



DEFI JOINT VENTURE

DISCUSSION MATERIALS

MAY 2022

GROWTH IN DEFI

- Funds invested in DeFi have been growing rapidly, increasing over \$200bn in 2021, and is still above \$100bn despite the May 2022 decline due to Terra.
- There are over now over 200 DeFi platforms, on more than ten main blockchains.
- Some DeFi platforms have more than 50 liquidity pools to invest in. There are now literally thousands of alternative DeFi investment opportunities, and many have complicated structures.



Source: DeFiLlama

WHY INVEST IN DEFI?

- Inflation is causing declining real value for bank deposits and for many traditional investments.
- Inflation is running at 4 – 8% in most countries, reducing the purchasing power of many.
 - Some say the actual inflation is higher, and should include real estate, as that is an asset most people choose to buy at some point in their lives.
 - In New Zealand and Australia house price inflation has been over 20% per year recently.
- Wages growth is hardly keeping up with even the base inflation level.
- How can one invest so you and your family can have returns that substantially exceed inflation?

Standard investment options include the following:

- **Real estate** is illiquid, has maintenance costs, is charged property tax and/or rates, has insurance costs, and has low yields (generally 2% to 5%). It also has high transaction costs and legal fees. Real estate can also be impacted severely by a natural disaster.
- **Stocks** can do well but have returned only c.8% p.a. in the long run, and can have long periods with low gains. For example from 2003 to 2009 the gain on the S&P500 was close to zero.
- **Bonds** have proved over the last century to be very poor investments in inflationary periods. The yield is low, and fixed and the redemption price of the bond does not increase. CPI-linked bonds have also produced meagre returns.

WHY INVEST IN DEFI (CONTINUED)

DEFI IS BETTER THAN TRADITIONAL INVESTMENTS AT BEATING INFLATION

- **Gold** has performed poorly over the last couple of years and has not been a good inflation hedge.
 - Many market observers believe that investors which used to use gold as an inflation hedge have been swapping their funds to crypto (including DeFi) instead.
- **Investing in crypto for long term holds (HODL)** requires stomaching massive drawdowns.
 - For example many of the coins which did well in 1Q2021 fell 80 - 90% during the five month bear market from May to September 2021.
- **Short term swing trading in crypto** can give decent gains but it is subjective, often unrepeatable, and generally only works when the market is strong, and when the market doesn't have a surprise 20-30% dip (which can occur in a day or two).

In comparison to traditional alternatives, DeFi can offer massive returns, and cause gains far exceeding inflation.

Recent examples of yields on DeFi investments

| Platform | Blockchain | LP | Annual yield |
|---------------|------------|-------------|--------------|
| Beefy Finance | Moonbeam | FTM-USDC | 43% |
| Tulip Garden | Solana | SOL-USDC 2x | 400% |
| MM Finance | Cronos | CRO-MUSD | 60% |
| Quickswap | Polygon | MATIC-USDT | 46% |

Note: As at 12/5/22. Future returns may not equal or exceed current or historical returns.

WHAT IS THE DEFI JOINT VENTURE'?

- The DeFi Joint Venture (“the JV”) was initiated in 2021. The founder, Rod, trades advanced DeFi strategies daily and has traded for 20 years, in stocks, futures, options and currencies and also crypto from 2017 (see [over](#) for more information on Rod).
- Rod wants to give his skills and experience in DeFi to others, helping others to have a greater chance of financial freedom and of exceeding inflation in their investments.
- He developed the JV after refining a set of operational and technical best practices in investing profitably in DeFi for others.
- The **purpose of the JV** is to maximise returns relative to risk by investing and managing joint venture assets in DeFi platforms.
- The **JV generates returns** from multiple sources such as:
 - Yield Farming on DeFi Liquidity Pools (“LPs”)
 - Lending on DeFi platforms
 - Hedging returns on perpetual futures on centralised exchanges
- **Risk is managed** through detailed calculations on position sizing, dilution from coin issuance, and hedging is used where possible. The percentage of hedged positions or stable-coins (coins targeting 1:1 US\$) varies depending on opportunities, ranging from approximately 60 to 80% of the portfolio.

THE TRADER

- Rod is the Trader and founder of the JV.
- He trades advanced DeFi strategies daily and has traded for 20 years, in stocks, futures, options and currencies and also crypto from 2017.
- He has traded on a daily basis since 2009, developing hundreds of quantitative systems across each of those investment classes.



- 20 years of trading experience
- 25 years of professional experience in Corporate Finance and M&A
- MBA (Insead), BSc, BCom, GradDip (Applied Finance)
- Mensa member
- Based in New Zealand

RISK MANAGEMENT

A large, if not the main part of the JV team's work relates to risk management. The JV aims to maximise return relative to risk, not to maximise returns regardless of risk.

