Morgan Stanley
INVESTMENT MANAGEMENT

Solana Fundamentals: Scale, Speed and Smart Contracts

Understanding a high-throughput smart contract blockchain

What Is Solana?

Solana (SOL) is a smart contract blockchain designed to support decentralized applications and on chain assets at scale. Unlike blockchains that focus primarily on value transfer, smart contract platforms provide programmable infrastructure that allows developers to build financial applications, digital marketplaces, payments systems and other blockchain enabled services.[1]

Solana operates as a public, decentralized network that records and validates transactions on a shared ledger. Its design emphasizes high transaction throughput and low costs, often discussed as infrastructure for applications that require speed and efficiency.[1]

How the Solana Network Works

Solana is a blockchain that uses a network of validators to verify and record transactions. It uses proof-of-stake (a method where participants hold cryptocurrency as their "stake" to qualify to verify blockchain transactions) along with a timing mechanism called proof-of-history (used to help coordinate the order of transactions). This setup helps validators handle more work at the same time, which can reduce delays and congestion.

Validators process transactions, create new blocks and help maintain network security. In return, they can earn SOL network rewards in the form of additional SOL, with reward rates varying based on overall network participation.

Together, these design choices allow Solana to support thousands of transactions per second, with fees that are often very low compared with some other smart contract platforms.

Key Features of the Solana Network

SCALE
Designed to support high transaction volumes without relying on secondary layers.

SPEED
Transactions are confirmed quickly, enabling near real time settlement for many applications.

LOW COSTS
Transaction fees are typically minimal, supporting micro transactions and high volume use cases.

PROGRAMMABILITY
Smart contracts enable developers to create decentralized finance (DeFi) tools, digital marketplaces, gaming ecosystems and tokenized assets.

Solana as a Digital Asset Ecosystem

Solana supports a broad range of on chain activity, including decentralized exchanges, stablecoin transfers, non fungible tokens (NFTs), gaming applications and tokenized assets. In recent years, the network has ranked among leading smart contract platforms by user activity and transaction volume.[3]

The native token, SOL, is used to pay transaction fees, secure the network through staking and support on chain activity.

How Do Investors Access Solana?

Investors seeking exposure to Solana typically do so through two primary approaches:

- Direct ownership of SOL, which requires managing private keys, wallets and custody arrangements
- Exchange traded products, which may offer more convenient access but limit direct interaction with the network

Each approach involves distinct operational, regulatory and risk considerations.[4]

Portfolio Applications

Some investors evaluate Solana as:

- Exposure to the growth and adoption of blockchain-based technology infrastructure supporting Web3 and financial applications
- A component of an alternatives or opportunistic allocation
- A complement to other digital assets with different design objectives

As with all digital assets, Solana's role in a portfolio depends on an investor's objectives, time horizon, liquidity needs and risk tolerance.[2]

Key Takeaway

Solana represents a high throughput approach to smart contract blockchains, prioritizing speed, scalability and low transaction costs. Its architecture and ecosystem distinguish it from both value transfer focused blockchains, like Bitcoin, and traditional financial infrastructure. Understanding these fundamentals can help investors more clearly assess Solana's potential role within the broader digital asset landscape.

[1] Solana Foundation, *Solana Documentation* — https://docs.solana.com
[2] Solana Foundation, *Proof of History Explained* — https://solana.com/docs/architecture/proof-of-history
[3] Grayscale Research, *Solana: Crypto's Financial Bazaar* — https://research.grayscale.com/reports/solana-cryptos-financial-bazaar
[4] Investor.gov, *Crypto Assets* — https://www.investor.gov/additional-resources/spotlight/crypto-assets

IMPORTANT INFORMATION:

Risk Considerations

Spot Crypto ETPs are exchange-based products that track the price of an asset, i.e., bitcoin, by holding the actual asset as the underlying asset.

Blockchain is a shared, immutable ledger that facilitates the process of recording transactions and tracking assets in a business network.

Cryptocurrency (notably, Bitcoin) operates as a decentralized, peer-to-peer financial exchange and value storage that is used like money. It is not backed by any government. Federal, state or foreign governments may restrict the use and exchange of cryptocurrency. Cryptocurrency may experience very high volatility.

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The value of the Trust relates directly to the value of the underlying digital asset it holds, the value of which is highly volatile and subject to fluctuations due to a number of factors.

