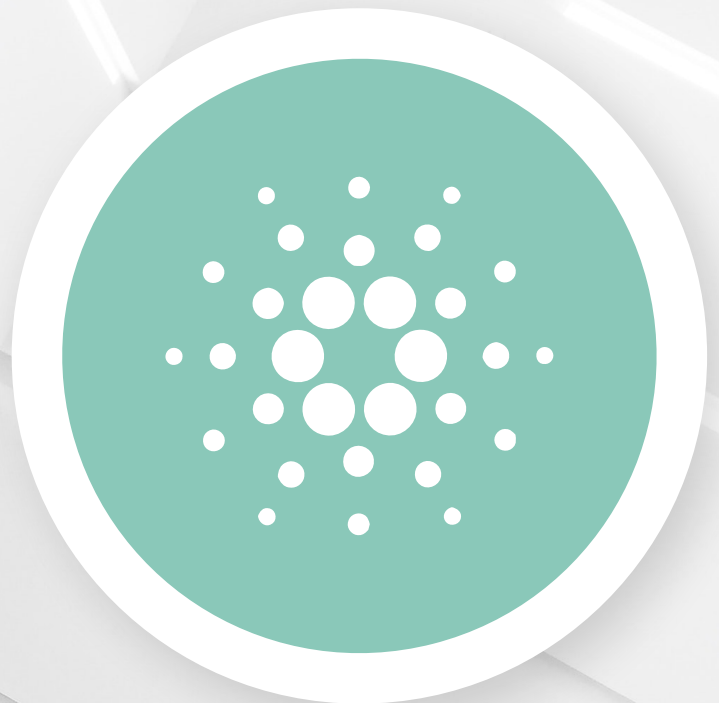
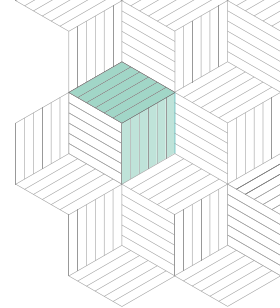
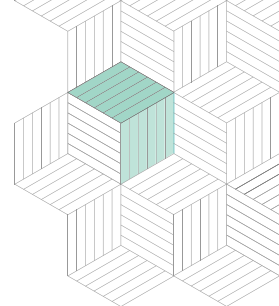


An Introduction to Cardano





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Introduction

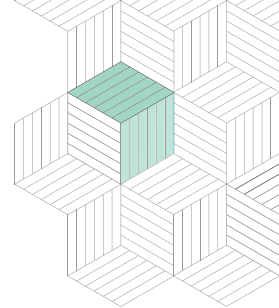
Cardano is a next-generation internet platform (Web 3.0) structured as a publicly traded blockchain-based crypto network. The Cardano open-source software network coordinates a collection of decentralized computers across the globe into a fully user-owned and operated unified cloud platform, and the ADA token represents a piece of ownership in the ecosystem.

FIGURE 1: **CARDANO SUMMARY STATISTICS**

As of September 23, 2021

Asset	Cardano (ADA)
Price (USD)	\$2.40
Market Cap (USD)	\$77 billion
Circulating Supply (ADA)	32 billion
Max Supply (ADA)	45 billion
Current Inflation Rate	2.70%
Market Segment	Digital Currency Payments Decentralized Cloud Platform Distributed Autonomous Organization





Background



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As of 2021, the size of the cloud computing market is estimated to be over \$330 billion in annual revenue and over \$2 trillion in market capitalization. While the cloud continues to grow, crypto networks are emerging as the next wave of disruptive computing platforms by enabling Web 3.0 applications built atop decentralized cloud networks.

One of such networks—Cardano—is a Web 3.0 crypto network aiming to power an internet-native global cloud economy. Cardano’s crypto asset (ADA) is the native token of the network. Currently, the ADA token is utilized for (i) making transactions, (ii) providing system security via staking, (iii) paying network fees, (iv) giving users control over governance and (v) eventually, enabling developers to build Decentralized Applications (dApps).

Following the September 12th 2021 upgrade (Alonzo), Cardano now offers smart contract functionality, which aims to enable developers to build dApps on the network. Although questions remain around how the technology will immediately function, dApp capabilities should allow Cardano to eventually compete in a wider range of modern crypto cloud market segments, including Decentralized Finance (DeFi), Non-Fungible Tokens (NFTs), and other Web 3.0 use cases.

Cardano aims to differentiate itself from other blockchains by emphasizing a “get it right the first time” approach, which Cardano believes can be accomplished by utilizing a development model heavily reliant on academic research, peer-review, and formally verified security.

The trade-off of Cardano’s approach has also resulted in its biggest weaknesses, which include: a historical lack of smart contract capabilities, an unproven track-record for how well dApps will function, a still maturing third-party developer ecosystem, lack of widespread mainnet dApps, and lower transaction fee revenue.

