counterparty and Credit Risk.*”

Risk Factors Related to the Trusts and the Shares

The Trusts and the Sponsor have a limited operating history.

The Trusts and the Sponsor are relatively new entities and have a limited history of operations for investors to evaluate. Investors in the Trusts bear the risk that the Sponsor may not be successful in implementing its model strategies, may be unable to implement certain of its model strategies or may fail to attract sufficient assets, any of which could result in the Trusts being liquidated and terminated at any time without Shareholder approval and at a time that may not be favorable for all Shareholders. Such a liquidation could have negative tax consequences for Shareholders and will cause Shareholders to incur expenses of liquidation. As a result, investors do not have a long-

term track record from which to judge the Sponsor, and the Sponsor may not achieve the intended result in managing the Trusts.

An investment in the Shares of a Trust may be influenced by a variety of factors unrelated to the value of the digital asset held by such Trust.

An investment in the Shares of a Trust may be influenced by a variety of factors unrelated to the price of the digital asset held by such Trust and the Digital Asset Exchanges included in the relevant Digital Asset Reference Rate that may have an adverse effect on the price of the Shares of such Trust. These factors include the following factors:

- Unanticipated problems or issues with respect to the mechanics of such Trust's operations and the trading of the Shares, if any, may arise;
- Such Trust could experience difficulties in operating and maintaining its technical infrastructure, including in connection with expansions or updates to such infrastructure, which are likely to be complex and could lead to unanticipated delays, unforeseen expenses and security vulnerabilities;
- Such Trust could experience unforeseen issues relating to the performance and effectiveness of the security procedures used to protect its Digital Asset Custodial Account, or the security procedures may not protect against all errors, software flaws or other vulnerabilities in such Trust's technical infrastructure, which could result in theft, loss or damage of its assets; or
- Service providers may decide to terminate their relationships with such Trust due to concerns that the introduction of privacy enhancing features to any particular digital asset network may increase the potential for such digital asset to be used to facilitate crime, exposing such service providers to potential reputational harm.

Any of these factors could affect the value of the Shares of such Trust, either directly or indirectly through their effect on its assets.

Shareholders do not have the protections associated with ownership of shares in an investment company registered under the Investment Company Act or the protections afforded by the CEA.

The Investment Company Act is designed to protect investors by preventing insiders from managing investment companies to their benefit and to the detriment of public investors and limits activities such as: the issuance of securities having inequitable or discriminatory provisions; the management of investment companies by irresponsible persons; the use of unsound or misleading methods of computing earnings and asset value; changes in the character of investment companies without the consent of investors; and the use of excessive leverage. To accomplish these ends, the Investment Company Act requires the safekeeping and proper valuation of fund assets, restricts greatly transactions with affiliates, limits leveraging, and imposes governance requirements as a check on fund management.

Neither of the Trusts is registered as an investment company under the Investment Company Act, and the Sponsor believes that neither of the Trusts is required to register under such act. Consequently, Shareholders do not have the regulatory protections provided to investors in investment companies.

Neither of the Trusts will hold or trade in commodity interests regulated by the CEA, as administered by the CFTC. Furthermore, the Sponsor believes that neither of the Trusts is a commodity pool for purposes of the CEA, and that neither the Sponsor nor the Trustee is subject to regulation by the CFTC as a commodity pool operator or a commodity trading adviser in connection with the operation of the Trusts. Consequently, Shareholders will not have the regulatory protections provided to investors in CEA-regulated instruments or commodity pools.

The restrictions on transfer and redemption may result in losses on an investment in the Shares.

The Shares may not be resold except in transactions exempt from registration under the Securities Act and state securities laws, and any such transaction must be approved in advance by the Sponsor. Any attempt to sell Shares without the approval of the Sponsor in its sole discretion will be void *ab initio*. See “Description of the Shares—Transfer Restrictions” for more information.

Although the Sponsor is accepting redemption requests from Shareholders of each Trust, the redemption of Shares is subject to limitations (as described in this Base Memorandum), the Sponsor may suspend or terminate the redemption program at any time, in the Sponsor’s sole discretion, and the Sponsor will terminate the redemption program, in the event that the Shares are traded on any Secondary Market. In addition, each Trust may from time to time halt the issuance of Shares. Therefore, Shareholders may be unable to (or could be significantly impeded in attempting to) sell or otherwise liquidate investments in the Shares of a Trust, which could have a material adverse impact on an investment in the Shares of such Trust. Investors should consider an investment in the Shares of each Trust to be an illiquid investment and should invest only if prepared to hold the Shares indefinitely.

If the Shares of a Trust are traded on a Secondary Market, the Shares could trade below the Trust’s Digital Asset Holdings per Share due to the fact that investors will not be realize any increase in the value of the Trust’s digital asset through redemption. Therefore, such Trust may not meet its objective for investment, which is to provide investors a cost-effective and convenient way to invest in the relevant digital asset while avoiding the complication of directly holding digital assets.

As the Sponsor and its management have limited history of operating investment vehicles like the Trusts, their experience may be inadequate or unsuitable to manage the Trusts.

The past performances of the Sponsor’s management in other investment vehicles, including their experiences in the digital asset industry, are no indication of their ability to manage investment vehicles such as the Trusts. If the experience of the Sponsor and its management is inadequate or unsuitable to manage investment vehicles such as the Trusts, the operations of one or both of the Trusts may be adversely affected.

Furthermore, the Sponsor is currently engaged in the management of other investment vehicles which could divert their attention and resources. If the Sponsor were to experience difficulties in

the management of such other investment vehicles that damaged the Sponsor or its reputation, it could have an adverse impact on the Sponsor's ability to continue to serve as Sponsor for the Trusts.

If the Shares are traded on any Secondary Market, because of the holding period under Rule 144 and the lack of an ongoing redemption program, there will be no arbitrage mechanism to keep the price of the Shares closely linked to the relevant Digital Asset Reference Rate, and the Shares may trade at a substantial premium over, or substantial discount to, the Digital Asset Holdings per Share.

Shares purchased from each Trust in sales in private placements are subject to a holding period under Rule 144. In addition, if the Shares of a Trust are traded on any Secondary Market, such Trust will not operate an ongoing redemption program. As a result, such Trust cannot rely on arbitrage opportunities resulting from differences between the price of the Shares and the price of the Relevant Digital Currency to keep the price of the Shares closely linked to the relevant Digital Asset Reference Rate. As a result, the value of the Shares of a Trust may not approximate, and the Shares of a Trust may trade at a substantial premium over, or substantial discount to, the value of such Trust's Digital Asset Holdings per Share, because the Shareholders will not be able to take advantage of arbitrage opportunities created when the market value of the Shares of a Trust deviates from the value of the relevant Digital Asset Holdings per Share, which may have an adverse impact on an investment in the Shares of such Trust.

Security threats to a Trust's Digital Asset Custodial Account could result in the halting of Trust operations, the suspension of redemptions (if redemptions would otherwise be authorized), and a loss of Trust assets or damage to the reputation of such Trust, each of which could result in a reduction in the price of the Shares of such Trust.

Security breaches, computer malware and computer hacking attacks have been a prevalent concern in relation to digital assets. The Sponsor believes that each Trust's digital assets held in the relevant Digital Asset Custodial Account will be an appealing target to hackers or malware distributors seeking to destroy, damage or steal a Trust's digital assets and will only become more appealing as a Trust's assets grow. To the extent that a Trust, the Sponsor or the Custodian is unable to identify and mitigate or stop new security threats or otherwise adapt to technological changes in the digital asset industry, such Trust's digital assets may be subject to theft, loss, destruction or other attack.

The Sponsor believes that the security procedures in place for each Trust's Digital Asset Custodial Account, including but not limited to, offline storage, or "cold storage," multiple encrypted private key shards, usernames, passwords and 2-step verification, are reasonably designed to safeguard each Trust's digital assets, while in custody. Nevertheless, the security procedures cannot guarantee the prevention of any loss that may be borne by either Trust due to a security breach, software defect, act of God, natural disaster, act of a civil or military authority, act of terrorists, including but not limited to cyber-related terrorist acts, hacking, government restrictions, exchange or market rulings, civil disturbance, war, strike or other labor dispute, fire, interruption in telecommunications or Internet services or network provider services, failure of equipment and/or

software, other catastrophe, or any other occurrence which is beyond the reasonable control of the Custodian.

The security procedures and operational infrastructure may be breached due to the actions of outside parties, error or malfeasance of an employee of the Sponsor, the Custodian, or otherwise, and, as a result, an unauthorized party may obtain access to a Digital Asset Custodial Account, the relevant private keys (and therefore digital assets) or other data of a Trust. Additionally, outside parties may attempt to fraudulently induce authorized representatives of the Sponsor or the Custodian to disclose sensitive information in order to gain access to a Trust's infrastructure. As the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, or may be designed to remain dormant until a predetermined event and often are not recognized until launched against a target, the Sponsor and the Custodian may be unable to anticipate these techniques or implement adequate preventative measures.

An actual or perceived breach of a Digital Asset Custodial Account could harm the relevant Trust's operations, result in loss of such Trust's assets, damage such Trust's reputation and negatively affect the market perception of the effectiveness of such Trust, all of which could in turn reduce demand for the Shares of any such Trust, resulting in a reduction in the price of such Shares. Either of the Trusts may also cease operations or suspend redemptions, the occurrence of each of which could similarly result in a reduction in the price of the Shares of such Trust.

Transactions in digital assets are irrevocable and stolen or incorrectly transferred digital assets may be irretrievable. As a result, any incorrectly executed digital asset transactions could adversely affect an investment in the Shares.

Digital asset transactions are typically not reversible without the consent and active participation of the recipient of the transaction. Once a transaction has been verified and recorded in a block that is added to a blockchain, an incorrect transfer or theft of the applicable digital asset generally will not be reversible and either Trust holding such digital asset may not be capable of seeking compensation for any such transfer or theft. Although a Trust's transfers by an authorized representative of digital assets will regularly be made to or from the relevant Digital Asset Custodial Account, it is possible that, through computer or human error, or through theft or criminal action, a Trust's digital assets could be transferred from such Trust's Digital Asset Custodial Account in incorrect amounts or to unauthorized third parties, or to uncontrolled accounts.

Such events have occurred in connection with digital assets in the past. For example, in September 2014, the Chinese Digital Asset Exchange, Huobi, announced that it had sent approximately 900 Bitcoins and 8,000 Litecoins (worth approximately \$400,000 at the prevailing market prices at the time) to the wrong customers. To the extent that a Trust is unable to seek a corrective transaction with such third party or is incapable of identifying the third party which has received such Trust's digital assets through error or theft, such Trust will be unable to revert or otherwise recover incorrectly transferred digital assets. Such Trust will also be unable to convert or recover its digital assets transferred to uncontrolled accounts. To the extent that such Trust is unable to seek redress for such error or theft, such loss could adversely affect an investment in the Shares of such Trust.

The Sponsor may need to find and appoint a replacement custodian for a Trust quickly, which could pose a challenge to the safekeeping of the digital assets of such Trust.

The Sponsor could decide to replace Coinbase Custody Trust Company, LLC as the custodian of a Trust upon 30 days' prior written notice. In addition, Coinbase Custody Trust Company, LLC may terminate the current Custodian Agreement upon 30 days' prior written notice and immediately or on a date specified by the Custodian in certain circumstances described in the Custodian Agreement. Transferring maintenance responsibilities of the Digital Asset Custodial Account of a Trust to another party will likely be complex and could subject such Trust's digital assets to the risk of loss during the transfer, which could have a negative impact on the performance of the Shares of such Trust or result in loss of such Trust's assets.

The Sponsor may not be able to find a party willing to serve as the custodian under the same terms as the current Custodian Agreement. To the extent that Sponsor is not able to find a suitable party willing to serve as the custodian, the Sponsor may be required to terminate the relevant Trust and liquidate such Trust's digital assets. In addition, to the extent that the Sponsor finds a suitable party but must enter into a modified Custodian Agreement that is less favorable for the relevant Trust or Sponsor, the value of the Trust's Shares could be adversely affected.

Under certain circumstances, custodians of digital assets may become impaired and present significant counterparty risk, particularly in a bankruptcy. As a result, the Sponsor may take extenuating actions to safeguard the Trust's assets, including seeking a replacement custodian and/or transferring the Trust's digital assets to self-custodial wallets from time to time, as determined by the Sponsor in its sole discretion.

The lack of full insurance and Shareholders' limited rights of legal recourse against the Trusts, Trustee, Sponsor, and Custodian expose the Trusts and its Shareholders to the risk of loss of the Trusts' digital assets for which no person or entity is liable.

Neither of the Trusts is a banking institution or otherwise a member of the Federal Deposit Insurance Corporation ("**FDIC**") or Securities Investor Protection Corporation ("**SIPC**") and, therefore, deposits held with or assets held by a Trust are not subject to the protections enjoyed by depositors with FDIC or SIPC member institutions. In addition, neither of the Trusts nor the Sponsor directly insures such Trust's assets. While the Custodian has agreed to maintain the types and amounts of insurance commercially reasonable for the Custodial Services it provides, Shareholders cannot be assured that the Custodian will maintain adequate insurance or that such coverage will cover losses with respect to a Trust's digital assets.

The Custodian will not be liable for any breach of its obligations under the Custodian Agreement that does not result solely from the Custodian's gross negligence, fraud, or willful misconduct. Furthermore, under the Custodian Agreement, the Custodian's liability with respect to any breach of its obligations under the Custodian Agreement is limited to the greater of (i) the aggregate amount of fees paid by the Trust to the Custodian for Custodial Services in the 12-month period prior to the event giving rise to the liability or (ii) the value of the digital assets on deposit in the Digital Asset Custodial Accounts at the time of the event giving rise to such liability (the value of which shall be calculated at the average U.S. dollar ask price, at the time of such event, of the three

largest U.S.-based Digital Asset Exchanges (by trailing 30-day volume) which offer the relevant digital asset, provided that in no event will the Custodian's aggregate liability in respect of each cold storage address exceed \$100,000,000. The Custodian is not liable for any lost profits or any incidental, indirect, special, punitive, consequential or similar damages, whether or not the Custodian has been advised of such losses or the Custodian knew or should have known of the possibility of such damages.

The Shareholders' recourse against the Sponsor for the services it provides to each Trust, including those relating to the provision of instructions relating to the movement of digital assets, is limited. Consequently, a loss may be suffered with respect to a Trust's digital assets that is not covered by insurance and for which no person is liable in damages. As a result, the recourse of each Trust or the Shareholders is limited.

Each of the Trusts may be required, or the Sponsor may deem it appropriate, to terminate and liquidate at a time that is disadvantageous to Shareholders.

If either Trust is required to terminate and liquidate, or the Sponsor determines in accordance with the terms of such Trust's Trust Agreement that it is appropriate to terminate and liquidate such Trust, such termination and liquidation could occur at a time that is disadvantageous to Shareholders, such as when the Actual Exchange Rate of the digital asset held by such Trust is lower than the relevant Digital Asset Reference Rate was at the time when Shareholders purchased their Shares. In such a case, when such Trust's digital assets are sold as part of its liquidation, the resulting proceeds distributed to Shareholders will be less than if the Actual Exchange Rate were higher at the time of sale. See "Description of the Trust Documents—Description of the Trust Agreement—The Trustee—Termination of the Trust" for more information about the termination of the Trusts, including when the termination of a Trust may be triggered by events outside the direct control of the Sponsor, the Trustee or the Shareholders.

The Trust Agreement for each Trust includes provisions that limit Shareholders' voting rights and restrict Shareholders' right to bring a derivative action.

Under each Trust Agreement, Shareholders have limited voting rights and neither of the Trusts will have regular Shareholder meetings. Shareholders take no part in the management or control of either of the Trusts. Accordingly, Shareholders do not have the right to authorize actions, appoint service providers or take other actions as may be taken by shareholders of other trusts or companies where shares carry such rights. The Shareholders' limited voting rights give almost all control under each Trust Agreement to the Sponsor and the Trustee. The Sponsor may take actions in the operation of any of the Trusts that may be adverse to the interests of Shareholders and may adversely affect an investment in the Shares.

Moreover, pursuant to the terms of each Trust Agreement, Shareholders' statutory right under Delaware law to bring a derivative action (i.e., to initiate a lawsuit in the name of a Trust in order to assert a claim belonging to such Trust against a fiduciary of such Trust or against a third-party when such Trust's management has refused to do so) is restricted. Under Delaware law, a shareholder may bring a derivative action, if the shareholder is a shareholder at the time the action is brought and either (i) was a shareholder at the time of the transaction at issue or (ii) acquired the

status of shareholder by operation of law or the trust's governing instrument from a person who was a shareholder at the time of the transaction at issue. Additionally, Section 3816(e) of the DSTA specifically provides that a "beneficial owner's right to bring a derivative action may be subject to such additional standards and restrictions, if any, as are set forth in the governing instrument of the statutory trust, including, without limitation, the requirement that beneficial owners owning a specified beneficial interest in the statutory trust join in the bringing of the derivative action." In addition to the requirements of applicable law and in accordance with Section 3816(e), each Trust Agreement provides that no Shareholder will have the right, power or authority to bring or maintain a derivative action, suit or other proceeding on behalf of such Trust, unless two or more Shareholders of such Trust who (i) are not affiliates of one another and (ii) collectively hold at least 10.0% of the outstanding Shares join in the bringing or maintaining of such action, suit or other proceeding.

Due to this additional requirement, a Shareholder attempting to bring or maintain a derivative action in the name of a Trust will be required to locate other Shareholders with which it is not affiliated and that have sufficient Shares to meet the 10.0% threshold based on the number of Shares outstanding on the date the claim is brought and thereafter throughout the duration of the action, suit or proceeding. This may be difficult and may result in increased costs to a Shareholder attempting to seek redress in the name of such Trust in court. Moreover, if Shareholders bringing a derivative action, suit or proceeding pursuant to this provision of a Trust Agreement do not hold 10.0% of the outstanding Shares on the date such an action, suit or proceeding is brought, or such Shareholders are unable to maintain Share ownership meeting the 10.0% threshold throughout the duration of the action, suit or proceeding, such Shareholders' derivative action may be subject to dismissal. As a result, each Trust Agreement limits the likelihood that a Shareholder will be able to successfully assert a derivative action in the name of such Trust, even if such Shareholder believes that he or she has a valid derivative action, suit or other proceeding to bring on behalf of such Trust. See "Description of the Trust Documents—The Sponsor—The Fiduciary and Regulatory Duties of the Sponsor" for more detail.

The Administrator is solely responsible for determining the value of the Digital Asset Holdings and Digital Asset Holdings per Share of each Trust, and any errors, discontinuance or changes in such valuation calculations may have an adverse effect on the value of a Trust's Shares.

The Administrator will determine each Trust's Digital Asset Holdings and Digital Asset Holdings per Share on a daily basis by 4:00 p.m., New York time, on each business day. The Administrator's determination is made utilizing data from the operations of a Trust and the relevant Digital Asset Reference Rate, calculated at 4:00 p.m. GMT on such day. To the extent that the Digital Asset Holdings or Digital Asset Holdings per Share of a Trust are incorrectly calculated, the Administrator may not be liable for any error and such misreporting of valuation data could adversely affect an investment in the Shares of such Trust.

Extraordinary expenses resulting from unanticipated events may become payable by the Trusts, adversely affecting an investment in the Shares.

In consideration for the Sponsor's Fee, except as described below, the Sponsor has contractually assumed all ordinary-course operational and periodic expenses of each Trust. Extraordinary

expenses incurred by each Trust, or by the Sponsor on behalf of the Trust, such as taxes and governmental charges, expenses and costs of any extraordinary services performed by the Sponsor (or any other service provider) on behalf of each Trust to protect each Trust or the interests of Shareholders (including in connection with any Incidental Rights and any IR Virtual Currency), or extraordinary legal fees and expenses, are not assumed by the Sponsor and are borne by each Trust directly or by reimbursing the Sponsor, as the case may be. See “Activities of the Trusts—Trust Expenses” and “Expenses; Sales of Digital Assets.” In order to pay expenses not assumed by the Sponsor, the Sponsor will cause each Trust to either (i) sell its digital assets, Incidental Rights and/or IR Virtual Currency or (ii) deliver its digital assets, Incidental Rights and/or IR Virtual Currency in kind to pay such expenses not assumed by the Sponsor on an as-needed basis. Accordingly, a Trust may be required to sell or otherwise dispose of digital assets, Incidental Rights or IR Virtual Currency at a time when the trading prices for those assets are depressed.

The sale or other disposition of assets of a Trust in order to pay extraordinary expenses could have a negative impact on the value of the Shares of such Trust for several reasons. These include the following factors:

- If a Trust incurs expenses in U.S. dollars, such Trust’s digital assets, Incidental Rights or IR Virtual Currency may be sold at a time when the values of the disposed assets are low, resulting in a negative impact on the value of the Shares.
- Because neither of the Trusts generates any income, every time that a Trust pays expenses, it will deliver digital assets, Incidental Rights or IR Virtual Currency to the Sponsor or sell digital assets, Incidental Rights or IR Virtual Currency. Any sales of such Trust’s assets in connection with the payment of expenses will decrease the amount of such Trust’s assets represented by each Share each time its assets are sold or transferred to the Sponsor.

Each Trust’s delivery or sale of digital assets to pay expenses or other operations of such Trust could result in Shareholders’ incurring tax liability without an associated distribution from such Trust.

Assuming that each Trust is treated as a grantor trust for U.S. federal income tax purposes, each delivery or liquidation of digital assets by a Trust to pay the Sponsor’s Fee or other expenses and each sale of digital assets by such Trust to pay Additional Trust Expenses will be a taxable event to beneficial owners of Shares. Thus, the Trust’s payment of expenses could result in beneficial owners of Shares of such Trust incurring tax liability without an associated distribution from such Trust. Any such tax liability could adversely affect an investment in the Shares. See “Certain U.S. Federal Income Tax Consequences.”

The value of the Shares of a Trust will be adversely affected, if such Trust is required to indemnify the Sponsor, the Trustee, the Administrator or the Custodian under the Trust Documents.

Under the Trust Documents, each of the Sponsor, the Trustee, the Administrator, and the Custodian has a right to be indemnified by a Trust for certain liabilities or expenses that it incurs without breach on its part of the standard of care imposed by the applicable Trust Document (*e.g.*, willful

or reckless misconduct, bad faith or fraud, gross negligence, or, in the case of the Sponsor a material breach of the Trust Agreement). Therefore, the Sponsor, the Trustee, the Administrator, or the Custodian may require that the assets of a Trust be sold in order to cover losses or liability suffered by it. Any sale of that kind would reduce the Digital Asset Holdings of such Trust and the value of the Shares.

Intellectual property rights claims may adversely affect one or both of the Trusts and an investment in Shares.

The Sponsor is not aware of any intellectual property rights claims that may prevent either of the Trusts from operating and holding digital assets, Incidental Rights or IR Virtual Currency. However, third parties may assert intellectual property rights claims relating to the operation of either of the Trusts and the mechanics instituted for the investment in, holding of and transfer of digital assets, Incidental Rights or IR Virtual Currency. Regardless of the merit of an intellectual property or other legal action, any legal expenses to defend, or payments to settle, such claims would be extraordinary expenses that would be borne by a Trust through the sale or transfer of its digital assets, Incidental Rights or IR Virtual Currency. Additionally, a meritorious intellectual property rights claim could prevent a Trust from operating and force the Sponsor to terminate such Trust and liquidate its digital assets, Incidental Rights or IR Virtual Currency. As a result, an intellectual property rights claim against a Trust could adversely affect an investment in the Shares of such Trust.

Risk Factors Related to the Regulation of the Trusts and the Shares

Regulatory changes or actions may affect the value of the Shares or restrict the use of one or more digital assets, mining activity or the operation of their networks or the Digital Asset Markets in a manner that adversely affects an investment in the Shares.

As digital assets have grown in both popularity and market size, the U.S. Congress and a number of U.S. federal and state agencies (including FinCEN, SEC, CFTC, FINRA, the Consumer Financial Protection Bureau (“**CFPB**”), the Department of Justice, The Department of Homeland Security, the Federal Bureau of Investigation, the Internal Revenue Service (“**IRS**”) and state financial institution regulators) have been examining the operations of digital asset networks, digital asset users and the Digital Asset Exchange Market, with particular focus on the extent to which digital assets can be used to launder the proceeds of illegal activities or fund criminal or terrorist enterprises and the safety and soundness of exchanges and other service providers that hold digital assets for users. Many of these state and federal agencies have issued consumer advisories regarding the risks posed by digital assets to investors. Ongoing and future regulatory actions with respect to digital assets generally or a digital asset held by either of the Trusts in particular may alter, perhaps to a materially adverse extent, the nature of an investment in the Shares or the ability of the Trusts to continue to operate.

Law enforcement agencies have often relied on the transparency of blockchains to facilitate investigations. However, certain privacy-enhancing features have been, or are expected to be, introduced to a number of digital asset networks, and these features may provide law enforcement agencies with less visibility into transaction-level data. Europol, the European Union’s law

enforcement agency, released a report in October 2017 noting the increased use of privacy-enhancing digital assets like Zcash and Monero in criminal activity on the internet. Although no regulatory action has been taken to treat privacy-enhancing digital assets differently, this may change in the future.

Many blockchain startups use digital asset networks, such as the Ethereum network, to launch their initial coin offerings (“*ICOs*”). In July 2017, the SEC determined that tokens issued by The DAO, for instance, are securities under the U.S. securities laws. The SEC reasoned that the unregistered sale of digital asset tokens can, in certain circumstances, including ICOs, be considered illegal public offering of securities. In November 2018, the SEC determined that two other token issuances by companies called CarrierEQ, Inc., (d/b/a Airfox) and Paragon Coin, Inc. were unregistered securities offerings. And in September 2019, the SEC determined that the token issuance of EOS by a company called Block.one, was an unregistered securities offering and ordered Block.one to pay a \$24 million civil penalty. The SEC could make a similar determination with respect to digital tokens distributed in other ICOs, including for any digital assets held by the Trusts. If the SEC were to determine that the digital asset held by a Trust is a security, such Trust and the Sponsor would be subject to additional regulatory and compliance requirements under U.S. federal securities laws, including the Investment Company Act and, with respect to the Sponsor, the Investment Advisers Act. In addition, the SEC’s determination or a market expectation of the SEC’s determination that any digital asset is a security could adversely affect the market price of such digital asset or digital assets generally and thus an investment in the Shares of one or both of the Trusts.

