

Decentralized Finance (DeFi)

The ability to participate in complex financial transactions in a peer-to-peer fashion without an intermediary. This includes both exchanges as well as lending and borrowing protocols.

Stablecoins

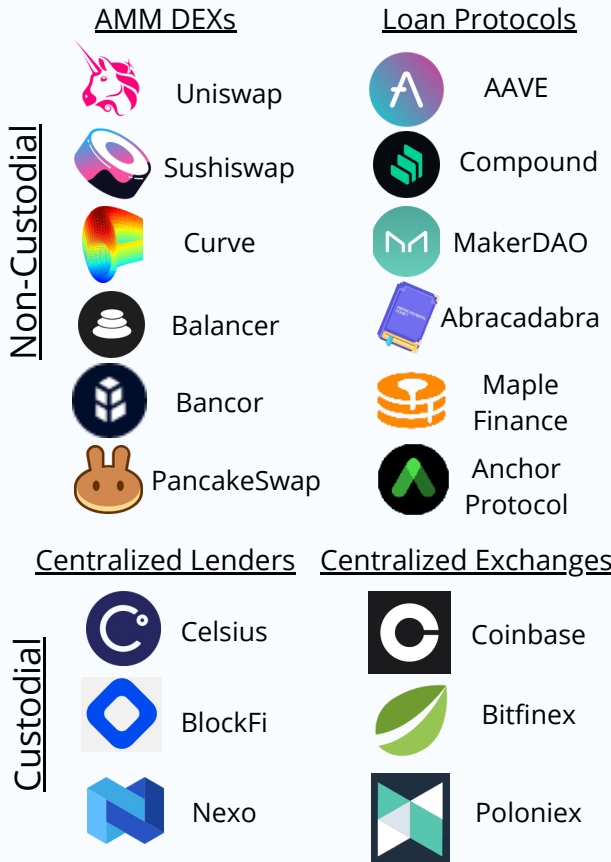
A sector of cryptocurrencies backed by a reserve asset, typically USD, which attempts to peg market value to the reserve asset. A stablecoin's exchange market rate, or price, can differ from the stablecoin issuers redemption rate.

Stablecoin yields

Generated by participating in lending and borrowing activities in the crypto ecosystem where the holder lends out their stablecoin, in a custodial or non-custodial manner, to earn interest on their holdings.

This stablecoin yield process can occur through four main venue types:

- Automated Market Maker (AMM)
- Decentralized Exchanges (DEXs)
- DeFi Platforms
- Centralized Lenders
- Centralized Exchanges



Please see important disclosure on next page.

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Stablecoin Yields Explainer

AMM DEX Liquidity Provision

Liquidity providers (LPs) post equivalent amounts of two assets, i.e. BTC and USDC, which allow users to swap between both assets. LPs then earn a percentage of all swap fees generated on the platform. However, LPs are exposed to price fluctuations of both assets and the yield generated is variable based on the trading volume of the platform.

DeFi Lending

Various DeFi loan protocols have emerged which allow borrowers to access capital directly through the platform. Lending rates continuously adjust based on supply and demand. Borrowers post collateral for the loan, which can be liquidated if the collateral value falls below the collateralization threshold. Borrowers also pay fees based on time borrowed and lenders are paid based on capital amount and time lent.

Centralized Lenders

Stablecoin holders can provide capital to these lenders who then provide loans to institutional borrowers. These borrowers are subject to credit checks and KYC/AML requirements. Lending and borrowing rates are typically fixed for a sustained period of time and are not highly variable.

Centralized Exchanges

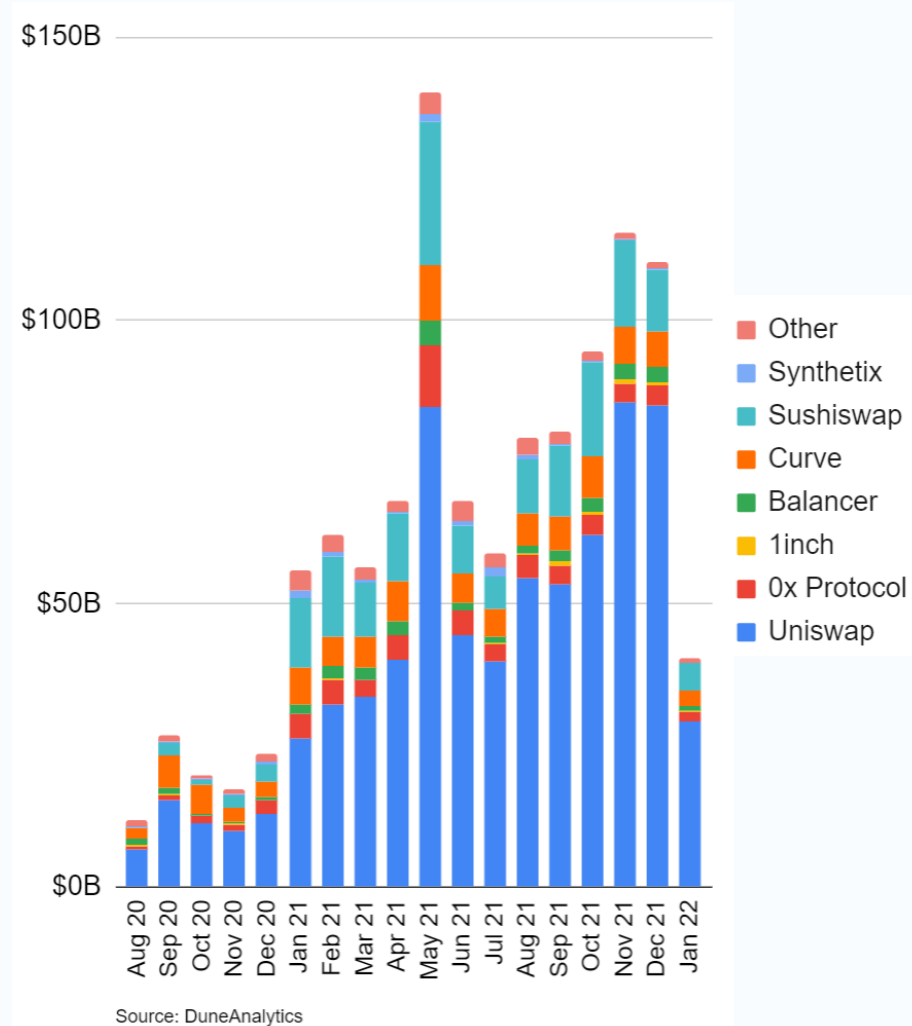
Some exchanges offer peer-to-peer lending within their respective exchange ecosystem. Traders can access leverage through these platforms with a variable interest rate, based on supply and demand. These loans can become liquidated by the exchange if sufficient capital requirements are not met. Lending risk is based upon the exchange's leverage and liquidation management system.