Nevertheless, Cardano has managed to become the third largest crypto network by market capitalization and has demonstrated positive fundamental trends, which include:

- The network has successfully settled over \$1.6 trillion in total on-chain transaction value in the prior year since the mainnet version of Cardano’s core PoS protocol went live





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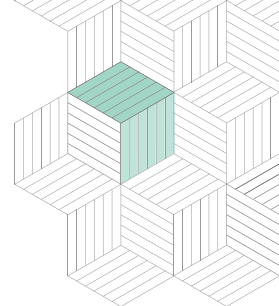
- The network is currently processing more than 115,000 transactions per day, which is up ~13x since the start of 2021
- Fee revenue paid to ADA holders supporting the network’s computing infrastructure security has continued to rise rapidly—up nearly 65x over the last year to a monthly annualized value of ~\$56 million (\$1.7 million month to date 9/11/21)
- Although large-scale dApp roll-outs may take some time, smart contracts are now being tested on the Cardano mainnet, and an early ecosystem of projects are emerging across several application use cases
- The network has grown to ~2.8 million monthly active users, which is up ~7.3x since the start of 2021
- The valuation per monthly active user (market cap / monthly active address) of Cardano is ~\$30,000 and Ethereum is ~\$55,000, which may imply Cardano’s is cheaper than its largest peer based on relative user value fundamentals

The future is uncertain, but several factors that could impact Cardano’s evolution following the rollout of smart contract and dApp capabilities may be:

- Shorter-term: If new dApp, NFT, and other tokens are launched on the Cardano network, ADA holders may shift a portion of their allocation to these new assets
- Shorter to medium-term: If dApps and other new use cases attract new users, drive increased network usage, and improve Cardano’s metrics, these factors may support a fundamental value rotation into ADA by existing and outside investors
- Medium to longer-term: Cardano may act as a higher beta play to Bitcoin and other risk-on assets during market cycles, exogenous to network-specific fundamental developments
- Longer-term: The community’s ability to build a compelling cloud super app platform and dApp ecosystem for users will determine if Cardano achieves long-term success

The crypto cloud platform market is a large and fast-growing opportunity. Multiple Web 2.0 cloud providers—including AWS, Google Cloud, Microsoft Azure, Alibaba Cloud, and Tencent Cloud—have achieved material success today to differing degrees. The crypto cloud market may follow a similar path, and Cardano may not need to be the only winner to achieve success. If Cardano can reach its goals, its features, along with the network’s large user community, may allow the ecosystem to capture meaningful share within the rapidly growing crypto cloud platform market.





Brief History



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Founding

Cardano was founded in 2015 by technologists Charles Hoskinson and his co-founder, Jerry Wood. Hoskinson previously co-founded Ethereum (ETH) and briefly served as the CEO of the Ethereum Foundation. The co-founders established three entities to support the research, development, and maintenance of the Cardano network:

- **Cardano Foundation:** A Switzerland-based non-profit responsible for overseeing development of the Cardano blockchain and its ecosystem
- **Input-Output (IOHK):** A for-profit technology research and development company which launched the ADA token in 2017, built the Cardano platform and designed the networks Ouroboros proof-of-stake consensus algorithm
- **Emurgo:** A for-profit company that develops enterprise-grade applications, builds developer tools, invests in ecosystem startups, and provides blockchain education

The structure of the three organizations and their relationship to the open-source Cardano crypto network functions similar to the way that RedHat and the Linux Foundation support the open-sourced software project, Linux.

Token Sale & Allocation

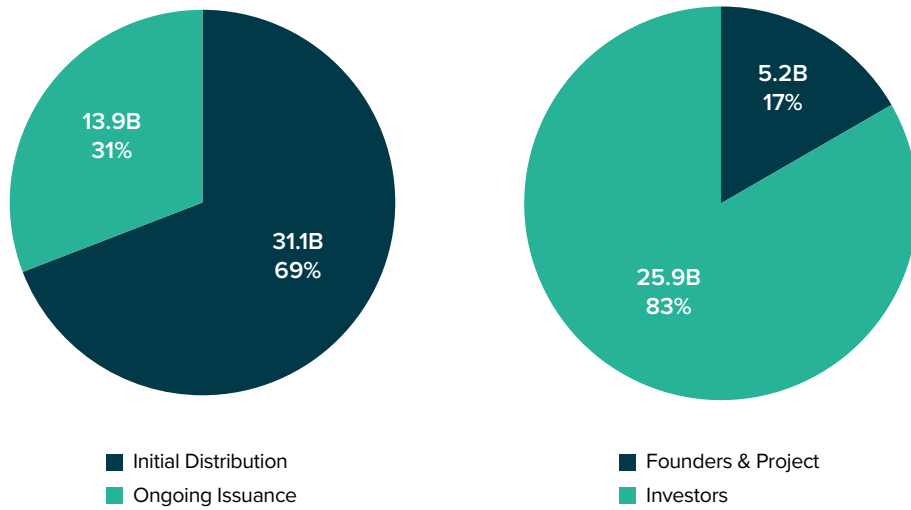
Cardano was created with a maximum supply of 45 billion ADA tokens. The project, founders, and investors received 31.11 billion ADA during the initial distribution phase. The remaining 13.89 billion of ADA was scheduled to be issued over time following the network launch.





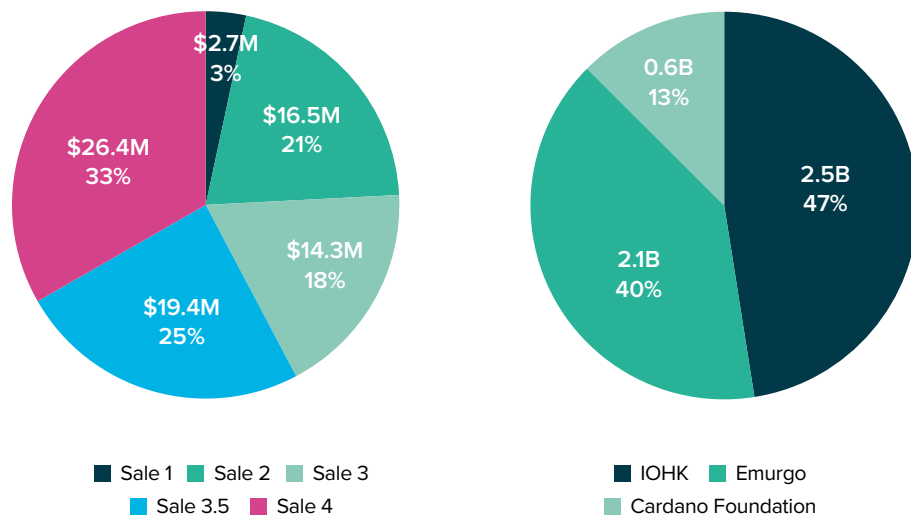
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FIGURE 2: TOTAL ADA DISTRIBUTION (L) & INITIAL ADA DISTRIBUTION (R)¹



