

ILSI – Initial Asset Allocation Overview

This post will provide details of the initial asset allocation for the “Invest Like Stakeborg Index” (“ILSI”).

ILSI Recap

ILSI is an index which seeks to provide investors macro and diversified exposure to the main narratives that stand out as opportunities in the crypto space.

In order for ILSI to track the appropriate assets, the universe of tokens has been split into key sub-segments and a carefully selected number of projects was picked from each category. The main categories that have been considered are the following:

Bitcoin.

Ethereum.

Oracles / Web 3.0.

Layer 1 infrastructure / smart contract platforms.

Decentralized Finance (“DeFi”).

Exchange tokens, including Centralized Exchanges (“CEXes”) and Decentralized Exchanges (“DEXes”).

NFTs / GameFi / Metaverse.

Universe of Potential Assets and Implied Limitations

Given that the index is deployed on Set Protocol which operates on Ethereum and extracts liquidity from DEXes such as Uniswap or SushiSwap, the universe of potential assets that can be included is formed of ERC-20 tokens and hence, has a number of restrictions. Two of the main constraints are that any chosen asset would need to have an ERC-20 equivalent and an LP with ample liquidity in order to sustain

relatively high trading volumes and optimal pricing. The former constraint leaves assets such as Cardano, Solana or Polkadot out of the underlying pool of available assets for the indexes.

Initial Allocation Overview

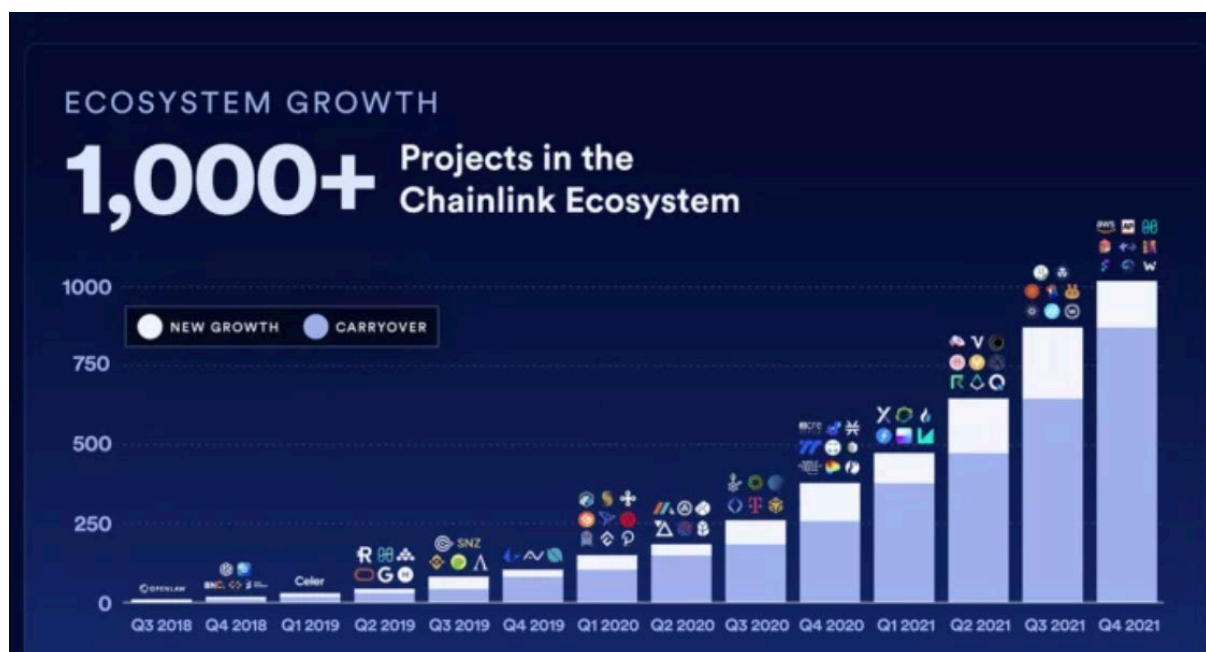
A. Bitcoin and Ethereum

ILSI has two key pillars in the form of Bitcoin and Ethereum given these assets will continue to be the main drivers of adoption, institutional interest and market growth. Data on digital assets fund flows compiled by CoinShares Research indicates that the total AUM in Bitcoin and Ethereum funds stands at \$39.7bn and \$16.7bn, respectively, as of December 31, 2021. Their funds' AUM figures are significantly higher than the ones of the other assets' funds and have shown relatively constant inflows throughout the years.

