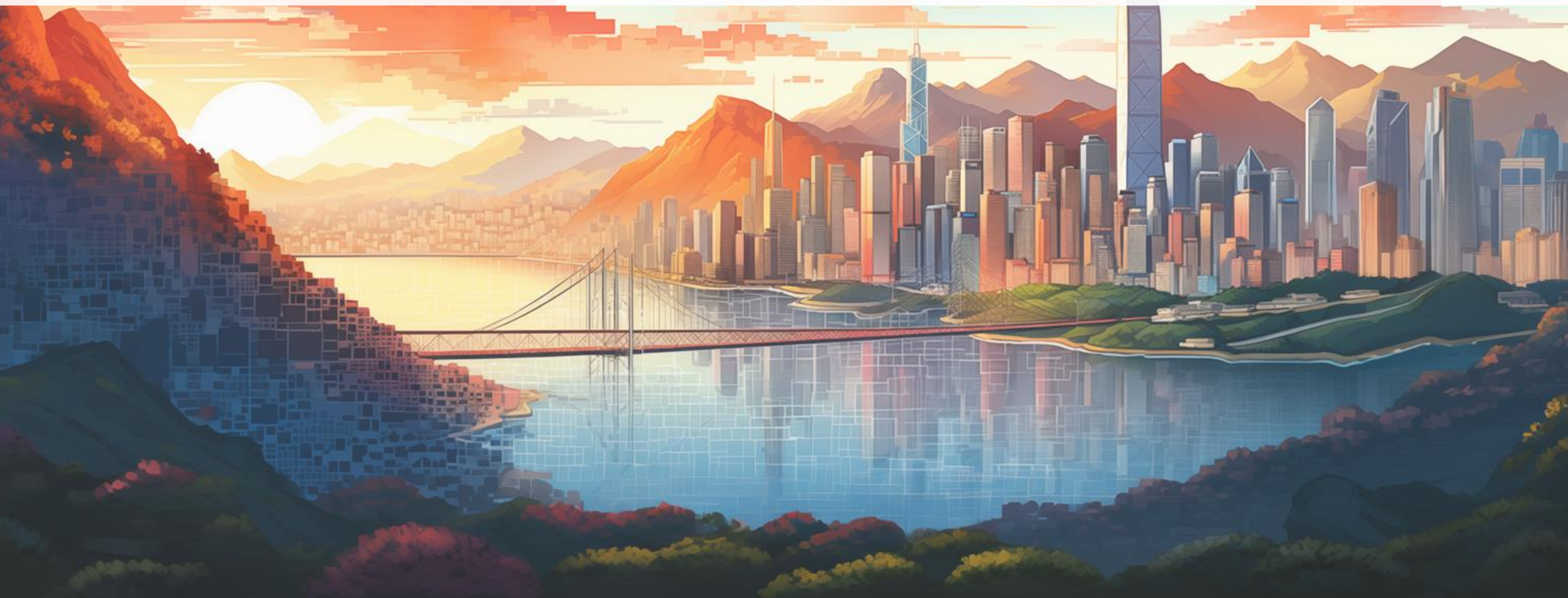


Market Review and Outlook

3Q 2023



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Content

01 |

Macro Dynamics:

- In 3Q 2023, crypto assets underwent a modest downturn but maintained a trajectory towards recovery amidst a climate of decelerating inflation and persistent interest rate hikes
- Bitcoin and Ethereum continue to lead the market, demonstrating resilience that positions them to potentially catalyze the next upswing
- Developer activity has shown a notable decoupling from market capitalization trends, reflecting a lag in recovery as firms restructure to adapt to the bear market's pressures

02 |

Major Ecosystems:

- The “Ethereum L2 Summer” marks a period of substantial growth and maturity for Layer 2 networks, with an upsurge in transactions and platform launches
- The DeFi sector is navigating through sustained capital and user withdrawal, notwithstanding a gradual price recovery, with Total Value Locked (TVL) and Monthly Active Users (MAU) still below first-half peaks
- The LSDFi sector has seen a notable 140%+ QoQ growth in TVL, forecasting continued expansion supported by the burgeoning staked ETH market and nascent penetration rates
- SocialFi, GambleFi, and Trading Bots like Unibot and Banana have sparked interest in Q3, but their longevity in the market remains under scrutiny

03 |

Key Thematics:

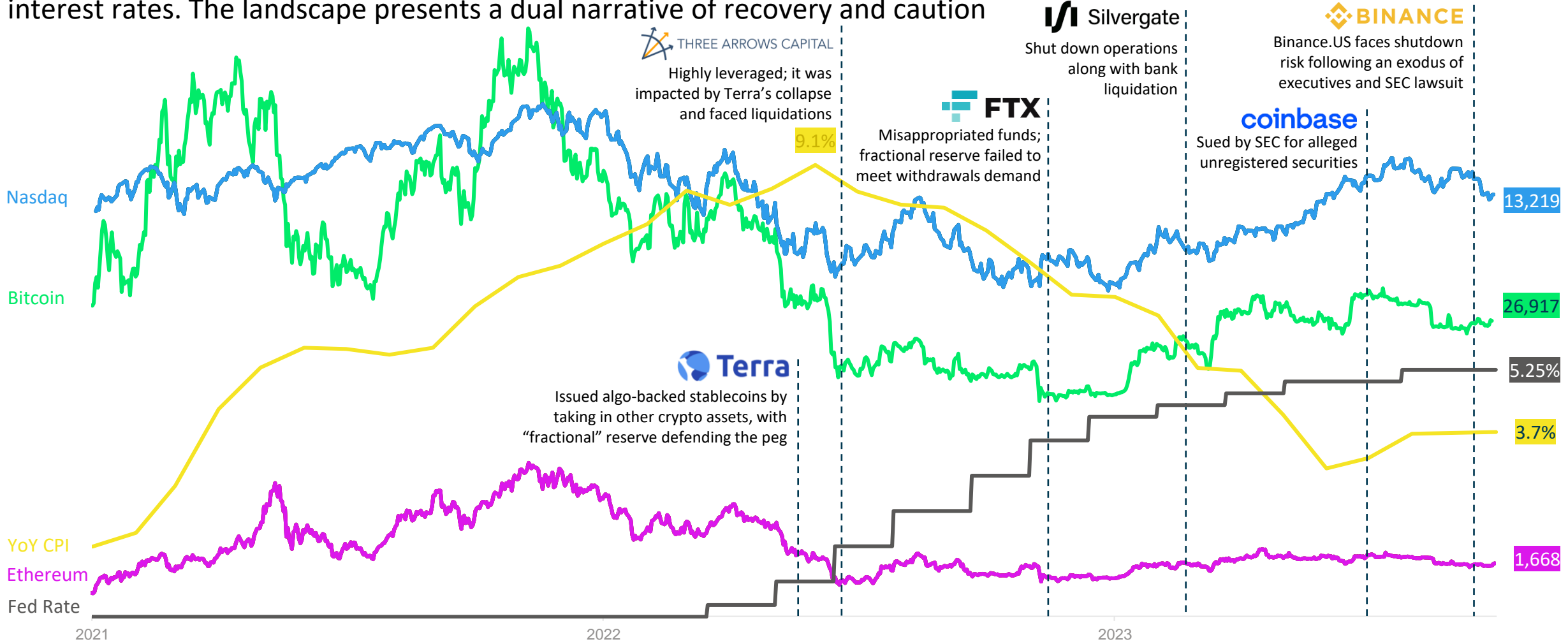
- Rollup technology is advancing, with Layer 3 solutions emerging to further scale Ethereum's capabilities, and Rollup-as-a-Service (RaaS) drawing significant interest amidst fierce competition
- Zero-Knowledge (ZK) applications are broadening, impacting fields from computation to privacy, promising more extensive use cases
- The integration of cryptocurrencies with AI is forging a path for novel applications, with blockchain characteristics complementing AI's potential
- Intent-based architectures are shaping the future of dApps, with active research suggesting significant enhancements in user experience and setting new industry standards
- MEV-related research is tackling key issues like order flow auction efficiency, protocol decentralization, and resistance to censorship, with ongoing developments in proposer and builder commitment schemes

Executive Summary

01 | Crypto Market Dynamics and Trends

Navigating Asset Price Volatility at The Tightening Cycle's Horizon

Asset prices have shown resilience with a partial recovery, albeit under the pressure of persistent inflation and elevated interest rates. The landscape presents a dual narrative of recovery and caution

