New DEFI Index - Prospectus

The New DeFi Index (DEFI) aims to become the broadest and most productive DeFi Index, tracking and providing exposure to representative key projects in the DeFi ecosystem, while offering great potential for future growth and yielding opportunities.. These projects are tracking a wide range of applications in the DeFi space.

PieDAO is an active community of closely connected DeFi users, able to leverage our shared knowledge of the DeFi emerging industry, and DEFI represents the result of our community efforts.

DEFI allows you to simply:

1) Invest in the most representative and composable DeFi projects
2) Diversify your portfolio while delegating the research due diligence to PieDAO
3) Earn yield on the yield bearing assets allocated in the index
4) Mitigate gas costs from managing your positions

DEFI is a tokenized representation of the most prominent projects in the space. Each underlying asset allocated in DEFI is fully collateralized, meaning that DEFI ensures complete ownership of underlying assets. DEFI provides the benefits of risk mitigation of a diversified index fund with a convenient single ERC20 token, whose supply is dependent on the actions of wrapping/redeeming of its underlyings, with no max supply set.

DEFI is based on the PieVault framework developed by PieDAO, benefitting from a refined and secure architecture, enabling:

- **Flexibility** in the allocation, allowing holders to benefit from upward price movements without 'selling the winners' and 'buying the losers';
- Improved **productivity** and **composability** of assets, enabling the implementation of yielding strategies able to generate passive income;
- **Meta-governance**, with veDOUGH holders able to express their vote using the underlying assets in their respective protocol decisions.

Asset Selection

A set of criteria was established to determine eligibility of a project for index inclusion. The project inclusion criteria described below seek to achieve a diversified exposure to the DeFi projects that better represent the ecosystem and whose tokens provide a real value proposition to holders.
The methodology adopted for **preliminary** asset selection in the DEFI index follows a market cap based approach, specifically based on relative capitalization weight. The entirety of the protocols operating in the DeFi space were clustered in the following categories:

> DEXes
> Lending protocols,
> Derivatives,
> Asset management,
> Infrastructure,
> Bridges.

Subsequently, two different metrics are considered for asset selection, namely:

a) **relative market cap equal or bigger than 1% of the total DeFi market cap**
or
b) **relative market cap equal or bigger than 20% of the capitalization of its specific category**

Acceptance criteria

After the initial filtering driven by clustering and market capitalization, shortlisted protocols were analyzed based on a number of ad-hoc criteria developed by the team, in order to ensure a sound and consistent asset selection. These criteria are presented and described in the table below.

Criteria	Range	Threshold	Note
DeFi Project	Y / N	Y	**Project defining the DeFi ecosystem** Projects included in DEFI should be recognized as active players in the Ethereum based Decentralized Finance ecosystem. Where DeFi is defined as the set of permissionless and composable protocols that enable blockchain based financial applications.
ERC20 Token	Y / N	Y	**Token aligned to standard** The token follows the ERC20 standard with no modifications.
Fractionability	Y / N	Y	**Asset is Fractionable** The ERC20 is fractionable to allow purchases of various sizes and allocations, in order to align with the index minting functionality. Minimum 2 decimals are required.
Liquidity	Y / N	Y	**Sufficient DEX liquidity exists** Low liquidity tokens are inefficient to include in the index. The slippage incurred while minting $1m worth of DEFI index on

			DEXes should not be larger than 3%, for each single asset.
History	Y / N	Y	**Token has been around for 60 days minimum** Token should demonstrate an established history of trading, over at least the past 60 days.
Audited Contracts	Y / N	Y	**Audit Passed** An audit should have been conducted with no critical vulnerabilities un-addressed, to mitigate the contract risk
Supply	Y/N	Y	**Circulating supply must be at least 10% of total supply** To avoid unexpected token dilutions and consequent negative price impacts, **protocols must have a predictable and transparent token issuance**, and at least 10% of their tokens already in circulation.
Sustainability	Y/N	Y	**Real economic activity** In order to be considered for DEFI listing, protocols must have a proven track record of generating real economic value.
Native	Y/N	Y	**Protocol should be native to the Ethereum blockchain** Given the resilience and time in the space of the ethereum blockchain, for security concerns only ethereum native protocols are considered for eligibility.

The inclusion of assets respecting the above criteria / removal of existing assets no longer respecting the above criteria could be requested by any community members. The respect/conflict of the criteria would be confirmed by the core contributors team, to be eventually validated through an ad-hoc snapshot vote.

Asset Allocation

The allocation methodology considered follows the computation of the 30 Day Average Circulating Market Cap for each underlying asset, where each relative allocation is subsequently capped according to a max and min allocation that tokens can have in the index (10% and 1%, respectively). In other words, no asset can count for more than 10% of the entire index allocation, as well as no asset can hold below 1% of the index allocation.

Finally, each asset resulting allocation is validated or iteratively adjusted in function of its available liquidity on DEXes, in order to ensure that the slippage incurred while minting $1m worth of DEFI index would not exceed the 3% threshold for each single asset.

Pie Rebalancing Policy

The rebalancing criteria adopted for **DEFI** is ruled-based, taking in consideration both a subset of objective conditions playing as **triggers for rebalancing**, and a broader community consensus, which would decide on the **rebalancing urgency** based on some reference guidelines (below), as a conscious effort to optimize the overall rebalancing cost by preventing unnecessary rebalancings.

Triggers for rebalancing (either one of the 2 below triggers a rebalancing):

1) **Max allocation of largest holding > 20% for 7 consecutive days**

2) **Max cumulative allocation of top 3 holdings > 50% for 7 consecutive days**

Rebalancing Urgency (criteria below define the rebalancing urgency)

1) To avoid obsolescence, **a minimum of 1 rebalancing every 3 months** should take place
2) A **maximum of 1 rebalancing per calendar month** should be deemed as acceptable
3) The sole inclusion of **new underlying assets won't trigger** per se a rebalancing, whose inclusion will be considered during the first available rebalancing.

Rebalancing Procedure

Based on the existence of either one of the 2 **Triggers for rebalancing** and the respect of all guidelines defining the **Rebalancing Urgency**, any community member could call for a rebalancing of the pie.

The new allocation considered for rebalancing **shall also include the addition/removal of any assets** previously voted on by the community.