Cardano was funded through a series of Initial Coin Offering (ICO) token sales to investors. The public sale took place over a pre-launch period of two years from 2015 to 2017. During this time, Cardano distributed vouchers for 25.9 billion ADA in exchange for \$79.19 million in funding, while Cardano founders & project entities received 5.19 billion of the initial ADA supply.

FIGURE 3: PUBLIC SALE AMOUNT RAISED (L) & FOUNDERS & PROJECT ADA ALLOCATION (R)²



1. Messari: <https://messari.io/asset/cardano/profile/launch-and-initial-token-distribution>
 2. Messari: <https://messari.io/asset/cardano/profile/launch-and-initial-token-distribution>





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Network Launch

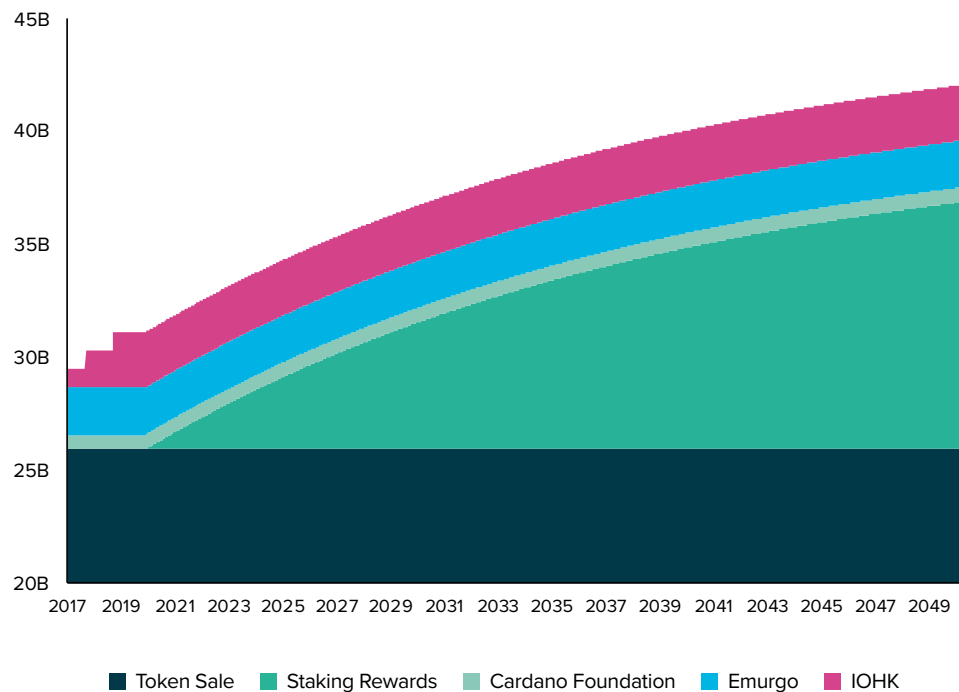
The first version of the Cardano network went live in September 2017. Investors who purchased Cardano token vouchers being tracked on the Ethereum network were then able to exchange these placeholder tokens for ADA tokens issued on the newly launched Cardano mainnet.

This initial iteration of the Cardano allowed users to buy and sell ADA tokens on a federated network (nodes operated by Cardano) running the Ouroboros consensus protocol. This first version of the Ouroboros protocol allowed Cardano to test the consensus mechanism in a controlled environment before the community-governed PoS system used today was eventually deployed.

Supply Schedule

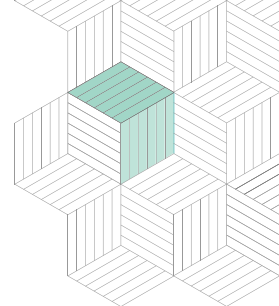
There are roughly 32 billion ADA in circulation today with the remaining 13 billion scheduled to be released over time as staking rewards via the Cardano Ouroboros PoS process.

FIGURE 4: ADA DISTRIBUTION³



3. Messari <https://messari.io/asset/cardano/profile/launch-and-initial-token-distribution>





Key Features



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Ouroboros PoS

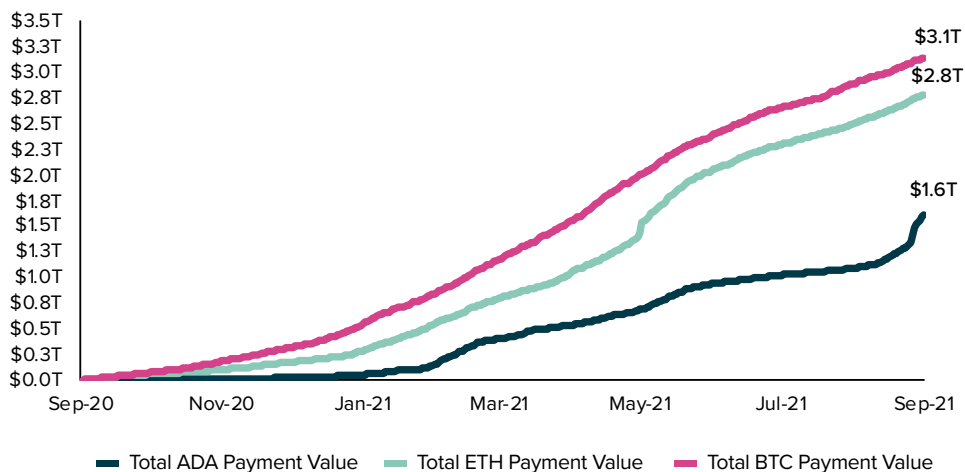
A key difference between Bitcoin and Cardano is their consensus mechanism—the way that computers on the network come to agreement on the ordering of transactions. Bitcoin uses a Proof of Work (PoW) consensus whereas Cardano uses its own Proof of Stake (PoS) approach called Ouroboros.

