PrimeRating

Fundamental Report

Prime Rating Report V2.1

Protocol: Convex
Version:
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Previous Report: Link

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Season/competition: Season 2

Instructions

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	8 / 15
b) Market fit/demand	10 / 15
c) Target Market Size	6 / 10
d) Competitiveness within market sector(s)	7 / 10
e) Integrations & Partnerships	2 / 15
Total Points - Value Proposition	**33 / 65**
2. Tokeneconomics	**Points**
a) Is the token sufficiently distributed?	10 / 15
b) What is the extent of the token's capabilities?	5 / 10
c) Is the issuance model able to improve the coordination of the protocol?	5 / 10
d) Is the value capture model able to accrue and distribute value?	8 / 10
e) Is the token sufficiently liquid to enable active use and trade?	2 / 5
f) Are there any extrinsic productivity use cases?	3 / 10
Total Points - Tokenomics	**33 / 60**
3. Team	**Points**
a) Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	2 / 15
b) Does the team have relevant experience?	0 / 10
c) Does the team participate and help shape the public debate?	0 / 5

d) Is the team able to effectively attract and coordinate resources?	**6 / 10**
Total Points - Team	**8 / 40**
4. Governance	**Points**
a) Admin Keys	**14 / 20**
b) Extent of Governance capabilities	**5 / 15**
c) Active Governance contributors	**4 / 5**
d) Governance infrastructure	**5 /10**
e) Robustness of Governance process	**6 / 10**
Total Points - Governance	**34 / 60**
5. Regulatory	**Points**
a) Does the protocol have any legal accountability?	**N/A**
b) What is the quality of the legal jurisdiction?	**N/A**
Total Points - Regulatory	**N/A**
Total	**108 / 225**

1. Value Proposition

The Value Proposition section describes the value a protocol delivers to its users. Based on the proportion of the problem the protocol aims to solve and the potential of the protocol to effectively solve the problem - better than other industry solutions - a Value Proposition rating is created.

a) Novelty of the solution (15 points)

This score evaluates the novelty (uniqueness) of the protocol. Has the protocol introduced any new innovations that help solve user's problems more efficiently? Is the project a fork? To what extent did they copy/fork the original?

Answer: Convex's core principle is to act as a proxy for a group of CRV holders that want to jointly influence Curve decision-making to improve rewards for Liquidity Pools of their choosing. Convex provides additional DeFi returns to Curve liquidity providers and CRV stakers. By pooling together individual users, the protocol provides the users with higher rewards and earning with the only downside being that the users lose their voting rights on Curve. Looking at Convex's Github, we observe that the protocol was built by the team from the floor up and is not a fork of any other protocols.

Score: 8

b) Market fit/demand (15 points)

This score evaluates the degree to which the protocol satisfies a strong market demand. The market fit evaluates if the protocol is able to satisfy the needs of a specific market (can also be measured by user adoption/ #of users). To what extent has the protocol proven to meet the demand of a specific market? Is the timing of the product right for the market? Is the protocol targeting the right market?

Answer: Since its launch mid-May of 2021, the protocol has gained a lot of traction and has amassed a TVL of around $13.11b and around 12K active users. Since the start of what is known now as the Curve Wars, Convex has more than 152M CRV token deposits completely obliterating all other participants in said war. Curve currently has 42.27% of the shares of veCRV tokens.

Score: 10

c) Target market size? (10 points)

The target market size evaluates the current and future size of the problem the protocol is aiming to solve. The category of the Open Finance solution can be used as a reference to the target market (for example: Lending). Because Open Finance is by definition global, the global market for a specific problem equals the target market size.

Answer: The target market size of Convex should be smaller than that of the networks it's built upon. Curve, since it is built on top if the protocol and harvests the CRV tokens in order to amass voting power in the protocol. However, the expansion on other protocols such as FRAX is possible as the adoption of the vetoken model is becoming more popular amongst defi protocols. Angle and KlaySwap are examples of fairly new adopters of the ve-token model while proposals for the adoption of the model are popping up across governance forums with the osushi proposal boasting around 13K views since its release.