B. Oracles / Web 3.0 – Chainlink

In this segment, ILSI includes Chainlink, the leading decentralized oracle network in terms of number of partners and market capitalization. Its high number of ecosystem projects is derived from Chainlink's trusted and integrated suite of services, which includes market and data feeds, verifiable randomness functions (VRF) (required for random number generations used in applications such as games), Proof of Reserve (which offers the opportunity for crypto companies, such as stablecoin issuers and custodians, to prove to their users that they are holding certain assets off-chain) and Keepers. Chainlink has built a strong reputation in the market, with entities such as Swisscom, Deutsche Telekom, Associated Press or AccuWeather having launched nodes on its network. The project has a high degree of innovation, with its roadmap including Chainlink 2.0 and the launch of Decentralized Oracle Networks (DONs). These will provide secure off-chain computation in addition to off-chain data provision and will allow for the creation of hybrid contracts and bring

new use cases for cryptocurrencies. Sergey Nazarov has specified that Chainlink staking will be introduced in 2022, which will improve the current tokenomics of \$LINK and incentivize oracle nodes to explore yield opportunities. The roadmap also includes the implementation of Cross-chain Interoperability Protocol (or CCIP) that will facilitate interoperability between different blockchains. Chainlink growth opportunities will also reside in how it manages to provide new kind of data feeds. In addition, Chainlink has a high degree of retention amongst its partnerships, as shown below.



An oracle asset also addresses the Web 3.0 given that it provides the critical infrastructure for establishing a unified, interoperable Web 3.0 ecosystem.

C. Layer 1 infrastructure / smart contract platforms – Terra

ILSI includes Terra, an ecosystem of decentralized stablecoin tokens, which are collateralized by the \$LUNA token. Terra has laid out the groundworks for a growing ecosystem, having encapsulated multi-chain interoperability, an ecosystem development fund and a growing DeFi

platform. Its most important decentralized stablecoin is \$UST which has a market cap of over \$10bn, higher than its closest competitor \$DAI.

In terms of multi-chain interoperability, Terra has launched Wormhole v2 which now allows users to port assets between Terra, Solana, Ethereum and Binance Smart Chain. In addition, the Terra Columbus-5 mainnet was launched at the end of September 2021 and it brings a number of key features: burning of seigniorage fees (creating deflationary pressure for \$LUNA), inter-operability with Cosmos IBC, and the launch and funding of Ozone insurance protocol. The interoperability feature brought by Columbus-5 has the potential to allow UST to become the decentralized stablecoin of choice used for trading cross-chain assets using Cosmos' DEXes.

On the ecosystem growth front, Terra launched a \$150m ecosystem development fund, with backing from VC funds, such as Pantera Capital, Arrington XRP, Delphi Digital, Jump Trading or Galaxy Digital. In December 2021, it has brought Natalie Luu as Head of Ecosystem Development to spearhead the ecosystem growth. Natalie has previously worked at Y Combinator and lead investments at Lightspeed Venture Partners.

Terra has established a DeFi platform of significant size, with TVL that positions it in the top 3 chains.



D. Decentralized Finance – Aave, Synthetix and BarnBridge

ILSI's DeFi exposure is represented by leading projects active in markets that have significant potential given the size of their tradFi correspondents. It includes projects in the lending / borrowing market (Aave), derivatives (Synthetix) and structured products / risk trenching (BarnBridge).

Aave is an open source and non-custodial protocol for earning interest on deposits and borrowing assets. It currently exists on Ethereum, Polygon and Avalanche, with more blockchains under consideration. Aave is a blue-chip amongst the DeFi projects and has several key competitive advantages over its closest competitor, Compound. These include a wider variety of supported tokens, features with a higher degree of innovation (e.g., provides both fixes and variable interest rates or flash loans) and higher market share (in terms of TVL, deposited balance per day and borrowed balance per day, as per data from Footprint Analytics). Aave has recently integrated with Centrifuge and opened a real-world asset market, a similar partnership that MakerDAO had entered into earlier in 2021.

Other key investment highlights include the fact that Aave has been focused on being compliant with regulations, having secured an Electronic Money Institution license from the FCA in the UK while also working closely with its institutional partners to offer compliant services. Moreover, Aave is governed by a DAO, which has the third highest number of active users in the industry, as per DeepDAO.io. A number of VCs are part of the community, including Three Arrows Capital, Framework or Blockchain Capital. In addition, Aave released its permissioned, institutional-focus, lending and borrowing protocol, which, as it gets traction, may attract significant more interest towards Aave.

