PrimeRating

Fundamental Report

Prime Rating Report V2.1

Protocol: Enzyme Finance
Version: v2
Date: 02/03/2022
Previous Report: Link

Author: OriginalSK
Reviewed by: Lavi
Season/competition: Season 2

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	12 / 15
b) Market fit/demand	11 / 15
c) Target Market Size	10 / 10
d) Competitiveness within market sector(s)	7 / 10
e) Integrations & Partnerships	7 / 15
Total Points - Value Proposition	**47 / 65**
2. Tokeneconomics	**Points**
a) Is the token sufficiently distributed?	8 / 15
b) What is the extent of the token's capabilities?	6 / 10
c) Is the issuance model able to improve the coordination of the protocol?	6 / 10
d) Is the value capture model able to accrue and distribute value?	6 / 10
e) Is the token sufficiently liquid to enable active use and trade?	4 / 5
f) Are there any extrinsic productivity use cases?	2 / 10
Total Points - Tokenomics	**32 / 60**
3. Team	**Points**
a) Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	15 / 15
b) Does the team have relevant experience?	10 / 10
c) Does the team participate and help shape the public debate?	2 / 5
d) Is the team able to effectively attract and coordinate resources?	8 / 10
Total Points - Team	**35 / 40**
4. Governance	**Points**

a) Admin Keys	**18 / 20**
b) Extent of Governance capabilities	**7 / 15**
c) Active Governance contributors	**2 / 5**
d) Governance infrastructure	**3 /10**
e) Robustness of Governance process	**7 / 10**
Total Points - Governance	**37 / 60**
5. Regulatory	**Points**
a) Does the protocol have any legal accountability?	**X / 15**
b) What is the quality of the legal jurisdiction?	**X / 10**
Total Points - Regulatory	**X / 25**
Total	**151 / 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:
Enzyme is a decentralised asset management protocol formerly known as Melon (until Dec 2020). Through smart contracts users can create investment vaults based on their own investment strategies, users can also join existing vaults. Users who create vaults, i.e. vault managers, benefit from being able to create vaults through no-code solutions, built in accounting tools and automated reporting to investors.

Investors, i.e. vault depositors, have transparent access to vaults while maintaining control of their funds. Enzyme differentiated itself from other asset managers by introducing infrastructure that allowed investors to maintain custody of their own assets.

As one of the first asset management protocols and technical tools like accounting and reporting a score of 12 is given.

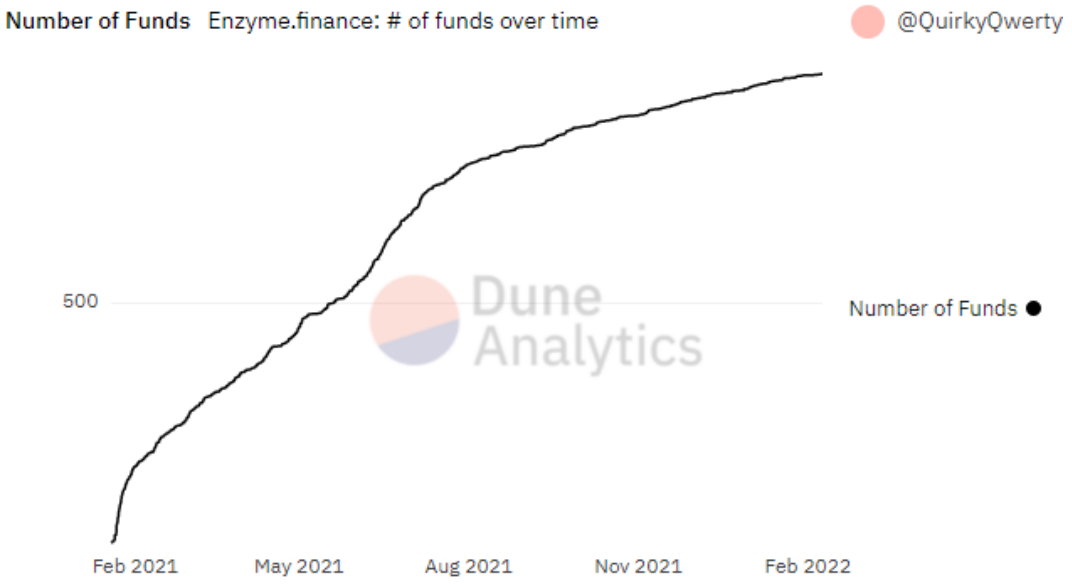
Score: 12

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 launching in 2019, user adoption of Enzyme has seen progressive growth and currently has 981 funds/vaults under management with 873 fund managers - source.