Methods of risk management the JV uses include:

- Dynamic hedging of Automated Market Maker Liquidity Pools where possible
 - The number of coins in an LP change almost constantly so hedging needs to be dynamic rather than static
- Return and Risk filtering: Quantitative and qualitative evaluation of DeFi platforms and chains
- Detailed calculation of all variables affecting a DeFi investment including dilution
- Diversification

- Sizing based on potential upside and downside
- Insurance against smart contract vulnerability, where the insurance is available and considered by the Trader as having a positive expected value.

POTENTIAL RETURNS FROM THE JV

- DeFi, in contrast to real estate and stocks, often pays extremely large yields. Yields on DeFi can range from 15% or so, up to more than a thousand percent per year, though with the risk of large price movement in the positions.
- Many DeFi investments can be hedged with short positions, removing most of the price risk for you (the hedges are not perfect) - the JV will do this, using several methods.
- **Target: In the short term, returns can be volatile, but at the moment, returns over a one year period of 20% to 150% or more, with perhaps 20% standard deviation, are feasible.**
 - The volatility is generally much less than for BTC and ETH, as the JV is always 65% hedged or more

Past Performance

Rod began DeFi (as opposed to trend following and other strategies) in June 2021. Over the 7 months to December 2021 he made approximately 100% with very little drawdown (i.e. small declines).

Relatively low risk

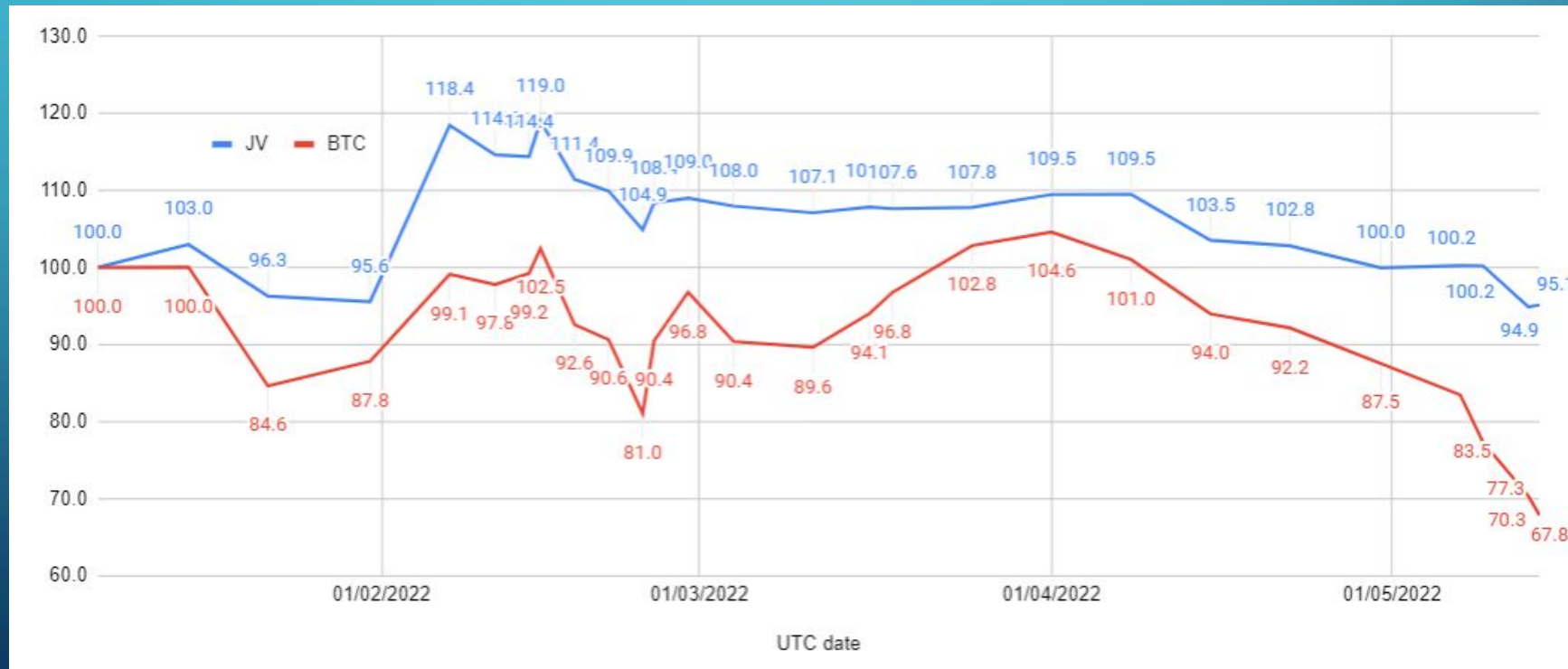
The JV began 8 January 2022, unfortunately right before a substantial market correction and was hardly affected.

In the large Terra related crash in the week ending 14 May 2022, the JV was down only 5%, due to very active hedging and position management, while BTC was down 19% and most major coins were down 30-40%.

JV returns to date are shown on the following page.