Following the Shelly upgrade in July 2020, Cardano’s PoS consensus was handed over to the community. The PoS process gave ADA token holders the ability to delegate their ADA to stake pools or launch their own as a security mechanism for allowing certain computers to contribute to consensus. The protocol’s PoS algorithm uses the amount of ADA each stake pool holds to randomly choose the pools that decide the order of transactions on the network. The security of Ouroboros has been deemed [provably secure based on peer-reviewed research](#) according to Cardano.

ADA Cryptocurrency

The Cardano network has successfully settled over \$1.6 trillion in total on-chain transaction value over the Last Twelve Months (LTM). This payment value occurred after the mainnet version of Ouroboros PoS went live with the Shelley upgrade in July 2020, which some may view as an important indication of the network’s security.

FIGURE 5: LTM PAYMENT VALUE SETTLED⁴



4. Coinmetrics (Date: 9/7/2021)



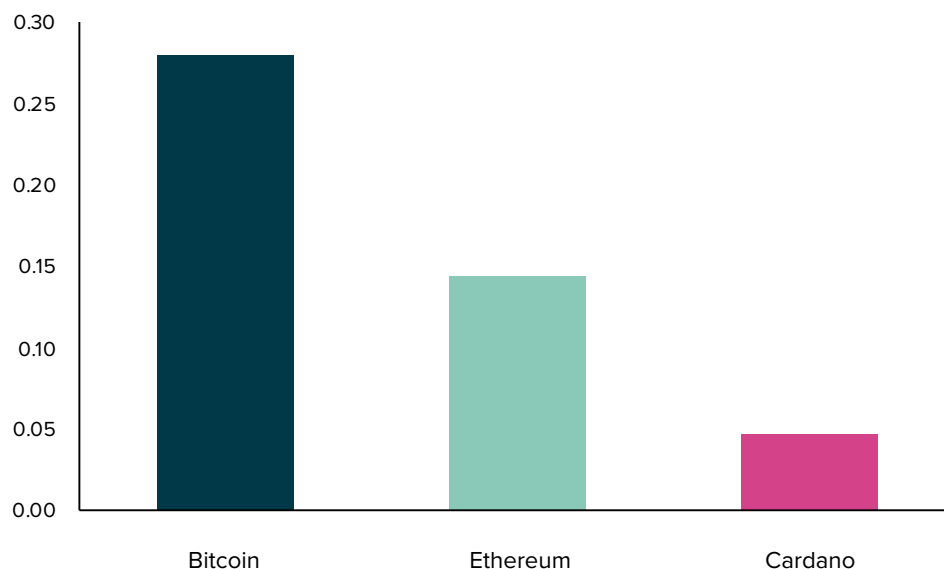


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Although the LTM payment value for Cardano (\$1.6 trillion) is ~40% lower than Ethereum (\$2.8 trillion) and ~50% lower than Bitcoin (\$3.1 trillion), Cardano also has a much lower market cap.

The market cap of Cardano (\$75 billion) is ~80% lower than Ethereum (\$400 billion) and ~90% lower than Bitcoin (\$880 billion). This means Cardano is settling more LTM payment value per unit of market cap or its market cap is the cheapest relative to the LTM payment value.

FIGURE 6: MARKET CAP TO LTM PAYMENT VALUE RATIO⁵



ADA Staking & Yield

Staking acts as another key value driver for the ADA token by allowing users to earn interest or yield denominated in ADA on their holdings. ADA holders can now launch stake pools or delegate their tokens to one of the ~2,400 stake pools currently on the Cardano network. These stake pools form a global unified cloud network that processes transactions according to the rules of the Cardano protocol. In exchange for contributing to consensus, pools receive a reward paid in ADA, consisting of newly issued ADA supply and transaction fees paid by users—which gets paid out to stakers.

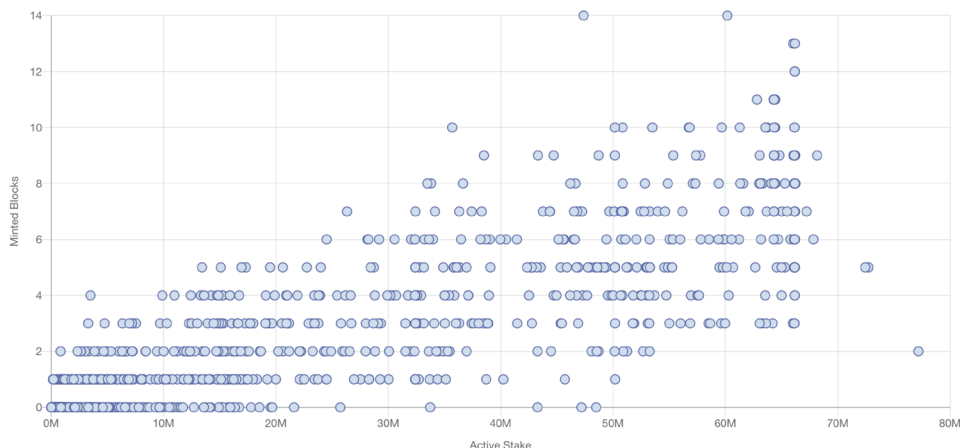
5. Coinmetrics (Date: 9/7/2021)