Towards the end of 2021, Enzyme achieved their highest AUM at the time of $150M which represented 115x increase since February that year. Asset management protocols like Yearn.finance (~$2.9B) and Set Protocol (~$150M - $220M) have higher TVL's than Enzyme (~$105M), Enzyme ranks 3rd for index protocols tracked by DeFiLlama. As the number of DeFi protocols continues to grow - over 300 tracked on DefiLlama alone - the need for asset management will become more important, access to sophisticated strategies for general users would enable more involvement in open finance.

Given their growing adoption rate and lower comparative TVL, I would conclude that a score of 10 is appropriate to indicate the protocol has promising signs of market fit.

Score: 11

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.

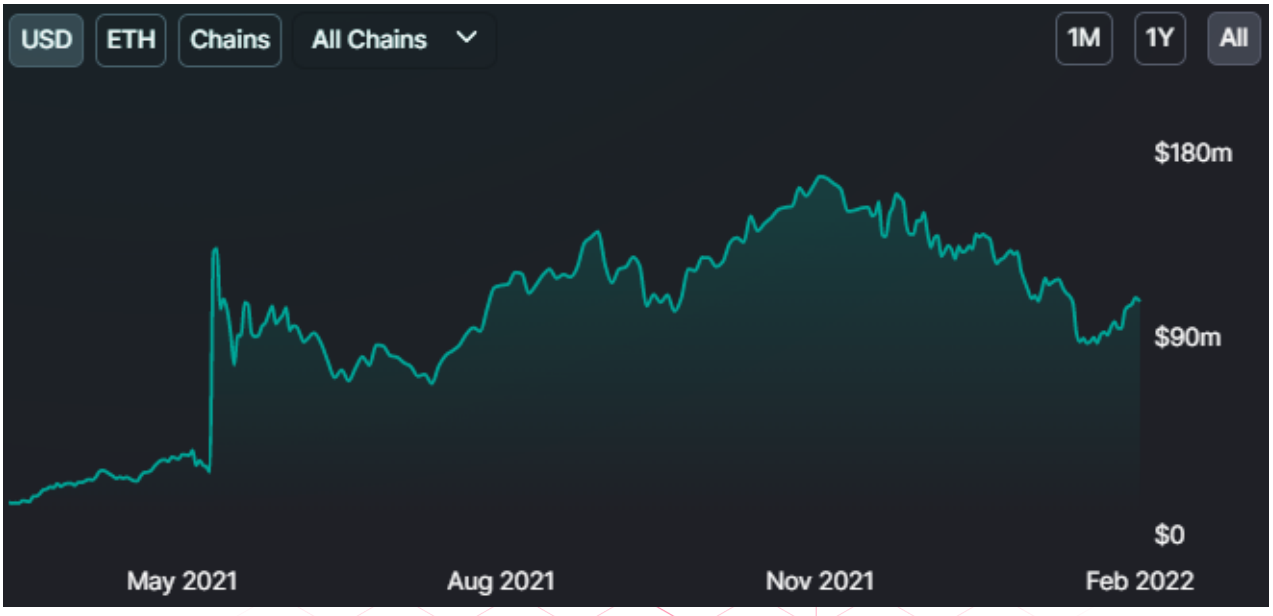
Answer:
Total value locked in DeFi according to DefiLlama is ~$200B, recently declining from highs seen between Nov 2021 and Jan 2022. The total value locked in asset protocols tracked by DeFiPulse - Ethereum - is approx ~$13B which represents ~18% of the total market (~$70B). Global assets under management are anticipated to reach over $145T by 2025.

