Treasury Management Quarterly Performance Report – Q1 2022

MAY 3

Tracer DAO

Table of content

Executive summary

This is the inaugural quarterly report of The Treasury Management Fund sub-DAO, established by proposal on [February 6, 2022] with a mandate to deploy capital in a manner that maximizes capital efficiency and risk-adjusted growth to extend the economic health of the DAO and enable it to achieve its long run strategies and objectives.

In our first two months of operation, the Treasury Management Fund generated a gain of $225,156.6 (as of April 22, 2022) from a combination of liquidity provider (LP) positions, interest on short-term loans, and unrealized capital gains. We discuss the details in-depth further below.

> ***"Effective treasury management is necessary to increase the economic runway for DAO projects, to ensure a DAO has the liquidity it needs to manage its day-to-day business and to enable a DAO to achieve its long-run strategies and objectives."***

Overall strategy

A review

The Treasury Management sub-DAO was endowed on February 15, 2022 with 100mm of unissued TCR reserve, as well as the DAO's existing strategic assets and a modest stable-coin allocation.

Category	Token	Amount
Treasury Reserve	TCR	100,000,000
Strategic Assets	DAI	1,300,000
	WBTC	2.77
	TOKE	27406.56
Liquidity Pools	Uni-V3 TCR-ETH	211.76

Our primary objective has been to generate stable and reliable yield on these assets with a laser focus on the preservation of capital and risk mitigation (smart-contract, protocol, de-peg, etc.). A secondary objective has been to enhance Tracer's (TCR) liquidity, where possible and in an accretive manner, to support the health of Tracer's overall financial position. The ability to earn yield while gaining a strategic edge (e.g. accumulation of veBAL to exercise influence over Balancer gauges) to enhance returns and benefit the Tracer ecosystem has also played into our decision-making.

Aside from a strategic purchase of balancer token (as discussed further below) approved by the community through governance vote, and minor variations due to fluctuations in LP positions, our portfolio exposure has not materially deviated from the assets originally received from the DAO.

Governance updates

Governance Review

Pursuant to the DAO proposal establishing the Treasury Management Fund, certain actions require DAO approval. This past quarter only one such proposal was put forth, which is detailed below.

Balancer Proposal

As outlined in Proposal #43, the community approved our request to whitelist BAL token for the Treasury Management Fund on March 17, 2022. On March 24, 2022 we purchased USD$100,000 of BAL at a price of $13.15 per token in anticipation of veBAL staking. The objectives of this purchase was twofold. First, veBAL voting will enable Tracer DAO to establish secondary market liquidity for its V2 perpetual pools on Balancer (Arbitrum) when launched. In the meantime, veBAL voting power could be directed to the Fund's 80-20 TCR/DAI pool on Balancer (Mainnet) to enhance Fund returns. Because Balancer's veBAL gauge requires DAOs to be whitelisted in order to hold veBAL, we currently have a proposal with Balancer to be added to the whitelist.

Investment reasoning

Overview

The Fund currently holds nine positions, which can be seen through a combination of both the Zapper and Debank dashboards. The positions are a combination of single-sided liquidity staking (Tokemak), LP pools on Uniswap, Convex/Curve and Balancer, and lending through the Maple Pools platform.

Pursuant to the Treasury Management Fund governance proposal, these protocols were whitelisted by the Treasury Management Council after carefully considering various risks to the Fund and Tracer's familiarity with the team. All of these platforms are platforms with well over $1bn in TVL and code audited by industry leading firms. The majority of these protocols have been around for well over a year without any material missteps or exploits. Cross-checks against smart contract insurance platforms like InsurAce confirm our determinations, with smart contract insurance rates for these protocols ranging from as low as 2.5% to 3.0% per annum (among the lowest rates available).