Aave's roadmap includes Aave v3, a decentralised social media platform, the release of a mobile app and new use cases for the \$AAVE token. Aave v3 has a number of potential features, including Portal (borrowers and lending would be able to transfer assets in-between Aave-supported blockchains), eMode (would increase LTV for certain assets), isolation mode (would limit exposure and risks to the protocol from newly listed assets) and others.

Synthetix is a leading token trading platform built on Ethereum that allows users to exchange tokenized representations and derivatives of cryptocurrencies, currencies and other assets in the form of ERC-20 tokens. Users stake the \$SNX as collateral in order to create new synthetic assets. Synthetix is deployed across Ethereum and Optimism. When compared to its main competitor, Mirror Protocol, Synthetix has a higher TVL and higher market cap. Synthetix has backing from VC names such as Coinbase Ventures, Paradigm or Framework Ventures. It has an all-time trading volume of over \$20bn (as per Dune Analytics), with sUSD and sETH having the largest share. Its roadmap includes the potential launch of a futures market to further diversify its offering.

ILSI includes BarnBridge, a tokenized risk management protocol that provides composable solutions for investors to hedge against interest rate fluctuations (Smart Yield) and price volatility (Smart Alpha) as well as tools which allow users to passively maintain a specific ratio within an underlying ERC-20 token pair (Smart Exposure). BarnBridge has significantly higher TVL and a wider array of more in-demand products when being compared to its main competitor, Saffron Finance. BarnBridge is backed by investors such as Morgan Creek, Fourth Revolution Capital, Kain Warwick or Stani Kulechov. The project's roadmap includes innovative ideas such as the Sailor product (stemmed from Michael Saylor's MicroStrategy convertible bond offering, it provides high fixed income rates through a structured product that leverages a junior BTC position), with a tentative release date in April, and Smart Yield_v2.

E. Exchange tokens – FTT and dYdX

\$FTT provides exposure to the centralized exchange token segment. While the utility of exchange tokens is not different in-between projects from this category, FTX stands out through its increasing market share and attention it is paying to regulations (i.e., through its stated regular engagement with regulators around the world). In the futures market, FTX has come close to second position with the more institutional dominated CME in terms of open interest in December, while on the spot market it has seen significant volume growth throughout the year. In October 2021, the exchange has raised \$420m in a Series B-1 funding round, which valued the company at \$25bn. The round saw the participation of 69 investors, including Blackrock, Tiger Global, Ontario Teachers' Pension Plan Board, Temasek and Sequoia Capital. The funds are earmarked for expansion into new jurisdictions and improvement upon FTX's current offering.

dYdX is the developer of a leading decentralized exchange focused on perpetuals-only trading pairs. It transitioned to an L2 infrastructure in

2021 and has backing from well-known VCs in the space, including a16z, Paradigm, Dragonfly Capital or Bain Capital Ventures. In August 2021 it has created the dYdX Foundation with the mission to transition to a fully decentralized protocol. Full decentralization will happen by the end of 2022, once the last two centralized items are dissolved, namely its matching engine and orderbook.



dYdX's addressable pool of clients is mostly composed by sophisticated traders. Cross-margining requires advanced risk management, and the details of funding rates, interest rates and premiums make its offering akin to the likes of sophisticated investors. dYdX has around 48,000 depositors, mostly professional traders, institutional traders and market makers. The crypto derivatives market flipped the volume of the spot market in 2021 – in November, the derivatives market represented 54.7% of the total crypto market, according to a CryptoCompare report. In 2021, cumulative volumes on dYdX reached c.\$320bn. A report by Messari was highlighting that dYdX was growing in terms of open interest and was the only DEX to do so, which was notable given it only supported 28 markets at the time (October) vs. other exchanges that supported a lot more markets (ex. Binance with over 90). In September 2021, dYdX climbed at the top of the DEX daily trading volume, with more than \$9bn having been exchanged on the platform in a particular time frame, more than all of the other DEX trading volumes combined.

