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Introduction

Llama would like to present the Aave community an opportunity to deploy the Reserve Factor (RF) to earn additional yield by acquiring BAL rewards on Balancer V2. The balance of the RF and Ecosystem Reserve (ER) are shown below:

Wallet

USD

Notes

Ecosystem Reserve

[\\$821M](#)

100% AAVE

Reserve Factor V1

[\\$0.42M](#)

\$224K aDAI, \$176K aUSDC, \$340K ETH

Reserve Factor V2

[\\$13.88M](#)

\$7.44M aUSDC, \$2.4M aUSDT, \$2.3M aDAI, \$0.15M aWETH

Reserve Factor Polygon

[\\$5.06M](#)

\$1.2M amUSDC, \$1.2M amDAI, \$0.6M amUSDT, \$0.5M amWETH, \$0.76M amWBTC

This strategy has two goals:

- Earn additional yield with the aTokens from the treasury
- Accumulate governance influence with protocols that interact with Aave

Llama proposes depositing a portion of the aTokens held in the RF into Balancer V2 pools to earn BAL rewards. The aTokens are wrapped, creating a waToken, and the yield generated from holding the aToken accumulates within the wrapper. Aave is still earning yield from the aToken as if it was held within the RF wallet, but will also accrue trading fees and BAL rewards by providing liquidity on Balancer V2.

An alternative strategy is to use AAVE from the ER as collateral in order to borrow stables to fund the yield generating strategy. The cost of capital is reduced by the borrowing incentives on V2, the fee income that flows to the RF, and the interest received by the aTokens. Provided the loan is sufficiently overcollateralized and managed, the risk to the Aave treasury is largely derived from Balancer V2 Smart Contract risk. This risk seems very low, at the time of writing Balancer V2 has more than \$1.6b TVL (mainnet and polygon combined) and offers the largest, unclaimed bug bounty (1000 ETH) in the industry. The investment generates a positive ROI due to the low cost of capital, Balancer trading fees, and BAL incentivises.

Further to the above, there exists the potential for the Balancer V2 liquidity provider (LP) token to be integrated into Aave's AMM platform. This creates a further use case and presents an opportunity for Aave to provide liquidity to the underlying pools.

Utilising Reserve Factor to Earn Yield

The general strategy is to deploy DAI, USDC, USDT equivalents held within the RF into Balancer V2 pools to earn yield from Aave V2, trading fees and BAL rewards. ETH and BTC equivalent assets are to be deposited into Balancer V2 to earn trading fee income and BAL rewards. The BAL rewards are to be accumulated over time and held as a strategic asset. Other governance tokens, like LDO are to be sold for ETH and reinvested into the ETH strategy.

Stable Coins (DAI, USDC, USDT)

Llama has been discussing with Balancer a yield strategy that involves depositing Aave's aDAI, aUSD, and aUSDT holdings into the next iteration of the metastable pool on V2. The staBAL3 pool deposits around 90% of the stables back into Aave V2 making them productive whilst also receiving additional BAL incentives.

In addition to the yield from Aave accruing for liquidity providers, Balancer is expected to offer incentives. The staBAL3 [metastable pool](#) will boost productivity as the yield from the 10% of stables not deposited in Aave is more than offset by the entire stable balance earning BAL rewards plus trading fee income. The stables are now earning yield from Aave and BAL rewards, this is expected to roughly double the overall yield generated by these assets.

For example, the [Balancer V2 DAI / USDC / USDT pool](#) is \$163M in size and generates 12.21% APR, comprising 0.03% in swap fees and 12.18% in BAL rewards. This pool still doesn't lend its underlying stable coins to AAVE, which will be the case with the new version of the staBAL3 pool.

We expect the pool to be launched in the coming months, potentially early Q4, 2021. When the full details are released, we will be able to refine the strategy further and present an ARC to the community. At this point in time we are considering depositing around half of Aave V2's DAI, USDC and USDT equivalent into the pool which is a bit over \$6M. The final amount will be defined in the ARC and will depend on feedback received from this post.

The overview for deploying the stable coins is summarised below:

- Deposit half of Aave V2 RF's aDAI, aUSDC, and aUSDT holdings on Balancer V2 to earn BAL rewards
- Expected APR is difficult to predict, but is anticipated to be greater than 10% in addition to the aToken yield
- BAL rewards are to be held as a strategic asset and not sold

Acquiring the BAL tokens whilst only forgoing a fraction of the yield otherwise earned is a near-zero cost way of acquiring a Balancer holding. Given the relationship between Balancer and Aave, the BAL holding becomes a strategic asset that further aligns the two communities through ownership.

Ethereum (ETH) and Bitcoin (BTC)

For the ETH and BTC allocation, we've identified two potential strategies to generate additional yield.

The first strategy is to take advantage of the recently [launched metastable pools](#) from Balancer. The first pool Balancer has launched is wstETH / wETH. The stETH yield accumulates within the wstETH token. Currently, the pool is yielding 18.73% APR, comprising 0.46% swap fee, 3.07% stETH staking rewards, and 15.20% from liquidity mining (2.10% BAL and 13.1% LDO).

The alternative strategy is to deposit ETH into the Curve stETH / ETH pool and earn CRV and LDO rewards. The yield is currently around 6.7%, comprising 6.36% LDO and 0.27%-0.68% CRV.

When comparing these strategies, the rewards on Balancer are greater than Curve, with both Lido and Balancer offering relatively higher rewards than available on Curve. Due to this, Llama's preference is to earn BAL rewards and concentrate on acquiring Balancer protocol governance influence.

ETH is typically deposited into Aave as collateral and the utilisation rate is less than 5% on V2, so the the yield generated from holding aETH is low relative to other productive use cases.

- Aave currently holds the equivalent of 391 ETH across the RFs and have a current market value of \$1.3M (0.11% of the total treasury; comprising 156 amwETH, 44 awETH and 101 ETH)
- Deposit 90% of the ETH into the wstETH / wETH pool on Balancer V2
- Retain 10% for gas costs
- BAL rewards are to be acquired as a strategic asset and not sold

Similar to the ETH strategy, Balancer offers 7.15% APR on the stable pool wBTC / renBTC / sBTC of which 6.98% comes from BAL incentives. By comparison, Aave offers less than 1% on BTC assets.

- Aave holds the equivalent of 18.18 aBTC across the RFs with a current market value of \$850K (0.1% of the total treasury; comprising 16.25maBTC, 1.93 aBTC)
- Deposit all of the BTC-equivalent holdings into the Balancer pool to earn BAL rewards
- BAL rewards are to be acquired as a strategic asset and not sold

Conclusion

This forum post introduces the concept of deploying the Reserve Factor to earn additional yield through BAL rewards by providing liquidity on Balancer V2. There will be a Snapshot vote to gauge community sentiment towards this proposal. If the sentiment and feedback in the comments below is favourable, then this strategy will be developed further and presented to the community at a later date when the details around the pools are known.