Position Detail

Below we provide position-by-position commentary and detail on our current positions:

Tokemak

We deployed 50mm of TCR token and 27,406.56 TOKE received from the DAO on Tokemak. TOKE rewards ranged from the high 30% range down to a current low of 10% for TCR. TOKE rewards were reinvested in part in the Tokemak Reactor early in the period. This was done primarily to mitigate dilution of our overall share in the Tokemak ecosystem due to Tokemak's liquidity mining program. As returns to TOKE Reactor staking declined and TOKE valuations continued to fall, we began to reinvest rewards into the TOKE/ETH UNI pool, with yields in the 68%-100% range. In addition to higher yield, the TOKE/ETH UNI pool has the advantage of converting fifty-percent of the Fund's TOKE rewards into ETH, de-risking exposure to the TOKE coin. Tokemak has been by far the Fund's largest source of income, though rewards (along with the price of TOKE) have declined substantially in the past two months.

Curve/Convex/Abracadabra

Consistent with the Fund's objective of maximizing returns subject to the goal of capital preservation and risk mitigation, we opted not to have any outright exposure to Abracadabra's MIM coin. In order to benefit from the MIM+3pool's higher yield (8.88%-11%), we opted to borrow MIM against the Fund's Convex-Curve 3pool position and used the proceeds to invest in the higher yielding MIM+3pool on Convex. By borrowing MIM (rather than exchanging DAI/USDC for MIM) the Fund maintains a net neutral exposure to the risk of a MIM de-peg tail-risk scenario without sacrificing yield. As of the end of the reporting period, we had a ~$500,000 interest bearing 3pool position backing a ~$435,000 MIM borrow that was reinvested in the Convex MIM+3pool earning (as of the time of writing 8.88%).

Maple Pool

Despite having approved an investment into Maple Pool lending in Proposal #15, the DAO never managed to execute on the Transaction. We were able to remedy that through the Treasury Management Fund by depositing $350,000 of liquidity into the Maven 11 USDC pool, which greatly augmented the Fund's weighted average stable-coin yield.

Uniswap

Because BTC (along with ETH) serve as multi-purpose general collateral in the DeFi ecosystem, yields are generally quite low. In order to enhance yield on our inherited

BTC position, we opted for the UNI-V2 WBTC/USDC pool. We selected this pool given because it captures a large market share of WBTC/USDC volume and has historically been a strong performer with positive returns (net of impermanent loss). See apy.vision for more details.

Balancer

Lastly, in addition to the BAL we acquired for strategic purposes and subsequently staked into the 80-20 BAL/WETH pool for veBAL, we created and funded an 80-20 TCR/DAI pool. Unlike Tokemak, which guarantees against impermanent loss, the standard 80-20 pool does not. To mitigate against impermanent loss we took advantage of the Balancer pool dynamic fee feature. Given a historical average daily volatility of roughly 5%, we set commissions at a rate of 5% to avoid being exploited by MEV bots looking to arbitrage the Fund's pool against other DEXs. At such an elevated swap fee, we anticipated that our pool would only trade about once daily and only upon a move that was sufficiently large to justify the 5% fee. This strategy has been extremely successful and apy.vision estimates that this pool has earned 11.72% (annualized) net of impermanent loss, which has been limited to just -0.24% since inception.

Performance

Overview

Pursuant to our mandate, we seek to derive income from the asset mix (fixed quantity of tokens) received from the DAO. Aside from minor fluctuations due to liquidity pool (LP) positions, our asset mix has been stable. Other than (i) the swapping of farming rewards and (ii) the BAL proposal approved by the DAO, there has been no material change in the Fund's underlying holdings. Given that the Treasury Management Team mandate is to maintain asset base absent governance proposal, performance measures below are all shown relative to this benchmark.