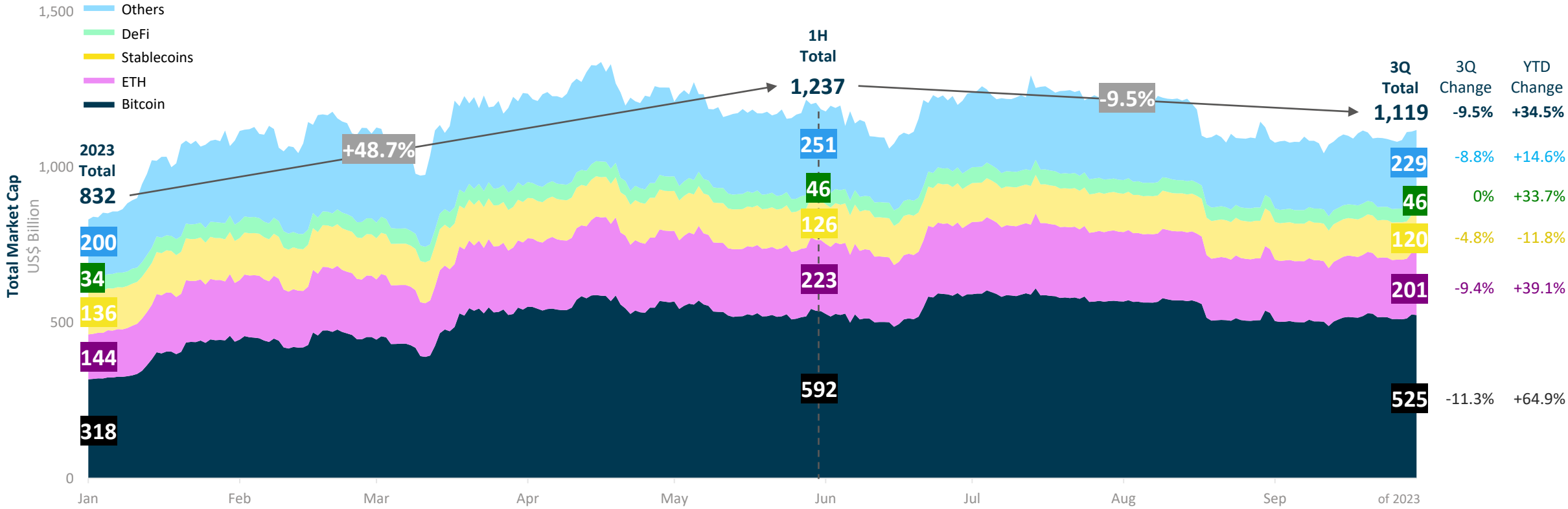


The global macroeconomic landscape is navigating the tail end of a tightening cycle. Interest rates remain high as central banks aim to temper inflation, which has begun to decelerate. While asset prices have seen a pullback in Q3 following a robust first half, the underlying trend towards price stabilization continues to hold strong, suggesting a cautiously optimistic outlook for the upcoming periods

Source: Yahoo Finance, CoinMarketCap, Federal Reserve Economic Data (FRED), Team Analysis. Data as of 30 Sep 2023.

Bitcoin and Ethereum Continue to Lead Despite Recent Market Corrections

Despite a minor downturn in crypto assets during Q3, the market trajectory points towards recovery



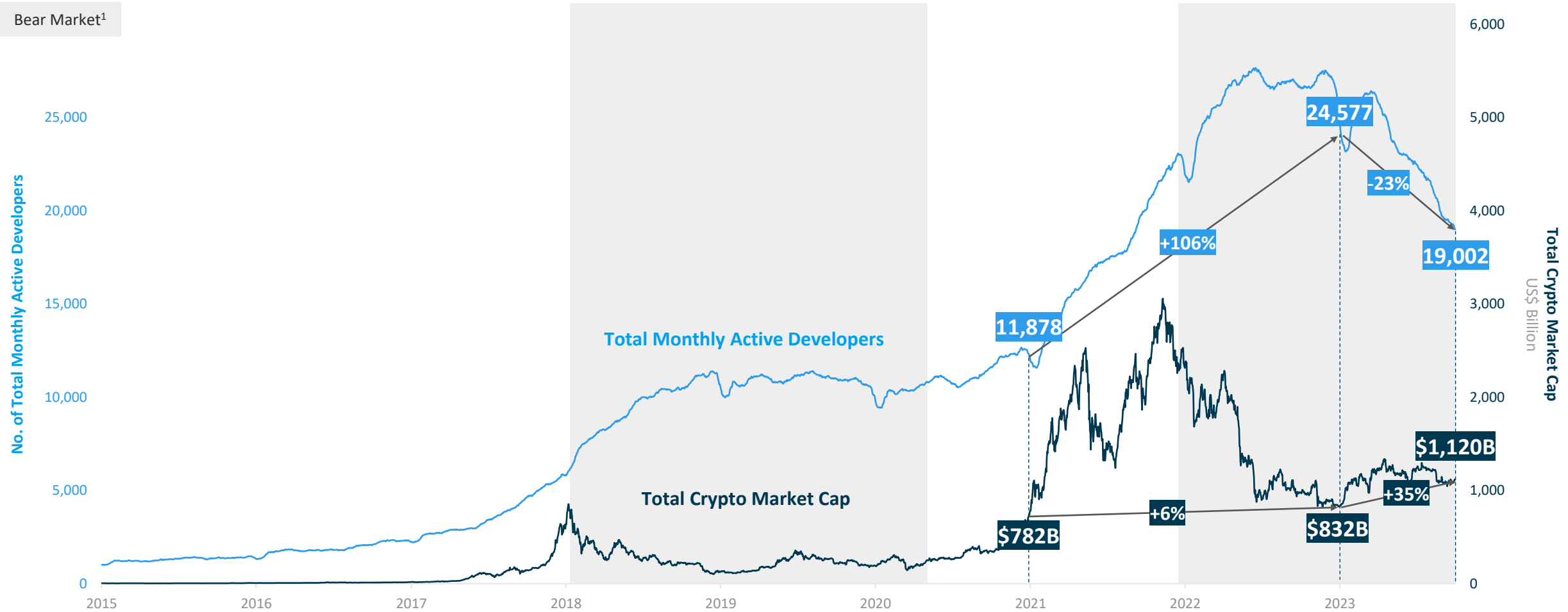
Bitcoin and Ethereum maintain their dominance in the crypto sphere. Subsectors like DeFi and stablecoins exhibit robustness amid corrections, positioning them as catalysts for the next market upswing amidst a diversifying landscape. As institutional investors increasingly engage, the market's future looks poised for dynamic changes, shaped by both technological advancements and regulatory changes.

Source: CoinGecko. Data as of 30 Sep 2023.

02 | Developer Activities

Divergence Between Asset Values and Developer Involvement During Market Stabilization

Although total crypto market cap has recovered from this market cycle's trough (hopefully), developer activity has declined 23% YTD as the bear market has prompted companies to restructure and improve cost-efficiency

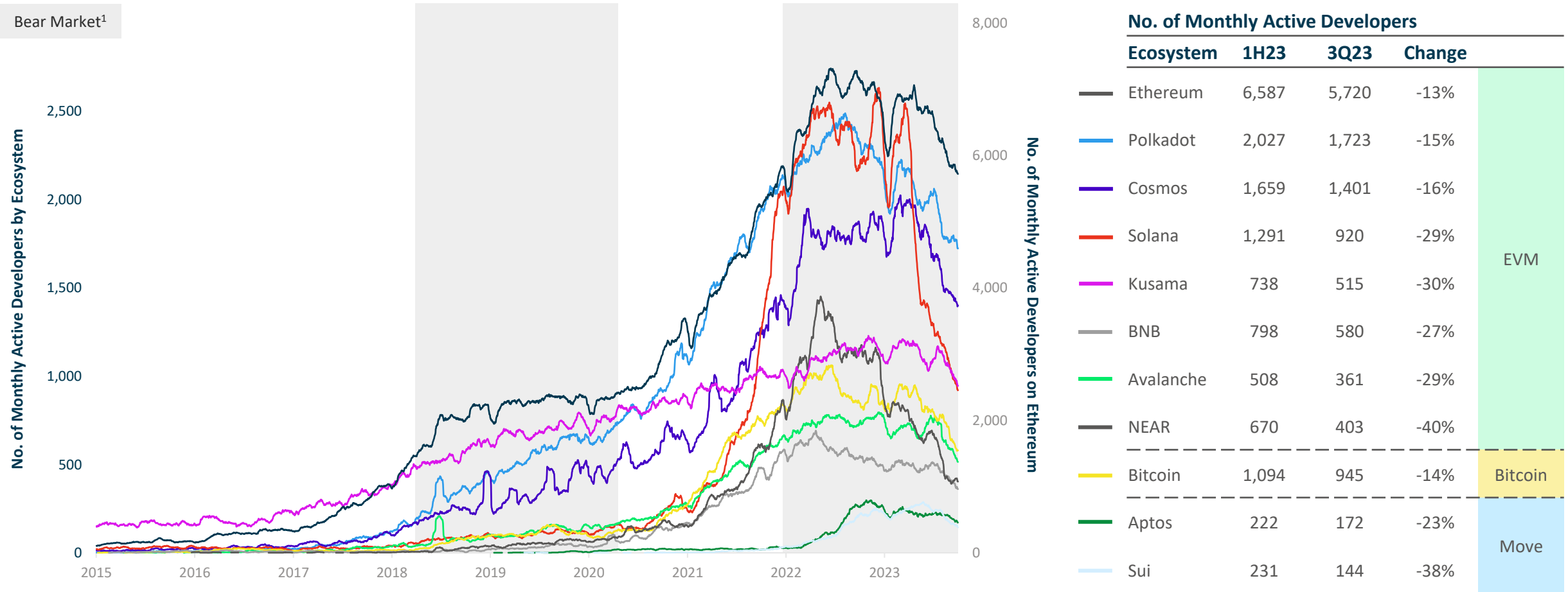


Contrast in trends between overall crypto market capitalization and developer engagement illustrates delayed responses in a bear market. This decline reflects strategic realignments within crypto companies, emphasizing cost-efficiency and adaptability in a challenging economic environment. However, the silver lining lies in the ongoing innovation and resilience, suggesting a potential rebound in developer engagement as market conditions stabilize

Source: Electric Capital Developer Report (www.developerreport.com), CoinGecko. Data as of 30 Sep 2023. ¹Bear market is determined by BTC price.