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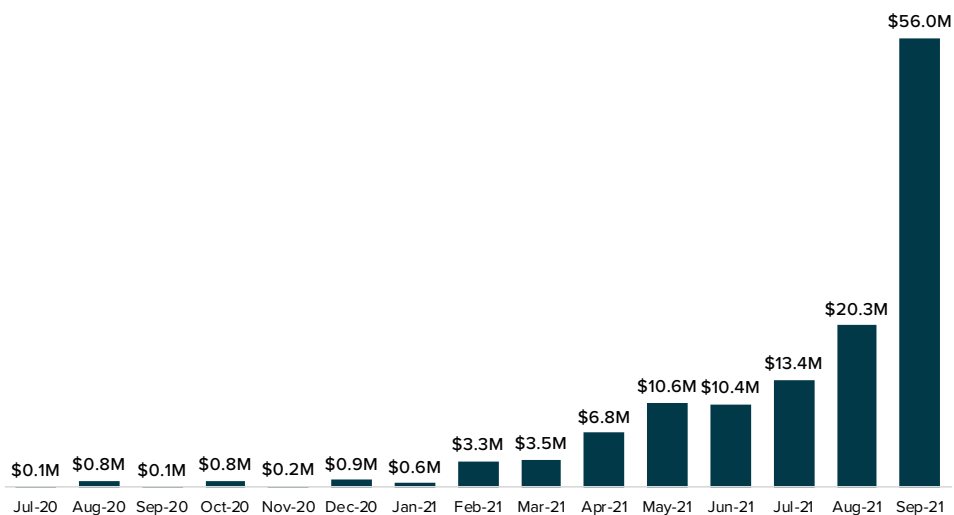
FIGURE 7: MINED CARDANO BLOCKS VS ACTIVE ADA STAKED TO VALIDATORS⁶



As usage and adoption of the network have continued to grow, fee revenue paid on the network to stake pools has continued to rise rapidly—up nearly ~65x over the last year to a monthly annualized value of ~\$56 million for September 2021 (\$1.7 million month to date 9/11/21).

The ability to earn fee revenue from network users by staking tokens makes ADA a productive capital asset—and is one feature that underpins the digital tokens fundamental value model.

FIGURE 8: CARDANO MONTHLY ANNUALIZED FEE REVENUE⁷



6. ADA Pools <https://adapools.org/analysis?graphType=minted-vs-active&limit=3000&hideLabels=1&range=0%3B84>
 7. Coinmetrics (Date: 9/11/2021)





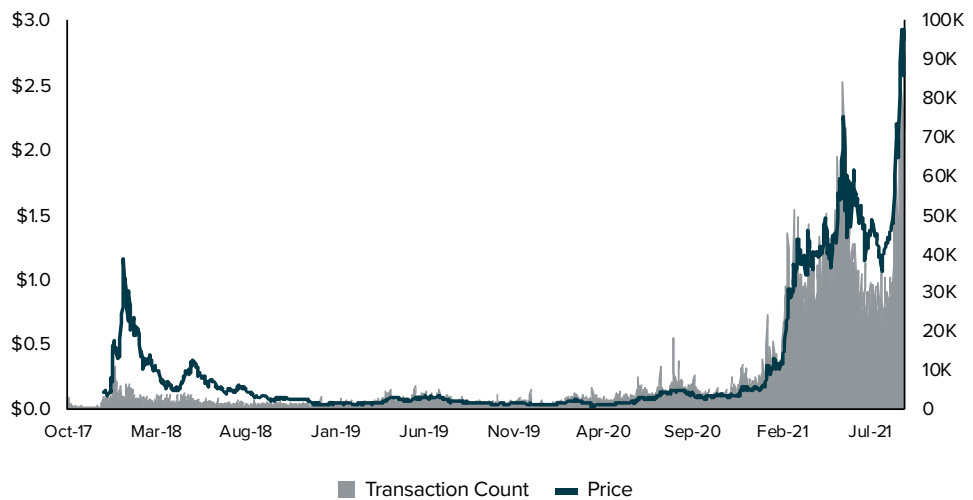
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Digital Asset Transactions

The network is currently processing more than 115,000 transactions per day, which is up ~13x since the start of 2021. Part of the growth in transactions is related to the recently added ability for users to issue and trade digital assets on top of the Cardano network. These assets can represent tokenized real-world assets, digital art like Non-Fungible Tokens (NFTs) or other digital tokens.

A unique feature of Cardano’s approach is that users can send multiple native asset types within the same transaction, whereas other protocols only allow users to send one digital asset at a time. This may incentivize additional users to join the network, as it results in transaction fee savings.

FIGURE 9: ADA PRICE VS TRANSACTION COUNT⁸



Smart Contracts & dApps

Cardano recently deployed smart contracting capabilities to make the network a general purpose crypto cloud platform for developers to create Decentralized Applications (dApps).