When comparing dYdX with other DEXes like SushiSwap, its PEG ratio (using protocol revenue as a proxy for earnings and the 30d protocol revenue change as a proxy for the growth rate) is lower than SushiSwap's PEG ratio, highlighting it may be more undervalued than the latter. Moreover, its protocol revenue is higher than SushiSwap's and the same stands for total revenue over 180d (a more realistic comparison given dYdX's transition to L2). In addition, SushiSwap has had a number of

internal issues in the past couple of months from which the community has recently started to emerge in a more organized structure.

At this point in time, dYdX represents a relatively more attractive opportunity than Uniswap when looking at its growth potential. dYdX is focused on its roll-out plan, which includes new markets and new features, and reaching the state of full decentralization. Given the performance obtained with a relatively small number of markets, these upgrades may have the potential to increase significantly the volume traded on the platform.

Its closest competitor on its niche is Perpetual Protocol. In contrast to dYdX's central limit order book model, Perpetual Protocol utilizes a virtual AMM. This setup has a number of disadvantages, such as price slippage when executing trades and a relatively lower throughput, in comparison with dYdX. In terms of advantages, there is no auto-deleveraging when a counterparty is liquidated. However, volumes on dYdX are much higher and it seems that, at this point, it is the preferred venue by traders for this type of instruments.

Project	Market cap fully diluted	Market cap circulating	Revenue annualized	Revenue 180d	Protocol revenue annualized	Protocol revenue 180d	P/E 	Protocol revenue 30d change
 PancakeSwap	-	\$2.71b	\$725.87m	\$453.34m	\$232.28m	\$145.07m	11.67x	-29.47%
 Trader Joe	\$660.00m	\$207.52m	\$312.66m	\$138.49m	\$52.11m	\$23.08m	12.67x	-52.70%
 SpookySwap	\$427.47m	\$223.73m	\$219.46m	\$54.15m	\$32.92m	\$8.12m	12.99x	+169.63%
 dYdX	\$6.63b	\$491.24m	\$391.32m	\$256.51m	\$391.32m	\$256.51m	16.94x	+58.01%
 QuickSwap	\$252.33m	\$91.11m	\$96.30m	\$49.37m	\$12.84m	\$6.58m	19.65x	-20.26%
 SushiSwap	\$1.49b	\$1.15b	\$428.01m	\$232.64m	\$71.34m	\$38.77m	20.89x	+11.24%
 GMX	\$693.51m	\$374.64m	\$62.30m	\$15.02m	\$31.15m	\$6.69m	22.27x	+170.61%
 Cap	\$36.11m	\$30.11m	\$3.22m	\$1.22m	\$1.62m	\$889.14k	22.28x	-95.96%
 Bancor	\$739.85m	\$739.37m	\$40.58m	\$27.51m	\$20.29m	\$13.75m	36.47x	+6.89%
 Pangolin	\$246.74m	\$33.83m	\$34.84m	\$29.44m	\$5.81m	\$3.80m	42.49x	-64.65%
 Perpetual Protocol	\$1.33b	\$565.91m	\$24.51m	\$15.94m	\$24.51m	\$15.94m	54.35x	-4.71%

F. NFTs / GameFi / Metaverse – Enjin

The ILSI construct includes Enjin, an OG project in the NFT space, that has created a product ecosystem which allows interested entities to create, manage, trade and integrate NFTs. Its main focus areas include gaming, flexibility and multi-chain interoperability. Given its characteristics, Enjin is a platform that may underpin projects that are building in the GameFi or metaverse worlds through the usage of NFTs.

Enjin's competitive advantage over similar blockchain game platforms (Xaya, ArcBlock) is given by its primary focus on tokens and tokenization through the provision of an end-to-end stack. From facilitating ownership and transfers over three blockchain solutions (Ethereum, JumpNet, Efinity), SDKs, bridges that move tokens between blockchains to a comprehensive set of tools for businesses, developers and users. As part of the project's roadmap, CTO Witek Radomski highlighted Enjin's plans to open up bridges to many more blockchains.

Enjin's key investment highlights include:

- Innovation capabilities: pioneer of the ERC-1155 and the Paratoken standards, the latter being empowered by Efinity, Enjin's blockchain for digital assets, built on Polkadot.
- Mix of Enjin (end-to-end offering) and Efinity (leverage the Polkadot parachain structure and ability to incorporate NFTs into other ecosystems).
- Tokenomics: \$ENJ is used as collateral for minting in-game items (the NFTs are infused with the Enjin coin), availability of staking rewards and its wide distribution in the pre-sale and public sale phases.
- Strong partnerships (Samsung, Microsoft, Unity, amongst others).

One for all and all for DAO