Score: 6

d) Competitiveness within market sector(s) (10 points)

This score evaluates the competitiveness of the protocol within the market sector(s) it operates in. This score offers a relative comparison of the protocol and other protocols operating in the same market sector(s). To evaluate this, metrics to directly compare with the competition can be used (e.g. TVL, trading volume, number of users).

Answer: In the ongoing Curve War, the protocol has taken the lead in acquiring CRV voting power. Convex has currently won the race with Yearn to amass most of the voting power of CRV with Convex currently having 185M locked CRV while Yearn has around 24M locked CRV. With more than 21K CRV depositors on Convex, we can clearly see that it has amassed a sizeable user base since its launch.

Score: 7

e) Integrations & Partnerships (15 points)

Due to crypto's open-source nature, the code of most protocols can easily be forked. This score represents a piece of "unforkable value". Some indicators to look at are the number of applications built on top of the protocol (vertical integration), other entities integrating the protocol's services (horizontal integration) or the number of relevant partnerships (be careful of logo collections/ partnerships without much purpose).

Answer: The protocol is stand alone and there is a very slim possibility of having an ecosystem built on top of it. Since its governance dictates the need for the multisig to sign off on any proposals before implementation, the implementation of another similar protocol on top of Convex is highly unlikely. Moreover, currently, Convex is deployed on top of Curve and has started integration with FRAX with members of both protocols having each a seat on the multisig according to the docs.
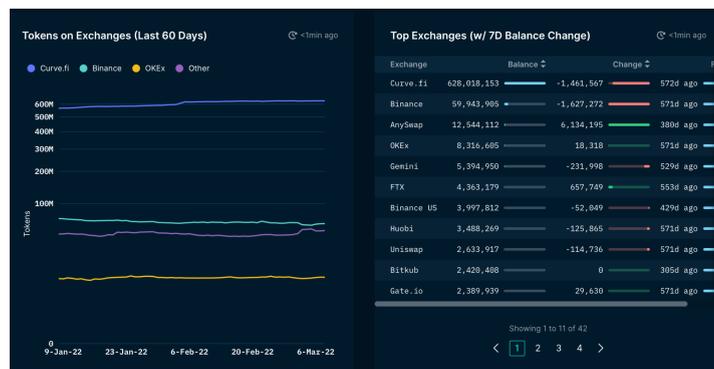
Score: 2

2. Tokeneconomics

The Tokeneonomics section assesses the function of a protocol's token. This includes the token distribution, functionalities of the token, the ability of the token to incentivize positive behavior in the protocol, and the ability of the token to capture a portion of the value created.

a) Is the token sufficiently distributed? (15 points)

The token distribution can be an indicator of a healthy protocol. When the protocol tokens are widely distributed among different stakeholder groups and contributors, this genuinely improves the coordinating capability of the token and strengthens the resiliency of the protocol. Was the initial distribution balanced between relevant stakeholders? Are the tokens distributed over sufficient participants (10, 25, 100 largest addresses)?

Answer: The token is distributed as follows: 50% Curve LP rewards: Rewarded pro-rata for CRV received on Convex - 25% Liquidity mining: Distributed over 4 years (Incentive programs, currently CVX/ETH and cvxCRV/CRV) - 9.7% Treasury: Vested over 1 year. Used for future incentives or other community driven activities - 1% veCRV holders: Instantly claimable airdrop - 1% veCRV holders who vote to whitelist Convex : Instantly claimable airdrop - 3.3% Investors: Vested over 1 year. 100% of investment funds used to pre-seed boost and locked forever(no cvxCRV minted). - 10% Convex Team: Vested over 1 year. Moreover, looking on Nansen, we see that the top exchange with CVX after curve.fi is Binance followed with SushiSwap and Uniswap.

Score: 10

b) What is the extent of the token's capabilities? (10 points)

Is the token useful within the protocol? Does the token allow the holders to participate in governance or influence the protocol in any way? Does it serve any other purposes?

