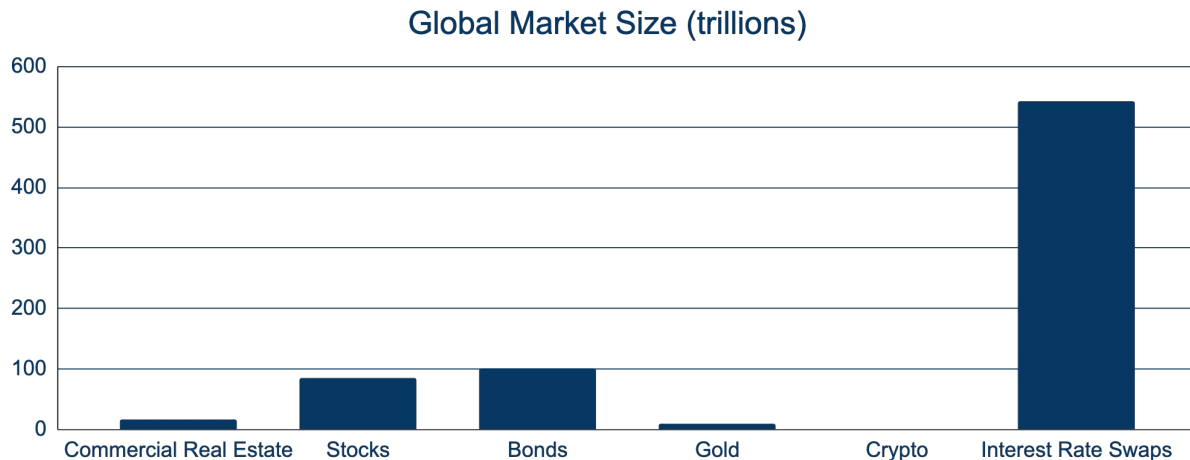# DefiHedge

Pre-seed financing investor deck

DefiHedge is the first and most efficient protocol in crypto for fixed-rate lending & interest rate swaps.

Traditional interest rate derivatives are a

$524 Trillion Market.

Global Market Size (trillions)

600	
500	
400	
300	
200	
100	
0	Commercial Real Estate · Stocks · Bonds · Gold · Crypto · Interest Rate Swaps

Interest rate derivatives are used to manage lending risk or speculate on interest rate volatility.

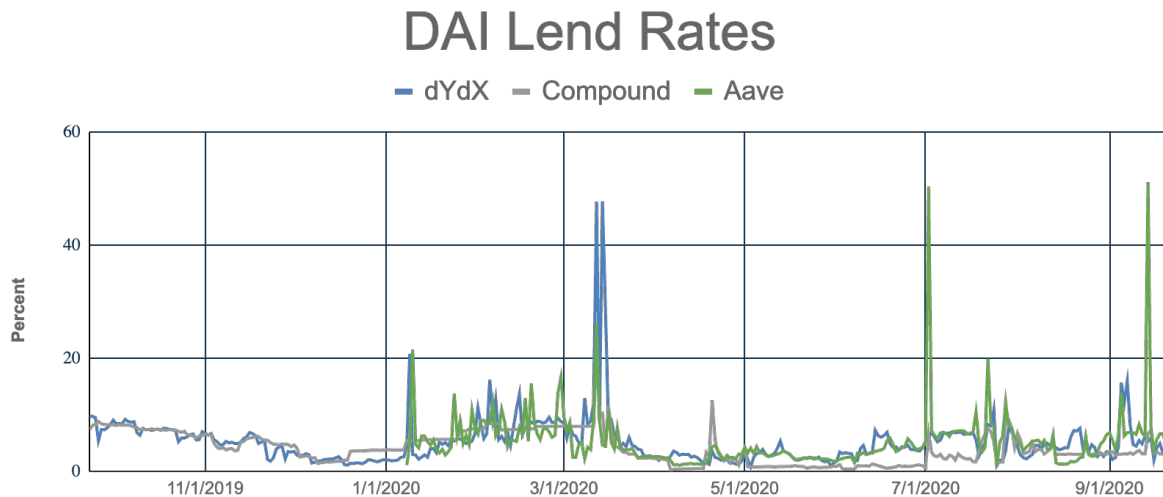**With the introduction of "Yield farming", DeFi has grown by 16x over the last year and created a massive market worth $9.52 Billion.**
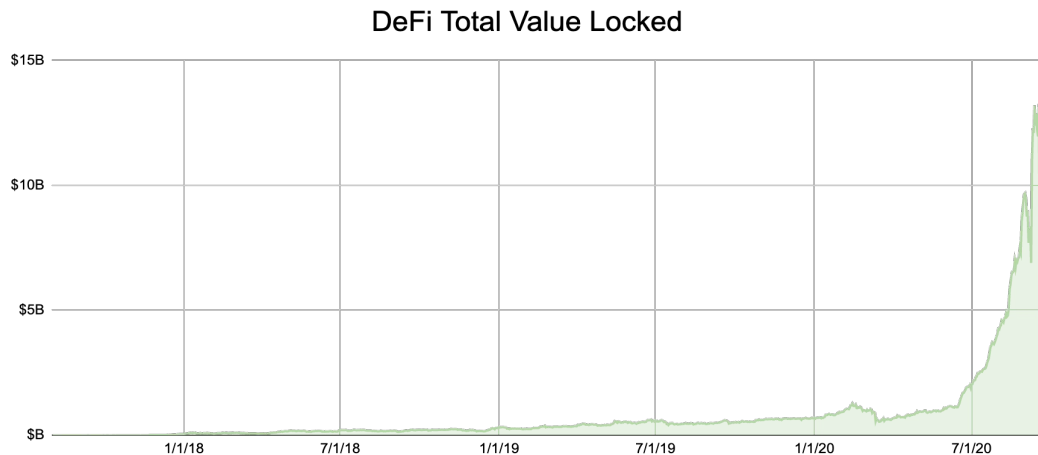
DeFi Total Value Locked

