



DeFi Income
Strategy ETI

Monthly Update

- DeFi Income Strategy ETI gains again 0.62% in February
- Market capitalization of all bitcoins overtakes that of the Russian ruble (in USD)
- Consideration of another KPI for the DeFi sector: Total monthly revenue payments
- On-chain data shows that stablecoin usage on the two largest staking/lending platforms, Aave and Compound, has declined as investors pay down their loans
- Block, Circle and Coinbase build identity solution and seek to establish standard for KYC blockchain transactions

The [DeFi Income Strategy ETI](#) aims to deliver steady double-digit annual returns with virtually no volatility and no correlation to Bitcoin or the overall crypto market. In Decentralized Finance (DeFi), traditional banking activity is transferred to the blockchain. The DeFi Income Strategy ETI thereby assumes the role of liquidity provider on the decentralized financial market and receives steady income payments in return.

Our [DeFi Income Strategy ETI](#) ended the month of February with a monthly value gain of 0.62% despite prices remaining weaker due to the Russian invasion of Ukraine, which resulted in continued lower returns in the DeFi market. Performance is largely independent of general crypto market price movements, with a tendency for a weak overall market to lead to lower current returns and vice versa. In the long term, we remain optimistic about the segment and expect steady income from the DeFi strategy, which is currently one of the few investment opportunities with positive returns, even until the markets ease.

Classification of the Performance in the Context of the Russian War

The invasion of Ukraine by the Russian army unfortunately became a sad truth in February. There are more qualified alternatives for a political assessment than our monthly crypto commentary. However, we allow ourselves to make the connection of decentralized cryptocurrencies, blockchains and DeFi to the current crisis. As a sanction to Russia's war, the European Union and its Western allies have blocked Russian banks' access to the SWIFT payment system.

Consequences of the Swift exclusion for Russia: As a result, Russian banks and individuals have hardly any possibility to make payments, which can lead to a rapid collapse of the financial system in Russia. On the other hand, Russian debtors cannot service their debts. Moreover, a bank run is already taking place in Russia, as the Russian ruble has depreciated sharply and Russian citizens are also fearing for their money savings.

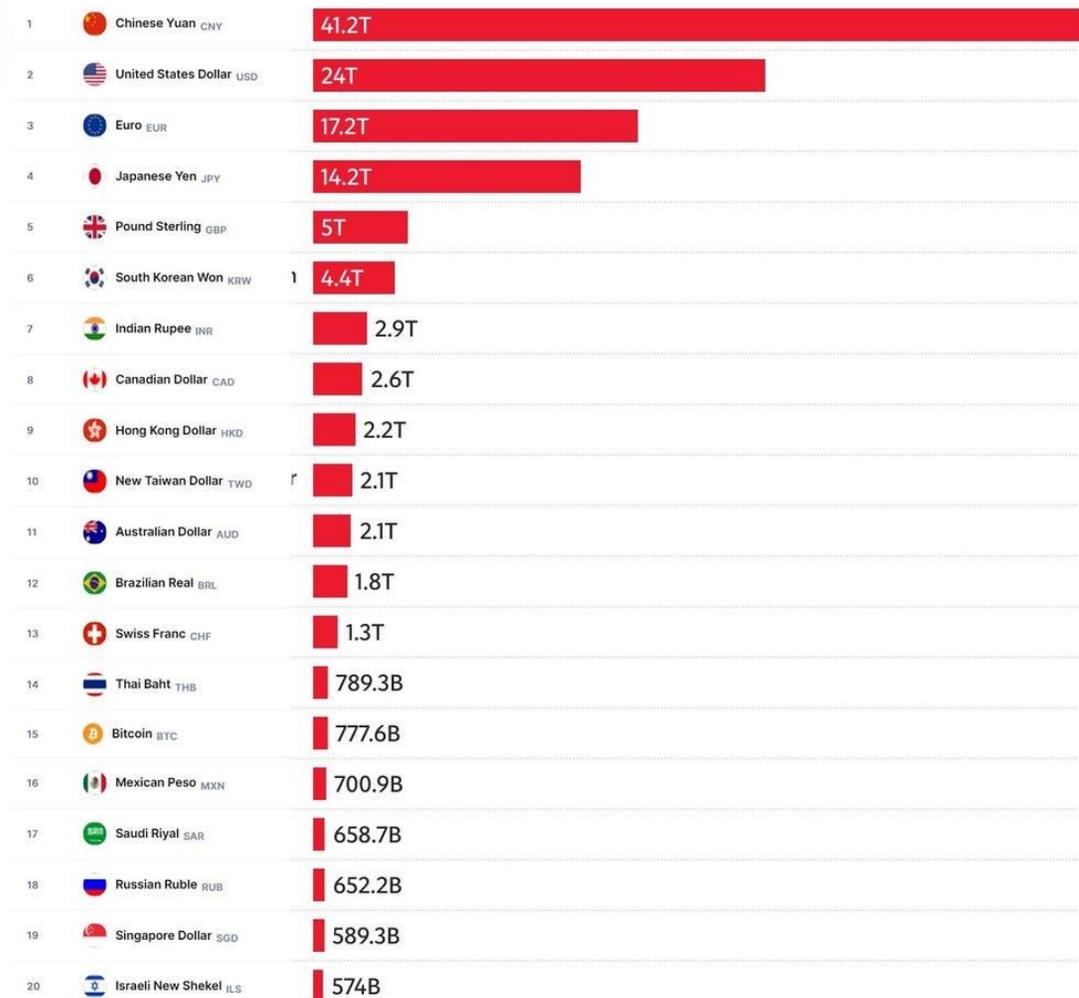
In order to slow down the currency decline, the key interest rate was drastically increased from 9.5% to 20%. The vice chairman of the Duma's economic committee, Nikolai Arefiev, mentioned last week that the government could directly confiscate rubles from citizens in the event of an economic collapse. ATMs in Russia are largely empty and a rise in inflation is only a matter of time.