Score: 10

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:
The on-chain asset management is dominated by yearn finance with ~$3B in TVL, to lesser extent Convex finance ($9B TVL) could also be considered as superior competition even though active asset management isn't a direct function, assets are just deposited to earn yield. Enzyme's closest competitor Set Protocol's ~$220M TVL ranks above Enzyme's ~$105M TVL, other protocols like Babylon Finance (~$20M TVL) and dHedge ($16M TVL) also operate in the same market but are currently not as competitive - source.



Enzyme TVL over time

Observing Enzymes TVL (graph above) over time there isn't a period where it could be said that the protocol was a clear market leader. Therefore I would conclude that Enzyme finance figures as an alternative.

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:
Enzyme has integrated other protocols into its platform to enable users to:

- Deposit funds into Uniswap and Curve liquidity pools
- Yield farm from Idle, Yearn, AAVE, Compound protocol
- Trading with Uniswap, Paraswap, Curve, Kyber Network, Synthetix & 0x DEXes.

Zoduid; A tool combining Enzyme, Zodiac (safe) module and superfluid. Enabling DAOs to earn yield but also distribute payments

Unslashed finance: partnership to build insurance infrastructure based on Enzyme's existing asset management infrastructure.
AdEx: strategic partnership aiming to bridge the advertising and DeFi industries.
Exponent.ai: capital allocation engines protocol, integration to involve indexes.
(main source)

Enzyme's integrations don't build on top of the platform or utilise its features, these integrations only serve asset management functions. The partnerships mentioned are more significant and align with the protocol's functions. Therefore a score of 7 is given for this section

Score: 7

2. Tokeneconomics

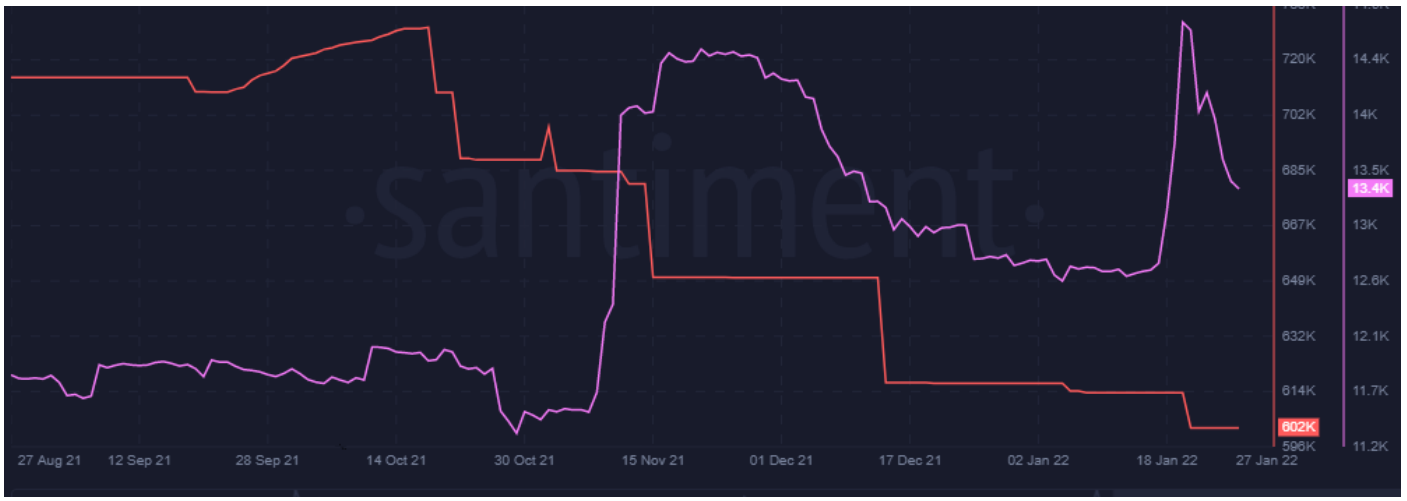
The Tokeneonomics section assesses the function of a protocol's token. This includes the token distribution, functionalities of the token, the ability of the token to incentivize positive behaviour in the protocol, and the ability of the token to capture a portion of the value created.