However, DeFi lending has a problem today… interest rates are floating.

With the rise of liquidity mining and yield farming, rates have become even more volatile.

DAI Lend Rates

DefiHedge introduces a new symbiotic product into the DeFi ecosystem that simultaneously solves a major problem and creates a new opportunity.

Fixed Rate Returns

Variable rate lending services (e.g. Compound, Aave) allow those with surplus assets to put them to use, but only those with a high risk tolerance find the volatile rates these services offer to be acceptable. DefiHedge gives them a stable way to participate in DeFi.

Interest Rate Speculation

New protocols paired liquidity mining have the ability to change market dynamics quickly. However, currently there is no way for speculators to bet directionally on interest rates.

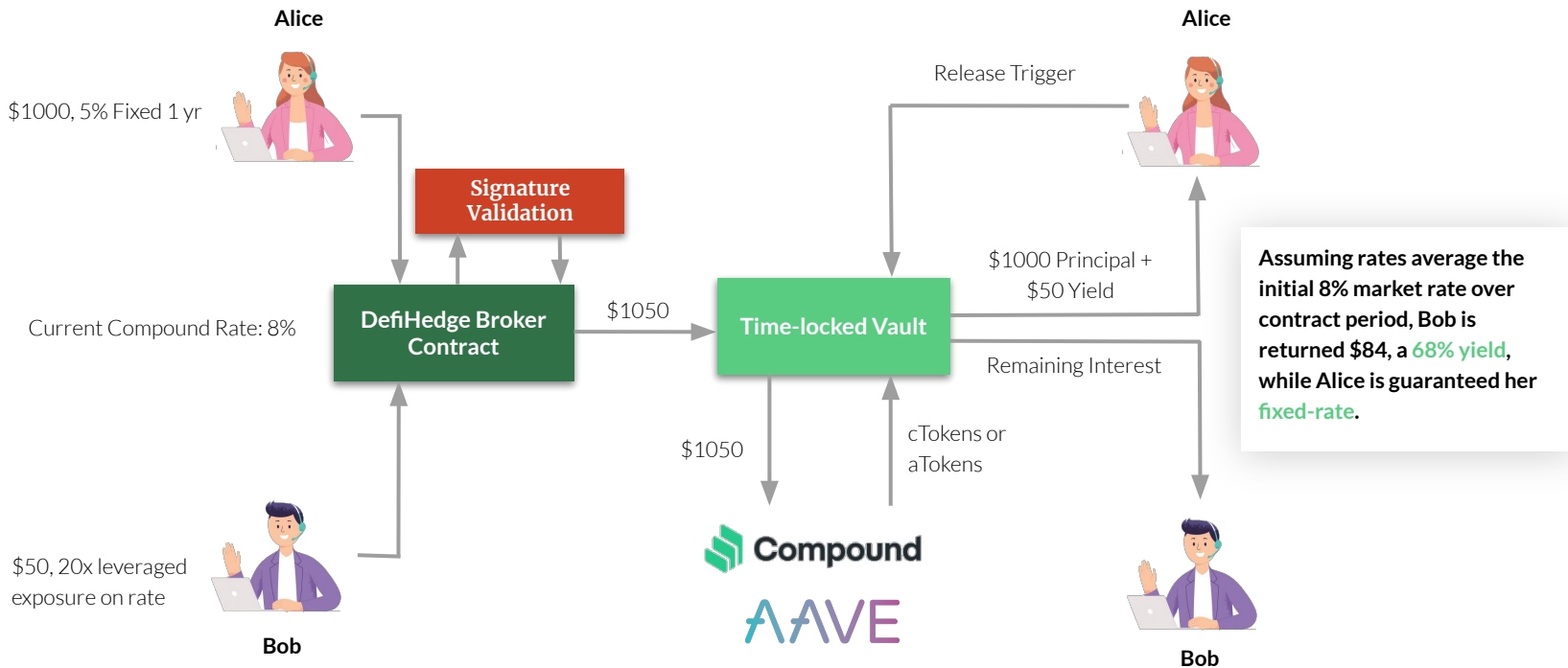**Low Risk**   **High Risk**

Lenders and traders demand
security.

To ensure system fidelity, all assets are custodied in smart contracts and there is no borrowing, ever. As such, there is no counterparty or liquidation risk at the DefiHedge layer.

Using DefiHedge, lenders supplying to popular protocols like Compound and Aave can avoid volatility and lock in a fixed yield.
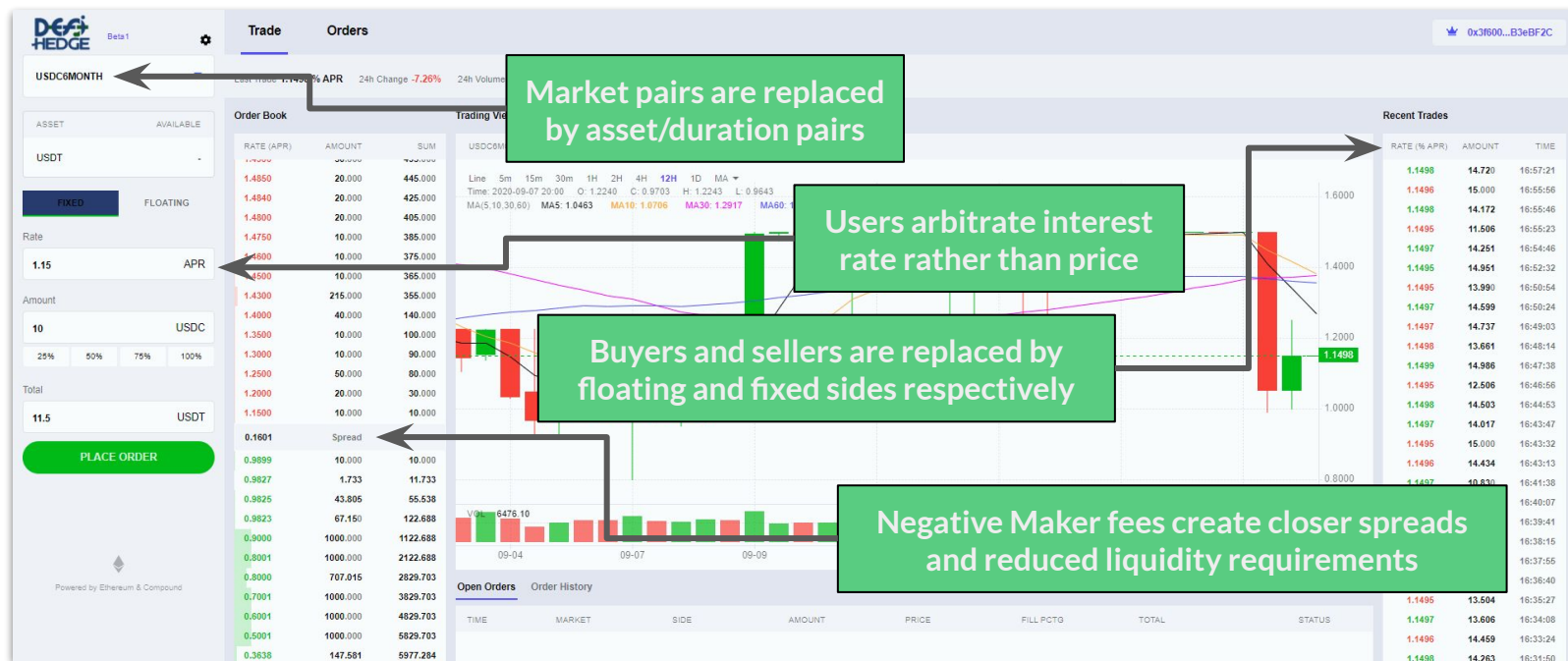
On the other side of the trade, speculators can make leveraged directional bets on the interest rates within these external protocols.