PERFORMANCE OF THE JV SINCE FORMAL LAUNCH

- The JV has outperformed BTC since it began on 8 January 2022.
- Crypto has been in a bear market in 2022. The JV is down 4.9% year to date, while **BTC is down 32.2%** (from 8 January to 14 May, after the Terra related crash).
- **The JV had much smaller percentage drawdowns than BTC in every market decline this year.**
- Past performance is no guarantee of future returns.



DEFI CAN BE COMPLEX AND IS TIME CONSUMING

TWO CASE STUDIES OF TIME AND COMPLEXITY

Case study: Chronoswap

The Chronos chain launched in November 2021 with two main DeFi platforms (Chronoswap and VVS) with high yielding LPs. It was not simple to get funds on to the chain, without already having a Crypto.com CEX account - and KYC for Crypto.com accounts was taking seven days. After an hour the Trader discovered that Anyswap could bridge FTM from Fantom, BNB from BSC, and AVAX from Avalanche, to Chronos, but not CRO - and CRO was needed for gas fees on the chain. FTM on Chronos with no CRO was useless.

After two more hours of work we discovered that an obscure third party bridge was sending a very small amount of CRO with every bridge transaction of FTM to the Chronos chain - and by using that small amount of gas, then trading activity could be germinated on the chain.

Features: Protocol Controlled Value tokens

Protocol controlled value (PCV) platforms like OHM, TIME, Hector, Snowbank and Fantohm often offer "returns" of tens of thousands of percent per year.

Many investors assumed that the prices of these would decline as excess coins were created over time, but that the returns from rebases would still far outweigh the price decline.

So far, apart from for very early investors, this has not been the case. The stated returns of say 70,000 or 1 million percent per year of PCV platforms are generally meaningless. The rebasing just creates and gives stakers more tokens for the same amount of treasury value.

The real value of a PCV coin is the riskless Treasury value plus the present value of future earnings on what the Treasury is invested in. Trading PCV tokens based on their Treasury Value compared to the price is more likely to produce economic gains than hoping that the rebases will counteract price declines. A further wrinkle is that new supply is provided to minters at a discount, diluting stakers, but only partially, as minters receive their coins over 4 or 5 days depending on the platform; meanwhile stakers are getting rebases. Regular calculation of the economics of minting versus staking (not a simple direct comparison) is required to determine whether unstaking and minting is required to avoid having one's ownership position in a platform diluted.

WALLET SECURITY

- The Trader is very focused on the security of the trading wallets, and has a detailed operational plan in that regard. This includes:
 - Hardware wallets used (Ledger)
 - 2FA used on centralised exchanges (for hedging)
 - Dedicated Brave browser
 - We use a set of curated bookmarks for links to DeFi platforms, to ensure we are connecting to the correct sites.
- **No commingling**
 - For the avoidance of doubt, there will absolutely never be commingling of JV funds with the Trader's funds (except for the Trader's investments in the JV, which are treated equivalent to investments from other investors).

THE JV IS A POTENTIAL SOLUTION FOR YOU TO BEAT INFLATION, AND POTENTIALLY BUILD SUBSTANTIAL WEALTH, WITH NO TIME REQUIRED FROM YOU

What you get

- **Skill, experience and time:** Rod brings to bear skills he has developed in over 20 years of trading, including 5 years of crypto trading including an intense focus on DeFi.

With thousands of potential DeFi investments and hedging alternatives, DeFi investing takes a substantial amount of time and experience to optimise.

- **Associate (Referral) Programme:** 0.2% per month, being 2.4% per year, of funds referred. This is paid to you by the Trader (not taken from the JV funds).

- **Real-time Monitoring:** You will be able to track the holdings of the JV. We will update a master Value Sheet once per week but the underlying assets can be checked by looking up the wallet addresses in a wallet balance tool such as Debank.com (blockchain transactions and wallet balances are public).

What you give

- **Performance Fees:**
 - 20% of gains in a month.
 - Zero performance fee for months where there is no gain.
- **Administration Fees:** 0.2% of the investment balance each month.

NEXT STEPS: HOW DO I INVEST, MONITOR MY INVESTMENT, AND WITHDRAW?

INVEST

- Please fill out the short (8 question) registration form (<https://defijv.com/registration/>), then we will provide access to the Term Sheet and deposit details (via password protected website pages)
- Deposit funds in BUSD or BTC
- Questions about the JV in general can be asked and will be answered by Telegram (@nzrod) or by email (admin@defijv.com)
- The Trader will not provide financial advice at any time, in order to align with relevant regulations

MONITOR

- Your share of the JV's value and its gains (and your percentage ownership) will be viewable on a Value Sheet on the website
- JV wallet details - both balances and transactions - are available live on the blockchain at all times.
 - Links to Debank.com wallet checker pages (for the JV wallets) are provided on the website
- You will also be paid 0.2% per month on any third party funds referred

WITHDRAW

- Funds can be withdrawn with seven day's notice, after an initial 30-day Lock Up Period
 - The Lock Up Period is due to the administration involved in investing new deposits of funds
 - Funds can be withdrawn within the Lock Up Period with a 5% penalty

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