Furthermore, a number of foreign jurisdictions, like the SEC, have also recently opined on the sale of digital asset tokens, including through ICOs. For example, China and South Korea have banned ICOs entirely and other jurisdictions, including Canada, Singapore and Hong Kong, have opined that ICOs may constitute securities offerings subject to local securities regulations. A determination that the digital asset held by a Trust is a security under U.S. or foreign law could adversely affect an investment in the Shares of such Trust. In October 2020, the United Kingdom’s Financial Conduct Authority banned the sale to retail consumers of derivatives and exchange traded notes (“*ETNs*”) that reference certain types of digital assets, contending that they are “ill-suited” to retail investors citing extreme volatility, valuation challenges and association with financial crime. In addition to ETNs, the ban affects financial products including contracts for difference, options and futures.

Additionally, concerns have been raised about the electricity required to secure and maintain digital asset networks. As of December 31, 2019, in connection with mining on the Bitcoin Network, for example, over 119 million tera hashes are performed every second on the Bitcoin Network. Although measuring the electricity consumed by this process is difficult, because these operations are performed by various machines with varying levels of efficiency, the process consumes a significant amount of energy. The operations of other digital asset networks also consume significant amounts of energy. Further, in addition to the direct energy costs of performing calculations on any given digital asset network, there are indirect costs that impact a network’s total energy consumption, including the costs of cooling the machines that perform these calculations. In 2018, due to these concerns around energy consumption, particularly as such concerns relate to public utilities companies, various states and cities have implemented, or are

considering implementing, moratoriums on mining activity in their jurisdictions. A significant reduction in mining activity as a result of such actions could adversely affect the security of a digital asset network by making it easier for a malicious actor or botnet to manipulate the relevant blockchain. See “—If a malicious actor or botnet obtains control of more than 50% of the processing power on a digital asset network, or otherwise obtains control over a digital asset network through its influence over core developers or otherwise, such actor or botnet could manipulate the relevant blockchain to adversely affect an investment in the Shares of a Trust holding such digital asset or the ability of such Trust to operate.”

If regulatory changes or interpretations of a Shareholder’s, the Trusts’ or the Sponsor’s activities require the regulation of a Shareholder, the Trusts or the Sponsor as a money service business under the regulations promulgated by FinCEN under the authority of the U.S. Bank Secrecy Act or as a money transmitter or digital asset business under state regimes for the licensing of such businesses, such Shareholder, the Trusts or the Sponsor may be required to register and comply with such regulations, which could result in extraordinary, recurring and/or nonrecurring expenses to such Shareholder, the Trusts or the Sponsor, thereby reducing the liquidity of the Shares of one or both of the Trusts.

To the extent that the activities of any Shareholder, either Trust or the Sponsor cause it to be deemed a “money services business” under the regulations promulgated by FinCEN under the authority of the U.S. Bank Secrecy Act, such Shareholder, such Trust or the Sponsor may be required to comply with FinCEN regulations, including those that would mandate such Trust or the Sponsor to implement AML programs, make certain reports to FinCEN and maintain certain records. Similarly, the activities of a Shareholder, either Trust or the Sponsor may require it to be licensed as a money transmitter or as a digital asset business, such as under NYDFS’ BitLicense scheme.

Such additional regulatory obligations may cause a Shareholder, a Trust or the Sponsor to incur extraordinary expenses. If such Shareholder, such Trust or the Sponsor decide to seek the required licenses, there is no guarantee that they will timely receive them. The Sponsor may decide to terminate the Trust. The termination of any Trust in response to the changed regulatory circumstances may be at a time that is disadvantageous to the Shareholders.

Additionally, to the extent a Shareholder, a Trust or the Sponsor is found to have operated without appropriate state or federal licenses, it may be subject to investigation, administrative or court proceedings, and civil or criminal monetary fines and penalties, all of which would harm the reputation of such Trust or the Sponsor, decrease the liquidity of, and have a material adverse effect on the price of, the Shares of such Trust.

Regulatory changes or interpretations could cause the Trusts and the Sponsor to register and comply with new regulations, resulting in potentially extraordinary, nonrecurring expenses to each Trust.

Current and future legislation, CFTC and SEC rulemaking and other regulatory developments may impact the manner in which digital assets are treated for classification and clearing purposes. In particular, a digital asset may be classified by the CFTC as a “commodity interest” under the CEA

or may be classified by the SEC as a “security” under U.S. federal securities laws. As of the date of the Private Placement Memorandum, the Sponsor is not aware of any rules that have been proposed to regulate digital assets held by the Trusts as a commodity interest or a security. Although several U.S. federal district courts have recently held for certain purposes that digital assets, such as Bitcoin, are currency or a form of money, these rulings are not definitive. In 2019 and 2020, the SEC and U.S. Congress have focused their attention and brought increased scrutiny to these issues. The Sponsor and the Trusts cannot be certain as to how future regulatory developments will impact the treatment of digital assets under the law. In the face of such developments, the required registrations and compliance steps may result in extraordinary, nonrecurring expenses to a Trust. If the Sponsor decides to terminate a Trust in response to the changed regulatory circumstances, such Trust may be dissolved or liquidated at a time that is disadvantageous to Shareholders.

To the extent that any digital assets are deemed to fall within the definition of a “commodity interest” under the CEA, a Trust and the Sponsor may be subject to additional regulation under the CEA and CFTC regulations. The Sponsor may be required to register as a commodity pool operator or commodity trading adviser with the CFTC and become a member of the National Futures Association and may be subject to additional regulatory requirements with respect to such Trust, including disclosure and reporting requirements. These additional requirements may result in extraordinary, recurring and/or nonrecurring expenses of such Trust, thereby materially and adversely impacting the Shares. If the Sponsor determines not to comply with such additional regulatory and registration requirements, the Sponsor will terminate such Trust. Any such termination could result in the liquidation of such Trust’s digital assets at a time that is disadvantageous to Shareholders.

To the extent that the digital assets held by a Trust are deemed to fall within the definition of a security under U.S. federal securities laws, such Trust and the Sponsor may be subject to additional requirements under the Investment Company Act and the Sponsor may be required to register as an investment adviser under the Investment Advisers Act. Such additional registration may result in extraordinary, recurring and/or non-recurring expenses of such Trust, thereby materially and adversely impacting such Shares. If the Sponsor determines not to comply with such additional regulatory and registration requirements, the Sponsor will terminate such Trust. Any such termination could result in the liquidation of such Trust’s digital assets at a time that is disadvantageous to Shareholders. Alternatively, the Sponsor may need to assign its management rights to an affiliate that is registered as an investment adviser.

If the SEC approves crypto exchange-traded funds, the Sponsor may choose to convert any of the Trusts into an exchange-traded fund, which would impose additional novel regulatory challenges.

As of the first quarter of 2021, the SEC has rejected all applications for cryptocurrency exchange-traded funds (“*ETFs*”) arguing that the crypto market is too volatile, lacks sufficient surveillance, and is easily manipulated. However, market participants generally anticipate that *ETFs* will be approved in the future.

If the SEC approves cryptocurrency ETFs in the future, the Sponsor may elect to convert one or both of the Trusts into ETFs. Such conversion will pose additional regulatory requirements and costs, many of which will be unknown until the SEC provides such guidance. In addition, a Trust may need to modify its investment strategy to be a strictly index based fund. Any such conversion would result in extraordinary and non-recurring expenses of such Trust.

The treatment of each Trust for U.S. federal income tax purposes is uncertain.

The Sponsor intends to take the position that each Trust is properly treated as a grantor trust for U.S. federal income tax purposes. Assuming that a Trust is a grantor trust, such Trust will not be subject to U.S. federal income tax. Rather, if such Trust is a grantor trust, each beneficial owner of Shares will be treated as directly owning its *pro rata* share of such Trust's assets and a *pro rata* portion of such Trust's income, gain, losses and deductions will "flow through" to each beneficial owner of Shares.

If the IRS were to disagree with, and successfully challenge, certain positions a Trust may take with respect to Incidental Rights and IR Virtual Currency, such Trust might not qualify as a grantor trust. If the IRS does not recognize a Trust as a grantor trust, the Sponsor may need to fully index the Trust, abandon plans to list the Shares, or delist the Shares if already listed in order to avoid being taxed as a corporation.

In addition, the Sponsor plans to deliver to the Custodian, on behalf of each Trust, a Prospective Abandonment Notice stating that such Trust is irrevocably abandoning, effective immediately prior to each Creation Time, all Incidental Rights and IR Virtual Currency to which such Trust would otherwise be entitled as of such time and with respect to which it has not taken any Affirmative Action at or prior to such time. Each Trust may also abandon Incidental Rights and IR Virtual Currency through Affirmative Actions. There can be no complete assurance that these abandonments will be treated as effective for U.S. federal income tax purposes. If a Trust were treated as owning any asset other than its Relevant Digital Currency as of any date on which it creates Shares, it would likely cease to qualify as a grantor trust for U.S. federal income tax purposes.

Because of the evolving nature of digital currencies, it is not possible to predict potential future developments that may arise with respect to digital currencies, including forks, airdrops and other similar occurrences. Assuming that each Trust is currently a grantor trust for U.S. federal income tax purposes, certain future developments could render it impossible, or impracticable, for such Trust to continue to be treated as a grantor trust for such purposes.

If a Trust is not properly classified as a grantor trust, such Trust might be classified as a partnership for U.S. federal income tax purposes. However, due to the uncertain treatment of digital currency for U.S. federal income tax purposes (as discussed below in "Certain U.S. Federal Income Tax Consequences—Uncertainty Regarding the U.S. Federal Income Tax Treatment of Digital Currency"), there can be no assurance in this regard. If a Trust were classified as a partnership for U.S. federal income tax purposes, the tax consequences of owning Shares generally would not be materially different from the tax consequences described herein, although there might be certain differences, including with respect to timing of the recognition of taxable income or loss. In

addition, tax information reports provided to beneficial owners of Shares would be made in a different form. If a Trust were not classified as either a grantor trust or a partnership for U.S. federal income tax purposes, it would be classified as a corporation for such purposes. In that event, such Trust would be subject to entity-level U.S. federal income tax (currently at the rate of 21%) on its net taxable income and certain distributions made by such Trust to its Shareholders would be treated as taxable dividends to the extent of such Trust's current and accumulated earnings and profits. Any such dividend distributed to a beneficial owner of Shares of such Trust that is a non-U.S. person for U.S. federal income tax purposes would be subject to U.S. federal withholding tax at a rate of 30% (or such lower rate as provided in an applicable tax treaty).

The treatment of digital currency for U.S. federal income tax purposes is uncertain.

As discussed in the section entitled “Certain U.S. Federal Income Tax Consequences—Uncertainty Regarding the U.S. Federal Income Tax Treatment of Digital Currency” below, assuming that a Trust is properly treated as a grantor trust for U.S. federal income tax purposes, each beneficial owner of Shares will be treated for U.S. federal income tax purposes as the owner of an undivided interest in the digital currency (and, if applicable, any Incidental Rights and/or IR Virtual Currency) held in such Trust. Due to the new and evolving nature of digital currencies and the absence of comprehensive guidance with respect to digital currencies, many significant aspects of the U.S. federal income tax treatment of digital currency are uncertain. In 2014, the IRS released a notice (the “**Notice**”) discussing certain aspects of “convertible virtual currency” (that is, digital currency that has an equivalent value in fiat currency or that acts as a substitute for fiat currency) for U.S. federal income tax purposes and, in particular, stating that such digital currency (i) is “property,” (ii) is not “currency” for purposes of the rules relating to foreign currency gain or loss and (iii) may be held as a capital asset. The IRS released a revenue ruling and a set of “Frequently Asked Questions” (the “**Ruling & FAQs**”) that provide some additional guidance, including guidance to the effect that, under certain circumstances, hard forks of digital currencies are taxable events giving rise to ordinary income and guidance with respect to the determination of the tax basis of digital currency. However, the Notice and the Ruling & FAQs do not address other significant aspects of the U.S. federal income tax treatment of digital currencies. Moreover, although the Ruling & FAQs address the treatment of hard forks, there continues to be uncertainty with respect to the timing and amount of the income inclusions.

There can be no assurance that the IRS will not alter its position with respect to digital currencies in the future or that a court would uphold the treatment set forth in the Notice and the Ruling & FAQs. It is also unclear what additional guidance on the treatment of digital currencies for U.S. federal income tax purposes may be issued in the future. Any such alteration of the current IRS positions or additional guidance could result in adverse tax consequences for Shareholders and could have an adverse effect on the value of digital currency. Future developments that may arise with respect to digital currencies may increase the uncertainty with respect to the treatment of digital currencies for U.S. federal income tax purposes. For example, the Notice addresses only digital currency that is “convertible virtual currency,” and it is conceivable that, as a result of a fork, airdrop or similar occurrence, one or both of the Trusts will hold certain types of digital currency that are not within the scope of the Notice.

Prospective investors are urged to consult their tax advisers regarding the tax consequences of an investment in a Trust and in digital currencies in general.

Future developments regarding the treatment of digital currency for U.S. federal income tax purposes could adversely affect an investment in the Shares of a Trust.

As discussed above, many significant aspects of the U.S. federal income tax treatment of digital currency, such as the digital currency held in each Trust, are uncertain, and it is unclear what guidance on the treatment of digital currency for U.S. federal income tax purposes may be issued in the future. It is possible that any such guidance would have an adverse effect on the prices of digital currency, including on the price in the Digital Asset Markets of the digital currency held in each Trust, and therefore may have an adverse effect on the value of the Shares of a Trust.

Because of the evolving nature of digital currencies, it is not possible to predict potential future developments that may arise with respect to digital currencies, including forks, airdrops and similar occurrences. Such developments may increase the uncertainty with respect to the treatment of digital currencies for U.S. federal income tax purposes. Moreover, certain future developments could render it impossible, or impracticable, for a Trust to continue to be treated as a grantor trust for U.S. federal income tax purposes.

Future developments in the treatment of digital currency for tax purposes other than U.S. federal income tax purposes could adversely affect an investment in the Shares of a Trust.

The taxing authorities of certain states, including New York, (i) have announced that they will follow the Notice with respect to the treatment of digital currencies for state income tax purposes and/or (ii) have issued guidance exempting the purchase and/or sale of digital currencies for fiat currency from state sales tax. However, it is unclear what further guidance on the treatment of digital currencies for state tax purposes may be issued in the future.

The treatment of digital currencies for tax purposes by non-U.S. jurisdictions may differ from the treatment of digital currencies for U.S. federal, state or local tax purposes. It is possible, for example, that a non-U.S. jurisdiction would impose sales tax or value-added tax on purchases and sales of digital currencies for fiat currency. If a foreign jurisdiction with a significant share of the market of digital currency users imposes onerous tax burdens on digital currency users, or imposes sales or value-added tax on purchases and sales of digital currency for fiat currency, such actions could result in decreased demand in such jurisdiction for the digital currency held by a Trust.

Any future guidance on the treatment of digital currencies for state, local or non-U.S. tax purposes could increase the expenses of a Trust and could have an adverse effect on the prices of digital currencies, including on the price of digital assets in the Digital Asset Markets. As a result, any such future guidance could have an adverse effect on the value of the Shares of a Trust.

A U.S. tax-exempt investor may recognize “unrelated business taxable income” as a consequence of an investment in Shares.

Under the guidance provided in the Ruling & FAQs, hard forks, airdrops and similar occurrences with respect to digital currencies will under certain circumstances be treated as taxable events

giving rise to ordinary income. In the absence of guidance to the contrary, it is possible that any such income recognized by a U.S. tax-exempt investor would constitute “unrelated business taxable income” (“*UBTI*”). A tax-exempt investor should consult its tax advisor regarding whether such investor may recognize UBTI as a consequence of an investment in Shares.

Non-U.S. Holders may be subject to U.S. federal withholding tax on income derived from forks, airdrops and similar occurrences.

The Ruling & FAQs do not address whether income recognized by a non-U.S. person as a result of a fork, airdrop or similar occurrence could be subject to the 30% withholding tax imposed on U.S.-source “fixed or determinable annual or periodical” income. Non-U.S. investors in a Trust should assume that, in the absence of guidance, a withholding agent (including the Sponsor) is likely to withhold 30% of any such income recognized by a non-U.S. investor in respect of its Shares, including by deducting such withheld amounts from proceeds that such non-U.S. investor would otherwise be entitled to receive in connection with a distribution of Incidental Rights or IR Virtual Currency.

Risk Factors Related to Potential Conflicts of Interest

Potential conflicts of interest may arise among the Sponsor or its affiliates and one or both of the Trusts. The Sponsor and its affiliates have no fiduciary duties to either of the Trusts and their Shareholders other than as provided in each Trust Agreement, which may permit them to favor their own interests to the detriment of either of the Trusts and such Trust’s Shareholders.

The Sponsor will manage the affairs of the Trusts. Conflicts of interest may arise among the Sponsor and its affiliates, including the Index Provider, on the one hand, and a Trust and its Shareholders, on the other hand. As a result of these conflicts, the Sponsor may favor its own interests and the interests of its affiliates over either Trust and its Shareholders. These potential conflicts include, among others, the following:

- The Sponsor has no fiduciary duties to, and is allowed to take into account the interests of parties other than, the Trusts and their Shareholders in resolving conflicts of interest, provided the Sponsor does not act in bad faith;
- Each Trust has agreed to indemnify the Sponsor and its affiliates pursuant to its Trust Agreement;
- The Sponsor is responsible for allocating its own limited resources among different clients and potential future business ventures, to each of which it owes fiduciary duties;
- The Sponsor’s staff also services, or plans to service in the future, affiliates of the Sponsor, including other digital asset investment vehicles, and their respective clients and cannot devote all of its, or their, respective time or resources to the management of the affairs of the Trusts;

- The Sponsor, its affiliates and their officers and employees are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with one or both of the Trusts;
- Affiliates of the Sponsor have direct investments in digital assets and invest in digital assets on behalf of others. While these affiliates are permitted to manage such assets without regard to the interests of the Trusts or their Shareholders, the Sponsor has policies and procedures in place to mitigate any conflicts that may arise from such trading activity. Further, any increases, decreases or other changes in such investments could affect a Trust’s Digital Asset Reference Rate and, in turn, the price of Shares of such Trust;
- There is an absence of arm’s-length negotiation with respect to certain terms of each Trust, and, where applicable, there has been no independent due diligence conducted with respect to the offering of either Trust’s Shares;
- The Sponsor decides whether to retain separate counsel, accountants or others to perform services for the Trusts;
- The sole member of the Sponsor is also the sole member of the Index Provider; and
- The Sponsor may appoint an agent to act on behalf of the Shareholders of a Trust, including in connection with the distribution of any Incidental Rights and/or IR Virtual Currency, which agent may be the Sponsor or an affiliate of the Sponsor.

By investing in the Shares of a Trust, investors agree and consent to the provisions set forth in the relevant Trust Agreement. See “Description of the Trust Documents—Description of the Trust Agreements.”

For a further discussion of the conflicts of interest among the Sponsor, the Index Provider, each Trust and others, see “Conflicts of Interest.”

Risks Relating to Admission of Benefit Plan Investors.

As discussed in “ERISA and Related Considerations” below, the Sponsor intends to conduct the operations of the Trusts so that the assets of the Trusts will not be deemed to constitute “plan assets” for purposes of ERISA or Section 4975 of the Code. The Sponsor may, in its discretion, limit the amount of investments by “benefit plan investors” (as defined in Section 3(42) of ERISA) to less than 25% of the total value of each class of equity interest in each Trust. If, however, a Trust were deemed to hold “plan assets,” (a) ERISA’s fiduciary standards could apply to the Trust, which could materially affect the operations and profitability of such Trust, and (b) any transaction with such Trust and certain persons could constitute a prohibited transaction under ERISA and/or Section 4975 of the Code, unless an exemption applies.

Shareholders cannot be assured of the Sponsor's continued services, the discontinuance of which may be detrimental to the Trusts.

Shareholders cannot be assured that the Sponsor will be willing or able to continue to serve as sponsor to the Trusts for any length of time. If the Sponsor discontinues its activities on behalf of the Trusts and a substitute sponsor is not appointed, the Trusts will terminate and liquidate their digital assets.

Appointment of a substitute sponsor will not guarantee the Trusts' continued operation, successful or otherwise. Because a substitute sponsor may have no experience managing a digital asset financial vehicle, a substitute sponsor may not have the experience, knowledge or expertise required to ensure that the Trusts will operate successfully or continue to operate at all. Therefore, the appointment of a substitute sponsor may not necessarily be beneficial to the Trusts or an investment in the Shares and the Trusts may terminate. See "Conflicts of Interest—The Sponsor."

Although the Custodian is a fiduciary with respect to each Trust's assets, it could resign or be removed by the Sponsor, which could trigger early termination of the Trusts.

The Custodian is a fiduciary under § 100 of the New York Banking Law and a qualified custodian for purposes of Rule 206(4)-2(d)(6) under the Investment Advisers Act of 1940, as amended ("**Investment Advisers Act**"), and is licensed to custody each Trust's digital assets in trust on each Trust's behalf. However, the Custodian may terminate the Custodian Agreement immediately at any time in certain circumstances described in the Custodian Agreement, and the Custodian can terminate the Agreement for any reason upon 30 days' prior notice. If the Custodian resigns or is removed without replacement, the Trusts will dissolve in accordance with the terms of the relevant Trust Agreement.

Shareholders may be adversely affected by the lack of independent advisers representing investors in the Trusts.

The Sponsor has consulted with counsel, accountants and other advisers regarding the formation and operation of the Trusts. No counsel was appointed to represent investors in connection with the formation of the Trusts or the establishment of the terms of each Trust Agreement and the relevant Shares. Moreover, no counsel has been appointed to represent investors in connection with the offering of the Shares of either of the Trusts. Accordingly, each investor should consult his, her, or its own legal, tax and financial advisers regarding the desirability of an investment in the Shares of either of the Trusts. Lack of such consultation may lead to an undesirable investment decision with respect to investment in the Shares.

USE OF PROCEEDS

Proceeds received by a Trust from the issuance and sale of the Shares will consist of cash and/or digital assets transferred to such Trust in connection with creations. Such digital assets will only be (i) owned by such Trust, (ii) transferred (or converted to U.S. dollars, if necessary) to pay such Trust's expenses, (iii) distributed in connection with the redemption of Shares (subject to the authorization of redemptions) and (iv) liquidated in the event that such Trust terminates or as otherwise required by law or regulation.

OVERVIEW OF DIGITAL ASSETS

Introduction to Digital Assets

Digital assets are created and transmitted through the operations of peer-to-peer digital asset networks, which are decentralized networks of computers that operate on cryptographic protocols. No single entity owns or operates a given digital asset network. Some digital asset networks are collectively maintained by a decentralized user base, other digital asset networks are managed by a group of creators. Digital asset networks allow people to exchange tokens of value, which are recorded on public transaction ledgers known as blockchains. Some digital assets, such as Bitcoin Cash, Litecoin, Stellar Lumens and XRP can be used to pay for goods and services, or they can be converted to fiat currencies, such as the U.S. dollar, at rates determined on Digital Asset Markets that trade digital assets or in individual end-user-to-end-user transactions under a barter system. Digital asset networks can also be used for more complex purposes. For example, the Ethereum and Ethereum Classic networks allow users to run smart contracts, which are general purpose code that autonomously executes on every computer on the relevant network and can instruct the transmission of information and value to facilitate, verify and enforce the negotiation and performance of contracts. Other digital asset networks, such as the Zcash and Horizen networks, allow users to preserve the privacy of transactions that would otherwise be public on other digital asset networks.

See the applicable Trust Supplement for additional information about the digital assets held by the relevant Trust.

Digital Asset Value

The value of a digital asset is determined by the value that various market participants place on such digital asset through their transactions. The most common means of determining the value of a digital asset is by surveying one or more Digital Assets Markets where such digital asset is traded publicly and transparently. Additionally, there are over-the-counter dealers or market makers that transact in digital assets. On each online Digital Asset Exchange, digital assets are traded with publicly disclosed valuations for each executed trade, measured by one or more fiat currencies such as the U.S. dollar or euro or by the widely used cryptocurrency Bitcoin. Over-the-counter dealers or market makers do not typically disclose their trade data.

Forms of Attack

Greater than 50% of Network Computational Power

All networked systems are vulnerable to various kinds of attacks. As with any computer network, digital asset networks contain certain flaws. For example, each of the digital asset networks of digital assets held by the Trusts are vulnerable to a “51% attack” where, if a mining or validating pool were to gain control of more than 50% of the hash rate for the applicable digital asset, a malicious actor would be able to gain full control of the network and the ability to manipulate such digital asset’s blockchain.

For example, in May 2019, the Bitcoin Cash network experienced a 51% attack when two large mining pools reversed a series of transactions in order to stop an unknown miner from taking advantage of a flaw in a recent Bitcoin Cash protocol upgrade. Although this particular attack was arguably benevolent, certain individuals believe it negatively impacts the Bitcoin Cash network.

Similarly, in January 2019, the Ethereum Classic Network was the target of a double-spend attack by an unknown actor that gained more than 50% of the processing power of the Ethereum Classic network. The attack resulted in a reorganization of the Ethereum Classic blockchain that resulted in losses in excess of over \$1.0 million and a subsequent reduction in the market capitalization of ETC. In addition, in May 2019, the Bitcoin Cash network experienced a 51% attack when two large mining pools reversed a series of transactions in order to stop an unknown miner from taking advantage of a flaw in a recent Bitcoin Cash protocol upgrade. Although this particular attack was arguably benevolent, certain individuals believe it negatively impacts the Bitcoin Cash network. The digital asset networks of each Trust may be vulnerable to 51% attacks.

In addition, many digital asset networks have been subjected to a number of denial of service attacks, which has led to temporary delays in block creation and in the transfer of digital assets. Any similar attacks on the digital asset network of a digital asset held by a Trust that impacts the ability to transfer such digital asset could have a material adverse effect on the price of such digital asset and the value of an investment in the Shares of such Trust.