The Trust relies on third party service providers to perform certain functions essential to the affairs of the Trust. Some of these service providers may not be subject to federal regulation and oversight and the replacement of such service providers could pose a challenge to the safekeeping of the digital asset and to the operations of the Trust.

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Digital Asset Risk Disclosures

Many digital assets, including SOL, have experienced significant volatility in trading prices in recent periods and may continue to experience such volatility in the future. Such volatility in digital asset prices could have a material adverse effect on the value of the Trust and the shares could lose all or substantially all of their value.

Digital assets represent a new and rapidly evolving industry. The value of the Trust depends, among other things, on the acceptance of the digital assets in general and SOL in particular, the capabilities and development of blockchain technologies and the fundamental investment characteristics of SOL.

Digital asset networks are developed and maintained by a diverse set of contributors and the perception that certain contributors will no longer contribute to the network or may decrease their contributions to, or involvement with the network could have an adverse effect on the market price of the related digital asset.

Digital assets may have concentrated ownership and large sales or distributions by holders of such digital assets could have an adverse effect on the market price of such digital assets.

As discussed in the prospectus, MSOL expects to stake certain of its assets in accordance with its staking and liquidity policy and, therefore, may receive staking rewards. Staking rewards can vary significantly over time and staking activity may, depending on future governance proposals on the Solana network, pose a risk of automatic "slashing penalties" in the event of validator misbehavior or poor performance. In the event automatic staking is implemented on the Solana network, there will be no guarantee that the Trust's staked assets will avoid experiencing slashing or that the Trust will recover any of its staked assets, or the value thereof. In addition, bonding and unbonding periods may limit when assets become eligible to accrue staking rewards and when they may be unstaked, withdrawn and ultimately sold by the Trust in connection with redemption and creation orders and to pay for expenses. The length of these periods are monitored and considered as part of the Trust's staking and liquidity policy, pursuant to which MSOL expects to stake less than all of its digital assets which will reduce the potential amount of staking rewards receivable by the Trust and by extension the value of Shares.

Staking may introduce a risk of loss of SOL, which could adversely affect the value of the Trust's shares if any such losses occur. Staking often includes activation and unbonding/withdrawal periods, during which SOL cannot be sold or transferred and are therefore illiquid. SOL is generally not eligible to accrue staking rewards during staking bonding and unbonding periods. At each step in the staking process, SOL may be exposed to risks such as security breaches, smart contract vulnerabilities, and validator or custodian failure or compromise, any of which could result in a complete loss of SOL or associated staking rewards. There is no guarantee that the Trust will receive any staking rewards.

MSOL does not provide investors with direct exposure to spot SOL and an investment in the Trust is not a direct investment in SOL. As a non-diversified and single industry fund, the value of the Trust's shares may fluctuate more than shares invested in a broader range of industries. Because the value of the Trust is correlated with the value of SOL, it is important to understand the investment attributes of, and the market for, the underlying digital asset. Please consult with your financial professional.

A substantial direct investment in a digital asset may require expensive and sometimes complicated arrangements in connection with the acquisition, security and safekeeping of the digital asset and may involve the payment of substantial fees to third party service providers through cash payments of U.S. dollars. Regulation of digital assets, including SOL, continues to evolve across different jurisdictions worldwide, which may cause uncertainty and insecurity as to the legal and tax status of a given digital asset. As SOL and other digital assets have grown in both popularity and market size, the U.S. Congress and a number of U.S. federal and state agencies have been examining the operations of digital asset networks, digital asset users and the digital asset spot market. Many of these state and federal agencies have brought enforcement actions and issued advisories and rules relating to digital asset markets. Ongoing and future regulatory actions with respect to digital assets generally or any single digital asset in particular may alter, perhaps to a materially adverse extent, the nature of an investment in the Trust.

The Delegated Sponsor does not store, hold, or maintain custody or control of the Trust's digital assets, but instead has entered into Custodial Services Agreements with third parties to facilitate the security of its SOL. The custodians control and secure the Trust's SOL in segregated custody accounts to store private keys, which allows for the transfer of ownership or control of the Trust's SOL on the Trust's behalf. If a custodian resigns or is removed by the Delegated Sponsor or otherwise, without replacement, it could trigger early termination of the Trust.

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