The State of Developer Engagement Across Key Layer 1 Ecosystems

Ethereum remains the most vibrant and resilient developer community, followed by Polkadot and Cosmos; there has been a significant decrease in developer activity across L1 ecosystems in 3Q amidst the broad market price retreat



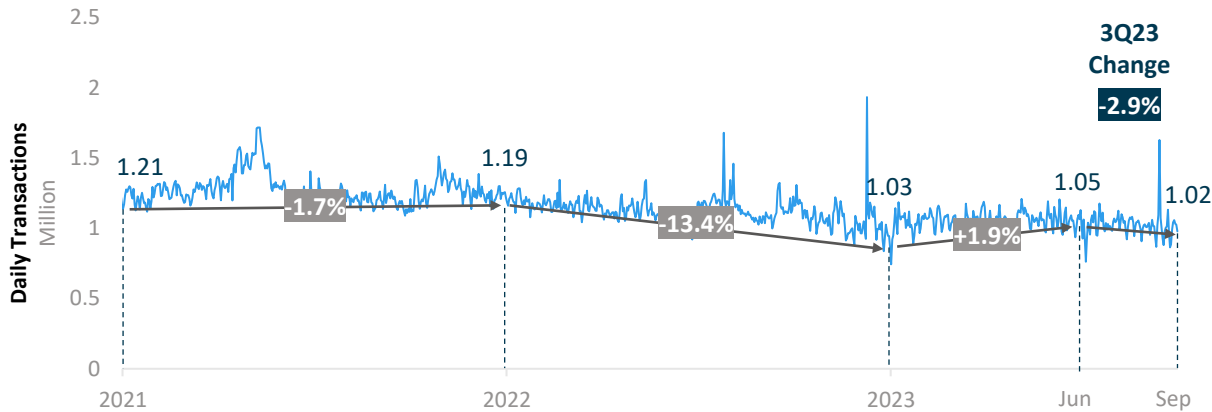
During 3Q's widespread market pullback, prominent crypto ecosystems experienced a marked decline in developer activity. The downturn in asset prices and difficult fundraising environment for projects have led to consequential restructuring and cost-efficiency improvements in crypto firms. However, leading ecosystems like Ethereum and Bitcoin have demonstrated resilience, attracting developers and investors seeking stability.

03 | Development in Major Ecosystems

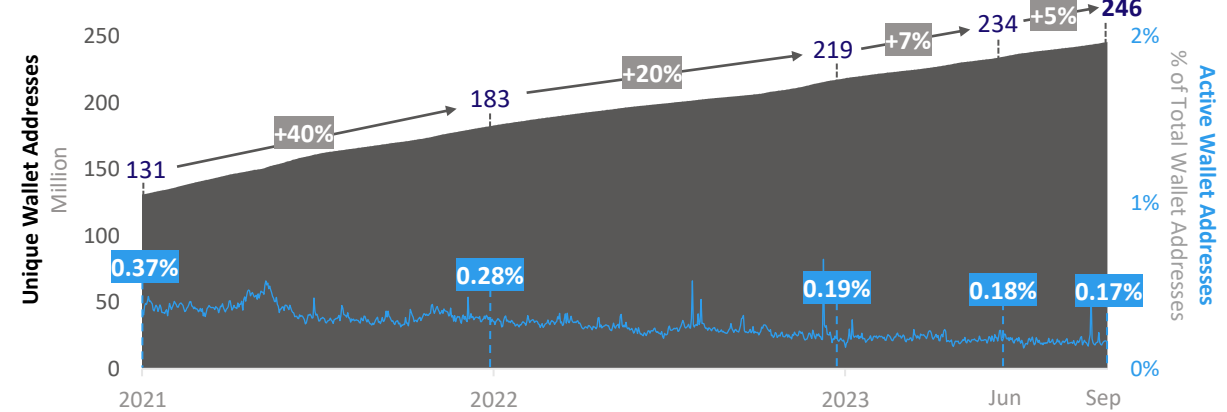
Ethereum's Resilience: Maintaining Growth Despite Market Challenges

Staking engagement surges alongside wallet address growth, amidst a backdrop of moderating daily activity and lower gas

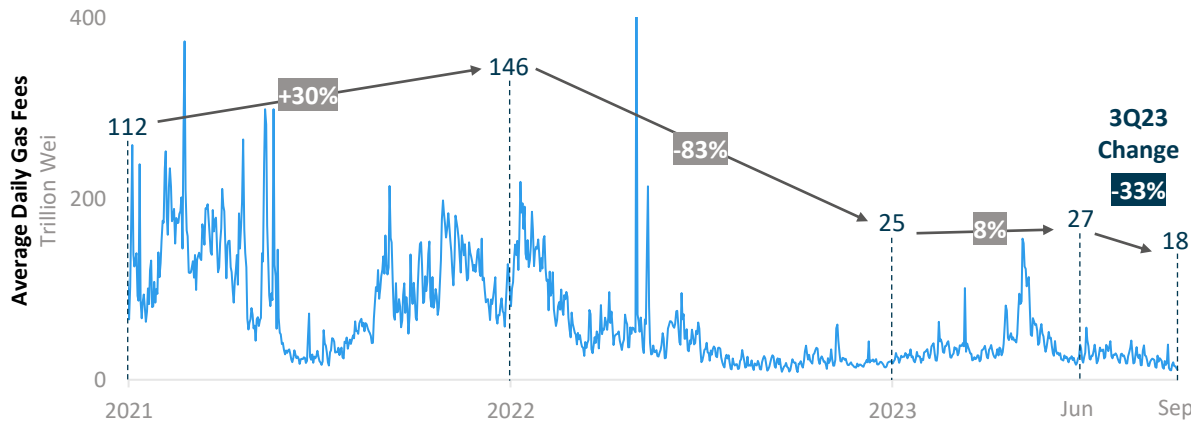
Daily Activity (Daily Transaction Count) Stabilising with Minor Fluctuations



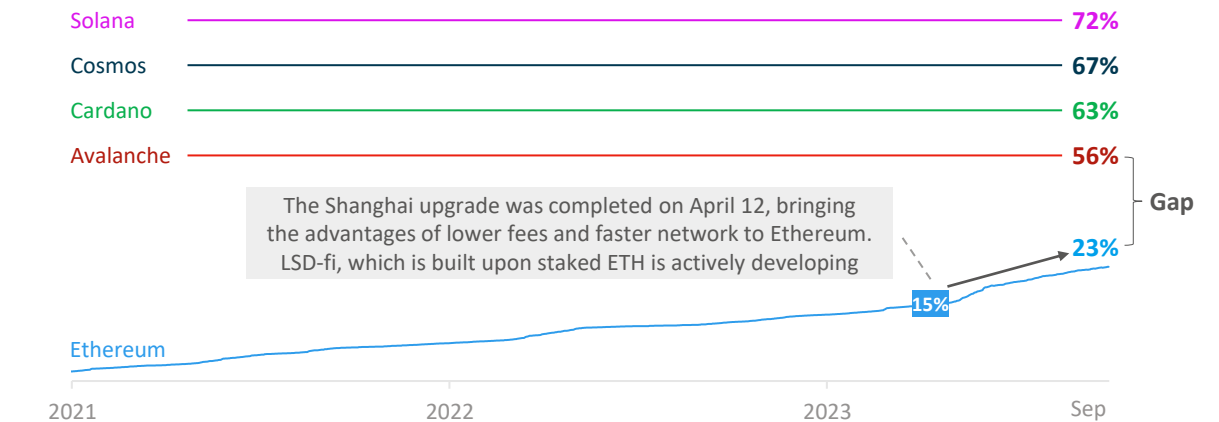
No. of Wallet Addresses Continues Growth While No. of Active Addresses Try to Keep Up