Exploitation of Flaws in the Source Code

As with any other computer code, flaws in the source code of digital asset networks have been exposed by certain malicious actors. Several errors and defects have been found and corrected, including those that disabled some functionality for users, exposed users' information, or allowed users to create multiple views of certain digital asset networks. Discovery of flaws in or exploitations of the source code that allow malicious actors to take or create money in contravention of known rules of any given network have been relatively rare. For example, in 2010, a hacker or group of hackers exploited a flaw in the Bitcoin network source code that allowed them to generate 184 billion Bitcoins in a transaction and send them to two digital wallet addresses. However, the Bitcoin community and developers identified and reversed the manipulated transactions within approximately three hours, and the flaw was corrected with an updated version of the Bitcoin protocol. Because open source codes rely on transparency and peer review to promote community-sourced identification and solution of problems within the code, such flaws have generally been discovered and quickly corrected by the core developers of a particular digital asset or members of such digital asset's community. Also for example, on February 5, 2019, the team behind Zcash announced that it discovered a vulnerability in zk-SNARKs on March 1, 2018 that was subsequently patched in connection with a network upgrade called "Sapling" in October 2018. The vulnerability was a counterfeiting vulnerability that could have allowed an attacker to create fake ZEC on the Zcash network or fake ZEN on the Horizen network without being detected. Although the privacy features prevent one from being certain no ZEC or ZEN were counterfeited, the team behind Zcash found no evidence that counterfeiting occurred prior to the patch and believes the vulnerability has been fully remediated.

GOVERNMENT OVERSIGHT

As digital assets have grown in both popularity and market size, the U.S. Congress and a number of U.S. federal and state agencies (including FinCEN, SEC, CFTC, FINRA, the CFPB, the Department of Justice, the Department of Homeland Security, the Federal Bureau of Investigation, the IRS and state financial institution regulators) have been examining the operations of digital asset networks, digital asset users and the Digital Asset Exchange Markets, with particular focus on the extent to which digital assets can be used to launder the proceeds of illegal activities or fund criminal or terrorist enterprises and the safety and soundness of exchanges or other service providers that hold digital assets for users. Many of these state and federal agencies have issued consumer advisories regarding the risks posed by digital assets to investors. In addition, federal and state agencies, and other countries have issued rules or guidance about the treatment of digital asset transactions or requirements for businesses engaged in digital asset activity. In addition, the SEC, U.S. state securities regulators and several foreign governments have issued warnings that digital assets sold in ICOs may be classified as securities and that both those digital assets and ICOs may be subject to securities regulations. Ongoing and future regulatory actions may alter, perhaps to a materially adverse extent, the nature of an investment in the Shares of one or both Trusts or the ability of one or both Trusts to continue to operate. Additionally, U.S. state and federal, and foreign regulators and legislatures have taken action against virtual currency businesses or enacted restrictive regimes in response to adverse publicity arising from hacks, consumer harm, or criminal activity stemming from virtual currency activity. In December 2020, FinCEN released a proposed rule aimed at closing gaps in reporting requirements. The period for public comments has concluded. Once adopted, banks and money service businesses will need to review the adopted rule and adjust internal controls, policies, and procedures as necessary. See “Risk Factors—Risk Factors Related to the Regulation of the Trusts and the Shares—Regulatory changes or actions may affect the value of the Shares or restrict the use of one or more digital assets, mining activity or the operation of their networks or the Digital Asset Exchange Market in a manner that adversely affects an investment in the Shares.”

Law enforcement agencies have often relied on the transparency of blockchains to facilitate investigations. Europol, the European Union’s law enforcement agency, released a report in October 2017 noting the increased use of privacy-enhancing digital assets like Zcash and Monero in criminal activity on the internet and in May 2018 it was reported that Japan’s Financial Service Agency has been pressuring Japanese digital asset exchanges to delist privacy-enhancing digital assets. Although no regulatory action has been taken to treat Zcash, Zen or other privacy-enhancing digital assets differently, this may change in the future.

Various foreign jurisdictions have, and may continue to, in the near future, adopt laws, regulations or directives that affect digital asset networks, the Digital Asset Markets, and their users, particularly Digital Asset Exchanges and service providers that fall within such jurisdictions’ regulatory scope. For example, on March 5, 2020, South Korea voted to amend its Financial Information Act to require virtual asset service providers to register and comply with its AML and CFT framework. These measures also provide the government with the authority to close digital asset exchanges that do not comply with specified processes. The Chinese and South Korean governments have also banned ICOs and there are reports that Chinese regulators have taken action to shut down a number of China-based digital asset exchanges. Further, on January 19, 2018, a

Chinese news organization reported that the People’s Bank of China had ordered financial institutions to stop providing banking or funding to “any activity related to cryptocurrencies.” Similarly, in April 2018, the Reserve Bank of India banned the entities it regulates from providing services to any individuals or business entities dealing with or settling digital assets. On March 5, 2020, this ban was overturned in the Indian Supreme Court, although the Reserve Bank of India is currently challenging this ruling. There remains significant uncertainty regarding the South Korean, Indian and Chinese governments’ future actions with respect to the regulation of digital assets and Digital Asset Exchanges. Such laws, regulations or directives may conflict with those of the United States and may negatively impact the acceptance of one or more digital assets held by the Trusts by users, merchants and service providers outside the United States and may therefore impede the growth or sustainability of the digital asset economy in the European Union, China, Japan, Russia and the United States and globally, or otherwise negatively affect the value of a digital asset held by a Trust.

In October 2020, the United Kingdom’s Financial Conduct Authority banned the sale to retail consumers of derivatives and exchange traded notes (“*ETNs*”) that reference certain types of digital assets, contending that they are “ill-suited” to retail investors citing extreme volatility, valuation challenges and association with financial crime. In addition to *ETNs*, the ban affects financial products including contracts for difference, options and futures. See “Risk Factors—Risk Factors Related to the Regulation of the Trusts and the Shares— Regulatory changes or actions may affect the value of the Shares or restrict the use of one or more digital assets, mining activity or the operation of their networks or the Digital Asset Markets in a manner that adversely affects an investment in the Shares.”

The effect of any future regulatory change on either of the Trusts or the digital assets held by either of the Trusts is impossible to predict, but such change could be substantial and adverse to such Trust and the value of its Shares.

Not a Regulated Commodity Pool

The Trusts will not trade, buy, sell or hold digital asset derivatives, including digital asset futures contracts, on any futures exchange. The Trusts are authorized solely to take immediate delivery of actual digital assets. The Sponsor does not believe either Trust’s activities is regulated by the CFTC under the CEA as a “commodity pool” under current law, regulation and interpretation. Neither of the Trusts will be operated by a CFTC- regulated commodity pool operator, because it will not trade, buy, sell or hold digital asset derivatives, including digital asset futures contracts, on any futures exchange. Investors in a Trust will not receive the regulatory protections afforded to investors in regulated commodity pools, nor may any futures exchange enforce its rules with respect to such Trust’s activities. In addition, investors in a Trust will not benefit from the protections afforded to investors in digital asset futures contracts on regulated futures exchanges.

ACTIVITIES OF THE TRUSTS

The activities of each Trust are limited to (i) issuing Shares in exchange for cash and/or digital assets transferred to such Trust as consideration in connection with Subscriptions, (ii) transferring or selling digital assets, Incidental Rights and IR Virtual Currency as necessary to pay the Sponsor's Fee and/or any Additional Trust Expenses, to pay for Shares surrendered for redemption, and upon the termination of the Trust, (iii) making distributions of Incidental Rights and/or IR Virtual Currency or cash from the sale thereof and (iv) engaging in all administrative and security procedures necessary to accomplish such activities in accordance with the provisions of such Trust's Trust Agreement, Custodian Agreement, and Index License Agreement.

In addition, each Trust may engage in any lawful activity necessary or desirable in order to facilitate its Shareholders' access to Incidental Rights or IR Virtual Currency, provided that such activities do not conflict with the terms of the applicable Trust Agreement.

Trust Objective

The investment objective of each Trust is for the Shares (based on digital assets per Share) to reflect a dynamic allocation of digital assets as determined by reference to the applicable Index, as specified in the relevant Trust Supplement. The Shares are intended to constitute a cost-effective and convenient means of gaining investment exposure to digital assets. A substantial direct investment in digital assets may require expensive and sometimes complicated arrangements in connection with the acquisition, security and safekeeping of digital assets and may involve the payment of substantial fees to acquire such digital assets from third-party facilitators through cash payments of U.S. dollars. Although the Shares will not be the exact equivalent of a direct investment in digital assets, they provide investors with an alternative that constitutes a relatively cost-effective way to participate in Digital Asset Markets through the securities market. Because the value of the Shares is correlated with the value of the digital asset held by each Trust, it is important to understand the investment attributes of, and the market for, digital assets.

Strategy Behind the Shares

The Shares are intended to offer investors an opportunity to participate in Digital Asset Markets through an investment in securities. The logistics of accepting, transferring and safekeeping of the digital assets of each Trust are dealt with by the Sponsor and the Custodian, and the related expenses are built into the price of the Shares. Therefore, Shareholders do not have additional tasks or costs over and above those generally associated with investing in any other privately placed security. Although the Shares of a Trust will not be the exact equivalent of a direct investment in the Relevant Digital Currency, they provide investors with an alternative that constitutes a relatively cost-effective way to participate in Digital Asset Markets through the securities market. Because the value of the Shares of a Trust is correlated with the value of the Relevant Digital Currency, it is important to understand the investment attributes of, and the market for digital assets.

The Shares are intended to provide institutional and retail investors with a simple and cost-effective means, with minimal credit risk, of gaining investment benefits similar to those of directly holding digital assets. The Shares offer an investment that is:

- *Easily Accessible and Relatively Cost Efficient.* Investors in the Shares can also directly access Digital Asset Markets through the Digital Asset Exchange Market. The Sponsor believes that investors will be able to more effectively implement strategic and tactical asset allocation strategies that use digital assets by using the Shares instead of directly purchasing and holding digital assets, and for many investors, transaction costs related to the Shares will be lower than those associated with the direct purchase, storage and safekeeping of digital assets.
- *Transparent and Potentially Market-Traded.* The value of each Trust's assets will be reported each day on their respective market performance page on each Trust's website (idxdigitalassets.com/trusts). Investment in a Trust may provide investors with an efficient way to implement investment strategies, if the share are quoted and traded on a Secondary Market and the investor's shares have become unrestricted in accordance with Rule 144 under the Securities Act. However, there can be no assurance that any Shares of the Trusts will be quoted and traded on a Secondary Market.
- *Minimize Counterparty and Credit Risk.* The Shares of each Trust represent an interest in actual digital assets owned by such Trust. Neither of the Trusts' digital assets are subject to borrowing arrangements with third parties. A Trust's digital assets are not subject to counterparty or credit risk, while in the Trust's Digital Asset Custodial Account (see "*Safekeeping System*" below). This contrasts with the other financial products such as CoinShares exchange-traded notes, TeraExchange swaps and Bitcoin futures traded on the Chicago Mercantile Exchange ("*CME*") and the CBOE through which investors gain exposure to Bitcoins through the use of derivatives that are subject to counterparty and credit risks. However, each Trust's assets may be exposed in commingled accounts (which are online "hot" wallets) for periods of time, when the Trust must trade its digital assets outside the Trust's Digital Asset Custodial Account. During those periods, the Trust's digital assets will be more vulnerable than when held in "cold" (offline storage). While the Sponsor will seek to utilize "cold" storage mechanisms when feasible, the Sponsor cannot guarantee that each Trust's digital assets will be held in cold storage at all times. In addition, whenever a Trust's assets are held in a commingled account outside the Trust's Digital Account Custodial Account, the Trust will be subject to the risk of loss of such assets, due to a claim against the Trust's counterparty or such counterparty's bankruptcy or insolvency. In addition, whenever a Trust trades in digital assets, there is a risk that the Trust may suffer losses due to the credit and/or insolvency issues of the firm through which the transaction was executed. The Sponsor will use best efforts to protect each Trust to minimize counterparty risk but cannot guarantee the Trusts against losses due to counterparty risk.
- *Safekeeping System.* The Custodian provides the capability to secure the digital assets for each Trust using offline storage, or "cold storage," mechanisms to secure each Trust's private key shards. The hardware, software, administration and continued technological

development that are provided by the Custodian may not be available or cost-effective for many investors.

The Trusts differentiate themselves from competing digital asset financial vehicles, to the extent that such digital asset financial vehicles may develop, in the following ways:

- *Custodian.* The Custodian that holds the private key shards associated with each Trust's digital assets is Coinbase Custody Trust Company, LLC. Other digital asset financial vehicles that use cold storage may not use a custodian to hold their private keys.
- *Cold Storage of Private Keys.* The private key shards associated with each Trust's digital assets are kept in cold storage, which means that each Trust's digital assets are disconnected and/or deleted entirely from the internet. See "Custody of the Trusts' Digital Assets" for more information relating to the storage and retrieval of each Trust's private keys to and from cold storage. Other digital asset financial vehicles may not utilize cold storage or may utilize less effective cold storage-related hardware and security protocols. Not all of the Trust's assets necessarily will be in cold storage at all times.
- *Location of Private Vaults.* Private key shards associated with each Trust's digital assets are distributed geographically by the Custodian in secure vaults around the world, including in the United States. The locations of the secure vaults may change regularly and are kept confidential by the Custodian for security purposes.
- *Enhanced Security.* Transfers from each Trust's Digital Asset Custodial Account require certain security procedures, including but not limited to, multiple encrypted private key shards, usernames, passwords and 2-step verification. Multiple private key shards held by the Custodian must be combined to reconstitute the private key to sign any transaction in order to transfer each Trust's assets. Private key shards are distributed geographically in secure vaults around the world, including in the United States. As a result, if any one secure vault were to be compromised, this event would have no impact on the ability of the Trust to access its assets, other than a possible delay in operations, while one or more of the other secure vaults was used instead. These security procedures are intended to remove single points of failure in the protection of each Trust's assets.
- *Directly Held Digital Assets.* Each Trust directly owns actual digital assets held through the Custodian. The direct ownership of digital assets is not subject to counterparty or credit risks. This may differ from other digital asset financial vehicles that provide digital asset exposure through other means, such as the use of financial or derivative instruments. But see the caveats in "*Minimize Counterparty and Credit Risk*" above.
- *Sponsor's Fee.* The Sponsor's Fee is a competitive factor that may influence an investor's decision to purchase Shares.

Incidental Rights and IR Virtual Currency

From time to time, a Trust may come into possession of Incidental Rights and/or IR Virtual Currency by virtue of its ownership of digital assets, generally through a fork in the relevant digital asset's blockchain, an airdrop offered to holders of the relevant digital asset or other similar event. Pursuant to the terms of each Trust's Trust Agreement, each Trust may take any lawful action necessary or desirable in connection with its ownership of Incidental Rights, including the acquisition of IR Virtual Currency, unless such action would adversely affect the status of the Trust as a grantor trust for U.S. federal income tax purposes or otherwise be prohibited by the applicable Trust Agreement. These actions include (i) selling Incidental Rights and/or IR Virtual Currency and distributing the cash proceeds to Shareholders, (ii) distributing Incidental Rights and/or IR Virtual Currency in kind to the Shareholders or to an agent acting on behalf of the Shareholders for sale by such agent if an in-kind distribution would otherwise be infeasible and (iii) irrevocably abandoning Incidental Rights and/or IR Virtual Currency. Each Trust may also use Incidental Rights and/or IR Virtual Currency to pay the Sponsor's Fee and Additional Trust Expenses, if any, of such Trust, as discussed below under "—Trust Expenses." However, neither of the Trusts expects to take any Incidental Rights or IR Virtual Currency it may hold into account for purposes of determining such Trust's Digital Asset Holdings, Digital Asset Holdings per Share, NAV or NAV per Share.

With respect to any fork, airdrop or similar event, the Sponsor may, in its discretion, decide to cause a Trust (i) to distribute the Incidental Rights or IR Virtual Currency in kind to an agent of the Shareholders for resale by such agent or (ii) to irrevocably abandon the Incidental Rights or IR Virtual Currency. In the case of a distribution in kind to an agent acting on behalf of the Shareholders, the Shareholders' agent will attempt to sell the Incidental Rights or IR Virtual Currency, and if the agent is able to do so, will remit the cash proceeds to Shareholders, net of expenses and any applicable withholding taxes. There can be no assurance as to the price or prices for any Incidental Rights or IR Virtual Currency that the agent may realize, and the value of the Incidental Rights or IR Virtual Currency may increase or decrease after any sale by the agent. In the case of abandonment of Incidental Rights or IR Virtual Currency, the relevant Trust would not receive any direct or indirect consideration for the Incidental Rights or IR Virtual Currency and thus the value of the Shares of such Trust will not reflect the value of the Incidental Rights or IR Virtual Currency.

The Sponsor plans to deliver to the Custodian, on behalf of each Trust, a notice (a "***Prospective Abandonment Notice***") stating that such Trust is abandoning irrevocably for no direct or indirect consideration, effective immediately prior to each time at which such Trust creates Shares (any such time, a "***Creation Time***"), all Incidental Rights and IR Virtual Currency to which it would otherwise be entitled as of such time (any such abandonment, a "***Pre-Creation Abandonment***"), provided that a Pre-Creation Abandonment will not apply to any Incidental Rights and IR Virtual Currency if (i) such Trust has taken, or is taking at such time, an Affirmative Action to acquire or abandon such Incidental Rights and IR Virtual Currency at any time prior to such Creation Time or (ii) such Incidental Rights and IR Virtual Currency has been subject to a previous Pre-Creation Abandonment. An Affirmative Action is a written notification from the Sponsor to the Custodian of such Trust's intention (i) to acquire and/or retain any Incidental Rights and/or IR Virtual

Currency or (ii) to abandon any Incidental Rights and/or IR Virtual Currency with effect prior to the relevant Creation Time.

In determining whether to take an Affirmative Action to acquire and/or retain an Incidental Rights and IR Virtual Currency, a Trust takes into consideration a number of factors, including:

- the Custodian’s agreement to provide access to the IR Virtual Currency;
- the availability of a safe and practical way to custody the IR Virtual Currency;
- the costs of taking possession and/or maintaining ownership of the IR Virtual Currency and whether such costs exceed the benefits of owning such IR Virtual Currency;
- whether there are any legal restrictions on, or tax implications with respect to, the ownership, sale or disposition of the Incidental Right or IR Virtual Currency, regardless of whether there is a safe and practical way to custody and secure such Incidental Right or IR Virtual Currency;
- the existence of a suitable market into which the Incidental Right or IR Virtual Currency may be sold; and
- whether the Incidental Right or IR Virtual Currency is, or may be, a security under federal securities laws.

In determining whether the IR Virtual Currency is, or may be, a security under federal securities laws, the Sponsor takes into account a number of factors, including the definition of a “security” under Section 2(a)(1) of the Securities Act and Section 3(a)(10) of the Exchange Act, *SEC v. W.J. Howey Co.*, 328 U.S. 293 (1946) and the case law interpreting it, as well as reports, orders, press releases, public statements and speeches by the SEC providing guidance on when a digital asset is a “security” for purposes of the federal securities laws.

Once the Sponsor delivers the Prospective Abandonment Notices, each Trust will irrevocably abandon, prior to the Creation Time of any Shares, any Incidental Right or IR Virtual Currency that it may have any right to receive at such time. Neither Trust will have any right to receive any Incidental Right or IR Virtual Currency abandoned pursuant to either the Prospective Abandonment Notice or an Affirmative Action. Furthermore, the Custodian will have no authority, pursuant to the Custodian Agreement or otherwise, to exercise, obtain or hold, as the case may be, any such abandoned Incidental Right or IR Virtual Currency on behalf of the applicable Trust or to transfer any such abandoned Incidental Right or IR Virtual Currency to such Trust if such Trust terminates its custodial arrangement with the Custodian.

The Sponsor intends to evaluate each fork, airdrop or similar occurrence on a case-by-case basis in consultation with the applicable Trust’s legal advisors, tax consultants, and the Custodian, and may decide to abandon any Incidental Rights or IR Virtual Currency resulting from a hard fork, airdrop or similar occurrence should the Sponsor conclude, in its discretion, that such abandonment is in the best interests of such Trust.

Secondary Market Trading

While each Trust's investment objective is for the Shares (based on digital assets per Share) to reflect the value of the digital assets held by such Trust, as determined by reference to the applicable Digital Asset Reference Rate, less such Trust's expenses and other liabilities, to the extent the Shares of a Trust trade in the Secondary Market, such Shares may trade at prices that are lower or higher than applicable Digital Asset Holdings per Share. The amount of the discount or premium in the trading price relative to the Digital Asset Holdings per Share may be influenced by non-concurrent trading hours. Liquidity in the Digital Asset Markets may fluctuate depending upon the volume and availability of larger Digital Asset Exchanges. As a result, during periods in which Digital Asset Market liquidity is limited or a major Digital Asset Exchange is off-line, trading spreads, and the resulting premium or discount, on such Shares may widen.

Trust Expenses

Each Trust's only ordinary recurring expenses are expected to be the Sponsor's Fee. The Sponsor's Fee will accrue daily at a percentage, to be specified in each Trust Supplement, of the cash assets of the Trust and the Digital Asset Holdings Fee Basis Amount as of 4:00 p.m. GMT on each day; *provided* that for a day that is not a business day, the calculation of the Sponsor's Fee will be based on the Digital Asset Holdings Fee Basis Amount from the most recent business day, reduced by the accrued and unpaid Sponsor's Fee for such most recent business day and for each day after such most recent business day and prior to the relevant calculation date. Notwithstanding the foregoing, the Sponsor's Fee is payable, at the Sponsor's sole discretion, in the applicable digital asset held by the Trust (the relevant digital asset by reference to the same Digital Asset Reference Rate used to determine such accrual) or U.S. dollars, monthly in arrears.

Extraordinary expenses incurred by each Trust, such as taxes and governmental charges, expenses and costs of any extraordinary services performed by the Sponsor (or any other service provider) on behalf of each Trust to protect each Trust or the interests of Shareholders (including in connection with any Incidental Rights and any IR Virtual Currency), or extraordinary legal fees and expenses, are not assumed by the Sponsor and are borne by each Trust. See "Expenses; Sales of Digital Assets" and the applicable Trust Supplement for additional information about the expenses of each Trust.

DESCRIPTION OF THE TRUSTS

Each Trust is a Delaware Statutory Trust that was formed pursuant to the filing of a Certificate of Trust with the Delaware Secretary of State in accordance with the provisions of the DSTA. Each Trust operates pursuant to a Trust Agreement.

At such times and for such periods as determined by the Sponsor, each Trust may issue Shares in exchange for cash and/or such digital assets, and redeem Shares in exchange for cash and/or digital assets. The investment objective of each Trust is for its Shares (based on digital assets per Share) to reflect a dynamic allocation of digital assets as determined by reference to the applicable Index, as specified in the relevant Trust Supplement. The Sponsor believes that, for many investors, the Shares of each Trust represent a cost-effective and convenient investment relative to a direct, outright investment in digital assets.

The Shares of a Trust represent units of fractional undivided beneficial interest in, and ownership of, such Trust. Each Trust will be managed in a manner that seeks to maintain exposures consistent with its Index. The objective of each Trust is to largely replicate the exposures (and therefore the performance) of its Index. For more information, please visit the following websites:

- IDX Risk-Managed Bitcoin Index (<https://www.spglobal.com/spdji/en/custom-indices/idx-insights/idx-risk-managed-bitcoin-index/#overview>)
- IDX Risk-Managed Ethereum Index (<https://www.spglobal.com/spdji/en/custom-indices/idx-insights/idx-risk-managed-ethereum-index/#overview>).

Each Trust's digital assets are held in a blockchain account, the security of which is facilitated by the Sponsor, the Custodian and any other security vendor engaged by such Trust. Each Trust's digital assets will be transferred out of the applicable Digital Asset Custodial Account only in the following circumstances: transferred or sold to pay the Sponsor's Fee or any Additional Trust Expenses, transferred or sold distributed in connection with the redemption of Shares, or distributed or sold on behalf of such Trust in the event such Trust terminates and liquidates its assets, when in the Sponsor's judgment, it is necessary or desirable to execute transactions in digital assets outside a Trust's Digital Asset Custodial Account, or as otherwise required by law or regulation. Assuming that each Trust is treated as a grantor trust for U.S. federal income tax purposes, each delivery or sale of digital assets by a Trust to pay the Sponsor's Fee or any Additional Trust Expenses, pay redemption proceeds or liquidate the Trust will be a taxable event for Shareholders of such Trust. See "Certain U.S. Federal Income Tax Consequences—Tax Consequences to U.S. Holders."

Neither of the Trusts is registered as an investment company under the Investment Company Act, and the Sponsor believes that neither of the Trusts is required to register under the Investment Company Act. Neither of the Trusts will hold or trade in commodity futures contracts or other derivative contracts regulated by the CEA, as administered by the CFTC. The Sponsor believes that neither of the Trusts is a commodity pool for purposes of the CEA and that neither the Sponsor nor the Trustee is subject to regulation as a commodity pool operator or a commodity trading adviser in connection with the operation of either Trust.

Each Trust expects to create and redeem Shares from time to time. The number of outstanding Shares of a Trust is expected to increase and decrease from time to time. The creation or, redemption of, the Shares will require the delivery to a Trust or the distribution by such Trust, as applicable, of cash and/or the number of digital assets represented by the Shares being created or redeemed. The creation and redemption of Shares will be made only in exchange for the delivery to a Trust, or the distribution by such Trust, of cash and/or the number of whole and fractional digital assets represented by the Shares being created or redeemed, the number of which is determined by dividing (x) the number of relevant digital assets owned by such Trust at 4:00 p.m. GMT on the relevant trade date, after deducting the number of relevant digital assets representing the U.S. dollar value of accrued but unpaid fees and expenses of such Trust (converted using the relevant Digital Asset Reference Rate at such time, and carried to the fourth decimal place) by (y) the number of Shares of such Trust outstanding at such time (with the quotient so obtained calculated to one one-hundred-millionth of one digital asset (i.e., carried to the fourth decimal place)). The number of digital assets required to create or, if permitted, to redeem a Share is expected to gradually decrease over time due to the transfer or sale of a Trust's digital assets to pay the Sponsor's Fee and any Additional Trust Expenses.

Shareholders may sell to other investors the Shares they purchase from either Trust only in transactions exempt from registration under the Securities Act and State securities laws and as permitted by the relevant Trust Agreement.

The Administrator will determine a Trust's Digital Asset Holdings on each business day as of 4:00 p.m. GMT. The Administrator will also determine a Trust's Digital Asset Holdings per Share, which equals the applicable Digital Asset Holdings divided by the number of outstanding Shares of such Trust. Each business day, the Sponsor will publish each Trust's Digital Asset Holdings and Digital Asset Holdings per Share on such Trust's website, as set forth in the relevant Trust Supplement, as soon as practicable after they have been determined by the Administrator. See "Determination of Digital Asset Holdings."