How DefiHedge Works

Alice

$1000, 5% Fixed 1 yr

Current Compound Rate: 8%

Bob

$50, 20x leveraged exposure on rate

Signature Validation

DefiHedge Broker Contract

$1050

Time-locked Vault

$1050

Compound

AAVE

cTokens or aTokens

Release Trigger

$1000 Principal + $50 Yield

Remaining Interest

Alice

Bob

Assuming rates average the initial 8% market rate over contract period, Bob is returned $84, a 68% yield, while Alice is guaranteed her fixed-rate.

In addition to the protocol, DefiHedge has also built an exchange to facilitate transactions.

Market pairs are replaced by asset/duration pairs

Users arbitrate interest rate rather than price

Buyers and sellers are replaced by floating and fixed sides respectively

Negative Maker fees create closer spreads and reduced liquidity requirements

Competition Overview:
Fixed Rate Approaches in DeFi

Zero-Coupon Bond

Decentralized zero-coupon bond models allow users to collateralize their capital in return for a coupon that can be redeemed for a predictable price at maturity.

This construction allows users to buy/sell a fungible coupon and ensure a fixed yield based on the current coupon price on the open market.

Direct Collateralized Swap

Direct collateralized swaps allow two users (floating trader & fixed lender) to match with one another and enforce a direct rate swap agreement at current market rate.

This construction allows lenders to directly receive a fixed-yield, reducing UX complexity and contract risk.
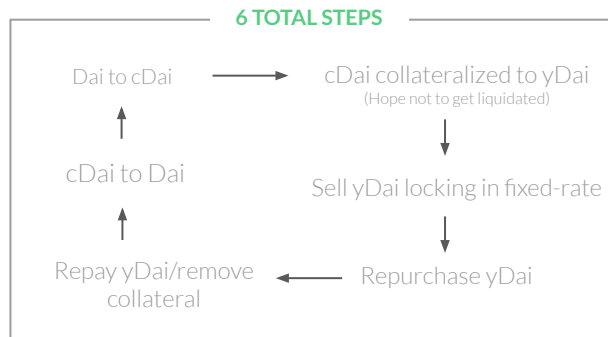
Competition Overview:
Why are Collateralized Swaps better than z-c bonds?

Zero-Coupon Bond

-High liquidity requirements (Lending, -Borrowing, Liquidation, Liquidity Provision)
-Necessitates slippage
-Requires multiple transactions for most use cases
-Use Case: *Zero-coupon bonds (specifically -Yield Protocol) are most well optimized for fixed-rate borrowing.*

6 TOTAL STEPS

Dai to cDai → cDai collateralized to yDai
(Hope not to get liquidated)