Average Gas Fees (Wei) Decreased to Reasonable Level in Bear Market



Staking Ratio is Lower than Other Major L1s, but is Steadily Closing the Gap

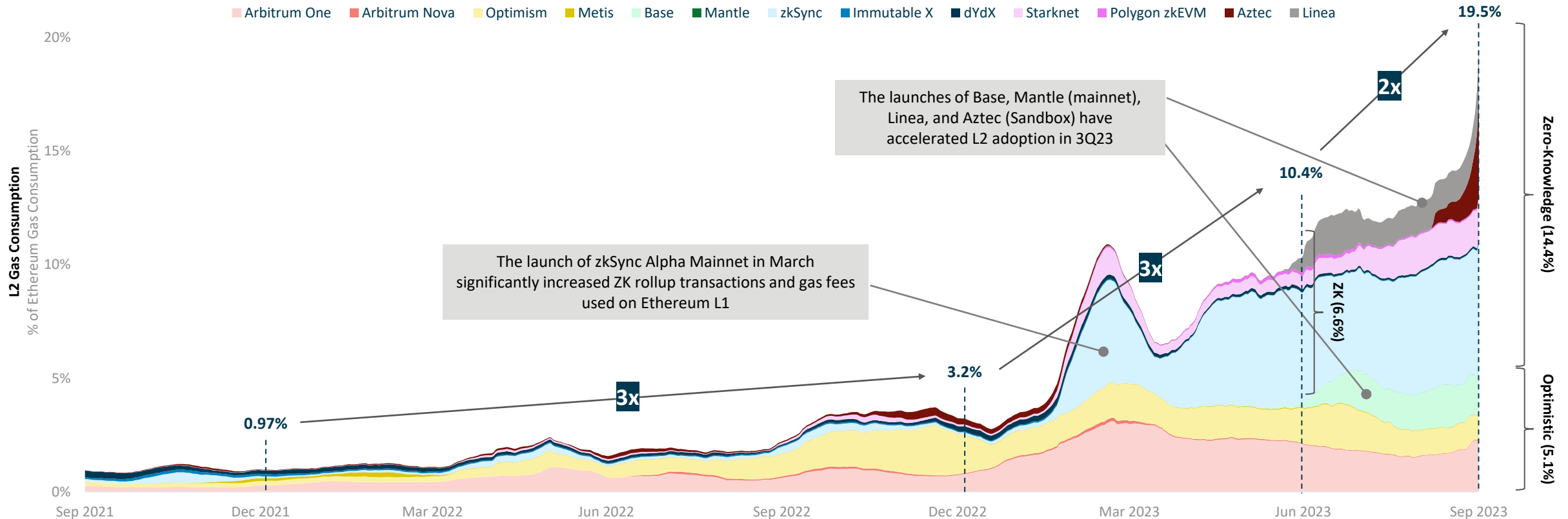


Market trends point to an uptick in both daily transactions and active wallet addresses, signaling a robust path to recovery. Post the Shanghai Upgrade, Ethereum has seen its staking ratio ascend to approximately 23%, narrowing the competitive gap with other top-tier Layer 1 protocols. As the ecosystem continues to innovate with maturing restaking solutions and the evolution of LSDfi and LSTfi platforms, Ethereum's staking ratio is expected to see sustained growth

Ethereum's L2 Surge: Rapid Adoption Signals a New Era of Growth and Refinement

New Layer 2 launches have catalyzed the adoption curve, with ZK rollups experiencing a significant uptick in usage. The introduction of Base has reinvigorated interest in optimistic rollups, although they trail behind ZK rollups in adoption rates. Additionally, there's an emerging trend of intra-layer competition, hinting at a cannibalistic dynamic within the L2 space

Major L2s' Gas Consumption as Percentage of Ethereum L1's Total Gas Consumption has Grown Over 6x YTD¹



The recent launch of Ethereum Layer 2 networks has marked a significant upturn in scaling efforts, with ZK rollups enjoying a dramatic uptick — more than doubling their growth in the third quarter, propelled by innovative platforms such as Linea and Aztec Sandbox. Despite the higher costs associated with ZK proofs, their adoption rate has surged past optimistic rollups. The introduction of Base has injected new momentum into optimistic rollup solutions, though it has created a competitive dynamic that risks overshadowing peers like Arbitrum and Optimism. As we embrace the “L2 Summer”, we’re poised to see an acceleration in both the growth and sophistication of these essential scaling solutions

Source: Etherscan, L2 Beat, Dune Analytics. Data as of 30 Sep 2023. ¹30-day rolling average.

DeFi Resilience Tested in Prolonged Bear Market

In Q3, the DeFi landscape saw a substantial exodus of users; total value locked, asset prices, and lending activities receded to early-year figures

DeFi Pulse Index¹ (US\$) from 2021-2023



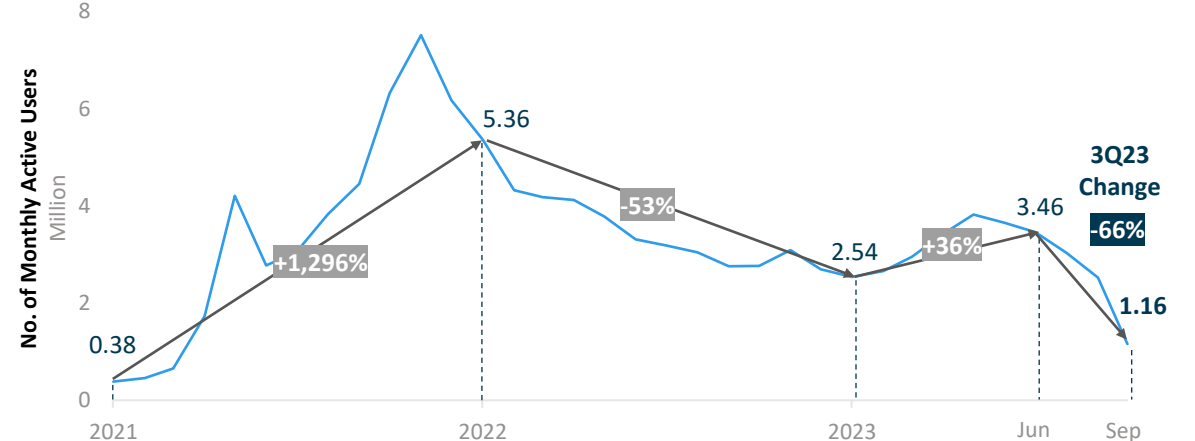
Overall Total Value Locked (US\$B) from 2021-2023



Overall Lending and Borrowing Amount (US\$B) from 2021-2023



Number of Monthly Active Users from 2021-2023



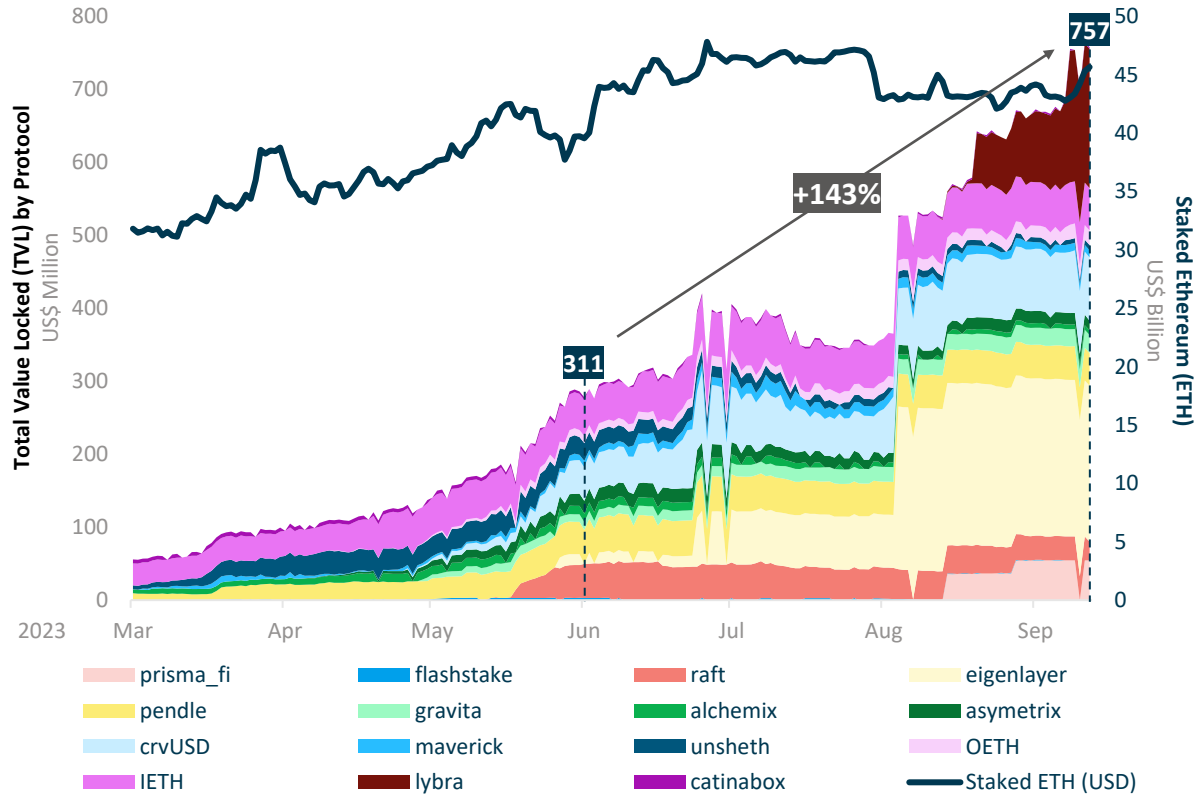
Throughout 2022, the DeFi ecosystem has grappled with sustained outflows of capital and users, exacerbated by significant market downturns. While there's been a modest recovery in asset valuations, the total value locked (TVL) and monthly active users (MAU) continue to experience a downtrend from the initial half-year surge. Active trading and leverage have diminished, with a noticeable shift toward more conservative, passive investment strategies during this bearish phase

Source: CoinGecko, DefiLlama, Dune Analytics, Team Analysis. Data as of 30 Sep 2023. ¹DeFi Pulse Index (DPI): A digital asset index designed to track the performance of tokens within the DeFi industry.