Each Trust's assets consist solely of the relevant Digital Currency, Incidental Rights, IR Virtual Currency as set forth in the relevant Trust Supplement, proceeds from the sale thereof pending use of such cash for permitted Trust purposes or distribution to the Shareholders of such Trust, cash, and any rights of such Trust pursuant to any agreements, other than the applicable Trust Agreement, to which such Trust is a party. Each Share of a Trust represents a proportional interest, based on the total number of Shares outstanding, in such Trust's assets as determined in the case of its digital asset by reference to the relevant Digital Asset Reference Rate, less its expenses and other liabilities (which include accrued but unpaid fees and expenses). The Sponsor expects that the market price of the Shares of a Trust will fluctuate over time in response to the market prices of the relevant digital asset. In addition, because the Shares will reflect the estimated accrued but unpaid expenses of such Trust, the number of digital assets represented by a Share will gradually decrease over time as such Trust's digital assets are used to pay its expenses. Neither of the Trusts expects to take any Incidental Rights or IR Virtual Currency they may hold into account for purposes of determining its Digital Asset Holdings or the Digital Asset Holdings per Share.

Investors may obtain, on a 24-hour basis, digital asset pricing information from various financial information service providers or digital asset information sites such as the CME Group's CME CF

Bitcoin Reference Rate & CME CF Bitcoin Real-Time Index. The spot prices and bid/ask spreads for several digital assets are also generally available directly from Digital Asset Exchanges, such as Bitfinex, Bittrex, Bitstamp, Coinbase Pro, itBit and Kraken.

Neither of the Trusts has a fixed termination date.

THE SPONSOR

IDX Digital Assets, LLC, a Delaware limited liability company formed on March 18, 2021, is the Sponsor of each of the Trusts. The Sponsor's principal place of business is 2201 E Camelback Road, Suite 605, Phoenix, AZ 85016 and its telephone number is 1-800-403-4349. Under the Delaware Limited Liability Company Act and the governing documents of the Sponsor, the members of the Sponsor are not responsible for the debts, obligations and liabilities of the Sponsor solely by reason of being members of the Sponsor.

The Sponsor is neither an investment adviser registered with the SEC nor a commodity pool operator registered with the CFTC, and will not be acting in either such capacity with respect to either of the Trusts, and the Sponsor's provision of services to each Trust will not be governed by the Investment Advisers Act or the CEA.

The Sponsor's Role

The Sponsor arranged for the creation of each Trust. As partial consideration for its receipt of the Sponsor's Fee from each Trust, the Sponsor is obligated to pay the Sponsor-paid Expenses for such Trust. The Sponsor also paid the costs of each Trust's organization and have paid for the costs of the initial sale of the Shares of each Trust.

The Sponsor is generally responsible for the day-to-day administration of the Trusts under the provisions of each Trust Agreement. This includes (i) preparing and providing periodic reports and financial statements on behalf of a Trust to investors, (ii) processing orders to create and redeem Shares and coordinating the processing of such orders with the Custodian and the Administrator (or a transfer agent, as applicable), (iii) selecting and monitoring such Trust's Service Providers and from time to time engaging additional, successor or replacement Service Providers, instructing the Custodian as necessary to transfer or liquidate such Trust's digital assets, as needed to pay the Sponsor's Fee and any Additional Trust Expenses or redemption proceeds, (iv) upon dissolution, distributing such Trust's remaining digital assets, Incidental Rights and IR Virtual Currency or the cash proceeds of the sale thereof to the owners of record of the Shares of such Trust and (v) establishing the principal market of such Trust for GAAP valuation. In addition, if there is a fork in the network of a digital asset held by such Trust after which there is a dispute as to which network resulting from the fork is generally accepted as the network for such digital asset, the Sponsor has the authority to select the network that it believes in good faith is the network for such digital asset, unless such selection or authority would otherwise conflict with the relevant Trust Agreement.

The Sponsor does not store, hold, or maintain custody or control of the digital assets of either Trust but instead has entered into the Custodian Agreement with the Custodian to facilitate the security of each Trust's digital assets.

The Sponsor may transfer all or substantially all of its assets to an entity that carries on the business of the Sponsor, if at the time of the transfer the successor assumes all of the obligations of the Sponsor under each Trust Agreement. In such an event, the Sponsor will be relieved of all further liability under each Trust Agreement.

The Sponsor's Fee is paid by each Trust to the Sponsor as compensation for services performed under the Trust Agreement for each Trust and as partial consideration for the Sponsor's agreement to pay the Sponsor-paid Expenses of each Trust. Once the Sponsor has paid the Sponsor-paid Expenses of any Trust, it may use the remaining portion of the Sponsor's Fee received from such Trust at its discretion, which may include the payment of fees from time to time for the referral of new investors in such Trust. See "Activities of the Trusts—Trust Expenses." and "Expenses; Sales of Digital Assets" for more information.

Index License Agreement

The Sponsor has entered into the Index License Agreement, a non-exclusive, royalty-free, non-transferable, perpetual license agreement, the Index Provider, an affiliate of the Sponsor, governing the Sponsor's use of the relevant Index for each Trust. The Index Provider may adjust the calculation methodology for any given Index without notice to, or consent of, the relevant Trust or its Shareholders.

Management of the Sponsor

The Trusts do not have any directors, officers or employees. Under each Trust Agreement, each Trust's management functions are conducted by the Sponsor, its agents and its affiliates, including without limitation, the Custodian and its agents.

IDX Global, LLC, the sole member of the Sponsor, is responsible for managing and directing the affairs of the Sponsor. As officers of the Sponsor, Andrew Swan, the Chief Executive Officer of the Sponsor, and Ben McMillan, the Chief Investment Officer of the Sponsor, may take certain actions and execute certain agreements and certifications for each Trust, in their capacity as the officers of the Sponsor.

The Sponsor has an audit committee ("**Audit Committee**"). The Audit Committee has the responsibility for overseeing the financial reporting process of each Trust, including the risks and controls of that process and such other oversight functions as are typically performed by an audit committee of a public company. The Audit Committee consists of Andrew Swan, Ben McMillan and Ben Jacobson.

The Sponsor has a code of ethics (the "**Code of Ethics**") that applies to its executive officers and agents. The Code of Ethics is available by writing the Sponsor at 2201 E Camelback Road, Suite 605, Phoenix, AZ 85016, Attn: Compliance or e-mailing the Sponsor at compliance@idxdigitalassets.com. The Sponsor's Code of Ethics is intended to be a codification of the business and ethical principles that guide the Sponsor, and to deter wrongdoing, to promote honest and ethical conduct, to avoid conflicts of interest, and to foster compliance with applicable governmental laws, rules and regulations, the prompt internal reporting of violations and accountability for adherence to the Code of Ethics.

Ben McMillan, Chief Investment Officer of the Sponsor

Ben McMillan is a principal and founder, and the Chief Investment Officer and Chief Technology Officer, of IDX Insights, LLC, IDX Advisors, LLC and IDX Digital Assets, LLC. Previously, he was the portfolio manager at Ramsey Quantitative Systems Inc. (RQSI) where he developed and managed the RQSI Small Cap Hedged Equity Fund mutual fund. Prior to that he served as co-portfolio manager (and co-creator) of the Van Eck Long/Short Equity Index Fund since July 2012. Prior to joining Van Eck Global, Mr. McMillan worked at Lyster Watson & Co. where he developed and launched the Lyster Watson Long/Short Equity Replication strategy in 2009. Additionally, between 2007 and 2012, Mr. McMillan served as a co-founder of the cloud-based 13F analytics platform, AlphaStratus, which was acquired by eVestment in 2012. Mr. McMillan holds an MSc in Econometrics from the London School of Economics as well as an MA and BA in Economics from Boston University.

Andrew Swan, Chief Executive Officer of the Sponsor

Andrew Swan is a principal and founder, and the Chief Executive Officer, of IDX Insights, LLC, IDX Advisors, LLC and IDX Digital Assets, LLC. Previously, he served as a co-founder and President of Bastion Quantitative Sciences, a Quantamental Macro Hedge Fund firm based in New York. From 2016 through 2018 Mr. Swan oversaw the formation, operational development, and strategic guidance of the business. Prior to that, Mr. Swan served as the Managing Director of Longboard Asset Management, a liquid alternatives CTA based in Phoenix. In his role at Longboard, Mr. Swan oversaw the liquid alternatives division consisting of multiple quantitative mutual funds, which grew to \$1 billion in assets in under four years. Mr. Swan holds a BS of Finance from Arizona State University.

Ben Jacobson

Ben Jacobson is a principal and founder of, and Managing Director of, IDX Insights, LLC, IDX Advisors, LLC and IDX Digital Assets, LLC. Mr. Jacobson is responsible for the management of each Trust's distribution strategy and investor operations. Mr. Jacobson has spent his entire career in the asset management industry, most recently as a director at Longboard Asset Management, a liquid alternatives CTA firm, where he led an investor relations team that raised \$1 billion in assets under management. Prior to that, Mr. Jacobson served high and ultra-high net worth clients as an Investment Advisor with an RIA in Scottsdale. Mr. Jacobson holds a BS of Finance from Arizona State University.

THE ADMINISTRATOR

Gryphon Fund Group, LLC is the Administrator of the Trusts.

The Administrator is generally responsible for accounting and administrative services under the provisions of each Trust Agreement. This includes (i) calculating and publishing the Digital Asset Holdings and the Digital Asset Holdings per Share of each Trust each business day as of 4:00 p.m. GMT, (ii) tracking and monitoring contributions and subscription documents, (iii) preparing allocation schedules to track allocations of income, gain/loss, and expenses, (iv) preparing quarterly financial statements, and (v) preparation and distribution of tax information and forms.

THE TRUSTEE

Delaware Trust Company serves as Delaware trustee of each Trust under the Trust Agreement for each Trust. The Trustee has its principal office at 251 Little Falls Drive, Wilmington, Delaware 19808. The Trustee is unaffiliated with the Sponsor. A copy of the Trust Agreement for each Trust is available for inspection at the Trustee's principal office identified above.

The Trustee is appointed to serve as the trustee of each Trust in the State of Delaware for the sole purpose of satisfying the requirement of Section 3807(a) of the DSTA that a Trust have at least one trustee with a principal place of business in the State of Delaware. The duties of the Trustee for each Trust are limited to (i) accepting legal process served on such Trust in the State of Delaware and (ii) the execution of any certificates required to be filed with the Delaware Secretary of State which the Delaware Trustee is required to execute under the DSTA. To the extent that, at law or in equity, the Trustee has duties (including fiduciary duties), and liabilities relating thereto, to a Trust or its Shareholders, such duties and liabilities will be replaced by the duties and liabilities of the Trustee expressly set forth in the Trust Agreement for each Trust. The Trustee will have no obligation to supervise, nor will it be liable for, the acts or omissions of the Sponsor, Custodian or any other person.

Neither the Trustee, either in its capacity as trustee or in its individual capacity, nor any director, officer or controlling person of the Trustee is, or has any liability as, the issuer, director, officer or controlling person of the issuer of Shares of each Trust. The Trustee's liability in connection with the issuance and sale of Shares by each Trust is limited solely to the express obligations of the Trustee as set forth in the Trust Agreement for each Trust.

The Trustee has not prepared or verified, and will not be responsible or liable for, any information, disclosure or other statement in this Base Memorandum, each Trust Supplement or in any other document issued or delivered in connection with the sale or transfer of the Shares of each Trust. Each Trust Agreement provides that the Trustee will not be responsible or liable for the genuineness, enforceability, collectability, value, sufficiency, location or existence of any of the digital assets or other assets of each Trust. See "Description of the Trust Documents—Description of the Trust Agreement."

The Trustee is permitted to resign upon at least 60 days' notice to any Trust. The Trustee will be compensated by the Sponsor and indemnified by the Sponsor and each Trust against any expenses it incurs relating to or arising out of the formation, operation or termination of such Trust, or the performance of its duties pursuant to the relevant Trust Agreement, except to the extent that such expenses result from gross negligence, willful misconduct or bad faith of the Trustee. The Sponsor has the discretion to replace the Trustee pursuant to the terms of each Trust Agreement.

The Trustee's fees and expenses under each Trust Agreement will be paid by the Sponsor.

THE CUSTODIAN

Coinbase Custody Trust Company, LLC is a fiduciary under § 100 of the New York Banking Law and a qualified custodian for purposes of Rule 206(4)-2(d)(6) under the Investment Advisers Act of 1940, as amended. The Custodian is authorized to serve as each Trust's custodian under the

Trust Agreement and pursuant to the terms and provisions of the Custodian Agreement. The Custodian has its principal office at 200 Park Avenue South, Suite 1208, New York, NY 10003. A copy of the Custodian Agreement is available for inspection at the Sponsor's principal office identified herein.

Under the Custodian Agreement, the Custodian controls and secures each Trust's "**Digital Asset Custodial Account**," a segregated custody account to store private keys, which allow for the transfer of ownership or control of such Trust's digital assets, on such Trust's behalf. The Custodian's services (i) allow digital assets to be deposited from a public blockchain address (or a Trust's applicable trading account) to such Trust's Digital Asset Custodial Account and (ii) allow each Trust or the Sponsor to withdraw digital assets from such Trust's Digital Asset Custodial Account to a public blockchain address (or the Trust's applicable trading account) such Trust or the Sponsor controls (the "**Custodial Services**"). Each Digital Asset Custodial Account uses offline storage, or "cold" storage, mechanisms to secure each Trust's private keys. The term cold storage refers to a safeguarding method by which the private keys corresponding to digital assets are disconnected and/or deleted entirely from the internet. However, there may be periods during which a Trust's digital assets are held in a commingled account outside the Trust's Digital Asset Custodial Account and will be subject to counterparty risk. See "ACTIVITIES OF THE TRUSTS - Strategy Behind the Shares – *Minimize Counterparty and Credit Risk.*"

The Custodian will withdraw from each Trust's Digital Asset Custodial Account the number of digital assets necessary to pay such Trust's expenses.

Fees payable to the Custodian are a Sponsor-paid Expense.

Under the Custodian Agreement, each of the Custodian and each Trust has agreed to indemnify and hold harmless the other party in specified circumstances from each claim and related losses (including reasonable and documented attorneys' fees and any fines, fees or penalties imposed by any regulatory authority) arising out of or related to specified conduct of the Custodian or each Trust, as the case may be.

The Custodian and its affiliates may from time to time purchase or sell digital assets for their own accounts and as agent for their customers or Shares for their own accounts. The foregoing notwithstanding, digital assets in each Digital Asset Custodial Account are not treated as general assets of the Custodian and cannot be commingled with any other digital assets held by the Custodian. The Custodian serves as a fiduciary and custodian on each Trust's behalf, and the digital assets in each Digital Asset Custodial Account are considered fiduciary assets that remain such Trust's property at all times during the term of the Custodian Agreement.

If the Custodian resigns in its capacity as custodian, the Sponsor may appoint an additional or replacement custodian and enter into a custodian agreement on behalf of each Trust with such custodian. Furthermore, the Sponsor and each Trust may use digital asset custody services or similar services provided by entities other than Coinbase Custody Trust Company, LLC at any time without prior notice to Coinbase Custody Trust Company, LLC.

DISTRIBUTORS

The Sponsor has the discretion to appoint one or more distributors of the Shares. The Distributors will be registered broker-dealers with the SEC and members of FINRA. The Distributors will assist the Sponsor in distributing the Shares of each Trust and providing strategic and tactical research on the Digital Asset Markets For more information regarding the distribution of the Shares, see “Plan of Distribution.”

CONFLICTS OF INTEREST

General

The Sponsor has not established formal procedures to resolve all potential conflicts of interest. Consequently, investors may be dependent on the good faith of the respective parties subject to such conflicts to resolve them equitably. Although the Sponsor attempts to monitor these conflicts, it is extremely difficult, if not impossible, for the Sponsor to ensure that these conflicts do not, in fact, result in adverse consequences to either of the Trusts.

Prospective investors should be aware that the Sponsor presently intends to assert that Shareholders of either of the Trust have, by subscribing for Shares of such Trust, consented to the following conflicts of interest in the event of any proceeding alleging that such conflicts violated any duty owed by the Sponsor to investors.

The Sponsor

The Sponsor has a conflict of interest in allocating its own limited resources among the Trusts and, when applicable, different clients and potential future business ventures, to each of which it owes fiduciary duties. Additionally, the professional staff of the Sponsor also services other affiliates of the Trusts, including other digital asset investment vehicles, and their respective clients. Although the Sponsor and its professional staff cannot and will not devote all of its or their respective time or resources to the management of the affairs of any one Trust, the Sponsor intends to devote, and to cause its professional staff to devote, sufficient time and resources to manage properly the affairs of each Trust consistent with its or their respective fiduciary duties to the Trusts and others.

The Sponsor and the Index Provider are affiliates, and the Sponsor may engage other affiliated service providers in the future. Because of potential benefits accruing indirectly to the Sponsor by engaging affiliates, the Sponsor may have an incentive to retain affiliates to provide services to a Trust and no incentive to replace affiliated service providers. In connection with this conflict of interest, Shareholders should understand that affiliated service providers may receive fees for providing services to the Trusts. Clients of the affiliated service providers may pay fees at negotiated rates which are greater or less than the rate paid by the Trusts.

The Sponsor and any affiliated service provider may, from time to time, have conflicting demands in respect of their obligations to the Trusts and, in the future, to other clients. It is possible that future business ventures of the Sponsor and affiliated service providers may generate larger fees, resulting in increased payments to employees, and therefore, incentivizing the Sponsor and/or the

affiliated service providers to allocate it/their limited resources accordingly to the potential detriment of the Trusts.

There is an absence of arm's length negotiation with respect to some of the terms of the offering of Shares of each Trust, and, where applicable, there has been no independent due diligence conducted with respect to these offerings. The Sponsor will, however, not retain any affiliated service providers for the Trusts which the Sponsor has reason to believe would knowingly or deliberately favor any other client over the Trusts.

Proprietary Trading/Other Clients

Because the officers of the Sponsor may trade digital assets for their own personal trading accounts (subject to certain internal trading policies and procedures) at the same time as they are managing the accounts of the Trusts, prospective investors should be aware that the activities of the officers of the Sponsor, subject to their fiduciary duties, may, from time-to-time, result in their taking positions in their personal trading accounts which are opposite of the positions taken for any of the Trusts. Records of the Sponsor's officers' personal trading accounts will not be available for inspection by Shareholders.

Relationships of the Index Provider with the Sponsor and Management of the Sponsor

The Sponsor and the Index Provider are both wholly owned subsidiaries of IDX Global, LLC. The Sponsor and its affiliates rely on the Indices provided by the Index Provider, and may otherwise be interested in the success of the Index Provider. Under the Index License Agreement, the Index Provider may, in its sole discretion, modify the rules governing the calculation of the Index for each Trust.

DESCRIPTION OF THE SHARES

General

Each Trust is authorized under its respective Trust Agreement to create and issue an unlimited number of Shares. The Shares of a Trust represent units of fractional undivided beneficial interest in and ownership of such Trust and have no par value. Fractional share quantities may be entered out to four decimal places.

Description of Limited Rights

The Shares do not represent a traditional investment and should not be viewed as similar to “shares” of a corporation operating a business enterprise with management and a board of directors. A Shareholder will not have the statutory rights normally associated with the ownership of shares of a corporation. Each Share is transferable, is fully paid and non-assessable and entitles the holder to vote on the limited matters upon which Shareholders may vote under the Trust Agreement for each Trust. For example, Shareholders do not have the right to elect directors and will not receive dividends in connection with any of the Trusts. The Shares do not entitle their holders to any conversion or pre-emptive rights or, except as discussed below, any redemption rights or rights to distributions of any of the Trusts.

Voting and Approvals

The Shareholders take no part in the management or control of a Trust. Under each Trust Agreement, Shareholders have limited voting rights. For example, in the event that the Sponsor withdraws from a Trust, a majority of the Shareholders may elect and appoint a successor sponsor to carry out the affairs of such Trust. In addition, no amendments to the Trust Agreement of a Trust that materially adversely affect the interests of its Shareholders may be made without the vote of at least a majority (over 50%) of the Shares of such Trust (not including any Shares held by the Sponsor or its affiliates). However, the Sponsor may make any other amendments to either of the Trust Agreements in its sole discretion without Shareholder consent, provided that the Sponsor provides 20 days’ notice of any such amendment.

Distributions

Pursuant to the terms of the Trust Agreement for each Trust, a Trust may make distributions on its Shares in cash or in kind, including in such form as is necessary or permissible for such Trust to facilitate its Shareholders’ access to any Incidental Rights or to virtual currencies underlying such Incidental Rights.

In addition, if a Trust is terminated and liquidated, the Sponsor will distribute to the Shareholders any amounts of the cash proceeds of the liquidation remaining after the satisfaction of all outstanding liabilities of such Trust and the establishment of reserves for applicable taxes, other governmental charges and contingent or future liabilities as the Sponsor will determine. See “Description of the Trust Documents—Description of the Trust Agreement—The Trustee—Termination of the Trust.” Shareholders of record on the record date fixed by the Administrator

(or a transfer agent, as applicable) for a distribution of any Trust will be entitled to receive their pro rata portions of any distribution.

Appointment of Agent

Pursuant to the terms of the Trust Agreement for each Trust, by holding the Shares, Shareholders of a Trust will be deemed to agree that the Sponsor may cause such Trust to appoint an agent (any person appointed in such capacity, an “*Agent*”) to act on their behalf in connection with any distribution of Incidental Rights and/or IR Virtual Currency if the Sponsor has determined in good faith that such appointment is reasonably necessary or in the best interests of such Trust and its Shareholders in order to facilitate the distribution of any Incidental Rights and/or IR Virtual Currency.

Any Agent appointed by a Trust to facilitate a distribution of Incidental Rights and/or IR Virtual Currency will receive an in-kind distribution of Incidental Rights and/or IR Virtual Currency on behalf of the Shareholders of record of such Trust with respect to such distribution, and following receipt of such distribution, will determine, in its sole discretion and without any direction from such Trust, or the Sponsor, in its capacity as Sponsor of such Trust, whether and when to sell the distributed Incidental Rights and/or IR Virtual Currency on behalf of the record date Shareholders of such Trust. If the Agent is able to do so, it will remit the cash proceeds to such record date Shareholders. There can be no assurance as to the price or prices for any Incidental Rights and/or IR Virtual Currency that the Agent may realize, and the value of the Incidental Rights and/or IR Virtual Currency may increase or decrease after any sale by the Agent.

Any Agent appointed pursuant to a Trust Agreement will not receive any compensation in connection with its role as Agent. However, any Agent will be entitled to receive from the record date Shareholders, out of the distributed Incidental Rights and/or IR Virtual Currency, an amount of Incidental Rights and/or IR Virtual Currency with an aggregate fair market value equal to the amount of administrative and other reasonable expenses incurred by the Agent in connection with its activities as agent of such record date Shareholders, including expenses incurred by the Agent in connection with any post-distribution sale of such Incidental Rights and/or IR Virtual Currency.

Neither Trust has any right to receive any information about any distributed Incidental Rights and/or IR Virtual Currency or the disposition thereof from the record date Shareholders, their Agent or any other person.

Creation of Shares

Each Trust creates Shares at such times and for such periods as determined by the Sponsor. Each Trust may from time to time halt creations. As a result, the Shares of a Trust, if traded on any Secondary Market, may trade at a substantial premium over, or substantial discount to, the value of such Trust’s Digital Asset Holdings per Share. This is because Shareholders would not be able to take advantage of arbitrage opportunities created when the market value of the Shares deviates from the value of such Trust’s Digital Asset Holdings per Share.

Redemption of Shares

Each Trust currently operates a redemption program; however, the redemption of Shares is subject to limitations (as described in this Base Memorandum), and the Sponsor may suspend or terminate the redemption program at any time, in the Sponsor's sole discretion, and the Sponsor will terminate the redemption program, in the event that the Shares are traded on any Secondary Market.

Transfer Restrictions

The Shares of each Trust are restricted securities that may not be resold except in transactions exempt from registration under the Securities Act and State securities laws and any such transaction must be approved in advance by the Sponsor. Any attempt to sell or transfer Shares without the approval of the Sponsor, in its sole discretion, will be void *ab initio*. The Sponsor may impose conditions on its approval of any sale or other transfer of Shares, in the Sponsor's discretion, including among other things: (i) satisfaction of AML requirements by the transferee; (ii) receipt of a transfer agreement from the transferor and the transferee, in form and substance satisfactory to the Sponsor, including representations and warranties to, and indemnification of, the Trust and the Sponsor; (iii) an opinion of counsel satisfactory to the Sponsor as to securities, tax and regulatory matters; and (iv) payment of the costs and expenses of the Trust and the Sponsor (including legal fees) in connection with the sale or other transfer of the Shares.

Book-Entry Form

Shares of each Trust are held primarily in book-entry form by the Administrator (or a transfer agent, as applicable). The Sponsor or its delegate will direct the Administrator (or a transfer agent, as applicable) to issue Shares and cancel Shares for each Trust. Transfers will be made in accordance with standard securities industry practice. The Sponsor may cause a Trust to issue Shares of such Trust in certificated form in limited circumstances in its sole discretion.

Share Splits

In its discretion, the Sponsor may direct the Administrator (or a transfer agent, as applicable) to declare a split or reverse split in the number of Shares of a Trust outstanding. For example, if the Sponsor believes that the per Share price in the secondary market for Shares of any Trust has risen or fallen outside a desirable trading price range, it may declare such a split or reverse split.

CUSTODY OF THE TRUSTS' DIGITAL ASSETS

Digital assets and digital asset transactions are recorded and validated on blockchains, the public transaction ledgers of a digital asset network. Each digital asset blockchain serves as a record of ownership for all of the units of such digital asset, even in the case of certain privacy-focused digital assets, where the transactions themselves are not publicly viewable. All digital assets recorded on a blockchain are associated with a public blockchain address, also referred to as a digital wallet. Digital assets held at a particular public blockchain address may be accessed and transferred using a corresponding private key.

Key Generation

Public addresses and their corresponding private keys are generated by the Custodian in secret key generation ceremonies at secure locations inside faraday cages, which are enclosures used to block electromagnetic fields and thus mitigate against attacks. The Custodian uses quantum random number generators to generate the public and private key pairs.

Once generated, private keys are encrypted, separated into “shards” and then further encrypted. After the key generation ceremony, all materials used to generate private keys, including computers, are destroyed. All key generation ceremonies are performed offline. No party other than the Custodian has access to the private key shards of each Trust.

Key Storage

Private key shards are distributed geographically in secure vaults around the world, including in the United States. The locations of the secure vaults may change regularly and are kept confidential by the Custodian for security purposes.