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)?

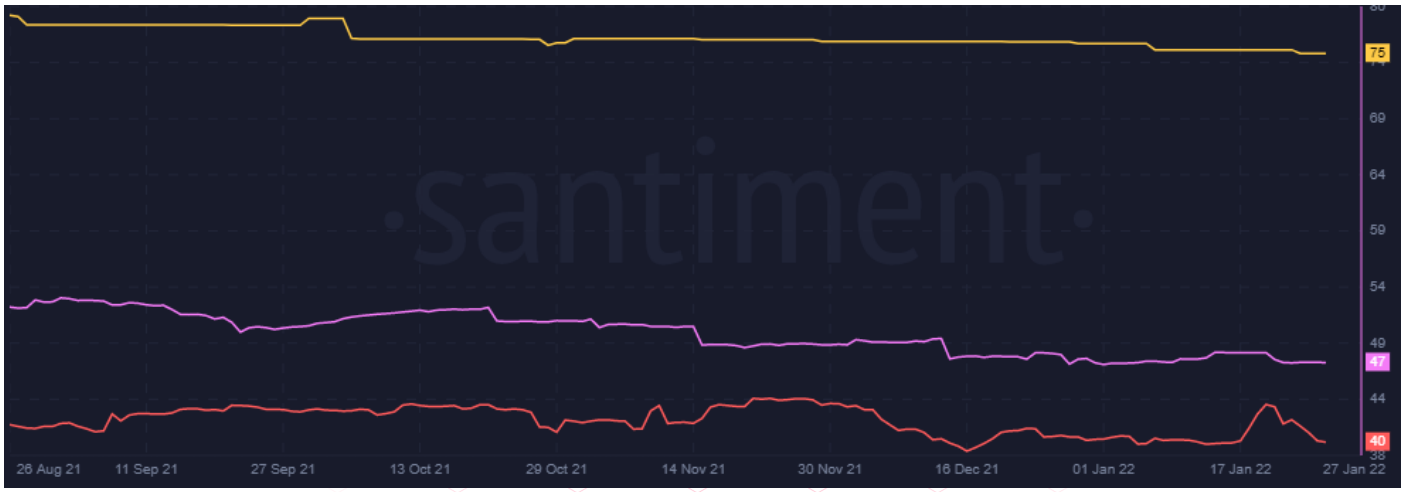
Answer:.

1.25 M MLN tokens were created with ~40% distributed to token sale participants, 40% of supply allocated to investors and 20% to rewards and airdrops - source
Current circulating supply of the MLN is held by ~6,200 token holders with the top 100 addresses collectively owning ~90%, with the largest address owning ~13% of this supply according to Etherscan. Supply held by top non-exchange addresses (~600 000 MLN) represents ~30% of current supply (~1.8M), over time these addresses have decreased their holdings - indicated below in graph A.



Graph A: Top non-exchange holding of YFI (Purple) and MLN (Red) (source: santiment.net)

Participant holding relative to competitors yearn finance (YFI) and Index Coop (INDEX) measured through ‘Supply held by top addresses (as % of total supply)’ indicates MLN holds the middle position with YFI being more distributed than either MLN or INDEX - indicated below in graph B.



Graph B: Supply held by top addresses (as % of total supply) of YFI (Red), INDEX (Yellow) and MLN (Purple). (source: santiment.net)

The initial supply was skewed towards the founders and investors. Relative to its competitors MLN seems as distributed as market leader YFI.

Score: 8

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:
MLN coordinates the network's activity; MLN is required to interact with the protocol. As the network’s ‘gas token’ it has the specific utility of:

- Payment of fees to the network from users (e.g. redeeming shares)
- Compensating/incentivising fund managers and developers (MLN inflation)
- Setting up investment vaults.

No direct governance rights currently exist, revenue rights are limited to vault managers who can redeem MLN for a share of the protocol’s fees at a discount. This section is scored a 6 given the functional utility and limited revenue rights.