Answer: The convex token CVX has the following <u>properties</u>: can be staked to receive a share of platform fees as cvxCRV, will be used for voting (however, votes do not take effect without the signing off of the multisig), such as gauge weights, is minted pro-rata for each CRV token claimed by Curve LP's on Convex and CVX / CRV mint ratio reduces every 100k CVX. thus, the token does provide some utility and revenue however, its extent for showing governance is restricted by the signing off of the mutlisig.

Score: 5

c) Is the issuance/distribution model able to improve the coordination of the protocol? (10 points)

To what extent does the issuance of the token support the advancement and function of the protocol? Are the tokens justifiably being issued? Does the issuance model incentivize the right behavior? Are all relevant stakeholders benefiting from the issuance model?

Answer: The token, CRV, is issued by the protocol and distributed between staking and LP rewards. As mentioned in the token distribution, 25% of the tokens is attributed to liquidity providers and 50% of the tokens will be attributed as LP rewards. The issuance model incentivizes the user by providing them with both boosted CRV and CVX rewards without locking their tokens. This model attracts users to deposit their CRV tokens on Convex as it gives them more flexibility and profitability.

Score: 5

d) Is the value capture model able to accrue and distribute value? (10 points)

A value accrual and distribution mechanism can help improve the utility of a token and its ability to be used as an effective coordination mechanism. Does the protocol have mechanisms to distribute some of the value created to the token holders?

Answer: Convex earns revenue by taking a fixed fee of 17% from all the LP token pools, which are then distributed to various stakeholders. Users earn rewards by staking or providing liquidity. The treasury is given 9.7% of the total CVX supply, vested over one year. Moreover, the admin multisig can set up the treasury address and allocate up to 2% of the platform fees back to this address.

Score: 8

e) Is the token sufficiently liquid to enable active use and trade? (5 points)

Is the token widely available and is there sufficient liquidity available to facilitate all protocol functionalities?

Answer: The <u>CVX token</u> is available on several exchanges, such as Binance (mentioned in 2.a), and has sufficient liquidity as of now. It currently has a market cap of $1,200,704,005 and a circulating supply of 51,232,557 CVX. We also notice that its fully diluted valuation or TVL ratio is at only 0.16.

Score: 2

f) Are there any extrinsic productivity use cases for the token? (10 points)

Besides the protocol's value distribution model as described in 2. d), can the token be used productively on other protocols (e.g. as collateral, for lending, LPing, yield farming, etc.)?

Answer: <u>Yearn</u> and <u>BadgerDAO</u> are actively farming CVX. CVX has no obvious use outside of this. For yield farming systems, it is not a well-known collateral or a high-demand token.

Score: 3

3. Team

The Team section describes the quality of the team behind the protocol. The current version of Prime Rating favours teams that are publicly identifiable. In the case of an anon team, the track record of the specific anons involved can be taken into account

a) Is the team credible and public? (15 points)

Are the identities of the core contributors and team publicly identified? In the case of anon team members, is there any way to track their background/record?

Answer: There is no clear identification of the team neither on the website nor in the documentation. However, there are Kendrick Llama and Winthrope that are identified on Discord as being part of the team.

Score: 2

b) Does the team have relevant experience? (10 points)

Are there any documents or trails available to showcase the track record of the team? Do the team members have relevant backgrounds and skill sets?

Answer: Since the team is not clearly identified, then we are unaware of their qualifications and skills.

Score: 0

c) Does the team participate and help shape the public debate? (5 points)

To what extent do the protocol contributors participate in the public debate around open finance? Are the team members giving presentations, sharing their thoughts and opinions, and do they help raise the collective intelligence of the industry?

Answer: Since the team is not identified we are not able to identify the extent of the participation of the team.

Score: 0

d) Is the team able to effectively attract and coordinate resources? (10 points)

How effective is the team at attracting and coordinating resources for the benefit of the protocol? Has the team raised sufficient funding or are there mechanisms in place to attract resources when needed?