Each Digital Asset Custodial Account uses offline storage, or “cold” storage, mechanisms to secure each Trust’s private keys. The term “cold” storage refers to a safeguarding method by which the private keys corresponding to digital assets are disconnected and/or deleted entirely from the internet. Cold storage of private keys may involve keeping such keys on a non-networked (or “air-gapped”) computer or electronic device or storing the private keys on a storage device (for example, a USB thumb drive) or printed medium (for example, paper or a metallic object). A digital wallet may receive deposits of digital assets but may not send digital assets without use of the digital assets’ corresponding private keys. In order to send digital assets from a digital wallet in which the private keys are kept in cold storage, either the private keys must be retrieved from cold storage and entered into an online, or “hot”, digital asset software program to sign the transaction, or the unsigned transaction must be transferred to the cold server in which the private keys are held for signature by the private keys and then transferred back to the online digital asset software program. At that point, the user of the digital wallet can transfer its digital assets. While cold storage is the preferred storage mechanism for digital assets, each Trust’s assets may be exposed to commingled, or “hot”, wallets for certain periods (including when a Trust trades in digital assets outside the Trust’s Digital Asset Custodial Account). During these periods, the Trust’s digital assets would be more vulnerable than when in cold storage. See “ACTIVITIES OF THE TRUST – Strategy Behind the Shares – *“Minimize Counterparty and Credit Risk.”*”

Security Procedures

The Custodian is the custodian of each Trust’s private keys in accordance with the terms and provisions of the Custodian Agreement. Transfers from each Digital Asset Custodial Account requires certain security procedures, including but not limited to, multiple encrypted private key shards, usernames, passwords and 2-step verification. Multiple private key shards held by the Custodian must be combined to reconstitute the private key to sign any transaction in order to transfer a Trust’s assets. Private key shards are distributed geographically in secure vaults around the world, including in the United States. As a result, if any one secure vault is ever compromised,

this event will have no impact on the ability of a Trust to access its assets, other than a possible delay in operations, while one or more of the other secure vaults is used instead. These security procedures are intended to remove single points of failure in the protection of each Trust's assets. Transfers of digital assets to a Digital Asset Custodial Account will be available to the applicable Trust once processed on the applicable blockchain.

The process of accessing and withdrawing digital assets from a Trust to redeem Shares will follow the same general procedure as transferring digital assets to such Trust to create Shares, only in reverse. See "Description of Creation and Redemption of Shares."

DESCRIPTION OF ISSUANCE AND REDEMPTION OF SHARES

Issuance of Shares

Each Trust will issue Shares from time to time, but only in connection with an accepted investor subscription. The issuance of Shares requires payment to the Trust of the amount of U.S. dollars and/or digital assets required for the Shares being issued, as adjusted in respect of accrued but unpaid fees and expenses of the Trust. The number of Shares to be issued with respect to the amount of cash paid by an investor will depend on (i) when the subscription of such investor is accepted, and (ii) when such investor's subscription amount is then invested. Such investment is expected to take place within approximately five (5) business days or fewer after receiving the subscription amount, but it could take place at a later time. In all events, it is only when the subscription amount is invested that it will be known, based on the then-applicable NAV per Share, how many Shares to issue to the investor. Each Trust intends to have all subscriptions reviewed for acceptance, and all subscription amounts invested, with a reasonable degree of speed and efficiency. However, an accepted investor who submits a subscription amount on a particular day should not expect to receive Shares based on the latest NAV as of that day. Instead, the investor will receive Shares based on the NAV applicable to the day on which that subscription amount is invested, which could be the same day but may more likely be a later day.

The Sponsor may allow orders to accumulate between issuances. The Sponsor retains discretion to issue Shares more frequently if it deems such action advisable.

Shareholders do not pay a transaction fee to either of the Trusts in connection with the issuance of Shares, but there may be transaction fees associated with the validation of the transfer of digital assets on the relevant digital asset networks. Shareholders who deposit digital assets with a Trust in exchange for Shares will receive no fees, commissions or other form of compensation or inducement of any kind from either the Sponsor or such Trust, and no such person has any obligation or responsibility to the Sponsor or such Trust to effect any sale or resale of Shares.

Unless the minimum is waived by the Sponsor in its sole discretion, each Trust will issue Shares to investors in this offering in a minimum amount of at least \$50,000.00 per investor.

Payment for Shares in cash shall be in the form of a wire transfer. Upon the acceptance of any particular investment by the Sponsor, the applicable Trust will be permitted to close on the funds received in respect of that investment and make use of those funds. No minimum aggregate offering amount must be raised before any Trust can make use of invested funds.

The amount of cash or digital assets required to create a Share may gradually decrease over time due to the transfer or liquidation of digital assets to pay the Sponsor's Fee and the transfer or liquidation of digital assets to pay any Trust expenses not assumed by the Sponsor.

Suspension or Rejection of Orders

The issuance of the Shares may be suspended generally, or refused with respect to particular requested issuances, during any period when the transfer books of the Trusts are closed or if circumstances outside the control of the Sponsor or its delegates make it for all practical purposes not feasible to process such issuances. The Sponsor may reject any subscription application not presented in proper form as described in the Subscription Agreement or if the fulfillment of the subscription application, in the opinion of counsel, might be unlawful, or for any other reason or for no reason. None of the Sponsor or its delegates will be liable for the suspension, rejection or acceptance of any subscription application.

In particular, upon a Trust's receipt of any Incidental Rights and/or IR Virtual Currency in connection with a fork, an airdrop or similar event, the Sponsor will suspend the issuance and redemption of such Trust's Shares, until the Sponsor is able to cause such Trust to sell or distribute such Incidental Rights and/or IR Virtual Currency.

None of the Sponsor or its delegates will be liable for the suspension, rejection or acceptance of any subscription order or redemption request.

Redemptions

Each Trust's Trust Agreement also provides procedures for the redemption of Shares.

Each Trust currently operates a redemption program; however, the redemption of Shares is subject to limitations (as described in this Base Memorandum), and the Sponsor may suspend or terminate the redemption program at any time, in the Sponsor's sole discretion, and the Sponsor will terminate the redemption program, in the event that the Shares are traded on any Secondary Market.

Subject to the restrictions described below, each Shareholder of a Trust may request a redemption (a "**Redemption Request**") of any Shares attributable to any subscription of Shares from such Trust (each, a "**Subscription**"), as of the first Redemption Date (as defined below) that occurs on or immediately following, the first anniversary of the date on which that Subscription was made (such initial 12-month period, the "**Lock-Up Period**"); provided that, Shareholder may, in its discretion, request redemption of all or a portion of its Shares during a Lock-Up Period on a Redemption Date upon the payment of a 3% early redemption fee to the Trust and subject to all other redemption restrictions. For clarity, each Subscription is subject to a Lock-Up Period so that Subscriptions made on various dates will all have Lock-Up Periods expiring on various dates based on each Subscription's Lock-Up Period. "**Redemption Date**" means the last day of each calendar quarter at 1 p.m. New York time on which banking institutions are open for business in New York.. Each Redemption Request once made is irrevocable and must be communicated in writing to the Administrator by 2 p.m. New York time on the first day of the calendar quarter in which redemption of Shares is requested.

Subject to the Trust-level suspensions and Shareholder-level limitations described in this Base Memorandum and the Trust Agreement and to any other restrictions described herein or in the relevant Trust Agreement, the Sponsor will, within 30 business days following the applicable Redemption Date, distribute not less than 90% of the Redemption Price (as defined below) and distribute the balance of the Redemption Price, if any, upon the completion of the Trust's annual audit for the fiscal year in which the redemption is effected. However, the Trust may take longer than 30 Business Days to settle Redemption Requests, if the Trust is unable to liquidate its investments, if the value of the assets and liabilities of the Trust cannot be determined with reasonable accuracy, or for any other reason. Transaction costs involved in funding a redemption may be charged to the withdrawing Shareholder. The Shareholder shall not earn interest on any such unpaid balance. If, after completion of the Trust's annual audit for the fiscal year in which the redemption is effected, the Sponsor determines that the Redemption Price previously paid to the Shareholder exceeds the amount that such Shareholder was actually entitled to receive, then within 10 Business Days of notification thereof, such Shareholder shall be obligated to repay to the Trust the excess of the amount previously paid over the amount to which such Shareholder is actually entitled. "**Redemption Price**" for each redemption of Shares means the amount determined by multiplying the total number of Shares to be redeemed by the price per Share as of the Redemption Date (net of any accrual of the Sponsor's Fee then due and expenses for legal, accounting or administrative costs associated with such redemption, and any reserves).

A Shareholder may not request a redemption of more than 25% of such Shareholder's Shares on any Redemption Date and may not request a partial redemption that would reduce the aggregate value of the Shareholder's Shares held below \$10,000 (except in the case of a complete redemption of such Shareholder's Shares), subject to the discretion of the Sponsor to waive such limitation.

The Sponsor may suspend redemptions for any reason, as discussed herein and in the relevant Trust Agreement.

Redemptions may be settled in cash or in kind (or partially in cash and partially in kind) in the Sponsor's sole discretion.

While each Trust intends to offer redemptions on these terms for a period of time immediately subsequent to your investment, each Trust intends to terminate the availability of redemptions in connection with the commencement of quotations of its Shares on any Secondary Market. As a result, Shareholders of a Trust may no longer be able to request redemption of their Shares subsequent to such investment. On and after the date that is six (6) business days prior to the date on which a market maker for a Trust's Shares determines the opening quotation price or similar trading price of such Shares on a Secondary Market or such other date determined in the Sponsor's reasonable discretion to be necessary in order to comply with Regulation M under the Exchange Act, such Trust will not offer a redemption program for the Shares. Such Trust may, but shall not be required to, seek regulatory approval to operate a redemption program. If any redemption program is approved, then any redemption authorized by the Sponsor must be conducted in accordance with the provisions of the relevant Trust Agreement.

In particular, upon a Trust's receipt of any Incidental Rights and/or IR Virtual Currency in connection with a fork, an airdrop or similar event, the Sponsor will suspend redemptions of the

Trust's Shares until it is able to cause the Trust to sell or distribute such Incidental Rights and/or IR Virtual Currency.

Tax Responsibility

Shareholders are responsible for any transfer tax, sales or use tax, stamp tax, recording tax, value-added tax or similar tax or governmental charge applicable to the issuance, redemption transfer of the Shares of a Trust, regardless of whether such tax or charge is imposed directly on the Shareholders, and agree to indemnify the Sponsor and such Trust, if the Sponsor or such Trust is required by law to pay any such tax, together with any applicable penalties, additions to tax or interest thereon.

DETERMINATION OF DIGITAL ASSET HOLDINGS

The Administrator will evaluate the digital assets held by a Trust and determine the Digital Asset Holdings of such Trust in accordance with the relevant provisions of the Trust Documents. The following is a description of the material terms of the Trust Documents as they relate to valuation of each Trust's digital assets and the Digital Asset Holdings calculations.

On each business day at 4:00 p.m. GMT (the "***Evaluation Time***"), the Administrator will evaluate the digital assets held by a Trust and calculate and publish the Digital Asset Holdings of such Trust. To calculate the Digital Asset Holdings for a Trust, the Administrator will:

1. Determine the applicable Digital Asset Reference Rate as of such business day;
2. Multiply such Digital Asset Reference Rate by the aggregate number of digital assets owned by such Trust as of 4:00 p.m. GMT on the immediately preceding day, less the U.S. dollar amount payable as the accrued and unpaid Sponsor's Fee as of 4:00 p.m. GMT on the immediately preceding day;
3. Add the U.S. dollar value of digital assets, calculated using the applicable Digital Asset Reference Rate, and cash receivable under pending subscriptions for Shares or as redemption fees;
4. Subtract the U.S. dollar amount of accrued and unpaid Additional Trust Expenses, if any;
5. Subtract the U.S. dollar value of digital assets, calculated using the applicable Digital Asset Reference Rate, to be distributed under pending redemption orders, if any, determined by multiplying the number of Shares represented by such redemption orders by the total amount of Shares and then multiplying such product by the Digital Asset Reference Rate (the amount derived from steps 1 through 5 above, such Trust's "***Digital Asset Holdings Fee Basis Amount***"); and
6. Subtract the U.S. dollar amount payable to the Sponsor as the Sponsor's Fee for such business day.

In the event that the Administrator determines that the methodology used to determine the Digital Asset Reference Rate for a Trust is not an appropriate basis for valuation of such Trust's digital assets, the Administrator may, in its sole discretion, modify its methodology. In addition, in the event that a Trust holds any Incidental Rights and/or IR Virtual Currency, the Administrator may, in its discretion, include the value of such Incidental Rights and/or IR Virtual Currency in the determination of such Trust's Digital Asset Holdings, provided that the Administrator has determined in good faith a method for assigning an objective value to such Incidental Rights and/or IR Virtual Currency. At this time, neither of the Trusts expects to take any Incidental Rights or IR Virtual Currency it may hold into account for purposes of determining such Trust's Digital Asset Holdings or the Digital Asset Holdings per Share.

For each Trust, the Sponsor will publish the Digital Asset Reference Rate, the Digital Asset Holdings and the Digital Asset Holdings per Share on such Trust's website as soon as practicable after its determination by the Administrator.

In the event of a hard fork of the network of the digital asset held by a Trust, the Administrator will, if permitted by the terms of the relevant Trust Agreement, use its discretion to determine, in good faith, which peer-to-peer network, among a group of incompatible forks of such a Network, is generally accepted as the network for such digital asset and should therefore be considered the appropriate network for such Trust's purposes. The Administrator will base its determination on a variety of then relevant factors, including (but not limited to) the following: (i) the Administrator's beliefs regarding expectations of the core developers, users, services, businesses, miners and other constituencies and (ii) the actual continued acceptance of, mining power on, and community engagement with the relevant network.

The Shareholders may rely on any evaluation furnished by the Administrator. The determinations that the Administrator makes will be made in good faith upon the basis of, and the Administrator will not be liable for any errors contained in, information reasonably available to it. The Administrator will not be liable to the Shareholders or any other person for errors in judgment with respect to a Trust. However, the preceding liability exclusion will not protect the Administrator against any liability resulting from gross negligence, willful misconduct or bad faith in the performance of its duties with respect to a Trust.

The Digital Asset Reference Rates

Each Trust values its digital assets for operational purposes by reference to the applicable Digital Asset Reference Rate, as set forth in the relevant Trust Supplement, less such Trust's expenses and other liabilities. The Digital Asset Reference Rate is derived from data collected from the Digital Asset Exchanges trading such digital asset selected by the Administrator.

The Digital Asset Reference Rate is a U.S. dollar- or BTC-denominated composite reference rate for the price of the applicable digital asset. The Digital Asset Reference Rate is designed to (1) mitigate instances of fraud, manipulation and other anomalous trading activity, (2) provide a real-time, trade-weighted fair value of the applicable digital asset and (3) appropriately handle and adjust for non-market related events.

EXPENSES; SALES OF DIGITAL ASSETS

Expenses to Be Paid by the Sponsor

Each Trust will pay the Sponsor's Fee to the Sponsor. As partial consideration for its receipt of the Sponsor's Fee from each Trust, the Sponsor is obligated under each Trust Agreement to assume and pay all fees and other expenses incurred by each Trust in the ordinary course of its affairs, excluding taxes, but including: (i) any distribution fees; (ii) the Administrator Fee, if any; (iii) fees for the Custodian and any other security vendor engaged by the Trust; (iv) any transfer agent fee; (v) the Trustee fee; (vi) ordinary course legal fees and expenses; (vii) audit fees; (viii) regulatory fees, including, if applicable, any fees relating to the registration of the Shares under the Securities Act or the Exchange Act; (ix) printing and mailing costs; (x) the costs of maintaining such Trust's website; and (xi) applicable license fees (each a "*Sponsor-paid Expense*"). The Sponsor, from time to time, may temporarily waive all or a portion of the Sponsor's Fee of a Trust in its discretion for stated periods of time. Presently, the Sponsor does not intend to waive any of the Sponsor's Fee for any Trust.

The Sponsor's Fee will be payable, at the Sponsor's sole discretion, in the applicable digital asset held by a Trust (the relevant digital asset by reference to the same Digital Asset Reference Rate used to determine such accrual) or U.S. dollars. However, if a Trust holds any Incidental Rights and/or IR Virtual Currency at any time, such Trust may also pay the Sponsor's Fee, in whole or in part, with such Incidental Rights and/or IR Virtual Currency by entering into an agreement with the Sponsor and transferring such Incidental Rights and/or IR Virtual Currency to the Sponsor at a value to be determined pursuant to such agreement. However, a Trust may use Incidental Rights and/or IR Virtual Currency to pay the Sponsor's Fee only if such agreement and transfer do not otherwise conflict with the terms of its Trust Agreement. The value of any such Incidental Rights and/or IR Virtual Currency will be determined on an arm's-length basis. Each Trust currently expects that the value of any such Incidental Rights and/or IR Virtual Currency would be determined by reference to an index provided by the Administrator. If a Trust pays the Sponsor's Fee in Incidental Rights and/or IR Virtual Currency, in whole or in part, the amount of the relevant digital asset that would otherwise have been used to satisfy such payment will be correspondingly reduced.

After a Trust's payment of the Sponsor's Fee to the Sponsor in digital assets, the Sponsor may elect to convert the digital assets, Incidental Rights and/or IR Virtual Currency received as payment of the Sponsor's Fee into U.S. dollars. The rate at which the Sponsor converts such digital assets, Incidental Rights and/or IR Virtual Currency into U.S. dollars may differ from the rate at which the relevant Sponsor's Fee was determined. Neither Trust will be responsible for any fees and expenses incurred by the Sponsor to convert digital assets, Incidental Rights and/or IR Virtual Currency received in payment of the Sponsor's Fee into U.S. dollars.

After payment of the Sponsor-paid Expenses, the Sponsor may use the remaining portion of the Sponsor's Fee received from such Trust at its discretion, which may include the payment of fees from time to time for the referral of new investors in such Trust.

Extraordinary and Other Expenses

In certain extraordinary circumstances, a Trust may incur certain extraordinary and/or, non-recurring expenses that are not Sponsor-paid Expenses, including, but not limited to: taxes and governmental charges; expenses and costs of any extraordinary services performed by the Sponsor (or any other Service Provider) on behalf of such Trust to protect such Trust or the interests of its Shareholders (including in connection with any Incidental Rights and IR Virtual Currency); indemnification of the Custodian and other agents, service providers and counterparties of such Trust; fees and expenses related to the listing, quotation or trading of the Shares of such Trust on any Secondary Market (including legal, marketing and audit fees and expenses) and extraordinary legal fees and expenses, including any legal fees and expenses incurred in connection with litigation, regulatory enforcement or investigation matters (collectively, “**Additional Trust Expenses**”). If Additional Trust Expenses are incurred by a Trust, or by the Sponsor on behalf of the Trust, such Trust will be required to pay these Additional Trust Expenses (and reimburse the Sponsor, if applicable) by selling or delivering digital assets, Incidental Rights and/or IR Virtual Currency. The value of any such Incidental Rights and/or IR Virtual Currency will be determined on an arm’s-length basis. Each Trust currently expects that the value of any such Incidental Rights and/or IR Virtual Currency would be determined by reference to an index provided by the Administrator. If the Trust pays Additional Trust Expenses in Incidental Rights and/or IR Virtual Currency, in whole or in part, the amount of the relevant digital asset that would otherwise have been used to satisfy such payment will be correspondingly reduced. See “—Disposition of Digital Assets, Incidental Rights and/or IR Virtual Currency” for further information on sales or other dispositions of digital assets, Incidental Rights and/or IR Virtual Currency. Although the Sponsor cannot definitively state the frequency or magnitude of Additional Trust Expenses, the Sponsor expects that they may occur infrequently for each Trust.

The Sponsor or any of its affiliates may be reimbursed only for the actual cost to the Sponsor or such affiliate of any expenses that it advances on behalf of a Trust for payment of which such Trust is responsible. Each Trust Agreement prohibits the relevant Trust from paying to the Sponsor or such affiliate for indirect expenses incurred in performing services for such Trust in its capacity as the Sponsor (or an affiliate of the Sponsor) of such Trust, such as salaries and fringe benefits of officers and directors, rent or depreciation, utilities and other administrative items generally falling within the category of the Sponsor’s “overhead.”

Disposition of Digital Assets, Incidental Rights and/or IR Virtual Currency

To cause a Trust to pay the Sponsor’s Fee payable by such Trust, the Sponsor will instruct the Custodian to (i) withdraw from the applicable Digital Asset Custodial Account (or other applicable account) the quantity of digital assets, Incidental Rights and/or IR Virtual Currency, determined as described above in “Activities of the Trusts—Trust Expenses,” equal to the accrued but unpaid Sponsor’s Fee of such Trust and (ii) transfer such digital assets, Incidental Rights and/or IR Virtual Currency to an account maintained by the Sponsor at such times as the Sponsor determines in its absolute discretion. In addition, if a Trust incurs any Additional Trust Expenses, the Sponsor or its delegates (i) will instruct the Custodian to withdraw digital assets, Incidental Rights and/or IR Virtual Currency from the applicable Digital Asset Custodial Account (or other applicable account) in such quantity as may be necessary to permit payment of such Additional Trust

Expenses and (ii) may either (x) cause such Trust to convert such digital assets, Incidental Rights and/or IR Virtual Currency into U.S. dollars or other fiat currencies at the Actual Exchange Rate or (y) cause such Trust (or its delegate) to deliver digital assets, Incidental Rights and/or IR Virtual Currency in kind, in each case in such quantity as may be necessary to permit payment of such Additional Trust Expenses. The Sponsor's Fee and Additional Trust Expenses payable by a Trust will generally be paid in the digital assets held by such Trust. Shareholders do not have the option of choosing to pay their proportionate shares of Additional Trust Expenses in lieu of having their shares of Additional Trust Expenses paid by such Trust's delivery or disposition of digital assets, Incidental Rights and/or IR Virtual Currency. Assuming that each Trust is a grantor trust for U.S. federal income tax purposes, the transfer or sale of digital assets, Incidental Rights and/or IR Virtual Currency to pay such Trust's expenses will be a taxable event for its Shareholders. See "Certain U.S. Federal Income Tax Consequences—Tax Consequences to U.S. Holders."

Because the number of digital assets held by a Trust will decrease as a consequence of the payment of the Sponsor's Fee in digital assets or the sale of digital assets to pay Additional Trust Expenses (and such Trust will incur additional fees associated with converting digital assets into U.S. dollars), the number of digital assets represented by a Share of such Trust will decline at such time and such Trust's Digital Asset Holdings may also decrease. Similarly, the number (if any) of Incidental Rights and IR Virtual Currency represented by a Share of a Trust will decrease as a consequence of the use of Incidental Rights and IR Virtual Currency to pay the Sponsor's Fee and Additional Trust Expenses. Accordingly, the Shareholders will bear the cost of the Sponsor's Fee and any Additional Trust Expenses.

The Sponsor will also cause the sale of a Trust's digital assets, Incidental Rights and/or IR Virtual Currency, if the Sponsor determines that sale is required by applicable law or regulation or in connection with the termination and liquidation of such Trust. The Sponsor will not be liable or responsible in any way for depreciation or loss incurred by reason of any sale of digital assets, Incidental Rights and/or IR Virtual Currency.

BOOKS AND RECORDS; STATEMENTS, FILINGS AND REPORTS

Books and Records

The Sponsor will keep proper books and records of accounts of each Trust at such place or places as the Sponsor may from time to time determine, except as required by law. A Shareholder's right to inspect any account, book, or document of a Trust is limited as provided in the applicable Trust Agreement.

Reports to Shareholders

The Sponsor will furnish Shareholders of each Trust with an annual report of such Trust within 180 calendar days after the end of such Trust's fiscal year (or as soon as reasonably practicable thereafter) including, but not limited to, annual audited financial statements (including a statement of income and statement of financial condition), prepared in accordance with GAAP and accompanied by a report of the independent registered public accounting firm that audited such statements.

The accounts of each Trust will be audited, as required by law and as may be directed by the Sponsor, by independent registered public accountants designated by the Sponsor. The accountants' report for such Trust will be furnished by the Sponsor to Shareholders of such Trust upon request.

Fiscal Year

The fiscal year of each Trust will be specified in the relevant Trust Supplement.

DESCRIPTION OF THE TRUST DOCUMENTS

Description of the Trust Agreements

The following is a description of the material terms of each such Trust Agreement. The terms of the Trust Agreement governing each Trust are substantially identical, except as noted herein. Each Trust Agreement establishes the roles, rights and duties of the Sponsor and the Trustee.

The Sponsor

Liability of the Sponsor and Indemnification

The Sponsor and its affiliates (each, a "**Covered Person**") will not be liable to any Trust or any Shareholder for any loss suffered by such Trust which arises out of any action or inaction of such Covered Person if such Covered Person determined in good faith that such course of conduct was in the best interests of such Trust. However, the preceding liability exclusion will not protect any Covered Person against any liability resulting from its own willful misconduct, bad faith or gross negligence in the performance of its duties.

Each Covered Person will be indemnified by a Trust against any loss, judgment, liability, expense incurred or amount paid in settlement of any claim sustained by it in connection with the Covered Person's activities for such Trust, provided that (i) the Covered Person was acting on behalf of, or performing services for, such Trust and had determined, in good faith, that such course of conduct was in the best interests of such Trust and such liability or loss was not the result of fraud, gross negligence, bad faith, willful misconduct or a material breach of the relevant Trust Agreement on the part of such Covered Person and (ii) any such indemnification will be recoverable only from the property of such Trust. Any amounts payable to an indemnified party will be payable in advance under certain circumstances.

Fiduciary and Regulatory Duties of the Sponsor

The Sponsor is not effectively subject to the duties and restrictions imposed on "fiduciaries" under both statutory and common law. Rather, the general fiduciary duties that would apply to the Sponsor are defined and limited in scope by each Trust Agreement.

Under Delaware law, a shareholder may bring a derivative action if the shareholder is a shareholder at the time the action is brought and either (i) was a shareholder at the time of the transaction at issue or (ii) acquired the status of shareholder by operation of law or the trust's governing

instrument from a person who was a shareholder at the time of the transaction at issue. Additionally, Section 3816(e) of the DSTA specifically provides that “a beneficial owner’s right to bring a derivative action may be subject to such additional standards and restrictions, if any, as are set forth in the governing instrument of the statutory trust, including, without limitation, the requirement that beneficial owners owning a specified beneficial interest in the statutory trust join in the bringing of the derivative action.” In addition to the requirements of applicable law, each Trust Agreement provides that no Shareholder will have the right, power or authority to bring or maintain a derivative action, suit or other proceeding on behalf of a Trust unless two or more Shareholders who (i) are not affiliates of one another and (ii) collectively hold at least 10.0% of the outstanding Shares of such Trust join in the bringing or maintaining of such action, suit or other proceeding. Each Trust selected the 10.0% ownership threshold because each Trust believed that this was a threshold that investors would be comfortable with based on market precedent.