Stablecoins DeFi Composite Rate Index (Annualized) by Skew

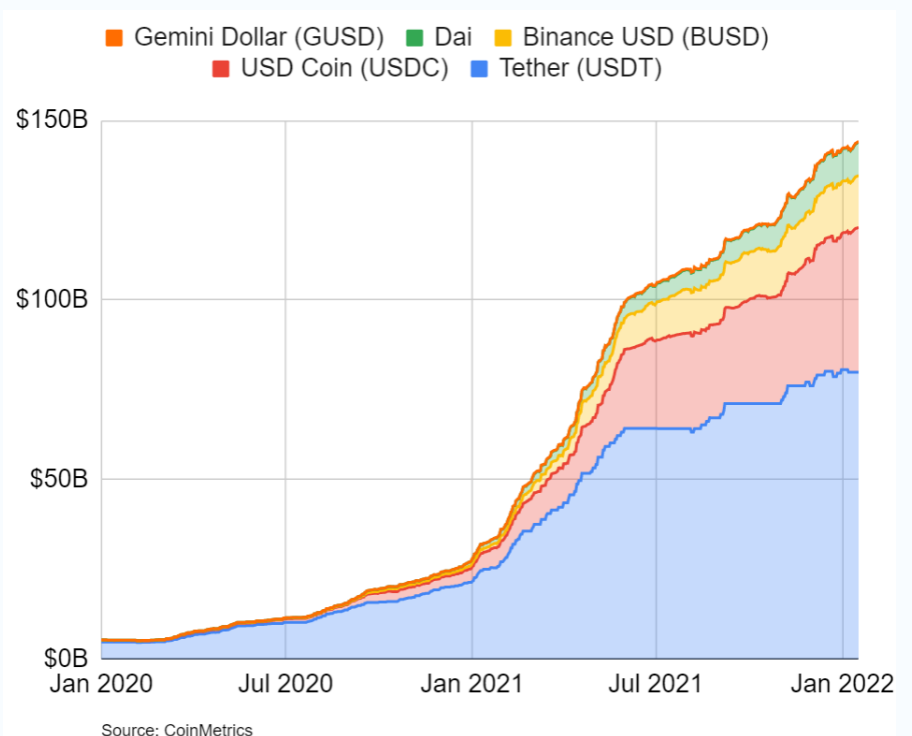


Jan 19th, 2022

Monthly AMM DEX Volume (USD)



Stablecoin Circulating Supply





Stablecoin Yields Explainer

Jan 19th, 2022

Decentralized Finance (DeFi), Stablecoins, Stablecoin Yields, AMM DEX Liquidity Provision, DeFi Lending, Centralized Lenders, Centralized Exchanges: Source: Valkyrie Investments, Inc., Tether Operations

The examples shown in the Stablecoins and four main venue types of the Stablecoin Yields sections are a non-exhaustive listing intended for illustrative purposes only.

Stablecoins DeFi Composite Rate Index: Source: Skew - Annual composite rates based on most popular protocols. The composite rate index represents lending and borrowing levels across major stablecoins.

Monthly DEX Volume (USD): Valkyrie Investments, Inc., DuneAnalytics - Defined as total reported volume for the specified DEX in the specified time period. "Other" category includes the following DEXs: airswap, Bancor Network, clipper, DDEX, DefiPlaza, DFX Finance, DODO, dYdX, Gnosis Protocol, IDEX, Indexed Finance, Kyber, LINKSWAP, Loopring, mStable, Oasis, PowerIndex, Shell, xSigma

Stablecoin Circulating Supply: Source: Valkyrie Investments, Inc., CoinMetrics

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