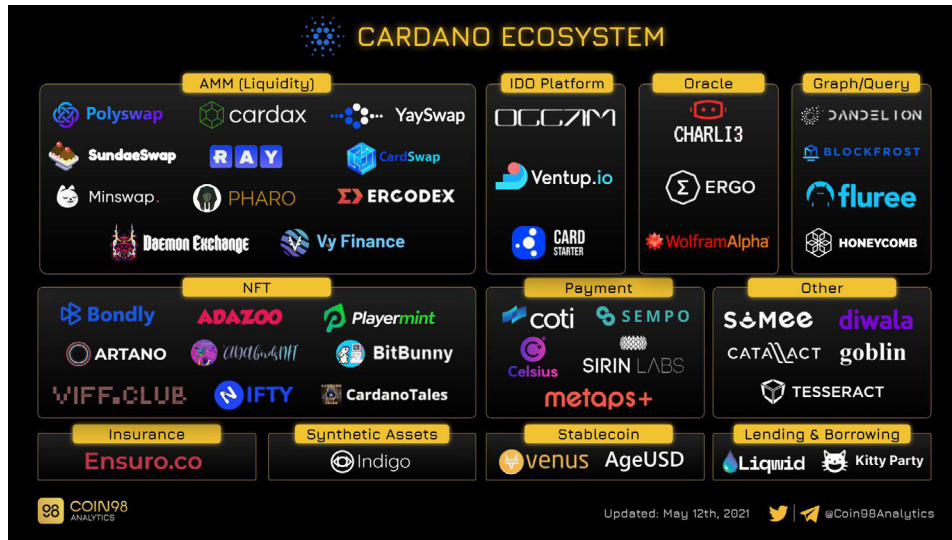
The roll-out of dApps on the mainnet is still in early stages and the technology functionality is still evolving, but Cardano has established an early ecosystem of DeFi and Web 3.0 dApp projects that are testing dApps across a range of use cases.

DeFi use cases include automated market makers, lending & borrowing, synthetic assets, insurance, payments, and initial decentralized exchange offering platforms. Web 3.0 use cases include off-chain data oracles, blockchain data indexing & search, NFTs, and others.

8. ADA Pools (Date: 8/29/2021) <https://adapools.org/analysis?graphType=minted-vs-active&limit=3000&hideLabels=1&range=0%3B84>



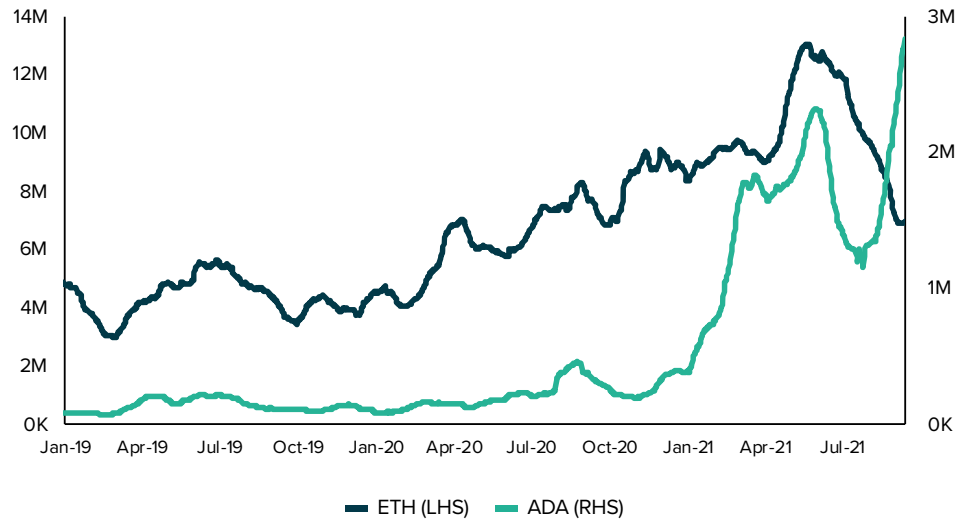
FIGURE 10: CARDANO APPLICATION ECOSYSTEM⁹



Large Active User Base

Cardano has managed to build a large and fast-growing community of users. Measuring active addresses as a proxy, Cardano currently has ~2.8 million Monthly Active Users (MAUs). For perspective, currently Ethereum has ~7 million MAUs or 2.5x that of Cardano. However, since July, Cardano active addresses have been growing while Ethereum active addresses have been falling. Recent Cardano price movement and high gas fees on Ethereum may partially explain this trend.

FIGURE 11: CARDANO & ETHEREUM MONTHLY ACTIVE ADDRESSES¹⁰



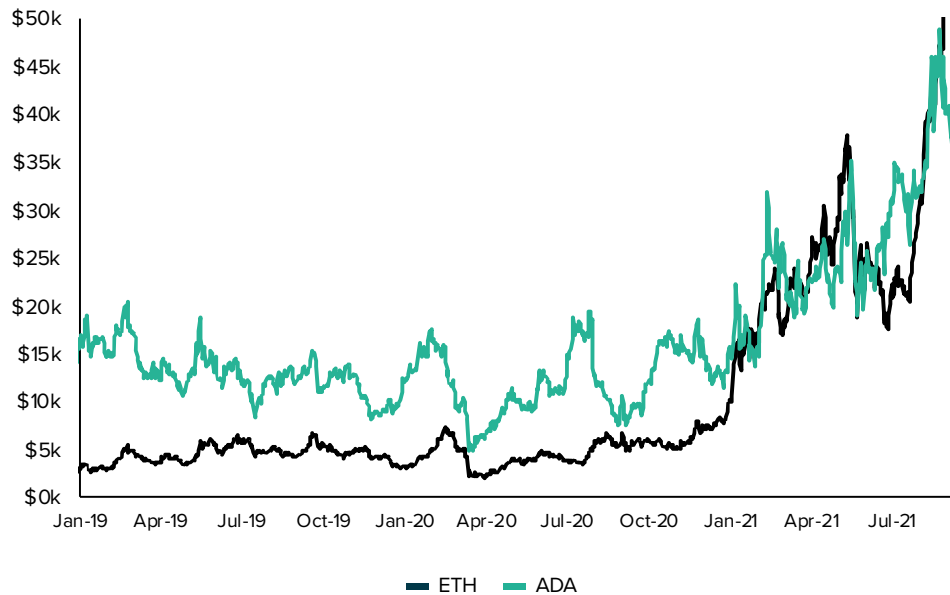
9. Coin 98 Analytics
 10. Coinmetrics (Date: 9/11/2021)