Due to this additional requirement, a Shareholder attempting to bring a derivative action in the name of a Trust will be required to locate other Shareholders with which it is not affiliated and that have sufficient Shares to meet the 10.0% threshold based on the number of Shares outstanding on the date the claim is brought and thereafter throughout the duration of the action, suit or proceeding.

“Affiliate” is defined in each Trust Agreement to mean any natural person, partnership, limited liability company, statutory trust, corporation, association or other legal entity (each, a “Person”) directly or indirectly owning, controlling or holding with power to vote 10% or more of the outstanding voting securities of such Person, (ii) any Person 10% or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with power to vote by such Person, (iii) any Person, directly or indirectly, controlling, controlled by or under common control of such Person, (iv) any employee, officer, director, member, manager or partner of such Person, or (v) if such Person is an employee, officer, director, member, manager or partner, any Person for which such Person acts in any such capacity. Any Shareholders seeking to bring a derivative action may determine whether the 10.0% ownership threshold required to bring a derivative action has been met by dividing the number Shares owned by such Shareholders by the total number of Shares outstanding. Shareholders may determine the total number of Shares outstanding by reviewing each Trust’s annual filings and quarterly filings, as applicable, or by requesting the number of Shares outstanding at any time from the Sponsor, subject to Section 8.1 of each Trust Agreement and Section 3819(a) of the DSTA. Because each Trust is a grantor trust, it may only issue one class of securities, the Shares.

Each Trust offers Shares at such times and for such periods as the Sponsor determines in its sole discretion. As a result, in order to maintain the 10.0% ownership threshold required to maintain a derivative action, Shareholders may need to increase their holdings or locate additional Shareholders during the pendency of a claim. Each Trust posts the number of Shares outstanding as of the end of each month on its website. Shareholders may monitor the number of Shares outstanding at any time for purposes of calculating their ownership threshold by reviewing each Trust’s website and by requesting the number of Shares outstanding on any date from the Sponsor at any time, subject to Section 8.1 of each Trust Agreement. Shareholders have the opportunity at any time to increase their holdings or locate other Shareholders to maintain the 10.0% threshold throughout the duration of a derivative claim. Shareholders may do so by requesting from the

Sponsor the list of the names and last known address of all Shareholders, subject to Section 8.1 of each Trust Agreement and Section 3819(a) of the DSTA.

The Sponsor is not aware of any reason to believe that Section 7.4 of each Trust Agreement is not enforceable under state or federal law. The Court of Chancery of Delaware has stated that “[t]he DSTA is enabling in nature and, as such, permits a trust through its declarations of trust to delineate additional standards and requirements with which a stockholder-plaintiff must comply to proceed derivatively in the name of the trust.” *Hartsel v. Vanguard Group., Inc.*, Del. Ch. June 15, 2011. However, there is limited case law addressing the enforceability of provisions like Section 7.4 under state and federal law and it is possible that this provision would not be enforced by a court in another jurisdiction or under other circumstances.

Beneficial owners may have the right, subject to certain legal requirements, to bring class actions in federal court to enforce their rights under the federal securities laws and the rules and regulations promulgated thereunder by the SEC. Beneficial owners who have suffered losses in connection with the purchase or sale of their beneficial interests may be able to recover such losses from the Sponsor where the losses result from a violation by the Sponsor of the anti-fraud provisions of the federal securities laws.

Actions Taken to Protect the Trust

The Sponsor may, in its sole discretion, prosecute, defend, settle or compromise actions or claims at law or in equity that it considers necessary or proper to protect a Trust or the interests of its Shareholders. The expenses incurred by the Sponsor in connection therewith (including the fees and disbursements of legal counsel) will be expenses of such Trust and are deemed to be Additional Trust Expenses. The Sponsor will be entitled to be reimbursed for Additional Trust Expenses it pays on behalf of each Trust.

Successor Sponsors

If the Sponsor is adjudged bankrupt or insolvent, the Trusts may dissolve and a liquidating Trustee may be appointed to terminate and liquidate the Trusts and distribute their remaining assets. The Trustee will have no obligation to appoint a successor sponsor or to assume the duties of the Sponsor, and will have no liability to any person because one or more Trusts are or are not terminated. However, if a certificate of dissolution or revocation of the Sponsor’s charter is filed (and ninety (90) days have passed after the date of notice to the Sponsor of revocation without a reinstatement of the Sponsor’s charter) or the withdrawal, removal, adjudication or admission of bankruptcy or insolvency of the Sponsor has occurred, Shareholders holding at least a majority (over 50%) of the Shares of a Trust may agree in writing to continue the affairs of such Trust and to select, effective as of the date of such event, one or more successor Sponsors within ninety (90) days of any such event.

The Trustee

The Trustee is a fiduciary under each Trust Agreement and must satisfy the requirements of Section 3807 of the Delaware Trust Statute. However, the fiduciary duties, responsibilities and

liabilities of the Trustee are limited by, and are only those specifically set forth in, each Trust Agreement.

Limitation on Trustee's Liability

Under each Trust Agreement, the Sponsor has exclusive control of the management of all aspects of the activities of each Trust and the Trustee has only nominal duties and liabilities to each Trust. The Trustee is appointed to serve as the trustee for the sole purpose of satisfying Section 3807(a) of the DSTA which requires that each Trust have at least one trustee with a principal place of business in the State of Delaware. The duties of the Trustee are limited to (i) accepting legal process served on each Trust in the State of Delaware and (ii) the execution of any certificates required to be filed with the Delaware Secretary of State which the Trustee is required to execute under the DSTA.

To the extent the Trustee has duties (including fiduciary duties) and liabilities to either Trust or its Shareholders under the DSTA, such duties and liabilities will be replaced by the duties and liabilities of the Trustee expressly set forth in the Trust Agreement of such Trust. The Trustee will have no obligation to supervise, nor will it be liable for, the acts or omissions of the Sponsor, the Custodian or any other security vendor engaged by the Trusts. Neither the Trustee, either in its capacity as trustee or in its individual capacity, nor any director, officer or controlling person of the Trustee is, or has any liability as, the issuer, director, officer or controlling person of the issuer of Shares of each Trust. The Trustee's liability is limited solely to the express obligations of the Trustee as set forth in each Trust Agreement.

Under each Trust Agreement, the Sponsor has the exclusive management, authority and control of all aspects of the activities of each Trust. The Trustee has no duty or liability to supervise or monitor the performance of the Sponsor, nor does the Trustee have any liability for the acts or omissions of the Sponsor. The existence of a trustee should not be taken as an indication of any additional level of management or supervision over either of the Trusts.

Each Trust Agreement provides that the management authority with respect to each Trust is vested directly in the Sponsor and that the Trustee is not responsible or liable for the genuineness, enforceability, collectability, value, sufficiency, location or existence of any of the digital assets or other assets of each Trust.

Possible Repayment of Distributions Received by Shareholders; Indemnification by Shareholders

The Shares of each Trust are limited liability investments. Investors may not lose more than the amount that they invest in a Trust plus any profits recognized on their investment. Although it is unlikely, the Sponsor may, from time to time, make distributions to the Shareholders of a Trust. However, Shareholders could be required, as a matter of bankruptcy law, to return to the estate of a Trust any distribution they received at a time when such Trust was in fact insolvent or in violation of its Trust Agreement. In addition, each Trust Agreement provides that Shareholders will indemnify a Trust for any harm suffered by it as a result of Shareholders' actions unrelated to the activities of such Trust.

The foregoing repayment of distributions and indemnity provisions (other than the provision for Shareholders indemnifying a Trust for taxes imposed upon it by a state, local or foreign taxing authority, which is included only as a formality due to the fact that many states do not have statutory trust statutes therefore the tax status of any Trust in such states might, theoretically, be challenged) are commonplace in statutory trusts and limited partnerships.

Indemnification of the Trustee

The Trustee and any of the officers, directors, employees and agents of the Trustee will be indemnified by each Trust as primary obligor and held harmless against any loss, damage, liability, claim, action, suit, cost, expense, disbursement (including the reasonable fees and expenses of counsel), tax or penalty of any kind and nature whatsoever, arising out of, imposed upon or asserted at any time against such indemnified person in connection with the performance of its obligations under each Trust Agreement, the creation, operation or termination of such Trust or the transactions contemplated therein; *provided, however*, that the Trusts will not be required to indemnify any such indemnified person for any such expenses which are a result of the willful misconduct, bad faith or gross negligence of such indemnified person. If the Trust shall have insufficient assets or improperly refuses to pay the Trustee and any of the officers, directors, employees and agents of the Trust within 60 days of request for payment owed under the Trust's Trust Agreement, the Sponsor, as secondary obligor, shall compensate or reimburse the Trustee or indemnify, defend and hold harmless the Trustee and any of the officers, directors, employees and agents of the Trustee, as if the Sponsor were the primary obligor thereunder; *provided, however*, that the Sponsor shall not be required to indemnify the Trustee or any of the officers, directors, employees and agents of the Trustee for any expenses which are the result of the willful misconduct, bad faith or gross negligence of the Trustee or any of the officers, directors, employees and agents of the Trustee. Any amount payable to such an indemnified person under a Trust's Trust Agreement may be payable in advance under certain circumstances and will be secured by a lien on the property of such Trust. The obligations of a Trust to indemnify such indemnified persons under such Trust's Trust Agreement will survive the termination of such Trust Agreement.

Holding of Trust Property

Each Trust will hold and record the ownership of its Trust's assets in a manner such that it will be owned for the benefit of the Shareholders for the purposes of, and subject to and limited by the terms and conditions set forth in, its Trust Agreement. Neither of the Trusts will create, incur or assume any indebtedness or borrow money from or loan money to any person. Neither Trust may commingle any Trust assets with those of any other person.

The Trustee may employ agents, attorneys, accountants, auditors and nominees and will not be answerable for the conduct or misconduct of any such custodians, agents, attorneys or nominees, if such custodians, agents, attorneys and nominees have been selected with reasonable care.

Resignation, Discharge or Removal of Trustee; Successor Trustees

The Trustee may resign as Trustee by written notice of its election so to do, delivered to the Sponsor with at least 60 days' notice. The Sponsor may remove the Trustee in its discretion. If the

Trustee resigns or is removed, the Sponsor, acting on behalf of the Shareholders of each Trust, will appoint a successor trustee for each Trust. The successor Trustee will become fully vested with all of the rights, powers, duties and obligations of the outgoing Trustee.

If the Trustee resigns and no successor trustee is appointed within 180 days after the Trustee notifies the Sponsor of its resignation, the Sponsor will terminate and liquidate the Trusts and distribute their remaining assets.

Amendments to the Trust Agreements

In general, the Sponsor may amend any Trust Agreement without the consent of any Shareholder. In particular, the Sponsor may, without the approval of the Shareholders, amend a Trust's Trust Agreement, if such Trust is advised at any time by its accountants or legal counsel that the amendments are necessary to permit such Trust to take the position that it is a grantor trust for U.S. federal income tax purposes or take favorable positions on other regulatory matters. However, the Sponsor may not make an amendment, or otherwise supplement a Trust's Trust Agreement, if such amendment or supplement would permit the Sponsor, the Trustee or any other person to vary the investment of the Shareholders of such Trust (within the meaning of applicable Treasury Regulations) or would otherwise adversely affect the status of such Trust as a grantor trust for U.S. federal income tax purposes. In addition, no amendments to a Trust's Trust Agreement that materially adversely affect the interests of Shareholders may be made without the vote of at least a majority (over 50%) of the Shares of such Trust (not including any Shares held by the Sponsor or its affiliates). A Shareholder will be deemed to have consented to a modification or amendment of a Trust's Trust Agreement, if the Sponsor has notified the Shareholders of such Trust in writing of the proposed modification or amendment and the Shareholder has not, within 20 calendar days of such notice, notified the Sponsor in writing the Shareholder objects to such modification or amendment.

Termination of the Trust

A Trust will dissolve if any of the following events occur:

- a U.S. federal or state regulator requires such Trust to shut down or forces such Trust to liquidate its digital assets or seizes, impounds or otherwise restricts access to Trust assets;
- any ongoing event exists that either prevents such Trust from making, or makes impractical its reasonable efforts to make, a fair determination of the relevant Digital Asset Reference Rate; or
- any ongoing event exists that either prevents such Trust from converting, or makes impractical its reasonable efforts to convert digital assets to U.S. dollars; or a certificate of dissolution or revocation of the Sponsor's charter is filed (and 90 days have passed since the date of notice to the Sponsor of revocation without a reinstatement of its charter) or the withdrawal, removal, adjudication or admission of bankruptcy or insolvency of the Sponsor has occurred unless (i) at the time there is at least one remaining Sponsor and that remaining Sponsor carries on the Trust or (ii) within 90 days of any such event Shareholders holding

at least a majority (over 50%) of Shares of such Trust agree in writing to continue the activities of such Trust and to select, effective as of the date of such event, one or more successor Sponsors.

The Sponsor may, in its sole discretion, dissolve a Trust if any of the following events occur:

- the SEC determines that such Trust is an investment company required to be registered under the Investment Company Act;
- the CFTC determines that such Trust is a commodity pool under the CEA;
- such Trust is determined to be a “money service business” under the regulations promulgated by FinCEN under the authority of the U.S. Bank Secrecy Act and is required to comply with certain FinCEN regulations thereunder;
- such Trust is required to obtain a license or make a registration under any state law regulating money transmitters, money services businesses, providers of prepaid or stored value or similar entities, or virtual currency businesses;
- such Trust becomes insolvent or bankrupt;
- a security vendor to such Trust, such as the Custodian, resigns or is removed without replacement;
- all of such Trust’s assets are sold;
- the Sponsor determines that the aggregate net assets of such Trust in relation to the expenses of such Trust make it unreasonable or imprudent to continue such Trust;
- the Sponsor receives notice from the IRS or from counsel for such Trust or the Sponsor that such Trust fails to qualify for treatment, or will not be treated, as a grantor trust under the Code;
- if the Trustee notifies the Sponsor of the Trustee’s election to resign and the Sponsor does not appoint a successor trustee within 180 days; or
- the Sponsor determines, in its sole discretion, that it is desirable or advisable for any reason to discontinue the affairs of such Trust.

The death, legal disability, bankruptcy, insolvency, dissolution, or withdrawal of any Shareholder (as long as such Shareholder is not the sole Shareholder of a Trust) will not result in the termination of a Trust, and such Shareholder, his or her estate, custodian or personal representative will have no right to a redemption or value such Shareholder’s Shares. Each Shareholder (and any assignee thereof) expressly agrees that in the event of his or her death, he or she waives on behalf of himself or herself and his or her estate, and he or she directs the legal representative of his or her estate and any person interested therein, to waive the furnishing of any inventory, accounting or appraisal of the assets of such Trust and any right to an audit or examination of the books of account for

such Trust, except for such rights as are set forth in Article VIII of the relevant Trust Agreement relating to the books of account and reports of such Trust.

Upon dissolution of a Trust and surrender of such Trust's Shares by the Shareholders, Shareholders will receive a distribution in U.S. dollars or digital assets, Incidental Rights and/or IR Virtual Currency, at the sole discretion of the Sponsor, after the Sponsor has sold such Trust's digital assets, Incidental Rights and IR Virtual Currency, if applicable, and has paid or made provision for such Trust's claims and obligations.

If a Trust is forced to liquidate, such Trust will be liquidated under the Sponsor's direction. The Sponsor, on behalf of such Trust, will engage directly with Digital Asset Markets to liquidate the Trust's digital assets as promptly as possible while obtaining the best fair value possible. The proceeds therefrom will be applied and distributed in the following order of priority: (a) to the expenses of liquidation and termination and to creditors, including Shareholders of such Trust who are creditors, to the extent otherwise permitted by law, in satisfaction of liabilities of such Trust other than liabilities for distributions to its Shareholders and (b) to the holders of Shares of such Trust pro rata in accordance with the respective percentage of percentages of Shares that they hold. It is expected that the Sponsor would be subject to the same regulatory requirements as the Trusts, and therefore, the markets available to a Sponsor will be the same markets available to the Trusts being liquidated.

Governing Law; Arbitration and Adjudication

Each Trust Agreement and the rights of the Sponsor, Trustee and Shareholders under each Trust Agreement are governed by the laws of the State of Delaware.

Except as to any claims with respect to enforcement of an arbitration award and matters covered by the following paragraph, any controversy, claim or dispute arising out of, or relating to, a Trust, its Trust Agreement or the breach thereof, or regarding the interpretation thereof, between a Shareholder and the Trust and/or the Sponsor shall be solely and exclusively settled by binding arbitration conducted in Phoenix, Arizona, in accordance with the rules of the American Arbitration Association then in effect before a single arbitrator appointed in accordance with such rules and applying the laws of the State of Delaware, without regard to the conflict of laws provisions thereof. Judgment upon any award rendered in any such arbitration may be entered and enforcement obtained thereon in any court having jurisdiction. The arbitrator shall have authority to grant any form of appropriate relief (other than punitive damages), whether legal or equitable in nature, including specific performance, subject to the applicable limitations on liability in the applicable Trust Agreement. Each Shareholder must agree to abide by all decisions and awards rendered in such proceedings. Such decisions and awards rendered by the arbitrator shall be final and conclusive. All such controversies, claims or disputes shall be settled in this manner in lieu of any action at law or equity.

Any claims relating to the rights, privileges, liabilities, and indemnities of or relating to the Trustee under each Trust Agreement shall be adjudicated by the Court of Chancery in the State of Delaware.

The Custodian

Description of the Custodian Agreement

The Custodian Agreement establishes the rights and responsibilities of the Custodian and each Trust with respect to each Trust's digital assets in the applicable Digital Asset Custodial Account, which is maintained and operated by the Custodian on behalf of each Trust. For a general description of the Custodian's obligations, see "The Custodian—The Custodian's Role."

Account; Location of Digital Assets

Each Trust's Digital Asset Custodial Account is a segregated custody account controlled and secured by the Custodian to store private keys, which allows for the transfer of ownership or control of each Trust's digital assets, on each Trust's behalf. Private key shards associated with each Trust's digital assets are distributed geographically by the Custodian in secure vaults around the world, including in the United States. The locations of the secure vaults may change regularly and are kept confidential by the Custodian for security purposes. The Custodian requires written approval of each Trust prior to changing the location of the private key shards, and therefore such Trust's digital assets, including to a different state. Each Digital Asset Custodial Account uses offline storage, or cold storage, mechanisms to secure such Trust's private keys. The term cold storage refers to a safeguarding method by which the private keys corresponding to digital assets are disconnected and/or deleted entirely from the internet. While cold storage is the preferred storage mechanism for digital assets, each Trust's assets may be exposed to commingled, or "hot", wallets for certain periods (including when a Trust trades in digital assets outside the Trust's Digital Asset Custodial Account). During these periods, the Trust's digital assets would be more vulnerable than when in cold storage. See "ACTIVITIES OF THE TRUST – Strategy Behind the Shares – "Minimize Counterparty and Credit Risk."

Digital assets in each Digital Asset Custodial Account are not treated as general assets of the Custodian. Rather, the Custodian serves as a fiduciary and custodian on each Trust's behalf, and the digital assets in each Digital Asset Custodial Account are considered fiduciary assets that remain such Trust's property at all times during the term of the Custodian Agreement.

Safekeeping of Digital Assets

The Custodian will use reasonable care to keep in safe custody on behalf of each Trust all digital assets received by the Custodian. All digital assets credited to each Trust's Digital Asset Custodial Account will (i) be held in such Digital Asset Custodial Account at all times, and such Digital Asset Custodial Account will be controlled by the Custodian; (ii) be labeled or otherwise appropriately identified as being held for each Trust; (iii) be held in such Digital Asset Custodial Account on a non-fungible basis; (iv) not be commingled with other digital assets held by the Custodian, whether held for the Custodian's own account or the account of other clients other than the applicable Trust; (v) not without the prior written consent of the applicable Trust be deposited or held with any third-party depositary, custodian, clearance system or wallet; and (vi) for any such Digital Asset Custodial Account maintained by the Custodian on behalf each Trust, the Custodian will use reasonable care to keep the private key or keys secure and will not disclose

such keys to a Trust, the Sponsor or to any other individual or entity except to the extent that any keys are disclosed consistent with a standard of reasonable care and as part of a multiple signature solution that would not result in the applicable Trust or the Sponsor “storing, holding, or maintaining custody or control of” the digital assets “on behalf of others” within the meaning of the New York BitLicense Rule (23 NYCRR Part 200) as in effect as of June 24, 2015 such that it would require the applicable Trust or the Sponsor to become licensed under such law. However, each Trust’s assets may be exposed in commingled accounts (which are online “hot” wallets) for periods of time, when the Trust must trade its digital assets outside the Trust’s Digital Asset Custodial Account. During those periods, the Trust’s digital assets will be more vulnerable than when held in “cold” (offline storage). While the Sponsor will seek to utilize “cold” storage mechanisms when feasible, the Sponsor cannot guarantee that each Trust’s digital assets will be held in “cold” storage at all times.

Insurance

The Custodian has agreed to maintain the types and amounts of insurance commercially reasonable for the Custodial Services it provides under the Custodian Agreement.

Deposits, Withdrawals and Storage; Access to the Digital Asset Custodial Account

The Custodial Services (i) allow digital assets to be deposited from a public blockchain address (or the Trust’s applicable trading account) to each Digital Asset Custodial Account and (ii) allow each Trust or Sponsor to withdraw digital assets from the applicable Digital Asset Custodial Account to a public blockchain address such Trust or the Sponsor controls (each such transaction is a “**Custody Transaction**”).

The Custodian reserves the right to refuse to process or to cancel any pending Custody Transaction as required by law or in response to a subpoena, court order, or other binding government order or to enforce transaction, threshold, and condition limits, in each case as communicated to each Trust and the Sponsor as soon as reasonably practicable where the Custodian is permitted to do so, or if the Custodian reasonably believes that the Custody Transaction may violate or facilitate the violation of an applicable law, regulation or applicable rule of a governmental authority or self-regulatory organization. The Custodian may suspend or restrict each Trust’s and Sponsor’s access to the Custodial Services, and/or deactivate, terminate or cancel the applicable Digital Asset Custodial Account if the Trust or Sponsor has taken certain actions, including any prohibited use or activity as set forth in the Custodian Agreement.

From the time the Custodian has verified the authorization of a complete set of instructions to withdraw digital assets from the Digital Asset Custodial Account by the applicable Trust’s authorized representative(s), the Custodian will have up to forty-eight (48) hours to process and complete such withdrawal. The Custodian will ensure that initiated deposits are processed in a timely manner but the Custodian makes no representations or warranties regarding the amount of time needed to complete processing which is dependent upon many factors outside of the Custodian’s control.

The Custodian makes no other representations or warranties with respect to the availability and/or accessibility of digital assets or the availability and/or accessibility of the applicable Digital Asset Custodial Account or Custodial Services.

Security of the Account

The Custodian securely stores all digital asset private keys held by the Custodian in offline storage. Under the Custodian Agreement, the Custodian has implemented and will maintain a reasonable information security program that includes policies and procedures that are reasonable designed to safeguard the Custodian's electronic systems and each Trust's confidential information from unauthorized access or misuse, among other things.

The Custodian has implemented and will maintain a reasonable information security program that includes policies and procedures that are reasonably designed to safeguard the Custodian's electronic systems and each Trust's and the Sponsor's confidential information from, among other things, unauthorized access or misuse. In the event of a Data Security Event (as defined below), the Custodian will promptly (subject to any legal or regulatory requirements) notify each of Trust and the Sponsor. "**Data Security Event**" is defined as any event whereby (a) an unauthorized person (whether within the Custodian or a third party) acquired or accessed each Trust's confidential information or (b) each Trust's confidential information is otherwise lost, stolen or compromised, in each case while in the possession or control of the Custodian.

Record Keeping

The Custodian will keep timely and accurate records of its services pursuant to the Custodian Agreement, and such records must be retained by the Custodian for the minimum period required by applicable law and in accordance with the Custodian's internal document retention policies

Limitations of Liability

The Custodian will not be liable for any breach of its obligations under the Custodian Agreement that does not result solely from the Custodian's gross negligence, fraud, or willful misconduct. Furthermore, under the Custodian Agreement, the Custodian's liability with respect to any breach of its obligations under the Custodian Agreement is limited to the greater of (i) the aggregate amount of fees paid by the Trust to the Custodian for Custodial Services in the 12-month period prior to the event giving rise to the liability or (ii) the value of the digital assets on deposit in the applicable Digital Asset Custodial Account at the time of the event giving rise to such liability (the value of which shall be calculated at the average U.S. dollar ask price, at the time of such event, of the three largest U.S.-based Digital Asset Exchanges (by trailing 30-day volume) which offer the relevant digital asset. The Custodian is not liable for any lost profits or any incidental, indirect, special, punitive, consequential or similar damages, whether or not the Custodian has been advised of such losses or the Custodian knew or should have known of the possibility of such damages. In the event the Trust suffers a loss, the Custodian's liability to the Trust may be less than the amount of the loss.

Furthermore, the Custodian is not liable for delays, suspension of operations, whether temporary or permanent, failure in performance, or interruption of service which result directly or indirectly

from any cause or condition beyond the reasonable control of the Custodian, including but not limited to, any delay or failure due to any act of God, natural disasters, act of civil or military authorities, act of terrorists, including but not limited to cyber-related terrorist acts, hacking, government restrictions, exchange or market rulings, civil disturbance, war, strike or other labor dispute, fire, interruption in telecommunications or Internet services or network provider services, failure of equipment and/or software, other catastrophe or any other occurrence which is beyond the reasonable control of the Custodian.

The Custodian does not bear any liability, whatsoever, for any damage or interruptions caused by any computer viruses, spyware, scareware, Trojan horses, worms or other malware that may affect Client's computer or other equipment, or any phishing, spoofing or other attack, unless such damage or interruption originated from the Custodian due to its gross negligence, fraud, willful misconduct.

