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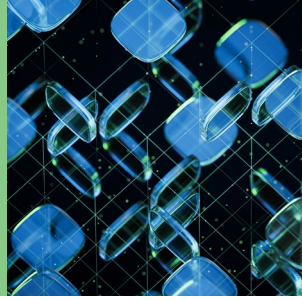

Staking Fundamentals: Earning Rewards by Securing a Network

What Is Crypto Staking?

Crypto staking is a process used by certain blockchain networks to validate transactions and secure the network. When an investor stakes their cryptocurrency, they lock up their coins as collateral in a digital wallet to support the network's operations. In return, they receive rewards, often in the form of additional coins.

Staking is an integral part of proof-of-stake (PoS) networks such as Ethereum, and it differs from proof-of-work (PoW) networks such as Bitcoin, which rely on computational power rather than staking.

How Staking Works

Staking rules differ between blockchains, but users typically need to stake a minimum amount of cryptocurrency to earn rewards. Some networks allow users to delegate their cryptocurrency to a third-party validator, who stakes on their behalf for a fee. Generally, the more coins staked, the higher the chance of being selected to validate transactions and earn rewards.

Importantly, staking can include penalties: stakers can be penalized for downtime or mistakes, and validators may lose some or all of their staked coins if they break network rules (for example, by signing conflicting blocks).

Why Staking Matters for Investors

Staking allows the owner of the cryptocurrency to earn rewards while supporting the validation of transactions and increasing the security of the network.

Staking is also often described as more energy-efficient than mining (the backbone of PoW systems like Bitcoin) because PoS reduces the need for extensive computational power.

Three Blockchains, Three Exposure Profiles: Where Staking Fits

The staking process depends on which network an investor is accessing:

- **Bitcoin (BTC):** A blockchain primarily designed to store and transfer value; because it uses proof-of-work, there is no staking or income component.
- **Ethereum (ETH):** A programmable blockchain that uses proof-of-stake, where participants stake ETH to validate transactions and earn rewards.
- **Solana (SOL):** A high-performance blockchain that uses a proof-of-stake-based system, where validators can earn rewards for supporting the network.

This framework can matter when comparing crypto exchange-traded products (ETPs): Bitcoin exposures are typically price-only, while Ethereum and Solana exposures may include staking-linked rewards (and staking-linked risks), depending on product structure.

Access: Direct Staking vs. Exchange-Traded Products

For investors who may not be interested in the technicalities of staking themselves, or who don't meet the minimum size requirements to stake their coins, crypto exchange-traded products (ETPs) that incorporate staking may be an option because they can provide exposure to staking rewards without requiring investors to manage staking directly. ETPs may provide a pro-rata share of staking rewards to investors in the form of distributions. It is important to review the specific details of the ETP to understand how staking rewards will be handled.

More broadly, crypto ETPs are designed to provide exposure to assets such as bitcoin, ether or SOL without requiring investors to hold the digital asset directly, and they can be bought and sold through traditional brokerage accounts.

Key Risks to Highlight

Staking can offer attractive potential returns, but key risks include:

- **Risk of loss due to slashing:** If a validator behaves improperly, the protocol may penalize staked assets (slashing), potentially resulting in a partial or total loss.
- **Liquidity mismatch:** Staking may require assets to be locked for a period of time, creating potential liquidity mismatches, particularly if redemptions exceed available unstaked assets.
- **High volatility:** Most cryptocurrencies—staked or not—tend to be highly volatile.
- **Network/protocol risks:** Protocol changes or security vulnerabilities.
- **Token dilution dynamics:** Rewards are often paid in newly minted crypto; higher rewards may signal faster supply growth and potential dilution for non-stakers.

Key Takeaway

Crypto staking is a core feature of proof-of-stake networks that allows the owner of the cryptocurrency to earn rewards by helping secure blockchain networks, but it introduces distinct liquidity, volatility and protocol risks. In a three-blockchain framework, Bitcoin has no staking yield, while Ethereum and Solana support validator-based systems where staking rewards may exist—an important distinction when evaluating crypto ETP/ETF exposures.

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

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

As discussed in the relevant prospectus, MSSE and MSOL each expect to stake certain of their assets in accordance with their respective staking and liquidity policy and, therefore, may receive staking rewards. Staking rewards can vary significantly over time. Staking activity comes with a risk of loss including, depending on the mechanics of a relevant blockchain, "slashing" penalties, which may be assessed if third party validators contracted to engage in staking activities on behalf of a Trust engage in misbehavior or perform poorly. There is no guarantee a Trust will recover any of its staked assets, or the value thereof, if they become subject to slashing penalties. In addition, activation and exit buffer periods may limit when assets become eligible to accrue staking rewards, 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 each Trust's staking and liquidity policy, pursuant to which MSSE and MSOL expect to stake less than all of their respective digital assets which reduces the potential amount of staking rewards receivable by each Trust and by extension the value of their respective shares.

Staking introduces the risk of loss staked digital assets, which could adversely affect the value of a Trust's shares if any such losses occur. Staking often includes activation, exit, and withdrawal periods, during which staked digital assets cannot be sold or transferred and are therefore illiquid. The Ethereum and Solana protocols limit validator activations and exits per epoch, so only a controlled amount of staked ether or SOL can turnover each epoch (in the case of the Ethereum protocol, the activation period may extend for days, weeks, or months depending on the demand queue). While queued for activation, while unbonding and during withdrawal periods, staked digital assets are generally not eligible to accrue staking rewards. At each step in the staking process, staked digital assets 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 the staked digital asset in question or associated staking rewards. There is no guarantee that a Trust will receive any staking rewards.

Neither MSBT, MSSE nor MSOL provide investors with direct exposure to spot bitcoin, ether or SOL, respectively, and investments in the Trusts are not a direct investment in bitcoin, ether or SOL. As non-diversified and single industry funds, the value of each Trust's shares may fluctuate more than shares invested in a broader range of industries. Because the value of each Trust is correlated with the value of bitcoin, ether and SOL, respectively, it is important to understand the investment attributes of, and the market for, the underlying digital assets. 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.

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RO 5895994 09/03/2026 SKU 125976 Exp.09/30/2027 26Q20484 LTR