Answer: There is no documentation on the funding, investors or the use of it by the team. However, it is mentioned in the token distribution that there will be an allocation dedicated to investors and a vesting period that follows. Yet, again, the amount, the investors and the allocation of the funds is not publicly shared.

Score: 6

4. Governance

The Governance section evaluates how the protocol is governed and who the governors are. The different governance functionalities and processes are evaluated to determine to what extent the Protocol will be able to self-govern in a way that ensures the development of the protocols while respecting the needs of all current and future stakeholders.

a) Admin Keys (20 points)

Admin Keys allow some critical functionalities of a protocol to be controlled by an admin. This allows the developers to react to potential bugs, but also creates a risk as the developers could potentially misuse the admin keys to exploit the protocol. Does the protocol have admin keys and how are they managed?

Answer: The admin controls the protocol through the multisig; the multisig has five members two of which are from the convex team. The multisig admin have the following capabilities: update the stash factory and the pool manager, control the arbitrator vault, change platform fees allocated to takers with hard-coded ranges, set up the treasury

address and allocate up to 2% of the platform fees back to this address, control the treasury account, vote for proposals and gauge weights, et distribution weights on the master chef, shutdown and/or pause new deposits to pool staking contracts and others, apply a new operator the whitelisted proxy if the current operator is completely shutdown and add and/or remove rewards.

Score: 14

b) Extent of Governance capabilities (15 points)

Distributed governance allows the token holders to participate in the governance of open finance protocols. How much influence does the governance mechanism have? Are the votes affecting on-chain changes or do they function solely as signals to the team?

Answer: After voting-locking their veCRV, CRV holders can begin voting on various proposals. Anyone can make proposals, however users must adhere to the proposal format, which can be accessed by starting a new discussion on the governance forum. The signalling tool is absolutely free to use, and all you need to make a proposal is 1 veCRV. You can also establish an official DAO vote if you have at least 2,500 veCRV, as long as it comes with a post for presenting it on the governance forum. However, the multisig has to sign-off on the results of the votes in order for them to take effect.

Score: 5

c) Active Governance contributors (5 points)

Governance is a process that can be rather resource-intensive if executed well. To ensure good governance is practiced by the protocol, it's important to have a sufficient number of governors allocate resources to the governance process of the protocol. How many individuals participate in the debate around the protocol? How active are voters?

Answer: Currently, there are 2.7K active members voting for governance proposals on Snapshot. The number of votes on the proposals range between 2M to 15M CVX.

Score: 4

d) Governance technology/infrastructure (10 points)

The Governance infrastructure relates to the technology, software, and models used by the protocol's governance. Does the protocol have a reliable and usable voting mechanism? Are there channels for governance debate? Is there sufficient documentation available?

Answer: For governance, voting occurs on the Snapshot platform (which is the governance forum) and there are also debates on the discord channel.

Score: 5

e) Robustness of Governance process (10 points)

This score requires documentation specifically on the governance process that sets the basic framework in terms of agreements, norms, and language for governing the protocol and to create social consensus. Does the protocol have a formal governance process? How robust is the governance process and does it promote good governance?

Answer: The governance process is well formalised an documented in the Convex docs under <u>Voting and Gauge Weights</u>. So far, we have seen that this type of model is well received and has since then been used along with the vetoken model.

Score: 6

5. Regulatory

The Regulatory section describes the extent and quality of the regulatory environment that affects the Protocol. To be able to guarantee functionality, security, and legality the protocol should comply with regulatory requirements, or limit itself to facilitating services to users who are willing to operate outside of the traditional regulatory environment.

a) Does the protocol have any legal accountability? (15 points)

Does the protocol have any form of legal accountability? Can users and partners hold the protocol accountable in case of a breach of the agreement?

Answer: There is no documentation and no clear transparency related to legal accountability.

Score: N/A

b) What is the quality of the legal jurisdiction? (10 points)

If the protocol has a legal entity, what is the quality of the jurisdiction the entity is established in? Will the jurisdiction be able to facilitate the legal framework for the protocol to expand while remaining accountable.

Answer: There is no documentation of any legal jurisdiction.

Score: N/A