Indemnity

Under the Custodian Agreement, each of the Custodian and each Trust has agreed to indemnify and hold harmless the other party in specified circumstances from each claim and related losses (including reasonable and documented attorneys' fees and any fines, fees or penalties imposed by any regulatory authority) arising out of or related to specified conduct of the Custodian or each Trust, as the case may be.

Fees and Expenses

The Custodian Fee is an annualized fee charged monthly that is a percentage of each Trust's monthly assets under custody. The fee may be adjusted by the Custodian with at least 30 days' advance notice. Any changes to the fee will be agreed to by each Trust and the Sponsor and the Custodian in writing. To the extent the parties cannot reach an agreement regarding any modifications in pricing, either party may elect to terminate the Custodian Agreement pursuant to the terms set forth therein. It is each Trust's and the Sponsor's sole responsibility to determine whether, and to what extent, any taxes apply to any deposits or withdrawals conducted through the Custodial Services.

Termination

The Custodian may terminate the Custodian Agreement at any time by written notice to the Sponsor, effective immediately, or on such later date as may be specified in the notice, in certain circumstances described in the Custodian Agreement.

Either party may terminate the Custodian Agreement (i) upon 30 days' prior written notice to the other party.

Governing Law

The Custodian Agreement is governed by New York law, without regard to principles of conflicts of law.

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES

You should carefully review the section entitled Supplemental Tax Disclosure, if any, in the Supplement applicable to a Trust in which you are considering an investment. If the discussion in that section of a Supplement is inconsistent with the discussion below, the tax consequences described in the Supplement will apply to an investment in Shares of the Trust covered by that Supplement.

The following discussion addresses the material U.S. federal income tax consequences of the ownership of Shares of a Trust. References to “the Trust” and “Shares” in this discussion refer separately to each Trust and its Shares, except where otherwise specified, and references to “Relevant Digital Currency” refer to the digital currency held by the relevant Trust. This discussion does not describe all of the tax consequences that may be relevant to a beneficial owner of Shares in light of the beneficial owner’s particular circumstances, including tax consequences applicable to beneficial owners subject to special rules, such as:

- financial institutions;
- dealers in securities or commodities;
- traders in securities or commodities that have elected to apply a mark-to-market method of tax accounting in respect thereof;
- persons holding Shares as part of a hedge, “straddle,” integrated transaction or similar transaction;
- U.S. Holders (as defined below) whose functional currency is not the U.S. dollar;
- entities or arrangements classified as partnerships for U.S. federal income tax purposes;
- real estate investment trusts;
- regulated investment companies; and
- tax-exempt entities, including individual retirement accounts.

This discussion applies only to Shares that are held as capital assets and does not address alternative minimum tax consequences or consequences of the Medicare contribution tax on net investment income.

If an entity or arrangement that is classified as a partnership for U.S. federal income tax purposes holds Shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding Shares and partners in those partnerships are urged to consult their tax advisers about the particular U.S. federal income tax consequences of owning Shares.

This discussion is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations as of the date hereof, changes to any of which subsequent to the date hereof may affect the tax consequences described herein. For the avoidance of doubt, this summary does not discuss any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction. Prospective investors are urged to consult their tax advisers about the application of the U.S. federal income tax laws to their particular situations, as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

Tax Treatment of the Trust

The Sponsor intends to take the position that the Trust is properly treated as a grantor trust for U.S. federal income tax purposes. Assuming that the Trust is a grantor trust, the Trust will not be subject to U.S. federal income tax. Rather, if the Trust is a grantor trust, each beneficial owner of Shares will be treated as directly owning its *pro rata* share of the Trust's assets and a *pro rata* portion of the Trust's income, gain, losses and deductions will "flow through" to each beneficial owner of Shares.

If the IRS were to disagree with, and successfully challenge, certain positions a Trust may take with respect to Incidental Rights and IR Virtual Currency, the Trust might not qualify as a grantor trust. In addition, the Sponsor plans to deliver to the Custodian, on behalf of the Trust, a Prospective Abandonment Notice stating that the Trust is irrevocably abandoning, effective immediately prior to each Creation Time of Shares of the Trust, all Incidental Rights and IR Virtual Currency to which the Trust would otherwise be entitled as of such time and with respect to which it has not taken any Affirmative Action at or prior to such time. The Trust may also abandon Incidental Rights and IR Virtual Currency through Affirmative Actions. There can be no complete assurance that these abandonments will be treated as effective for U.S. federal income tax purposes. If the Trust were treated as owning any asset other than the Relevant Digital Currency as of any date on which it creates Shares, it would likely cease to qualify as a grantor trust for U.S. federal income tax purposes.

Because of the evolving nature of digital currencies, it is not possible to predict potential future developments that may arise with respect to digital currencies, including forks, airdrops and other similar occurrences. Assuming that the Trust is currently a grantor trust for U.S. federal income tax purposes, certain future developments could render it impossible, or impracticable, for the Trust to continue to be treated as a grantor trust for such purposes.

If the Trust is not properly classified as a grantor trust, the Trust might be classified as a partnership for U.S. federal income tax purposes. However, due to the uncertain treatment of digital currency for U.S. federal income tax purposes (as discussed below in "Certain U.S. Federal Income Tax Consequences—Uncertainty Regarding the U.S. Federal Income Tax Treatment of Digital Currency"), there can be no assurance in this regard. If the Trust were classified as a partnership for U.S. federal income tax purposes, the tax consequences of owning Shares generally would not be materially different from the tax consequences described herein, although there might be certain differences, including with respect to timing of the recognition of taxable income or loss. In addition, tax information reports provided to beneficial owners of Shares would be made in a different form.

Additionally, if the Trust is reclassified as a partnership instead of a grantor trust, audit rules applicable to partnerships will apply to it. Because the Trust will not have filed partnership returns, it will not have nominated a “partnership representative” to represent it in tax proceedings with the IRS. Under the partnership audit rules the IRS may choose a person to act as partnership representative, and there is no guarantee that the IRS will nominate the Sponsor or the Trustee.

If the Trust is not classified as a grantor trust and is able to be traded on an exchange or the equivalent thereof, the Trust may be a “publicly traded partnership.” Partnerships that have income that is comprised at least 90% of certain types of passive “qualifying income” (such as interest, dividends, real property rents) are not treated as publicly traded partnerships. The law is unclear as to whether income from virtual currency is qualifying income for this purpose. A publicly traded partnership is taxable as a corporation.

Accordingly, if the Trust were not classified as either a grantor trust or a partnership for U.S. federal income tax purposes, it would be classified as a corporation for such purposes. In that event, the Trust would be subject to entity-level U.S. federal income tax (currently at the rate of 21%) on its net taxable income and certain distributions made by the Trust to its Shareholders would be treated as taxable dividends to the extent of the Trust’s current and accumulated earnings and profits. Any such dividend distributed to a beneficial owner of Shares of the Trust that is a non-U.S. person for U.S. federal income tax purposes would be subject to U.S. federal withholding tax at a rate of 30% (or such lower rate as provided in an applicable tax treaty).

The remainder of this discussion is based on the assumption that the Trust will be treated as a grantor trust for U.S. federal income tax purposes.

Uncertainty Regarding the U.S. Federal Income Tax Treatment of Digital Currency

Each beneficial owner of Shares will be treated for U.S. federal income tax purposes as the owner of an undivided interest in the Relevant Digital Currency (and, if applicable, any Incidental Rights and/or IR Virtual Currency) held in the Trust. Due to the new and evolving nature of digital currencies and the absence of comprehensive guidance with respect to digital currencies, many significant aspects of the U.S. federal income tax treatment of digital currency are uncertain.

In 2014, the Internal Revenue Service (“*IRS*”) released a notice (the “*Notice*”) discussing certain aspects of the treatment of “convertible virtual currency” (that is, digital currency that has an equivalent value in fiat currency or that acts as a substitute for fiat currency) for U.S. federal income tax purposes. In the Notice, the IRS stated that, for U.S. federal income tax purposes, such digital currency (i) is “property,” (ii) is not “currency” for purposes of the provisions of the Code relating to foreign currency gain or loss and (iii) may be held as a capital asset. The IRS released a revenue ruling and a set of “Frequently Asked Questions” (the “*Ruling & FAQs*”) that provide some additional guidance, including guidance to the effect that, under certain circumstances, hard forks of digital currencies are taxable events giving rise to ordinary income and guidance with respect to the determination of the tax basis of digital currency. However, the Notice and the Ruling & FAQs do not address other significant aspects of the U.S. federal income tax treatment of digital currencies. Moreover, although the Ruling & FAQs address the treatment of hard forks, there continues to be significant uncertainty with respect to the timing and amount of the income

inclusions. While the Ruling & FAQs do not address most situations in which airdrops occur, it is clear from the reasoning of the Ruling & FAQs that the IRS generally would treat an airdrop as a taxable event giving rise to ordinary income.

There can be no assurance that the IRS will not alter its position with respect to digital currencies in the future or that a court would uphold the treatment set forth in the Notice and the Ruling & FAQs. It is also unclear what additional guidance on the treatment of digital currencies for U.S. federal income tax purposes may be issued in the future. Any such alteration of the current IRS positions or additional guidance could result in adverse tax consequences for Shareholders and could have an adverse effect on the prices of digital currencies, including the price of the Relevant Digital Currency in the Digital Asset Exchange Market, and therefore could have an adverse effect on the value of Shares. Future developments that may arise with respect to digital currencies may increase the uncertainty with respect to the treatment of digital currencies for U.S. federal income tax purposes. For example, the Notice addresses only digital currency that is “convertible virtual currency,” and it is conceivable that, as a result of a fork, airdrop or similar occurrence, a Trust will hold certain types of digital currency that are not within the scope of the Notice.

The remainder of this discussion assumes that digital currency, and any Incidental Rights or IR Virtual Currency that the Trust may hold, is properly treated for U.S. federal income tax purposes as property that may be held as a capital asset and that is not currency for purposes of the provisions of the Code relating to foreign currency gain and loss.

Prospective investors are urged to consult their tax advisers regarding the tax consequences of an investment in the Trust and in the digital currencies in general, including, in the case of prospective investors that are generally exempt from U.S. federal income taxation, whether such investors may recognize “unrelated business taxable income” (“*UBTI*”) as a consequence of a fork, airdrop or similar occurrence.

Incidental Rights and IR Virtual Currency

It is possible that, in the future, the Trust will hold Incidental Rights and/or IR Virtual Currency that it receives in connection with its investment in the Relevant Digital Currency. The uncertainties with respect to the treatment of digital currency for U.S. federal income tax purposes, described above, apply to Incidental Rights and IR Virtual Currency, as well as to the Relevant Digital Currency. As described above, the Notice addressed only digital currency that is “convertible virtual currency,” defined as digital currency that has an equivalent value in fiat currency or that acts as a substitute for fiat currency. It is conceivable that certain IR Virtual Currency the Trust may receive in the future would not be within the scope of the Notice.

In general, it is expected that the Trust would receive Incidental Rights and IR Virtual Currency as a consequence of a fork, an airdrop or a similar occurrence related to its ownership of the Relevant Digital Currency. As described above, the Ruling & FAQs include guidance to the effect that, under certain circumstances, forks (and, presumably, airdrops) of digital currencies are taxable events giving rise to ordinary income, but there continues to be uncertainty with respect to the timing and amount of the income inclusions. The Trust’s receipt of Incidental Rights or IR Virtual Currency may give rise to other tax issues. The possibility that the Trust will receive

Incidental Rights and/or IR Virtual Currency thus increases the uncertainties and risks with respect to the U.S. federal income tax consequences of an investment in Shares.

The Trust may distribute Incidental Rights or IR Virtual Currency, or cash from the sale of Incidental Rights or IR Virtual Currency, to the Shareholders. Alternatively, the Trust may form a liquidating trust to which it contributes Incidental Rights or IR Virtual Currency and distribute interests in the liquidating trust to the Shareholders. Any such distribution will not be a taxable event for a U.S. Holder (as defined below). A U.S. Holder's tax basis in the Incidental Rights or IR Virtual Currency distributed, whether directly or through the medium of a liquidating trust, will be the same as the U.S. Holder's tax basis in the distributed assets immediately prior to the distribution, and the U.S. Holder's tax basis in its *pro rata* share of the Trust's remaining assets will not include the amount of such basis. Immediately after any such distribution, the U.S. Holder's holding period with respect to the distributed Incidental Rights or IR Virtual Currency will be the same as the U.S. Holder's holding period with respect to the distributed assets immediately prior to the distribution. A subsequent sale of the distributed Incidental Rights or IR Virtual Currency will generally be a taxable event for a U.S. Holder.

For simplicity of presentation, the remainder of this discussion assumes that the Trust will hold only the Relevant Digital Currency. However, the principles set forth in the discussion below apply to all of the assets that the Trust may hold at any time, including Incidental Rights and IR Virtual Currency, as well as the Relevant Digital Currency. Without limiting the generality of the foregoing, each beneficial owner of Shares generally will be treated for U.S. federal income tax purposes as owning an undivided interest in any Incidental Rights and/or IR Virtual Currency held in the Trust, and any transfers or sales of Incidental Rights and/or IR Virtual Currency by the Trust (other than distributions by the Trust, as described in the preceding paragraph) will be taxable events to Shareholders with respect to which Shareholders will generally recognize gain or loss in a manner similar to the recognition of gain or loss on a taxable disposition of the Relevant Digital Currency, as described below.

Tax Consequences to U.S. Holders

As used herein, the term "U.S. Holder" means a beneficial owner of a Share for U.S. federal income tax purposes that is:

- an individual who is a citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

Except as specifically noted, the discussion below assumes that each U.S. Holder will acquire all of its Shares on the same date for the same price per Share and either solely for cash or solely for

the Relevant Digital Currency that was originally acquired by the U.S. Holder for cash on the same date.

For U.S. federal income tax purposes, each U.S. Holder will be treated as owning an undivided interest in the Relevant Digital Currency held in the Trust and will be treated as directly realizing its *pro rata* share of the Trust's income, gains, losses and deductions. When a U.S. Holder purchases Shares solely for cash, (i) the U.S. Holder's initial tax basis in its *pro rata* share of the Relevant Digital Currency held in the Trust will be equal to the amount paid for the Shares and (ii) the U.S. Holder's holding period for its *pro rata* share of such Relevant Digital Currency will begin on the date of such purchase. When a U.S. Holder acquires Shares in exchange for the Relevant Digital Currency, (i) the U.S. Holder's initial tax basis in its *pro rata* share of the Relevant Digital Currency held in the Trust will be equal to the U.S. Holder's tax basis in the Relevant Digital Currency that the U.S. Holder transferred to the Trust and (ii) the U.S. Holder's holding period for its *pro rata* share of such Relevant Digital Currency generally will include the period during which the U.S. Holder held the Relevant Digital Currency that the U.S. Holder transferred to the Trust. The Ruling & FAQs confirm that if a taxpayer acquires tokens of a digital currency at different times and for different prices, the taxpayer has a separate tax basis in each lot of such tokens. Under the Ruling & FAQs, if a U.S. Holder that owns more than one lot of the Relevant Digital Currency contributes a portion of its Relevant Digital Currency to the Trust in exchange for Shares, the U.S. Holder may designate the lot(s) from which such contribution will be made, provided that the U.S. Holder is able to identify specifically which units of the Relevant Digital Currency it is contributing and to substantiate its tax basis in those units of the Relevant Digital Currency. In general, if a U.S. Holder acquires Shares (i) solely for cash at different prices, (ii) partly for cash and partly in exchange for a contribution of Relevant Digital Currency or (iii) in exchange for a contribution of Relevant Digital Currency with different tax bases, the U.S. Holder's share of the Trust's Relevant Digital Currency will consist of separate lots with separate tax bases. In addition, in this situation, the U.S. Holder's holding period for the separate lots may be different. In addition, any IR Virtual Currency that the Trust acquires in a hard fork or airdrop that is treated as a taxable event will constitute a separate lot with a separate tax basis and holding period.

When the Trust transfers the Relevant Digital Currency to the Sponsor as payment of the Sponsor's Fee, or sells the Relevant Digital Currency to fund payment of any Additional Trust Expenses, each U.S. Holder will be treated as having sold its *pro rata* share of those units of the Relevant Digital Currency for their fair market value at that time (which, in the case of Relevant Digital Currency sold by the Trust, generally will be equal to the cash proceeds received by the Trust in respect thereof). As a result, each U.S. Holder will recognize gain or loss in an amount equal to the difference between (i) the fair market value of the U.S. Holder's *pro rata* share of the Relevant Digital Currency transferred and (ii) the U.S. Holder's tax basis for its *pro rata* share of the Relevant Digital Currency transferred. Any such gain or loss will be short-term capital gain or loss if the U.S. Holder's holding period for its *pro rata* share of the Relevant Digital Currency is one year or less and long-term capital gain or loss if the U.S. Holder's holding period for its *pro rata* share of the Relevant Digital Currency is more than one year. A U.S. Holder's tax basis in its *pro rata* share of any Relevant Digital Currency transferred by the Trust generally will be determined by multiplying the tax basis of the U.S. Holder's *pro rata* share of all of the Relevant Digital Currency held in the Trust immediately prior to the transfer by a fraction the numerator of which

is the amount of the Relevant Digital Currency transferred and the denominator of which is the total amount of the Relevant Digital Currency held in the Trust immediately prior to the transfer. Immediately after the transfer, the U.S. Holder's tax basis in its *pro rata* share of the Relevant Digital Currency remaining in the Trust will be equal to the tax basis of its *pro rata* share of the Relevant Digital Currency held in the Trust immediately prior to the transfer, less the portion of that tax basis allocable to its *pro rata* share of the Relevant Digital Currency transferred.

As noted above, the IRS has taken the position in the Ruling & FAQs that, under certain circumstances, a hard fork of a digital currency constitutes a taxable event giving rise to ordinary income, and it is clear from the reasoning of the Ruling & FAQs that the IRS generally would treat an airdrop as a taxable event giving rise to ordinary income. Under the Ruling & FAQs, a U.S. Holder will have a basis in any IR Virtual Currency received in a fork or airdrop equal to the amount of income the U.S. Holder recognizes as a result of such fork or airdrop and the U.S. Holder's holding period for such IR Virtual Currency will begin as of the time it recognizes such income.

U.S. Holders' *pro rata* shares of the expenses incurred by the Trust will be treated as "miscellaneous itemized deductions" for U.S. federal income tax purposes. As a result, for taxable years beginning after December 31, 2017 and before January 1, 2026, a non-corporate U.S. Holder's share of these expenses will not be deductible for U.S. federal income tax purposes. For taxable years beginning on or after January 1, 2026, a non-corporate U.S. Holder's share of these expenses will be deductible for regular U.S. federal income tax purposes only to the extent that the U.S. Holder's share of the expenses, when combined with other "miscellaneous itemized deductions," exceeds 2% of the U.S. Holder's adjusted gross income for the particular year, will not be deductible for U.S. federal alternative minimum tax purposes and will be subject to certain other limitations on deductibility.

On a sale or other disposition of Shares, a U.S. Holder will be treated as having sold the Relevant Digital Currency underlying such Shares. Accordingly, the U.S. Holder generally will recognize gain or loss in an amount equal to the difference between (i) the amount realized on the sale of the Shares and (ii) the portion of the U.S. Holder's tax basis in its *pro rata* share of the Relevant Digital Currency held in the Trust that is attributable to the Shares that were sold or otherwise subject to a disposition. Such tax basis generally will be determined by multiplying the tax basis of the U.S. Holder's *pro rata* share of all of the Relevant Digital Currency held in the Trust immediately prior to such sale or other disposition by a fraction the numerator of which is the number of Shares disposed of and the denominator of which is the total number of Shares held by such U.S. Holder immediately prior to such sale or other disposition (such fraction, expressed as a percentage, the "Share Percentage"). If the U.S. Holder's share of the Trust's Relevant Digital Currency consists of separate lots with separate tax bases and/or holding periods, the U.S. Holder will be treated as having sold the Share Percentage of each such lot. Gain or loss recognized by a U.S. Holder on a sale or other disposition of Shares will generally be short-term capital gain or loss if the U.S. Holder's holding period for the Relevant Digital Currency underlying such Shares is one year or less and long-term capital gain or loss if the U.S. Holder's holding period for the Relevant Digital Currency underlying such Shares is more than one year. The deductibility of capital losses is subject to significant limitations.

As explained above in “Description of the Trust,” the Trust has not obtained authorization from the SEC to operate a redemption program. If such authorization is obtained and the Trust redeems all or portion of a U.S. Holder’s Shares in exchange for the underlying Relevant Digital Currency represented by the redeemed Shares, such redemption will not be a taxable event to the U.S. Holder. The U.S. Holder’s tax basis in the Relevant Digital Currency received in the redemption will be the same as the U.S. Holder’s tax basis for the portion of its *pro rata* share of the Relevant Digital Currency held in the Trust immediately prior to the redemption that is attributable to the Shares redeemed, determined as described above. The U.S. Holder’s holding period with respect to the Relevant Digital Currency received will include the period during which the U.S. Holder held the Shares so redeemed. A subsequent sale of the Relevant Digital Currency received in such redemption will generally be a taxable event.

After any sale, redemption or other disposition of fewer than all of a U.S. Holder’s Shares, the U.S. Holder’s tax basis in its *pro rata* share of the Relevant Digital Currency held in the Trust immediately after the disposition will equal the tax basis in its *pro rata* share of the total amount of the Relevant Digital Currency held in the Trust immediately prior to the disposition, less the portion of that tax basis that is taken into account in determining the amount of gain or loss recognized by the U.S. Holder on the disposition (or, in the case of a redemption, that is treated as the tax basis of the Relevant Digital Currency received by the U.S. Holder in the redemption).

Any brokerage or other transaction fee incurred by a U.S. Holder in purchasing Shares generally will be added to the U.S. Holder’s tax basis in the underlying assets of the Trust. Similarly, any brokerage fee or other transaction fee incurred by a U.S. Holder in selling Shares generally will reduce the amount realized by the U.S. Holder with respect to the sale.

In the absence of guidance to the contrary, it is possible that any income recognized by a U.S. tax-exempt investor as a consequence of a hard fork, airdrop or similar occurrence would constitute UBTI. A tax-exempt investor should consult its tax advisor regarding whether such investor may recognize some UBTI as a consequence of an investment in Shares.

Tax Consequences to Non-U.S. Holders

As used herein, the term “non-U.S. Holder” means a beneficial owner of a Share for U.S. federal income tax purposes that is not a U.S. Holder. The term “non-U.S. Holder” does not include (i) a nonresident alien individual who is present in the United States for 183 days or more in a taxable year, (ii) a former U.S. citizen or U.S. resident or an entity that has expatriated from the United States; (iii) a person whose income in respect of Shares is effectively connected with the conduct of a trade or business in the United States; or (iv) an entity that is treated as a partnership for U.S. federal income tax purposes. Prospective investors described in the preceding sentence should consult their tax advisers regarding the U.S. federal income tax consequences of owning Shares.

A non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax with respect to its share of any gain recognized on the Trust’s transfer of Relevant Digital Currency in payment of the Sponsor’s Fee or any Additional Trust Expense or on the Trust’s sale or other disposition of Relevant Digital Currency. In addition, assuming that the Trust holds no asset other than the Relevant Digital Currency, a non-U.S. Holder generally will not be subject to U.S. federal

income or withholding tax with respect to any gain it recognizes on a sale, redemption or other disposition of Shares. A non-U.S. Holder also will generally not be subject to U.S. federal income or withholding tax with respect to any distribution received from the Trust, whether in cash or in kind.

Provided that it does not constitute income that is treated as “effectively connected” with the conduct of a trade or business in the United States, U.S.-source “fixed or determinable annual or periodical” (“*FDAP*”) income received, or treated as received, by a non-U.S. Holder will generally be subject to U.S. withholding tax at the rate of 30% (subject to possible reduction or elimination pursuant to an applicable tax treaty and to statutory exemptions such as the portfolio interest exemption). Although there is no guidance on point, it is likely that any ordinary income recognized by a non-U.S. Holder as a result of a fork, airdrop or similar occurrence would constitute FDAP income. It is unclear, however, whether any such FDAP income would be properly treated as U.S.-source or foreign- source FDAP income. Non-U.S. investors in the Trust should assume that, in the absence of guidance, a withholding agent (including the Sponsor) is likely to withhold 30% from a non-U.S. investor’s *pro rata* share of any such income, including by deducting such withheld amounts from proceeds that such non-U.S. investor would otherwise be entitled to receive in connection with a distribution of Incidental Rights, IR Virtual Currency or proceeds from the disposition of Incidental Rights or IR Virtual Currency. A non-U.S. Holder that is a resident of a country that maintains an income tax treaty with the United States may be eligible to claim the benefits of that treaty to reduce or eliminate, or to obtain a partial or full refund of, the 30% U.S. withholding tax on its share of any such income, but only if the non-U.S. Holder’s home country treats the Trust as “fiscally transparent,” as defined in applicable Treasury regulations.

Although the nature of the Incidental Rights and IR Virtual Currency that the Trust may hold in the future is uncertain, it is unlikely that any such asset would give rise to income that is treated as “effectively connected” with the conduct of a trade or business in the United States or that any income derived by a non-U.S. Holder from any such asset would otherwise be subject to U.S. income or withholding tax, except as discussed above in connection with the fork, airdrop or similar occurrence giving rise to Incidental Rights or IR Virtual Currency. There can, however, be no complete assurance in this regard.

In order to prevent the possible imposition of U.S. “backup” withholding and (if applicable) to qualify for a reduced rate of withholding tax at source under a treaty, a non-U.S. Holder must comply with certain certification requirements (generally, by delivering a properly executed IRS Form W-8BEN or W-8BEN-E to the relevant withholding agent).

U.S. Information Reporting and Backup Withholding

The Trust or the appropriate broker will file certain information returns with the IRS and provide Shareholders with information regarding their annual income (if any) and expenses with respect to the Trust in accordance with applicable Treasury regulations. A U.S. Holder will generally be subject to information reporting requirements and backup withholding unless the U.S. Holder is a corporation or other exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup

withholding. In order to avoid the information reporting and backup withholding requirements, a non-U.S. Holder may have to comply with certification procedures to establish that it is not a U.S. person. The amount of any backup withholding will be allowed as a credit against the Shareholder's U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information is furnished to the IRS.