↑ ↓

cDai to Dai   Sell yDai locking in fixed-rate
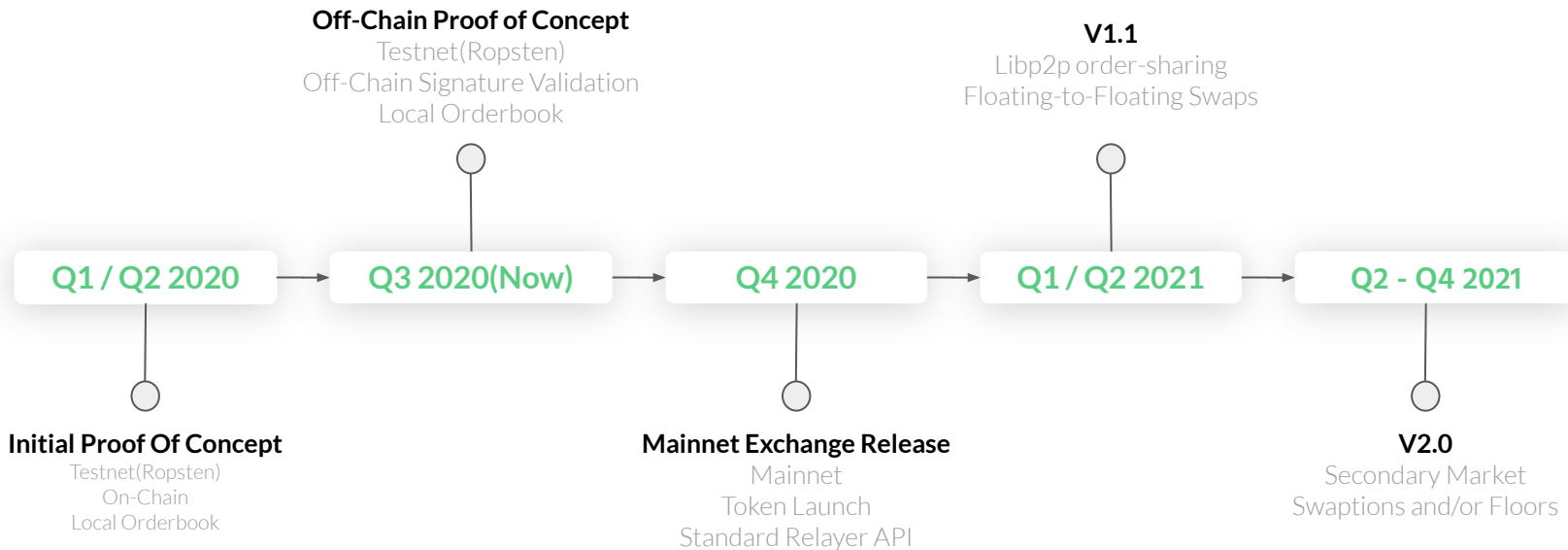
↑ ↓

Repay yDai/remove collateral ← Repurchase yDai

Direct Collateralized Swap

-No borrowing, liquidation or liquidity provision layer (lower liquidity requirement, lower contract risk)
-CLOB; less slippage and further reduces liquidity requirements
-Low transaction overhead
-Use Case: *Direct swaps provide the most efficient solution for floating-side swaps and fixed-rate lending. Direct swaps also enable borrowers of Compound/Aave to hedge their positions.*

2 TOTAL STEPS

Place maker (taker) order, avoid (or pay) transaction fee → Wait for fund release, avoid transaction fee (or release funds, paying transaction fee)

Roadmap:
Current progress, Upcoming Milestones

Off-Chain Proof of Concept
Testnet(Ropsten)
Off-Chain Signature Validation
Local Orderbook

V1.1
Libp2p order-sharing
Floating-to-Floating Swaps

| Q1 / Q2 2020 | → | Q3 2020(Now) | → | Q4 2020 | → | Q1 / Q2 2021 | → | Q2 - Q4 2021 |

Initial Proof Of Concept
Testnet(Ropsten)
On-Chain
Local Orderbook

Mainnet Exchange Release
Mainnet
Token Launch
Standard Relayer API

V2.0
Secondary Market
Swaptions and/or Floors

Team

Julian Traversa
FOUNDER & CEO

Founder & Full-Stack, Nescience Software & Capital

3x ETH Global Hackathon Prize Winner

Gitcoin Kernel Genesis Fellow

Led development of Nescience's non-custodial crypto rebalancing & market-making tools

Hiring
3 positions

Funding from this round will go toward sourcing a co-founder and hiring for three-four open positions.

Front-end developer

Protocol developer

Full-Stack/Backend developer

Business Development Lead

Token Distribution Strategy

28% Early Investors

In order to provide true utility behind our token, early investors provide the capital, resources and guidance to fill a team and build a product before token launch.

40% Liquidity Providers

In order to both incentivize liquidity and decentralize ownership, we offer negative maker fees in the form of token distribution.

2% Compound & Aave Stakeholders

In order to attract liquidity and align the incentives of current liquidity providers, we plan to snapshot the activity of each given money market before our respective releases.