Performance

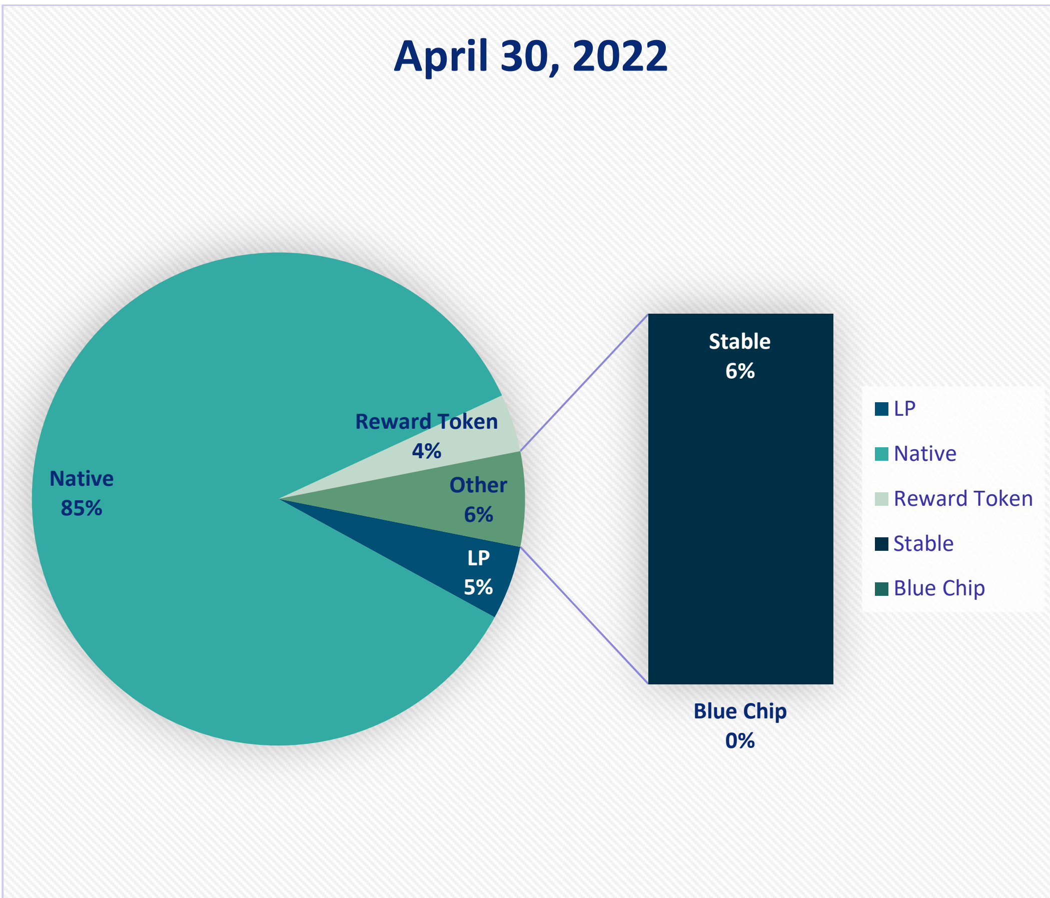
As of May 1, 2022, the Treasury Management Fund held assets valued at $15,991,698.40 vs. the benchmark value of $15,768,148.22. This represents a gain of $223,550.18 and $197,199.11 net of the 2073.255 BAL rewards received as a grant from the Balancer Foundation. Excluding Treasury held TCR token, this represents a gain of 11% on the Fund's non-TCR holdings since inception (February 15, 2022).

Values as of May 1, 2022

Description	Value
Treasury Management Fund	$15,991,698.40
Claimable Rewards	$11,039.02
Benchmark	($15,768,148.22)
Outperformance	**$223,550.18**
Balancer Grant	$(26,351.07)
Net Performance (since February 15, 2022)	**$197,199.11**

Asset Mix

Turning to the Fund's asset mix, the Fund's current holdings are primarily held in (~85%) TCR native token. The remaining 15% is split as follows: 4% in strategic assets (primarily TOKE received from the DAO), 5% in LP positions pairing blue-chips, stables, TCR, and strategic assets, and the rest in stable-coins.



Outlook / forecast next quarter

Expect lower returns next quarter

Going forward, we expect Fund returns to decline by roughly one-third. A significant portion of Fund returns in the first two-months of operation are attributable to Tokemak. With a sustained declined in the price of TOKE and yields on a steady trend lower, we expect our gains from TOKE staking will continue to decline over the next quarter. Our strategy of reinvesting TOKE rewards into the TOKE/WETH UNI pool will help on the margin, but will not be sufficient to make up for the steady decline in both yields on Tokemak and the value of TOKE rewards received. We anticipate a potential opportunity in Tokemak C.O.R.E 2, where the Fund may benefit from modest windfall gains from potential bribe incentives, but this opportunity will be a one-off event.