Impact of the war on the financial system of Ukraine: In the meantime, banks in Ukraine are closed or already inaccessible, among other things, with the consequence that all Ukrainian individuals worldwide no longer have access to their savings at home. Some online posts by Ukrainians abroad showed that cryptocurrencies are the only assets that have not been withdrawn on their own wallets and are also highly mobile. Moreover, the Ukrainian government in its distress launched a fundraising appeal in cryptocurrencies, as the banking system collapsed and crypto is also decentralized as a means of payment here. In the meantime, more than USD 17 million have been donated this way.

Consequences of Sanctions for the European Union and their Western Allies: This may well lead to very problematic defaults in the West and in the global financial system. The impact on the entire financial sector and consequently on the economy as a whole is not yet foreseeable.

Conclusion: It can be assumed that all central banks will once again inject liquidity into the money market to avoid distortions. And from the perspective of this update, the connection to cryptocurrencies is obvious: crypto is neutral as long as it is effectively decentralized, it cannot be influenced or manipulated by central (government) institutions according to (political) interests. It is not possible for governments to expropriate private individuals who hold crypto, and their assets are also protected from bank failures. There is also no counterparty risk as long as the crypto assets are held in their own wallets. Ukraine's appeal for donations could be implemented directly and everyone can transparently follow all payments. Crypto and blockchain were created precisely for the case of systemic crises. The current situation is a sad but clear demonstration of how amazingly better and, above all, more resilient crypto works as an alternative money to fiat. As of 01.03.2022, the market capitalization of all Bitcoins has overtaken that of the Russian ruble: Currently, all Bitcoins together are worth about USD 777 billion, while the outstanding rubles have a value of about USD 652 billion. Despite all crypto critics, this objectively shows the unstoppable growth of decentralized currencies.

Currencies ranked by market cap (USD)



Source: CoinMarketCap



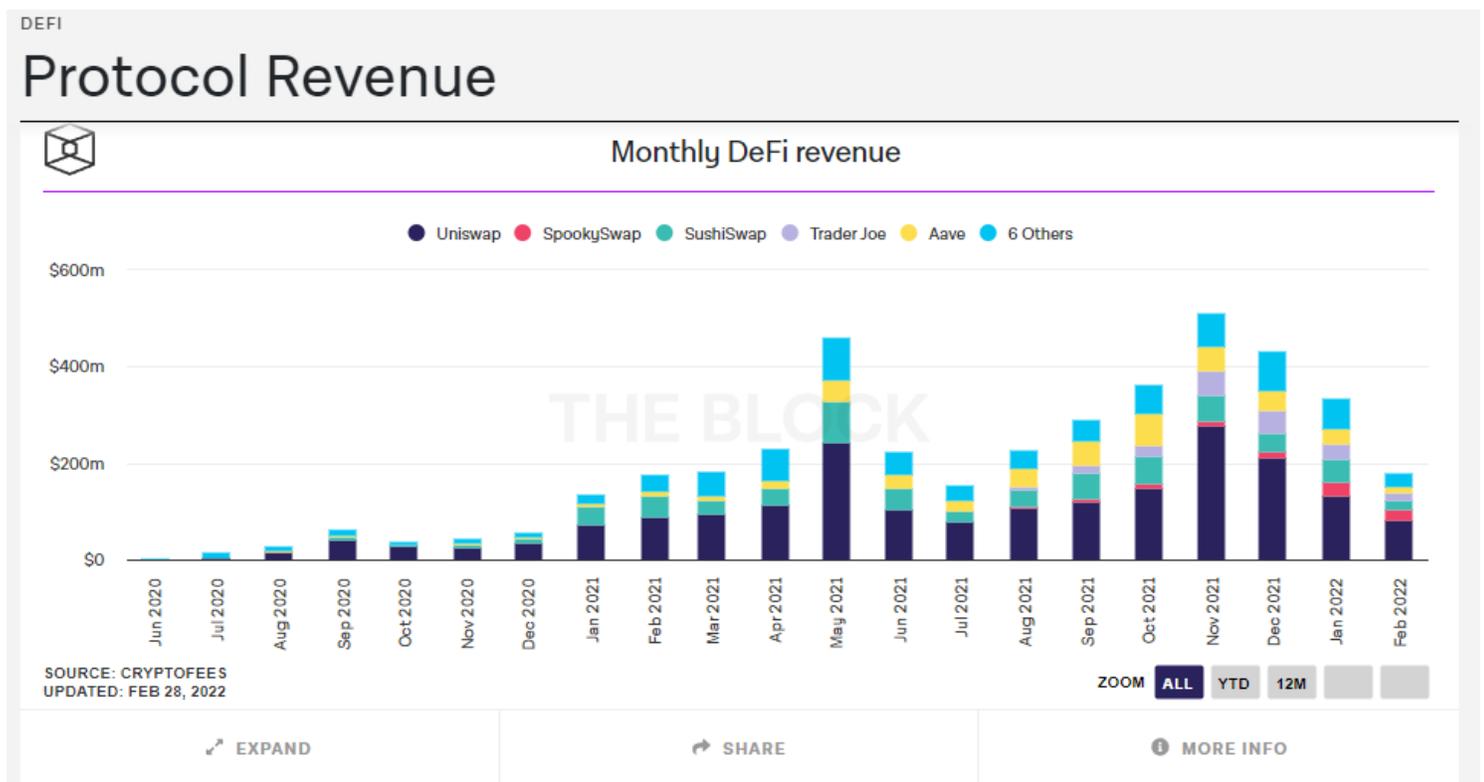
Source: <https://www.independent.co.uk/tech/bitcoin-price-russia-ruble-crash-b2025055.html?tsrc=rss>