ERISA AND RELATED CONSIDERATIONS

General

The following section sets forth certain consequences under ERISA and the Code which a fiduciary of an "employee benefit plan" as defined in and subject to the fiduciary responsibility provisions of ERISA, or of a "plan" as defined in and subject to Section 4975 of the Code, who has investment discretion should consider before deciding to invest the plan's assets in the Trust (such "employee benefit plans" and "plans" being referred to herein as "*Plans*," and such fiduciaries with investment discretion being referred to herein as "*Plan Fiduciaries*"). The following summary is not intended to be comprehensive, but only to address certain questions under ERISA and the Code that may be raised by the Plan Fiduciary's own counsel.

In general, the terms "employee benefit plan" as defined in ERISA and "plan" as defined in Section 4975 of the Code together refer to any plan or account of various types which provides retirement benefits or welfare benefits to an individual or to an employer's employees and their beneficiaries. Such plans and accounts include, but are not limited to, corporate pension and profit sharing plans, "simplified employee pension plans," "Keogh" plans for self-employed individuals (including partners), individual retirement accounts described in Section 408 of the Code and medical benefit plans.

Each Plan Fiduciary must give appropriate consideration to the facts and circumstances that are relevant to an investment in a Trust, including the role an investment in such Trust plays in the Plan's investment portfolio. Each Plan Fiduciary, before deciding to invest in a Trust, must be satisfied that investment in such Trust is a prudent investment for the Plan, that the investments of the Plan, including the investment in such Trust, are diversified so as to minimize the risks of large losses and that an investment in such Trust complies with the documents of the Plan and related trust and that an investment in such Trust does not give rise to a transaction prohibited by Section 406 of ERISA or Section 4975 of the Code. In general, Plans that are governmental plans, certain church plans and foreign plans are not subject to the fiduciary provisions of ERISA but may be subject to similar provisions under similar laws. The fiduciary of each prospective Plan investor will be required to represent and warrant that investment in the Trusts is permissible, complies in all respects with applicable law, and has been duly authorized.

Plan Fiduciaries should also take into account the fact that, while the Sponsor, Trustee and related parties may have certain duties to the Trust as provided in the Trust Agreements and subject to applicable law, no such party will have any direct fiduciary relationship with or duty to any investor, either with respect to its investment in Shares or with respect to the management and investment of the assets of the Trusts. Similarly, it is intended that the assets of the Trusts will

not be considered “Plan Assets” (as described below) of any Plan or be subject to any fiduciary or investment restrictions that may apply to such Plans.

Plan Fiduciaries may be required to determine and report annually the fair market value of the assets of the Plan. Since it is expected that there will not be any public market for the Shares, there may not be an independent basis for the Plan Fiduciary to determine the fair market value of such Shares.

EACH PLAN FIDUCIARY CONSIDERING ACQUIRING SHARES MUST CONSULT ITS OWN LEGAL AND TAX ADVISERS BEFORE DOING SO.

Restrictions on Investments by Benefit Plan Investors

ERISA and regulations issued thereunder contain rules for determining when an investment by a Plan in an entity will result in the underlying assets of the entity being deemed assets of the Plan for purposes of ERISA and Section 4975 of the Code (i.e., “plan assets”). Those rules provide that assets of an entity will not be plan assets of a Plan that purchases an interest therein if the investment in the entity by all “benefit plan investors” is not “significant” or certain other exceptions apply. The term “benefit plan investors” includes all Plans (i.e., all “employee benefit plans” as defined in and subject to the fiduciary responsibility provisions of ERISA and all “plans” as defined in and subject to Section 4975 of the Code) and all entities that hold “plan assets” (each, a “Plan Assets Entity”) due to investments made in such entities by already described benefit plan investors. ERISA provides that a Plan Assets Entity is considered to hold plan assets only to the extent of the percentage of the Plan Assets Entity’s equity interests held by benefit plan investors. In addition, all or part of an investment made by an insurance company using assets from its general account may be treated as a benefit plan investor. Investments by benefit plan investors will be deemed not significant if benefit plan investors own, in the aggregate, less than 25% of the total value of each class of equity interests of the entity (determined by not including the investments of persons with discretionary authority or control over the assets of such entity, of any person who provides investment advice for a fee (direct or indirect) with respect to such assets, and “affiliates” (as defined in the regulations issued under ERISA) of such persons; *provided, however*, that under no circumstances are investments by benefit plan investors excluded from such calculation) (the “**25% Test**”).

In order to avoid causing assets of a Trust to be “plan assets,” the Sponsor intends to restrict the aggregate investment by “benefit plan investors” to under 25% of the total value of the Shares of such Trust (not including the investments of the Trustee, the Sponsor, the Distributors, any other person who provides investment advice for a fee (direct or indirect) with respect to the assets of such Trust, any other person who has discretionary authority or control over the assets of such Trust, and any entity (other than a benefit plan investor) that is directly or indirectly through one or more intermediaries controlling, controlled by or under common control with any of such entities (including a partnership or other entity for which the Sponsor is the general partner, managing member, investment adviser or provides investment advice), and each of the principals, officers, and employees of any of the foregoing entities who has the power to exercise a controlling influence over the management or policies of such entity or such Trust).

Furthermore, because the 25% Test is ongoing, the Sponsor may restrict additional investments by benefit plan investors, and may also require that existing benefit plan investors redeem from a Trust in the event that other investors redeem their Shares. If rejection of subscriptions or such compulsory redemptions are necessary, as determined by the Sponsor, to avoid causing the assets of such Trust to be “plan assets,” the Sponsor will effect such rejections or redemptions of such Trust in such manner as the Sponsor, in its sole discretion, determines.

The Sponsor shall use reasonable best efforts to conduct the affairs and operations of the Trusts, so that their assets do not constitute Plan Assets. For this purpose, the Sponsor has been provided broad authority. However, there can be no assurance that, notwithstanding the reasonable best efforts of the Sponsor, the Trusts will satisfy the 25% Test or that underlying assets of the Trusts will not be deemed to include Plan Assets.

Ineligible Purchasers

In general, neither of the Trusts’ Shares may be purchased with the assets of a Plan, if the Trustee, the Sponsor, the Distributors, any placement agent, any of their respective affiliates or any of their respective employees either: (i) has investment discretion with respect to the investment of such Plan assets; (ii) has authority or responsibility to give or regularly gives investment advice with respect to such Plan assets, for a fee, and pursuant to an agreement or understanding that such advice will serve as a primary basis for investment decisions with respect to such Plan assets and that such advice will be based on the particular investment needs of the Plan; or (iii) is an employer maintaining or contributing to such Plan. A party that is described in clause (i) through (iii) of the preceding sentence is a fiduciary under ERISA and the Code with respect to the Plan, and any such purchase might result in a “prohibited transaction” under ERISA and the Code.

Except as otherwise set forth, the foregoing statements regarding the consequences under ERISA and the Code of an investment in each Trust are based on the provisions of the Code and ERISA as currently in effect, and the existing administrative and judicial interpretations thereunder. No assurance can be given that administrative, judicial or legislative changes will not occur that may make the foregoing statements incorrect or incomplete.

ACCEPTANCE OF SUBSCRIPTIONS ON BEHALF OF PLANS IS IN NO RESPECT A REPRESENTATION BY THE SPONSOR OR ANY OTHER PARTY RELATED TO A TRUST THAT AN INVESTMENT IN SUCH TRUST MEETS THE RELEVANT LEGAL REQUIREMENTS WITH RESPECT TO INVESTMENTS BY ANY PARTICULAR PLAN OR THAT THIS INVESTMENT IS APPROPRIATE FOR ANY PARTICULAR PLAN. THE PERSON WITH INVESTMENT DISCRETION SHOULD CONSULT WITH HIS OR HER ATTORNEY AND FINANCIAL ADVISERS AS TO THE PROPRIETY OF AN INVESTMENT IN THE TRUST, IN LIGHT OF THE CIRCUMSTANCES OF THE PARTICULAR PLAN.

PLAN OF DISTRIBUTION

The Shares will be offered by the Trusts and the Sponsor and its officers, in reliance upon the exemption from broker registration contained in Rule 3a4-1 of the Securities Exchange Act of 1934. Currently, the Trusts do not expect to use underwriters, finders or other intermediaries to

offer or sell the Shares, but each Trust may choose to do so, and in any such case pay the fees of such intermediaries itself or pass some or all of such fees on to purchasers (in which case such Trusts will make advanced disclosure of such fee arrangements to such purchasers). The offering expenses, including legal and other charges (other than distribution fees to be paid by investors), will be paid by the Sponsor.

Because the Shares may be offered, and new Shares can be created and issued, on a continuous basis throughout the duration of this offering, a “distribution,” as such term is used in the Securities Act, may be continuously occurring during the duration of this offering. Although the Shares may be offered continuously, the Sponsor may, in its discretion, issue Shares only periodically. The Sponsor may allow orders to accumulate between issuances.

The Shares are being offered and sold in reliance upon the exemption from the registration requirements of the U.S. federal securities laws that is set forth in Rule 506 of Regulation D under the Securities Act. Specifically, they are being offered and sold in reliance on Rule 506(c) under the Securities Act solely to accredited investors as defined in Rule 501 under the Securities Act. Under Rule 506, offers and sales may be made solely to investors that qualify as “accredited investors” as defined in Rule 501 under the Securities Act. Prospective investors will be required to represent and warrant in their subscription documents as to their accredited investor status.

As part of any purchase order, an investor will be required to fill out a Subscription Agreement, providing representations in writing as to such investor’s status as an accredited investor within the meaning of Rule 501 of Regulation D under the Securities Act. In addition, each investor will also be required to furnish documentation to confirm investor’s status as an accredited investor as required by the investor questionnaire included in the Subscription Agreement. Each such person will be required to make usual and customary representations made in private placements undertaken pursuant to Regulation D under the Securities Act, including: (i) that they have had an opportunity and a reasonable time prior to the purchase date to ask questions and receive answers concerning the terms and conditions of the offering of the Shares and to obtain any additional information which the Sponsor possesses or can acquire without unreasonable effort or expense that is necessary to verify the accuracy of the information in the Private Placement Memorandum; and (ii) that they are purchasing the securities for investment purposes only and not with a view to resale.

The Shares will be restricted securities under U.S. federal securities laws, and therefore, upon issuance, they will not be freely tradeable for a minimum period of one year under current law, with the prior approval of the Sponsor.

Although the Shares will be offered continuously in this offering, each Trust reserves the right to periodically discontinue the offering and thereafter restart it. Each Trust expects to continue conducting offerings of the Shares, including in compliance with Rule 506(c) of Regulation D under the Securities Act for the foreseeable future.

Each Trust has agreed to indemnify certain parties against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that such parties may be required to make in respect of those liabilities. Each Trust has agreed to reimburse such parties, solely from and to

the extent of such Trust's assets, for indemnification and contribution amounts due from the Sponsor in respect of such liabilities to the extent the Sponsor has not paid such amounts when due.

LEGAL AND ACCOUNTING MATTERS

Royer Cooper Cohen Braunfeld LLC ("**RCCB**") served as legal counsel to the Sponsor in connection with the organization of the Trusts and the initial preparation of this Base Memorandum and each Trust Supplement. RCCB may continue to serve in such capacity in the future, but has not assumed any obligation to update this Base Memorandum or either Trust Supplement. RCCB may also advise the Sponsor in matters relating to the operation of the Trusts on an ongoing basis and in other unrelated matters. RCCB does not represent and has not represented the prospective investors of either of the Trusts in the course of the organization of each Trust, the negotiation of each Trust's business terms, the offering of the Shares of each Trust or in respect of each Trust's ongoing operations. Prospective investors acknowledge that, as they have had no representation in the organization process, none of the terms of either Trust or the Shares of such Trust have been negotiated at arm's length.

RCCB's engagement by the Sponsor in respect of the Trusts is limited to the specific matters as to which it is consulted by the Sponsor and, therefore, there may exist facts or circumstances that have a bearing on one or more of the Trusts' (or the Sponsor's) financial condition or operations with respect to which RCCB has not been consulted and for which RCCB expressly disclaims any responsibility. More specifically, RCCB does not undertake to monitor the compliance of the Sponsor with the investment objectives, valuation procedures and other guidelines for each Trust set forth herein, nor does it monitor compliance with applicable laws. In preparing this Private Placement Memorandum, RCCB relied upon information furnished to it by the Trusts and/or the Sponsor, and did not investigate or verify the accuracy and completeness of information set forth herein concerning the Trusts, the Sponsor, the Trusts' Service Providers and their affiliates and personnel.

Marcum LLP serves as the independent certified public accountants of each Trust.

GLOSSARY OF DEFINED TERMS

Capitalized terms used in this Private Placement Memorandum, but not defined below, herein have the meanings given to them in the relevant Trust Agreement, a copy of which is provided in connection with the relevant Trust Supplement. Each of the following terms has the meaning assigned to it below:

"Actual Exchange Rate" — With respect to any particular asset, at any time, the price per single unit of such asset (determined net of any associated fees) at which the relevant Trust is able to sell such asset for U.S. dollars (or other applicable fiat currency) at such time to enable such Trust to timely pay any Additional Trust Expenses, through use of the Sponsor's commercially reasonable efforts to obtain the highest such price.

"Additional Trust Expenses" — Together, any expenses incurred by the relevant Trust in addition to the Sponsor's Fee that are not Sponsor-paid Expenses, including, but not limited to, (i) taxes

and governmental charges, (ii) expenses and costs of any extraordinary services performed by the Sponsor (or any other service provider) on behalf of such Trust to protect such Trust or the interests of its Shareholders (including in connection with any Incidental Rights and any IR Virtual Currency), (iii) any indemnification of the Custodian or other agents, Service Providers or counterparties of such Trust, (iv) the fees and expenses related to the listing, quotation or trading of the Shares of such Trust on any Secondary Market (including legal, marketing and audit fees and expenses) and (v) extraordinary legal fees and expenses, including any legal fees and expenses incurred in connection with litigation, regulatory enforcement or investigation matters.

“Administrator” — Any Person from time to time engaged by the Sponsor to assist in the administration of the Shares of any Trust.

“Administrator Fee” — The fees payable to the Administrator for services it provides to the relevant Trust, which the Sponsor will pay the Administrator as a Sponsor-paid Expense of each Trust.

“Affirmative Action”—A decision by a Trust to acquire or abandon specific Incidental Rights and IR Virtual Currency other than pursuant to the Prospective Abandonment Notice delivered by such Trust to the Custodian.

“Agent” — A Person appointed by a Trust to act on behalf of its Shareholders in connection with any distribution of Incidental Rights and/or IR Virtual Currency.

“Bitcoin” or **“BTC”** — A type of digital asset based on an open-source cryptographic protocol existing on the Bitcoin network.

“Bitcoin Cash” or **“BCH”** — A type of digital asset based on an open-source cryptographic protocol existing on the Bitcoin Cash network.

“CEA” — Commodity Exchange Act of 1936, as amended.

“CFTC” — The U.S. Commodity Futures Trading Commission, an independent agency with the mandate to regulate commodity futures and option markets in the United States.

“Code” — The U.S. Internal Revenue Code of 1986, as amended.

“Covered Person” — As defined in the section “Description of the Trust Documents—Description of the Trust Agreement —Fiduciary and Regulatory Duties of the Sponsor.”

“Creation Time”—With respect to the creation of any Shares by a Trust, the time at which such Trust creates such Shares.

“Custodial Services” — the Custodian’s services that (i) allow digital assets to be deposited from a public blockchain address (or the Trust’s applicable trading account) to each Trust’s Digital Asset Custodial Account and (ii) allow authorized representatives of each Trust and the Sponsor to withdraw digital assets from each Trust’s Digital Asset Custodial Account to a public

blockchain address (or the Trust’s applicable trading account) each Trust or the Sponsor controls pursuant to instructions each Trust or the Sponsor provides to the Custodian.

“**Custodian**” — Coinbase Custody Trust Company, LLC.

“**Custodian Agreement**” — The Coinbase Prime Broker Agreement by and between each Trust and Coinbase, Inc. (for itself and as agent of the Custodian) that governs each Trust’s use of the Custodial Services provided by the Custodian with respect to each Trust’s custodial assets.

“**Custodian Fee**” — Fee payable to the Custodian for services it provides to each Trust, which the Sponsor shall pay to the Custodian as a Sponsor-paid Expense.

“**Digital Asset Benchmark Exchange**” — A Digital Asset Exchange that represents at least 10% of the aggregate trading volume of the Digital Asset Exchange Market for the applicable digital asset during the last 30 consecutive calendar days and that to the knowledge of the Sponsor is in substantial compliance with the laws, rules and regulations, including any anti-money laundering and know-your-customer procedures, of such Digital Asset Exchange’s jurisdiction. If there are fewer than three individual Digital Asset Benchmark Exchanges each of which represent at least 10% of the aggregate trading volume on the Digital Asset Exchange Market for the applicable digital asset during the last 30 consecutive calendar days, then the Digital Asset Benchmark Exchanges for such digital asset that will serve as the basis for the Digital Asset Reference Rate calculation will be those Digital Asset Benchmark Exchanges that meet the above-described requirements, as well as one or more additional Digital Asset Exchanges, as selected by the Sponsor, that has had a specified minimum monthly trading volume.

“**Digital Asset Custodial Account**” — Each segregated custody account controlled and secured by the Custodian to store private keys of the relevant Trust, which allow for the transfer of ownership or control of such Trust’s digital assets on the Trust’s behalf.

“**Digital Asset Exchange**” — An electronic marketplace where exchange participants may trade, buy and sell digital assets based on bid-ask trading. The largest Digital Asset Exchanges are online and typically trade on an hourly basis, publishing transaction price and volume data.

“**Digital Asset Exchange Market**” — With respect to each Trust, the global market for the trading of digital assets, which consists of transactions on electronic Digital Asset Exchanges.

“**Digital Asset Holdings**” — The aggregate value, expressed in U.S. dollars, of the relevant Trust’s assets (other than U.S. dollars or other fiat currency), less its liabilities (which include estimated accrued but unpaid fees and expenses), calculated in the manner set forth under “Determination of Digital Asset Holdings”.

“**Digital Asset Holdings Fee Basis Amount**” — The amount on which the Sponsor’s Fee for a Trust is partially based, as calculated in the manner set forth under “Determination of Digital Asset Holdings”.

“Digital Asset Market”—A dealer market, brokered market, principal-to-principal market or exchange market on which digital assets are bought and sold.

“Digital Asset Reference Rate” — The Digital Asset Reference Rate is derived from data collected from the Digital Asset Exchanges trading such digital asset selected by the Administrator. The Administrator may use, in its sole discretion, any reference rate. Initially, the Administrator intends to use CME CF Bitcoin Reference Rate (BRR) and CME CF Ether-Dollar Reference Rate (ETHUSF_RR). The Digital Asset Reference Rate is subject to change if the stated reference rate is unavailable.

“Distribution Agreement” — The agreements among the Sponsor and each Distributor, which sets forth the obligations and responsibilities of each Distributor.

“Distribution Fee” — Fee payable to the Distributors for services they provide to the Trusts.

“Distributor” — Any person who is engaged by the Sponsor to assist in the distribution of the Shares of each Trust.

“DSTA” — The Delaware Statutory Trust Act, as amended.

“ERISA” — Employee Retirement Income Security Act of 1974, as amended.

“Ether” or **“ETH”** — Ethereum tokens, which are a type of digital asset based on an open-source cryptographic protocol existing on the Ethereum network.

“Ether Classic” or **“ETC”** — Ethereum Classic tokens, which are a type of digital asset based on an open-source cryptographic protocol existing on the Ethereum Classic network.

“Evaluation Time” — Each business day at 4:00 p.m. GMT, or as soon thereafter as practicable.

“Exchange Act” — The Securities Exchange Act of 1934, as amended.

“FDIC” — The Federal Deposit Insurance Corporation.

“FinCEN” — The Financial Crimes Enforcement Network, a bureau of the U.S. Department of the Treasury.

“FINRA” — The Financial Industry Regulatory Authority, Inc., which is the primary regulator in the United States for broker-dealers.

“GAAP” — U.S. generally accepted accounting principles.

“ICO” — Initial coin offering.

“Incidental Rights” — Rights to acquire, or otherwise establish dominion and control over, any virtual currency or other asset or right, which rights are incident to a Trust’s ownership of digital assets and arise without any action of such Trust, or of the Sponsor or Trustee on behalf of such Trust.

“Index” – The IDX Risk-Managed Bitcoin Crypto Index, IDX Risk-Managed Ethereum Crypto Index and IDX Risk-Managed Largecap Crypto Index and any other custom index licensed to the Trusts under the Index License Agreement.

“Index License Agreement” — The license agreement entered into by the Index Provider and the Sponsor granting the Sponsor a non-exclusive, royalty-free, non-transferable, perpetual license to use certain custom indices.

“Index Provider” — IDX Insights, LLC, a Florida limited liability company.

“Investment Advisers Act” — The Investment Advisers Act of 1940, as amended.

“Investment Company Act” — The Investment Company Act of 1940, as amended.

“Investor” — Any investor that has entered into a Subscription Agreement with a Trust, pursuant to which such Trust will issue Shares to the investor.

“IR Virtual Currency” — Any virtual currency tokens, or other asset or right, acquired by a Trust through the exercise (subject to the applicable provisions of such Trust’s Trust Agreement) of any Incidental Right.

“IRS” — The U.S. Internal Revenue Service, a bureau of the U.S. Department of the Treasury.

“Litecoin” or **“LTC”** — Litecoin tokens, which are a type of digital asset based on an open-source cryptographic protocol existing on the Litecoin network.

“Lock-up Period” — See “DESCRIPTION OF ISSUANCE AND REDEMPTION OF SHARES – Redemption.”

“Lumens” or **“XLM”** — A type of digital asset based on an open-source cryptographic protocol existing on the Stellar network.

“Memorandum” — This Private Placement Memorandum, as the same may at any time and from time to time be amended or supplemented.

“Mt. Gox” — Mt. Gox K.K., formerly a Japan-based Bitcoin exchange.

“NAV” — The net asset value of a Trust determined on a GAAP basis.

“NYDFS” — The New York State Department of Financial Services.

“NYDTF” — The New York State Department of Taxation and Finance.

“Pre-Creation Abandonment”—The abandonment by a Trust, irrevocably for no direct or indirect consideration, all Incidental Rights and IR Virtual Currency to which such Trust would otherwise be entitled, effective immediately prior to a Creation Time for such Trust.

“Prospective Abandonment Notice”—A notice delivered by the Sponsor to the Custodian, on behalf of each Trust, stating that such Trust is abandoning irrevocably for no direct or indirect consideration, effective immediately prior to each Creation Time, all Incidental Rights and IR Virtual Currency to which it would otherwise be entitled as of such time and with respect to which such Trust has not taken any Affirmative Action at or prior to such time.

“Redemption Date” — See “DESCRIPTION OF ISSUANCE AND REDEMPTION OF SHARES – Redemption.”

“Redemption Price” — See “DESCRIPTION OF ISSUANCE AND REDEMPTION OF SHARES – Redemption.”

“Redemption Request” — See “DESCRIPTION OF ISSUANCE AND REDEMPTION OF SHARES – Redemption.”

“Relevant Digital Currency”—With respect to each Trust, the digital currency held by such Trust.

“SEC” — The U.S. Securities and Exchange Commission.

“Secondary Market” — Any marketplace or other alternative trading system, as determined by the Sponsor, on which the Shares of a Trust may then be listed, quoted or traded.

“Securities Act” — The Securities Act of 1933, as amended.

“Service Providers” — Collectively, IDX Digital Assets, LLC, Delaware Trust Company, Coinbase Custody Trust Company, LLC, Winbridge Partners, LLC and any distributors and transfer agents appointed by the Sponsor.

“Shareholder” — Any person that owns Shares of a Trust.

“Shares” — Common units of fractional undivided beneficial interest in, and ownership of, a Trust.

“SIPC” — The Securities Investor Protection Corporation.

“Sponsor” — IDX Digital Assets, LLC, a Delaware limited liability company.

“Sponsor-paid Expenses”— The fees and expenses incurred by the relevant Trust in the ordinary course of its affairs that the Sponsor is obligated to assume and pay, excluding taxes, but including: (i) any distributor fees (unless the Sponsor determines to pass some or all of such fees on to purchasers of Shares); (ii) the Administrator Fee, if any; (iii) fees for the Custodian and any other security vendor engaged by the Trust; (iv) any transfer agent fees; (v) the Trustee fee; (vi) ordinary course legal fees and expenses; (vii) audit fees; (viii) regulatory fees, including, if applicable, any fees relating to the registration of the Shares under the Securities Act or the Exchange Act; (ix) printing and mailing costs; (x) the costs of maintaining such Trust’s website; and (xi) applicable license fees.

“Sponsor’s Fee” — A fee, payable in U.S. dollars or digital assets, which accrues daily at an annual rate to be specified in the relevant Trust Supplement, calculated as a percentage of the cash assets of a Trust and the Digital Asset Holdings Fee Basis Amount of a Trust as of 4:00 p.m. GMT on each day, provided that for a day that is not a business day, the calculation of the Sponsor’s Fee will be based on the Digital Asset Holdings Fee Basis Amount from the most recent business day, reduced by the accrued and unpaid Sponsor’s Fee for such most recent business day and for each day after such most recent business day and prior to the relevant calculation date.

“Subscription” — See “DESCRIPTION OF ISSUANCE AND REDEMPTION OF SHARES – Redemption.”

“Subscription Agreement” — An agreement between an Investor and a Trust pursuant to which the Investor can subscribe for Shares of the relevant Trust.

“Trust Supplement” — The Trust Supplement containing specific information about the terms of such offering and the Share of such Trust, as the same may at any time and from time to time be amended or supplemented.

“Treasury Regulations” — The regulations, including proposed or temporary regulations, promulgated under the Code.

“Trust” — Each Delaware statutory trust listed under “About This Base Memorandum.”

“Trust Agreement” — The trust agreement between the Trustee and the Sponsor establishing and governing the operations of each Trust, each as may be amended from time to time.

“Trustee” — Delaware Trust Company, a Delaware trust company, is the Delaware trustee of each of the Trusts.

“U.S.” — United States.

“U.S. dollar” or **“\$”** — United States dollar or dollars.

“XRP” — XRP tokens, which are a type of digital asset based on a cryptographic protocol existing on the Ripple network.

“Zcash” or **“ZEC”** — A type of digital asset based on an open-source cryptographic protocol existing on the Zcash network.

“Zen” or **“ZEN”** — A type of digital asset based on an open-source cryptographic protocol existing on the Horizen network.

IDX Risk-Managed Bitcoin Trust

IDX Risk-Managed Ethereum Trust

BASE MEMORANDUM

Dated November 1, 2021

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Custodian

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Trustee

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Auditor

Marcum LLP

Sponsor's Counsel

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