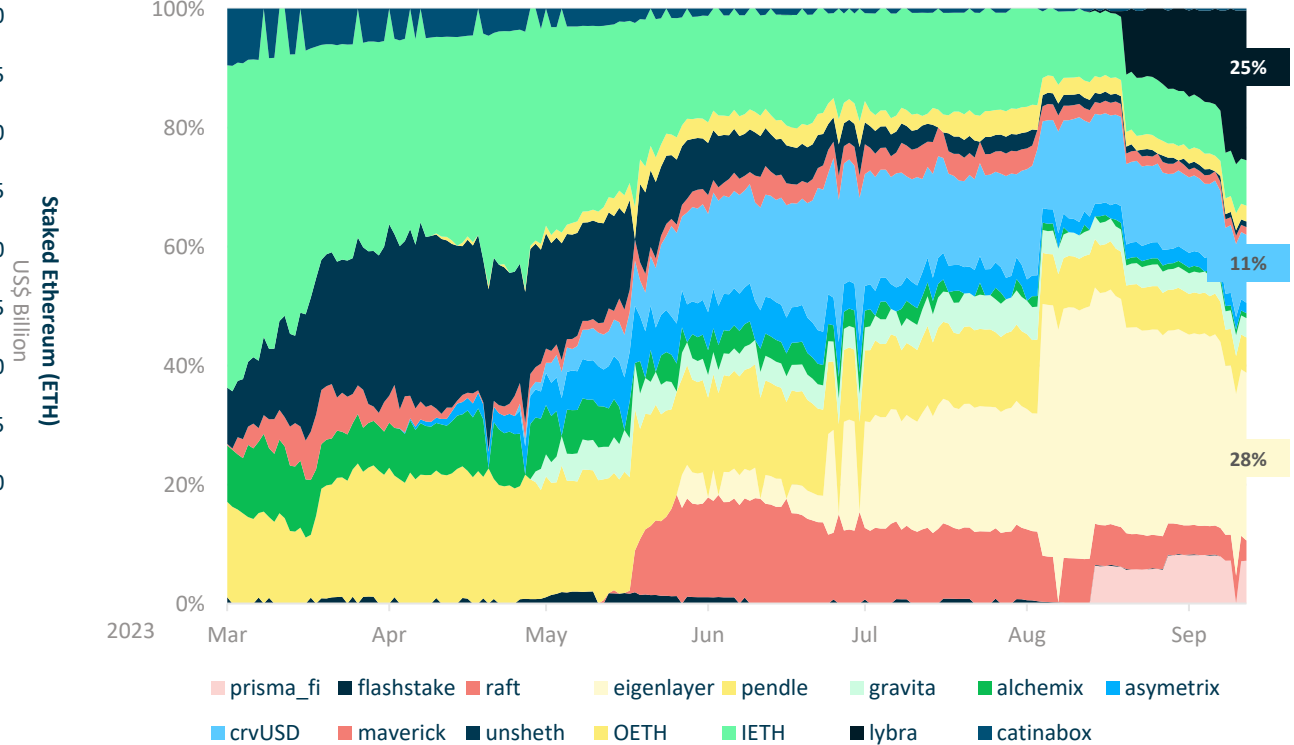
LSDFi Season: Harnessing High Yields in a Booming Staking Ecosystem

Q3 witnessed a spike in LSDFi's total value locked, propelled by the integration of innovative staking and restaking protocols in the wake of the Shanghai Upgrade

LSDFi TVL by Major Protocols (US\$M) and Staked ETH (US\$B)



LSDFi Market Share (by TVL) by Major Protocols



Ethereum's vs. Other PoS L1s' Staking Ratio



The LSDFi sector is poised for continued expansion, primarily driven by two factors: the broadening market of staked ETH which, despite a lower staking ratio compared to other major Layer 1 blockchains, shows significant potential for growth; and the current LSDFi protocols' penetration rate, which stands at about 1.6% — a modest figure that suggests room for substantial adoption (indicative of the US\$46B staked in ETH relative to the US\$757M in LSDFi TVL). EigenLayer is at the forefront, pioneering the advancing restaking movement

Source: Dune Analytics, Staking Rewards, Team Analysis. Data as of 30 Sep 2023.

SocialFi Reawakens: A Resurgence Fueled by Novel Platforms

Friend.Tech re-emerges as a decentralized social force, sparking renewed interest and engagement within the SocialFi realm



- Launched in August, Friend.Tech is a decentralized social platform on the Layer 2 network Base Chain, initiated by Coinbase
- Enables users to tokenize their social media identities, specifically linked to platforms like Twitter, using "Keys"
- Keys grant exclusive access to private chats and other unique benefits, enhancing social media interaction
- Features a mobile-first, user-friendly application, leveraging an invite code system to drive exclusivity and FOMO
- Achieved significant engagement with 8.8 million transactions within just two months of launch

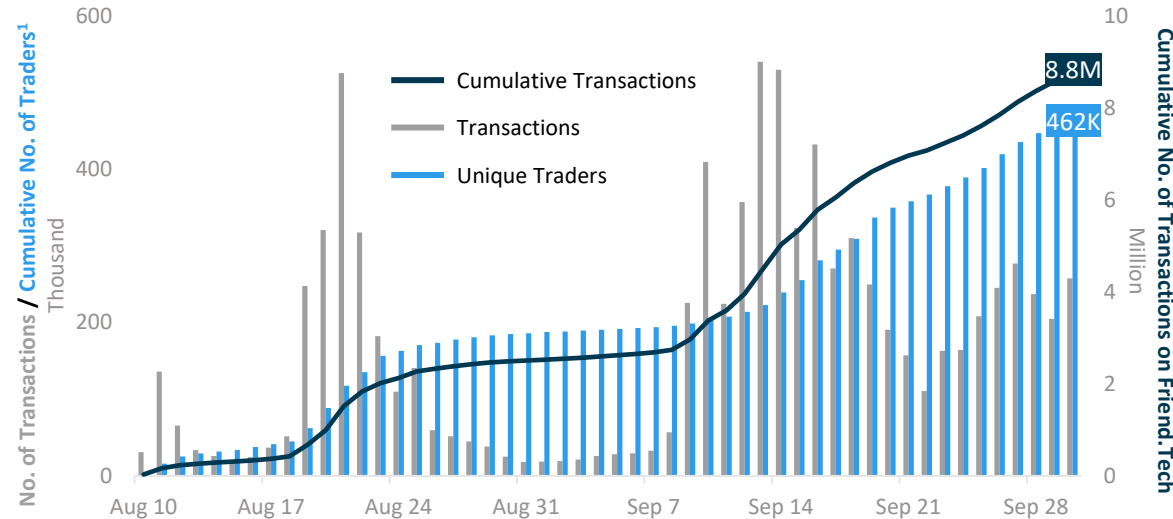
How Friend.Tech Works

- To access Friend.Tech, a unique invite code is necessary, ensuring controlled and exclusive membership. Upon account setup, users receive a complimentary key to kickstart their experience
- The platform allows users to browse and acquire keys of popular figures, such as content creators and influencers. The pricing of these keys is dynamic, reflecting the influencer's popularity and the demand for their specific key
- Each key transaction incurs a 10% fee, strategically split between the platform's treasury and the original key owner, fostering a sustainable revenue model for both the platform and its users