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On a relative basis, although Cardano users are lower than Ethereum’s, the two networks average value per monthly active user (market capitalization per active address) had been trending together but recently diverged. Ethereum’s value per user is ~\$55,000 while Cardano’s is ~\$30,000. This may imply that Cardano is lower valued relative to its largest comparable crypto network, Ethereum, based on this particular metric (although the market may find other metrics important as well).

FIGURE 12: **CARDANO & ETHEREUM MARKET CAP TO MONTHLY ACTIVE ADDRESSES¹¹**



Community Governance & DAO Funding

Cardano has a treasury system for funding future protocol development. This treasury currently holds ~585 million ADA worth \$1.6 billion dollars at current prices, substantial funding to allocate towards accelerating Cardano growth. The treasury is managed by the Cardano Foundation today, but the project’s roadmap has plans to hand control over treasury decisions to the community following the Voltaire network upgrade—turning Cardano into a fully self-governing Distributed Autonomous Organization (DAO).

11. Coinmetrics (Date: 9/11/2021)



FIGURE 13: **CARDANO TREASURY BALANCE VALUE**¹²

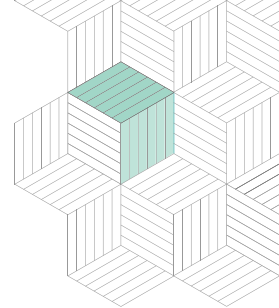


Roadmap

Like other general purpose protocols, Cardano is continuing to develop, but the key features of its final expected form can be broken down into the following five phases of its product [roadmap](#):

- **Byron: Foundational (Completed):** Phase 1 focused on establishing the Cardano network and allowing users to buy and sell the ADA cryptocurrency
- **Shelley: Decentralization (Completed):** Phase 2 focused on decentralizing the Cardano protocol by implementing Ouroboros PoS, creating a stake delegation system and ADA staking pools, and rewarding users user for participating in consensus
- **Goguen: Smart Contracts (In Progress):** Phase 3 has delivered the ability to issue tokenized assets on Cardano and implemented basic smart contract functionality which is being refined to enable a range of dApps
- **Basho: Scaling (In Development):** Phase 4 is focused on improving the scalability and interoperability of Cardano by introducing sidechains, sharding, and parallel accounting styles (UTXO & account-based)
- **Voltaire: Governance (In Development):** Phase 5 is focused on Turing Cardano into a fully community-governed Distributed Autonomous Organization (DAO) by implementing a voting and treasury management system based on users ADA stake

12. Cardano Blockchain Insights (Date: 8/29/2021)



Advantages

Although Cardano has unique technology—most notably its consensus mechanism—much of what the project has launched to date encompasses a collection of features found in other networks. However, factors outside of the product are often the differentiating keys to success.

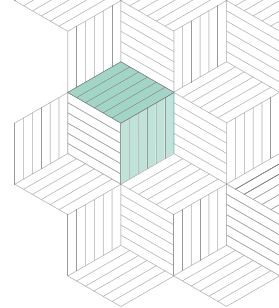
In the case of Cardano, we think several of its competitive advantages include:

- **Founder:** Charles Hoskinson has become an iconic founder to his loyal community by delivering a compelling vision for Cardano’s future that a growing base of users support
- **Community:** Cardano has a large community of users, which—like a company having a large number of customers or a country having a large productive population is critical for the success of any open-source project
- **Decentralization:** Cardano’s software protocol code base is fully open-source, the core network consensus function was decentralized among thousands of participants with the Shelly upgrade, and ADA tokens are owned by millions of holders across the globe
- **Accessibility:** Cardano is listed on most major crypto exchanges, making ADA widely accessible, highly liquid relative to other coins and a well-suited vehicle for payments
- **Funding:** Cardano currently has \$1.6 billion in treasury to spend on development, which is a strong advantage for growing the ecosystem



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Potential Risks

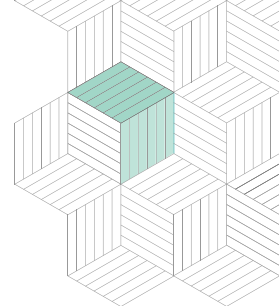


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Cardano faces a number of potential risks specific to the network, from crypto industry competitors and from external factors, which include:

- **Competing Networks:** Cardano faces strong competition from other Layer 1 base blockchains with smart contract functionality, including: Ethereum, Solana, Internet Computer Protocol, Avalanche, and others
- **Lacks Mainnet Applications:** Cardano still lacks a mainnet application ecosystem, and while basic smart contract functionality has been added, it's yet to be seen how dApps will function or how developer interest and user adoption will unfold
- **Network Economics & Valuation:** Cardano network fee revenue is still relatively low compared to other PoS blockchains like Ethereum 2.0. Unless the network can grow fees from new applications or increased usage, ADA's valuation may not be supported based on staking cash-flow utility alone
- **Legal & Regulatory Uncertainty:** Cardano could face scrutiny from various regulators, which to date have often only identified Bitcoin and Ethereum as assets excluded from being classified as securities
- **Network Security:** Cardano may face bugs, other technical problems or improperly designed economic incentives related to its PoS consensus or other protocol features that may make the network insecure, despite its formal verification





Summary



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Crypto networks are platforms for the next era of the web and the next wave of the cloud. Cardano is targeting the crypto cloud platform market. Cardano takes a unique approach to several of its technology implementations but aspects of the network’s full design vision are also not yet live. Smart contracts are a key technology feature that Cardano is exploring, which should allow the network to compete in a wider range of dApp use cases if successful. Cardano has been able to gain a large user active decentralized base which has been leading to rapid network growth. If Cardano can deliver on its technology vision, the networks could see increased utility, adoption, usage and growth.