Additional KPI for the DeFi Sector: Total Monthly Revenue Payments

In previous monthly reports, we had repeatedly shown the size of the DeFi market based on the so-called Total Value Locked (TVL). This looks at how much digital assets are locked up or available as liquidity in the trading protocols.

Another Key Performance Indicator (KPI) is the sum of monthly income payments across the market. The Belvoir DeFi Income Strategy ETI provides liquidity in the DeFi sector and receives income accordingly. We also consider these in the aggregate. In the month of February, a total of approximately USD 200 million in income was generated, compared to approximately USD 330 million in the previous month. These are dependent on the trading activities demanded and represent the main factor of the return of the DeFi Income certificate. The chart below shows that monthly returns in the DeFi sector peaked at approximately USD 500 million in November 2021.

One explanation for the decline in monthly revenue payments: According to delphidigital.io, on-chain data shows that stablecoin usage on Aave and Compound, the two largest multi-collateral money markets on Ethereum, has declined as investors pay down their loans. Liquidations have skyrocketed during this volatile period, which may have contributed to deleveraging. This would fit into the context of the overall falling market.



Source: www.theblockcrypto.com/data/

Progress in KYC Standard

According to [Ledgerinsights](#) Block, Circle and Coinbase want to build a new identity solution and try to establish a standard for KYC blockchain transactions. This could be a significant step forward, especially for DeFi transactions, as one of the criticized weaknesses in DeFi is still anonymity. While some participants see this feature as an advantage, there are institutional and other market participants who are mandatorily required to have transparent identification of the respective counterparties. Regulatory rules required clear identification, without it, verified actors are not able to transact in the DeFi sector at all. For decentralized applications on public blockchains, KYC processes are impractical to handle and represent a barrier to market entry. However, if an organization like Coinbase verifies the user's identity, one can store these credentials in one's wallet. The idea of Coinbase, Circle and Block is to produce a certification that is stored in one's own wallet and serves as proof of legitimacy without then revealing one's own identity to the counterparty for every transaction. Only the regulating authority would then have access to it if necessary. With this project, additional parties could be admitted to decentralized trading. It remains to be seen whether this project will be successful.

Outlook

For the month of March, we remain confident for the DeFi Income Strategy ETI, as the increased stress due to the geopolitical crisis in Europe should lead to increased turnover. Furthermore, it is conceivable that crypto assets may even increase in value as flight to safety assets.

More information about the product can be found in the teaser, on our [website](#) or at imaps-capital.com.

We are happy to answer questions about the product via the contact details below and are always grateful for feedback.

Your Belvoir Team



Steffen Bauke

Chief Executive Officer



Adrian Marcu

Head of Investment
Solutions



Jürgen Lankat

Investment Advisor



Bernhard Utiger

Head of Sales & Marketing

The prospectus for the issuance programme of Exchange Traded Instruments in the form of derivative securities got approved by FMA Liechtenstein and can be downloaded free of charge from the website www.imaps-capital.com/etis

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CONTACT DETAILS

BELVOIR CAPITAL AG
Beethovenstrasse 9
CH-8002 Zürich
+41 (0) 44 206 30 40
defiincome@belvoircapital.com