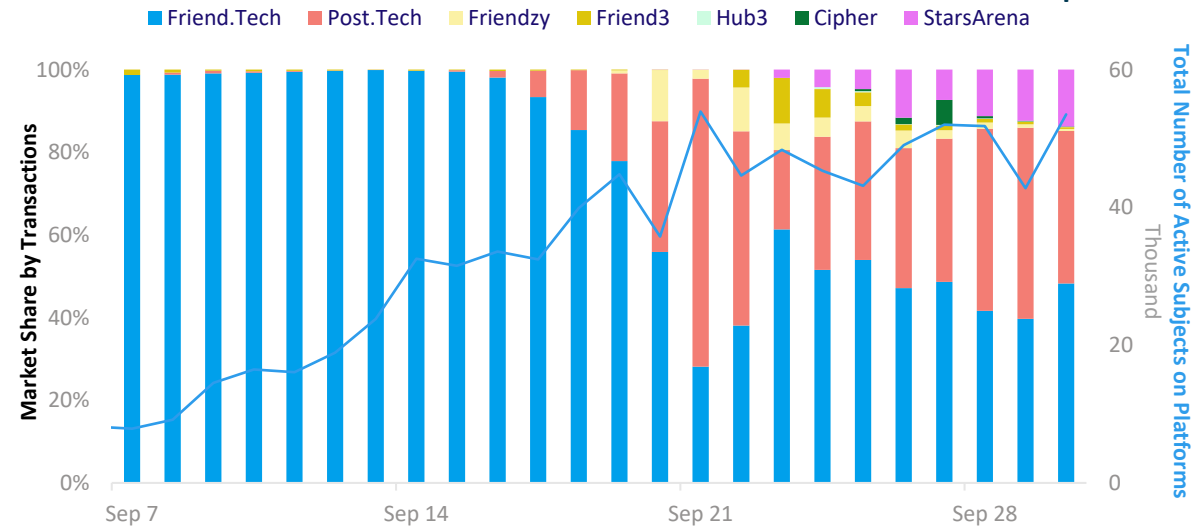
Top Users ↻

	Cobie 166 holders, 2,99756 ETH price
	Ansem 161 holders, 2,401 ETH price
	Sisyphus 151 holders, 2,37656 ETH price

Friend.Tech is Experiencing Second Stage of Growth with a Stable Increase in Number of Traders Despite the Drastic Fall-Off in Transactions After its Initial Hype



The Success of Friend.Tech Has Led to the Launch of Similar SocialFi Projects That Threaten Friend.Tech's Dominance but Garnered Increased Attention to the Space



After a brief dip following its initial surge in popularity, Friend.Tech has rallied to achieve a significant resurgence, marked by a consistent increase in transactional activity. The emergence of new, similar platforms — despite being critiqued by Friend.Tech — has paradoxically amplified the spotlight on the SocialFi sector, contributing to its second wave of growth and user adoption

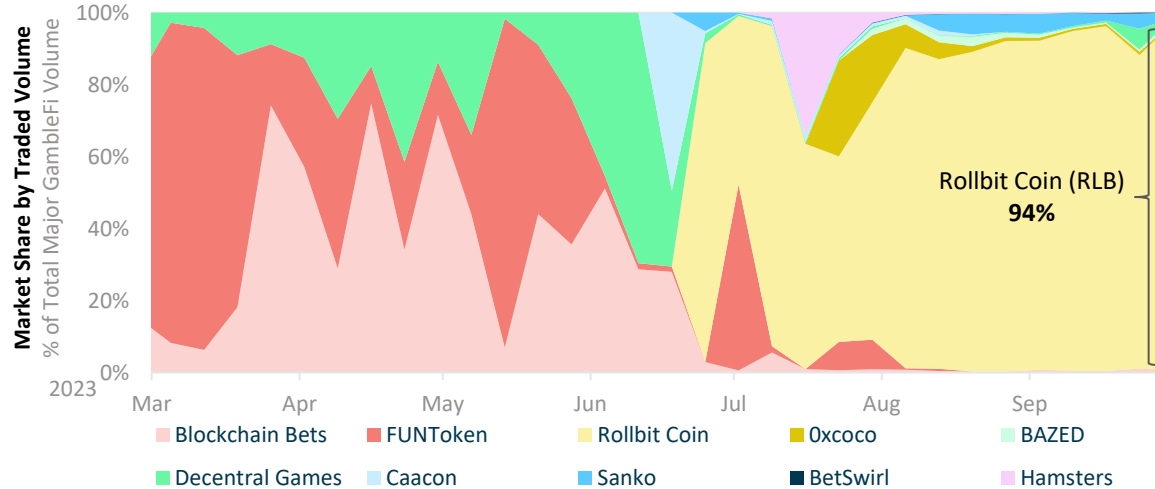
GambleFi: Revolutionizing the Gambling Market with Blockchain Technology

Post-July peak, trading volumes and transaction numbers are recalibrating, aiming for a sustainable equilibrium



- **GambleFi's Rise:** GambleFi, a decentralized gambling ecosystem, surged in popularity through endorsement by crypto influencer Gainzy this summer, leading to a high-profile partnership with Rollbit
- **Rollbit's Evolution:** Established in 2020 on the Solana network and migrated to Ethereum in June, Rollbit offers an extensive "gaming lobby" experience, including sports betting, arcade games, high-leverage futures trading, and an NFT marketplace
- **Blockchain Advancements:** Traditional gambling operations often grapple with trust issues regarding the fairness of games and impose stringent KYC and withdrawal limits. Blockchain technology revolutionizes this by introducing indisputable fairness, heightened transparency, and fortified security in the gambling sector.

Rollbit Dominates the GambleFi Market

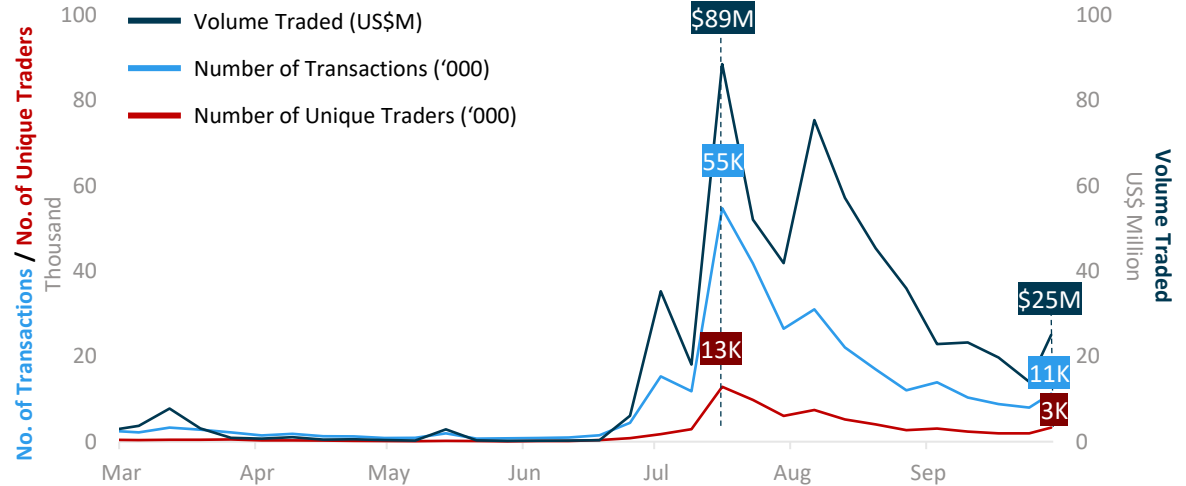


Rollbit 30-Day Metrics

September 2023

Casino	\$24,972,300	\$37M+ in Revenue Across Three Revenue Streams in 30 Days
Crypto Futures	\$7,929,800	
Sports	\$4,808,110	
Burn	40,326,430 RLB (\$5,254,000)	1.25%+ buy and burn of the circulating supply

GambleFi on Ethereum – Volume, Transactions, Unique Users¹



Following a period of intense popularity, Rollbit and the broader GambleFi market have experienced a normalization from their summer highs. Trading volumes, transaction frequencies, and unique user counts are now aligning at more viable levels, maintaining significant market relevance — highlighted by Rollbit's impressive \$37M+ revenue over 30 days in September. The gambling sector represents a significant opportunity for blockchain integration, offering enhanced transparency and efficiency. However, long-term success in this arena will require careful navigation of evolving regulatory landscapes

Telegram Bots: Streamlining Access to DeFi Markets

Unibot's integration with Uniswap on Telegram has spearheaded the development of innovative trading bots in DeFi

The Emergence of Telegram Bots

- **User-Friendly Trading:** Telegram bots provide an intuitive interface for crypto transactions within the familiar environment of the Telegram app, significantly lowering the entry barrier for newcomers to the crypto market
- **Diverse Functionalities:** Beyond trading, these bots offer a suite of sophisticated services including sniping, mirror trading, airdrop farming, and comprehensive wallet analytics—expanding the capabilities beyond what many DeFi platforms currently offer
- **Innovative Revenue Models:** The bots generate income through two primary channels: a transaction fee for trade execution and a "tax" on buying or selling the bot's native token. For example, Unibot derives a considerable portion of its earnings, approximately 80%, from this "tax" revenue, illustrating the potential for high-profit margins