10% Developer Fund

In order to ensure sustainable development of the protocol, we have separated funds for future community developer compensation
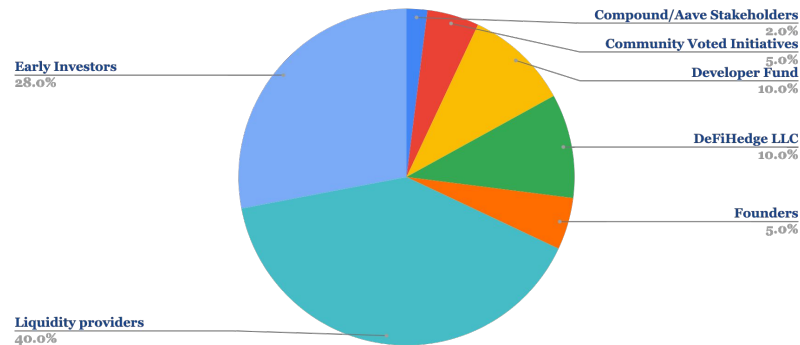
10% Retained by DefiHedge

In order to fund any number of unforeseen expenses (particularly legal) we have also separated out organizational funding.

5% Founders

In order to push a more "fair" launch and retain founder incentives, we have limited the founder allocation to 5%.

5% Community Voted Initiatives

In order to ensure the sustainability of community initiatives and ensure a more altruistic ethos, we have earmarked funds for the community to commit towards initiatives such as third-party exchange interfaces, gitcoin grant rounds, etc.

Compound/Aave Stakeholders
2.0%

Community Voted Initiatives
5.0%

Developer Fund
10.0%

Early Investors
28.0%

DeFiHedge LLC
10.0%

Founders
5.0%

Liquidity providers
40.0%

Funding Round Strategy

Funding Goal

$1M for **15%** of the network, and thus a...

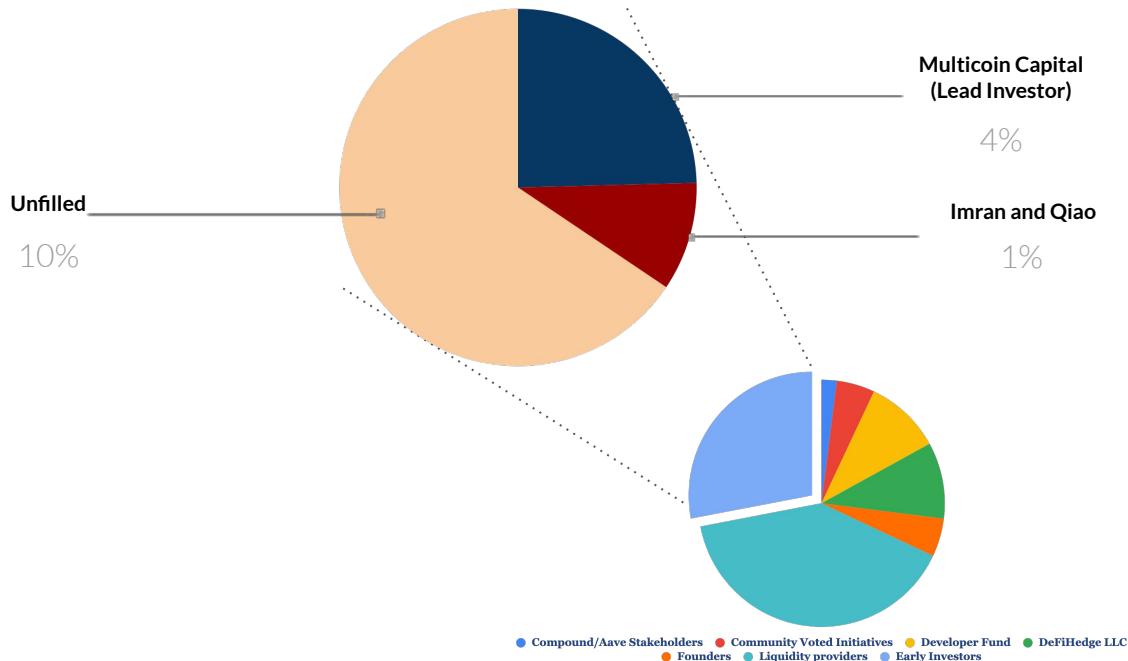**$6.67M** fully diluted network valuation

Primary Costs

Frontend Developer (1) - $100-125K / year

Full-Stack Developer (1) - $110-150K / year

Solidity Contract Developer (1) - $110-140K / year

Legal Counsel & Cloud Hosting - $150K / year

Total (assuming high end of estimate) - $565K / year

Multicoin Capital (Lead Investor)

4%

Unfilled

10%

Imran and Qiao

1%

Compound/Aave Stakeholders ● Community Voted Initiatives ● Developer Fund ● DeFiHedge LLC
Founders ● Liquidity providers ● Early Investors

Defihedge.finance

Founder & CEO – Julian Traversa

JulianT@DefiHedge.finance