Score: 6

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 behaviour? Are all relevant stakeholders benefiting from the issuance model?

Answer:
Enzyme tokens have a mint and burn issuance model, a fixed yearly amount of 300,600 $MLN are minted for use in supporting the protocol's operations. Tokens are burnt when setting up a fund, requesting investment and redeeming assets. The Council allocates tokens from inflation to projects/teams/developers. The purpose of this model is to fund future development and maintenance, a limited supply would make this long term goal difficult.

The Council manages MLN's usage by adjusting the network's fees in periods of high usage or price volatility. Additional protections exist in the form of a decreasing inflation rate over time (from fixed yearly emission) and DAO's ability to burn unallocated MLN.

This model seeks to incentivize the network's growth long term but this approach is centralised and could become a cost to the protocol if excess MLN needs to be repurchased to then be burned by the DAO. Given the layer complexity and potential risk this section is scored a 6.

Score: 6

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:
Enzyme's 'protocol fee' mints additional vault shares into an Enzyme Council owned contract, applied at 50 bps of the vault's AUM but can be bought back by the vault manager for 25 bps. These shares are purchasable in equivalent $MLN by the vault manager at a discount or by the Enzyme Council. The protocol fee is charged when a fund receives a new deposit, shares are redeemed, new release migrates or settings reconfiguration.

Effectively vault managers (hold MLN to set up vaults) can repurchase the vault fees that would have gone to the DAO council at a discount. This approach incentives vault managers and a productive network, however this is dependent on healthy vault AUM and limited to vault managers for this reason a 6 is given.

Score: 6

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:
$MLN is available on over 25 centralised exchanges with the likes of Coinbase, Binance, MEXC and Kraken. CEX liquidity tracked on Coingecko has a positive trust score (5 exchanges). Based on Coinmarketcap, the majority of

CEXes have mixed liquidity scores that range between 50 - 700 across markets (scored 0 - 1000, scores closer to 1000 represent high liquidity). 2 DEXes list MLN - Bancor and Sushiswap - however liquidity and volume data are unavailable.

23	Crypto.com Exchange	MLN/USDC	$52.93	$82,321.64	$92,165.72	$18,884	0.26%	High	317	Recently
24	Bancor Network	MLN/BNT	$53.45	-	-	$7,221	0.10%	N/A	-	Recently
25	SushiSwap	WETH/MLN	$52.93	-	-	$4,271	0.06%	N/A	-	Recently
26	WazirX	MLN/USDT	$52.22	$7,100.46	$3,060.48	$416.69	0.01%	High	119	Recently
27	Tokocrypto	MLN/USDT	$52.92	$26,289.43	$30,562.60	$99.83	0.00%	High	372	Recently

MLN exchange markets

CEX liquidity is more represented than DEX, this section is scored 4.

Score: 4

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:
Liquidity provision on Sushiswap and Bancor. LP opportunity is limited to 1 market in each DEX therefore a score of 2 is given.

Score: 2

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:
Founded by Melonport AG, the lead team consisted of:

Mona El Isa: founder and CEO, Crunchbase, LinkedIn and Twitter - Reto Trinkler: Co-Founder, Crunchbase, Forbes - Travis Jacobs: Head of Development, Cyberhunter, Messari - Sebastian Siemssen: Developer, Messari, LinkeIn - Jenna Zenk: CTO, LinkedIn, Twitter & Messari

Additionally notable advisors Gavin Wood (co-founder of Ethereum and Polkadot) and Jehan Chu (founder of Ethereum Hong Kong, a co-founder and managing partner of Kenetic blockchain) were/are involved.

The team is highly credible with strong technical and strategic advisory members.

Score: 15

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:
Mona El Isa: Former market maker and prop trader at Goldman Sachs for 8 years, Vice President at 26. Notably top 30 under 30 list twice in 2008 with Trader Magazine. Ran a long-short equity fund, currently serves on the Board of MAMA, Near Protocol and Midas Technologies - source

Reto Trinkler: Council Member of the Web3 Foundation, with a background in Mathematics. Founded Trinkler Software to lead Research & Feasibility for Enzyme, leading the company's development team. Previously a smart contract developer at Brainbot Technologies and developed a trading algorithm for sport betting exchanges.