Check out our in-depth reports on different digital currencies [here](#).





About Grayscale Investments, LLC



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Each Product is a private, unregistered investment vehicle and not subject to the same regulatory requirements as exchange traded funds or mutual funds, including the requirement to provide certain periodic and standardized pricing and valuation information to investors. There are substantial risks in investing in a Product or in digital assets directly, including but not limited to:

- **PRICE VOLATILITY**
Digital assets have historically experienced significant intraday and long-term price swings. In addition, none of the Products currently operates a redemption program and may halt creations from time to time. There can be no assurance that the value of the common units of fractional undivided beneficial interest (“Shares”) of any Product will approximate the value of the digital assets held by such Product and such Shares may trade at a substantial premium over or discount to the value of the digital assets held by such Product. At this time, none of the Products is operating a redemption program and therefore Shares are not redeemable by any Product. Subject to receipt of regulatory approval from the SEC and approval by Grayscale, in its sole discretion, any Product may in the future operate a redemption program. Because none of the Products believes that the SEC would, at this time, entertain an application for the waiver of rules needed in order to operate an ongoing redemption program, none of the Products currently has any intention of seeking regulatory approval from the SEC to operate an ongoing redemption program.
- **MARKET ADOPTION**
It is possible that digital assets generally or any digital asset in particular will never be broadly adopted by either the retail or commercial marketplace, in which case, one or more digital assets may lose most, if not all, of its value.
- **GOVERNMENT REGULATION**
The regulatory framework of digital assets remains unclear and application of existing regulations and/or future restrictions by federal and state authorities may have a significant impact on the value of digital assets.
- **SECURITY**
While each Product has implemented security measures for the safe storage of its digital assets, there have been significant incidents of digital asset theft and digital assets remains a potential target for hackers. Digital assets that are lost or stolen cannot be replaced, as transactions are irrevocable.
- **TAX TREATMENT OF VIRTUAL CURRENCY**
For U.S. federal income tax purposes, each Fund will be a passive foreign investment company (a “PFIC”) and, in certain circumstances, may be a controlled foreign corporation (a “CFC”). Each Fund will make available a PFIC Annual Information Statement that will include information required to permit each eligible shareholder to make a “qualified electing fund” election (a “QEF Election”) with respect to each Fund. Each of the other Products intends to take the position that it is a grantor trust for U.S. federal income tax purposes. Assuming that a Product is properly treated as a grantor trust, Shareholders of that Product generally will be treated as if they directly owned their respective pro rata shares of the underlying assets held in the Product, directly received their respective pro rata shares of the Product’s income and directly incurred their respective pro rata shares of the Product’s expenses. Most state and local tax authorities follow U.S. income tax rules in this regard. Prospective investors should discuss the tax consequences of an investment in a Product with their tax advisors.
- **NO SHAREHOLDER CONTROL**
Grayscale, as sponsor of each Trust and the manager of the Fund, has total authority over the Trusts and the Fund and shareholders’ rights are extremely limited.
- **LACK OF LIQUIDITY AND TRANSFER RESTRICTIONS**
An investment in a Product will be illiquid and there will be significant restrictions on transferring interests in such Product. The Products are not registered with the SEC, any state securities laws, or the U.S. Investment Company Act of 1940, as amended, and the Shares of each Product are being offered in a private placement pursuant to Rule 506(c) under Regulation D of the Securities Act of 1933, as amended (the “Securities Act”). As a result, the Shares of each Product are restricted Shares and are subject to (i) a one year holding period or (ii) a six month holding period after the Product has been subject to the reporting requirements of Section 13 under the Exchange Act for a period of 90 days in accordance





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with Rule 144 under the Securities Act. In addition, none of the Products currently operates a redemption program. Because of the holding period and the lack of an ongoing redemption program, Shares should not be purchased by any investor who is not willing and able to bear the risk of investment and lack of liquidity for at least one year or six months, as applicable. No assurances are given that after the one year holding period, there will be any market for the resale of Shares of any Product, or, if there is such a market, as to the price at such Shares may be sold into such a market.

- **POTENTIAL RELIANCE ON THIRD-PARTY MANAGEMENT; CONFLICTS OF INTEREST**
The Products and their sponsors or managers and advisors may rely on the trading expertise and experience of third-party sponsors, managers or advisors, the identity of which may not be fully disclosed to investors. The Products and their sponsors or managers and advisors and agents may be subject to various conflicts of interest.
- **FEES AND EXPENSES**
Each Product's fees and expenses (which may be substantial regardless of any returns on investment) will offset each Product's trading profits.

Additional General Disclosures

Investors must have the financial ability, sophistication/experience and willingness to bear the risks of an investment. This document is intended for those with an in-depth understanding of the high risk nature of investments in digital assets and these investments may not be suitable for you. This document may not be distributed in either excerpts or in its entirety beyond its intended audience and the Products and Grayscale will not be held responsible if this document is used or is distributed beyond its initial recipient or if it is used for any unintended purpose.

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