How Telegram Bots Work

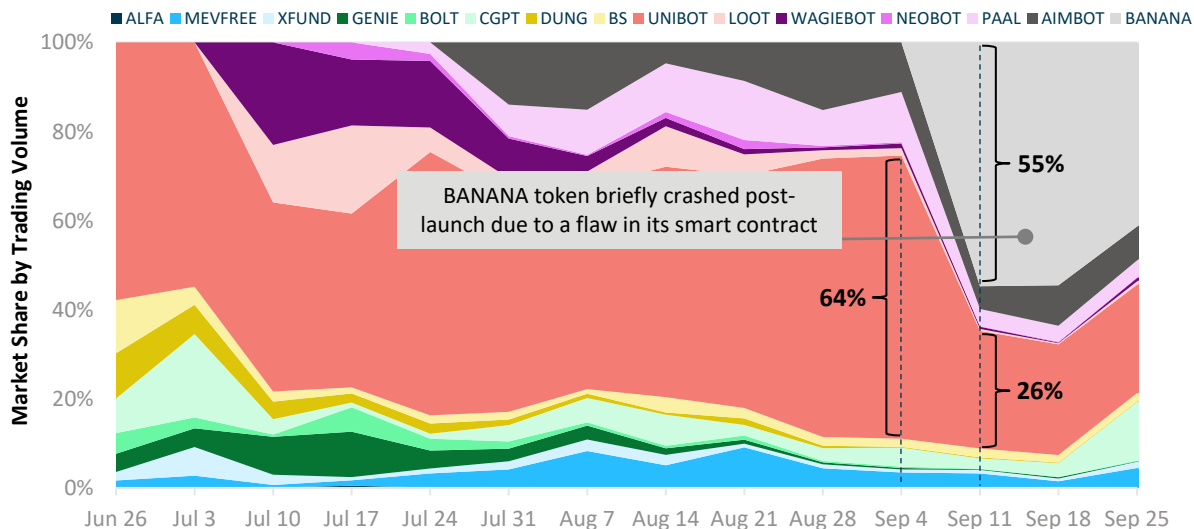
Unibot Sniper - Elite Dex Trading Bot
 Gas: 20 — Block: 18438807 — ETH: \$1784
 Welcome to Unibot. You are now registered and have been assigned new wallets. Fund the wallets provided to start swapping and sniping.

Unibot | Website | Tutorials | Watchlist
 Snipe & trade at elite speeds for free. Ethereum and Basechain is supported.

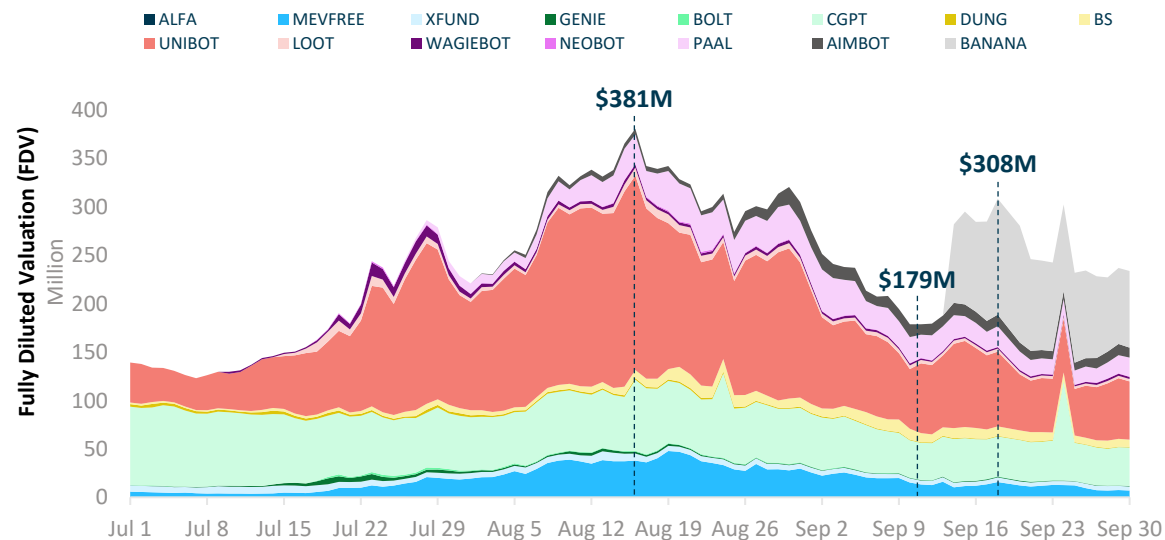
Buy Tokens	Sell Tokens	
Buy Limit	Sell Limit	
Snipers (ERC-20)		
Token Balances	Wallet Analysis	Flex PnL
Uni-X	friend.tech	Settings

- 1) **Initiate Interaction:** The user initiates a command within the Telegram Bot's dedicated channel
- 2) **Access Main Menu:** A comprehensive main menu appears (refer to the left-hand side view), offering options to create a new wallet or integrate an existing one
- 3) **Transaction Prompt:** Users receive clear prompts to carry out various transactions, streamlined for ease of use

Banana Gun Bot, Despite Hiccups, Has Usurped Unibot's Market Leader Position



Total FDV has Fallen from Peak but Subject to Increase with Emergence of New Bots



Unibot's introduction in June has inspired a wave of new trading bots that utilize Telegram for simplified DeFi transactions, enhancing the visibility and utility of both the bots and their linked tokens. Despite a downturn in trading volumes and market cap valuations from their all-time highs, the advent of bots like Banana Gun Bot signals a growing trend. This innovation is set to further boost engagement and accessibility in DeFi trading

Source: Binance Research, Telegram, Dune Analytics. Data as of 30 Sep 2023.

04 | Trending Thematics

Rollups: Catalyzing Ethereum's Growth Through Advanced Scaling

The gradual realization of Ethereum's scaling vision is underway, with major ZK-Rollups launching their mainnets, L2s unveiling L3 technologies, and the rise of Rollup-as-a-Service models

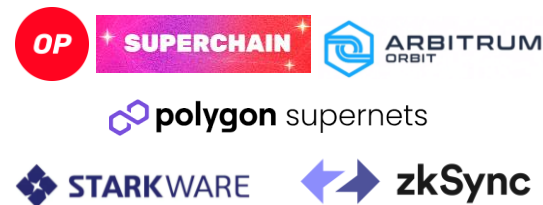
L2s: From Testnet to Production

- With ZK-Rollups, including Scroll, zkSync, Aztec, Linea launching mainnets (alpha), scaling solutions enabled by ZKEVM moved a big step closer to full-scale production
- More ZK-Rollups are under development to further improve cost and performance, including Taiko¹ working on its Type 1 ZKEVM and RiscZero releasing Zeth ("Type 0" ZKEVM)



Further Scaling: L3s & L2s chains

- L2s are launching new framework to facilitate the launch of new L2s or L3s (rollup on L2s/ app-chain)
- OP Superchain: network of L2s (OP chains) that share security, communication layer and OP Stack (open-source tech stack)
- Arbitrum Orbit: framework to deploy L2s on Arbitrum
- zkSync Hyperchains: L3s that are trustless and customizable linked on zkSync
- Starkware Fractal Scaling: L3s for customized scaling
- Polygon Supernets: L2 app-chains



Rollup-as-a-Service (RaaS)

- RaaS is used to launch new application-tailored rollups without the need to maintain or host any part of the service offering
- App-chain allow customization to the chain design with better scaling, performances and specific functions
- With RaaS, developers are given SDKs or no-code dashboards to deploy an app-chain. RaaS can garner hosting fees, foster direct developer engagement and uncover additional revenues
- RaaS companies include Opside, Caldera, Celestia, Dymension, Sovereign, Altlayer, Saga, Stackr, Vistara, etc.



Key Drivers of the Rollup Ecosystem

Market Scalability: Rollups are set to propel Ethereum and other blockchains to new heights, with ZK rollups providing the critical efficiency needed for the Web3 sector's expansion

Technological Readiness: After extensive R&D, generalized ZK rollups are now production-ready, marking a strategic inflection point for the industry to leverage this advanced technology

Talent Acquisition: The rollup space is becoming a hub for brilliant minds from both industry and academia, driven by the technological novelty of ZK rollups, making it an opportune moment for investment in elite development teams

Chain Interoperability: Rollups are bridging diverse blockchains and apps, enlarging the ecosystem

Economic Viability: Revenue from rollup operations is funding innovation and talent retention

ZK Technology: Broadening Horizons Beyond Theory

The conversation around Zero-Knowledge has shifted towards practical applications, with a focus on verified computation, ZK Machine Learning (ZKML), development tools, bridges, and enhanced privacy solutions

ZKML & Verified Computing

- Leveraging Zero-Knowledge Proofs (ZKP) enhances machine learning and computational processes by providing verifiable proofs for model inferencing, training, and fine-tuning. ZKP integration ensures greater decentralization, heightened security, and robust privacy in data-sensitive ML applications
- Companies working on ZKML include Modulus Labs, Gensyn, Giza, EZKL, Nexus Labs, Origin Systems, etc.



ZK Development Tools

- There's a discernible gap in the market for development tools that effectively translate ZKP's scientific breakthroughs into reliable, large-scale systems. Initiatives like Ironmill's launch of Oxide alpha in August are pioneering efforts to close this gap, enabling seamless integration of ZK circuits into applications



ZK Bridge

- Using ZKP to build trustless and more secure bridges for cross-chain communication
- Companies working on ZK Bridge include Polyhedra¹, Succinct, Electron Labs, =nil; foundation, wormhole, etc.



ZK for Privacy

- Implementing ZKP for enhanced transaction privacy, allowing for the encryption of accounts, transactions, and addresses to maintain confidentiality on public blockchains
- Companies working on providing private transactions include Elusiv, Silent Protocol, Nocturne, Hinkal, etc.

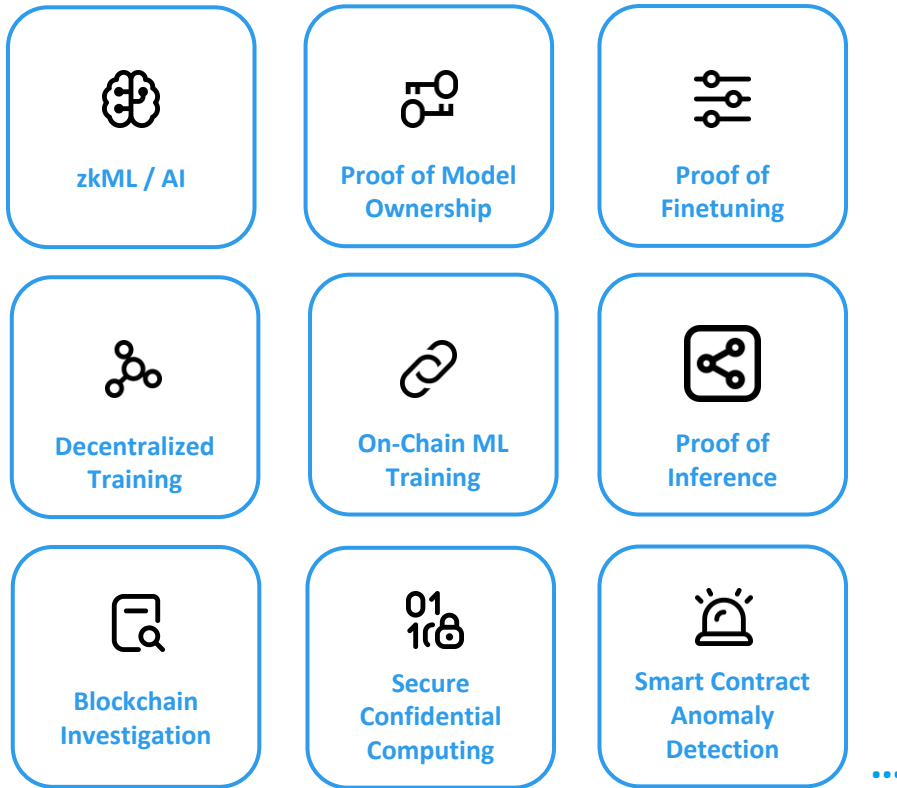


1. L2IV portfolio company.

Crypto and AI Synergy: Pioneering the Future

The convergence of cryptocurrencies, AI, and ZKPs opens a realm of significant investment potential, promising groundbreaking synergies in the coming decade

Potential Use Cases



Our Views

- AI's predictive nature pairs well with blockchain's deterministic framework, enhancing accountability
- Crypto and blockchain characteristics like decentralization, cryptography, and programmability can substantially advance AI and ML technologies
- Cryptocurrency incentives could democratize data access, moving away from organizational silos to more diverse and extensive datasets and models
- Early crossover applications include algorithmic stablecoins, yield optimization, identity verification, blockchain analytics, smart contract monitoring (e.g., BlockGPT), decentralized AI model training, and verifiable computing
- As the intersection of Crypto and AI is still nascent, the evolution of infrastructure, tooling, and middleware will catalyze more innovative and transformative use cases

Intent-Based Architecture: Revolutionizing dApp Design

Intent-based architecture and its associated dApps are at the forefront of R&D, promising to redefine UX and potentially set new standards for next-generation applications



Definition

An intent is a set of declarative constraints that allows a user to express “what” to be done but not “how” to be done and delegate the transaction creation to a network of third-party actors (usually called solvers) for the best possible execution. In short, an intent refers to the desired outcome (“what”), whilst a transaction refers to “how” the desired outcome is achieved. Intent architecture is currently being used for simple orders like private transfers, conditional orders like limit orders, and continuous orders like cost averaging.

Key Intent Architectures

- To realize the vision of intent-based architecture in crypto, an intent layer has to be established to allow users to express their intents and solvers to compete on solving the intents
- Projects like Anoma, SUAVE, Essential, CoW Protocol and others are building the intent layer for blockchains, with their own innovations
- **Anoma:** Anoma is designed for decentralised counterparty discovery, privacy and atomic multi-chain settlement for intents
- **SUAVE:** Single Unifying Auction for Value Expression is a new initiative by Flashbot to decentralize block building. It introduces the concept of “preferences”
- **Essential:** building intent-based infrastructure & tooling to accelerate the transition from “value extraction” to “intent satisfaction”
- **CoW Protocol:** powers a network of traders and solvers, enable trustless and efficient P2P trading, introduced batch auctions concept



Intent Potential Benefits

- **Enhanced User Experience:** By focusing on user intents, these dApps streamline processes, potentially offering more efficient executions and cost savings
- **Security and Privacy:** With only the intent being expressed and no specific transaction strategy disclosed, user privacy is significantly enhanced
- **User-Centric Design:** These applications are designed with the user's specific needs in mind, a shift from the traditional transaction-focused approach
- **Optimized Costs:** Particularly beneficial for complex transactions, this architecture can optimize fees by reducing the need for multiple individual transactions

Intent Potential Challenges

- **Solver Efficiency vs. User Privacy:** Balancing the solver's effectiveness with the confidentiality of user information remains a critical challenge
- **Centralization vs. Decentralization:** The design's openness, entry barriers, and transparency are key in maintaining a balance between centralized and decentralized models
- **Technical Hurdles:** Implementing advanced algorithms to realize the full potential of intent-based architecture presents its own set of technical complexities

MEV: Pioneering Solutions Through Cutting-Edge Research

In-depth research is underway to address MEV challenges - exploring innovative solutions like order flow auctions, enhancing decentralization, fortifying censorship resistance, establishing MEV credibility, and refining proposer and builder commitment schemes



Definition

Maximal extractable value (MEV) is the profit a miner (or validator, sequencer, or other privileged protocol actor) can make through their ability to arbitrarily include, exclude, or re-order transactions from the blocks they produce¹

Order Flow Auction

- **Welfare Gap:** Research indicates a significant "welfare gap" in transaction ordering, particularly in First-in-first-out (FIFO) systems, compelling benign users to bear costs from failed transactions during MEV attacks, as seen in Solana and Arbitrum (Theo Diamandis)²
- **Auction Benefits:** Implementing superior auction mechanisms can mitigate these externalities, offering advantages like reduced MEV, equitable trading, enhanced price discovery, lower transaction costs, and improved liquidity.

MEV Across Tech Stack

- **MEV Credibility:** Addressing the credibility challenge in MEV, especially in systems with intermediate computations reliant on trust. Flashbot's SUAVE² design proposes efficiency without dependence on reputation
- **MEV on L2:** Tackling both Micro MEV (transaction ordering) and Macro MEV (fee manipulation) in Layer 2. Solutions range from market mechanisms to governance processes, each with distinct performance-security considerations. (Davide Crapis²)

Decentralization & Censorship Resistance

- **Geographic Decentralization:** Advocating for geographic decentralization as crucial for a truly decentralized system, while avoiding the entrenchment of existing geographical disparities (Phil Daian²)
- **Proposer Censorship:** Malleh Pai² shared a solution to tackle this problem by using Multiple Concurrent Block Proposers (MCBP), which adopts an incentive scheme that provides tipping to proposers on the condition that they include the data. The game theory analysis shows that dominant strategy for each proposer is to include the data

Protocol-Enforced Proposer Commitments (PEPC)

- **PEPC Overview:** Exploring Protocol-Enforced Proposer Commitments as a fair exchange framework between proposers and builders for block elements. A generalized concept, applicable when ePBS becomes a reality
- **Research and Implementation:** PEPC remains a research focus, with potential implementations like PEPEC-Boost, PEPC-DVT, and PEPEC-Capture, but is not yet slated for product roadmap integration

1. Flashbot definition.
2. From sharing in MEV Workshop, SBC 2023.



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