Travis Jacobs: Previously developed on the OpenWorm project, under Google's sponsorship. Background in Engineering - source.

Sebastian Siemssen: Previously a contractor and lead engineer at various digital agencies, background in medicine. Has contributed to open source software projects - source.

Jenna Zenk: Background in Financial Engineering, past experience in hedge funds. Prior to Melonport developed decentralised tech on Ethereum - source.

On launch in 2019, Melonport wound down operations and passed the protocol's governance to the Enzyme Council. (see section 4b). This council made up of:

- Janos Berghorn: Investor @ KR1 (ETC)
- Giel Detienne: User representative (EUR)
- Mona El Isa: Founder & CEO @ Avantgarde Finance (ETC)
- Felix Hartmann: Founder @ Hartmann Capital & User (EUR)
- Will Harborne: Founder & CEO @ Deversifi (ETC)
- Lev Livnev: Formal verification researcher @ dapp.org and a founding partner @ Symbolic Capital Partners (ETC)
- Martin Lundfall: Formal Verification Researcher @ Ethereum Foundation & DappHub (ETC)
- Nick Munoz-McDonald: Smart Contract Auditor & Researcher @ G0 Group (ETC)
- Paul Salisbury: Founder @ Blockchain Labs (ETC)
- Zahreddine Touag: Founder @ Woorton (ETC)

A full score is merited for this section.

Score: 10

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:
Mona El Isa has done interviews on DeFi, for example its advantages, and example 2. A large share of these recordings involve discussion/promotion of Enzyme Finance so they should be discounted as to how much they 'raise the collective intelligence' of the industry. On Twitter Mona has over 8000 followers and occasionally engages in discussions, most recently on Treasury management. Sebastian Siemssen is also active on twitter but not as involved in discourse.

Score: 2

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:
In 2017, Melonport raised $2.9M from their ICO. The team were also able to attract significant talent in the form of their advisors as mentioned in section 3a and council members as mentioned in 3b. Coordination of the funds raised were allocated:

- 85.2% Personal & contractors
- 7.6% Admin expenses
- 4.2% Marketing expenses
- 3% Office rental

Given the prior financial management experience within the team, disclosed allocation from the public sale and talent attracted a score of 8 is warranted.

Score: 8

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:
From Enzyme's FAQ section:

"In terms of upgradability, there are no admin keys or backdoors. Vaults are version-specific and can only be upgraded from one version of the protocol to the next if Vault Managers opt in and signal an upgrade. Depositors have an opportunity to opt out if they do not like the new upgrade parameters being signalled."

Upgrade process details. A high score is appropriate here as upgrades require participants to opt-in within a time period and access to funds is not permitted.

Score: 18

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:
Enzyme is governed by a DAO called Enzyme Council, which is made up of technical experts (Enzyme Technical Council (ETC)) and user representatives (Enzyme User Representatives (EUR)). ETC has responsibility over audits, features, ecosystem projects, network parameters, token economics. The aim of this council is to provide technical expertise and speed in decision making. EUR collects and delivers user feedback to the Enzyme Council on behalf of users. Users are elected by delegates to represent.

Ultimately token holders have no direct voting rights, Enzyme's governance structure only functions as a signalling tool. Signals are significant for ETC to heed as any changes/upgrades to the protocol are elective for users. A score of 7 is given for this section.

Score: 7

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:
The ratio of the Enzyme Council is currently 5 : 2 (ETC : EUR). Decisions are taken on a two-third majority vote basis. The EURs are currently coordinated using an invite-only Telegram group. Debates on prioritising user feedback are therefore handled by a small group of governors.

Score: 2

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:
Informal discussions for feature requests, technical discourse, asset requests and strategy are hosted on Discord.Enzyme Improvement Proposals (ENZIP) happen on Github and are managed by the team, not a lot of engagement is visible on Github for their ENZIP's. Telegram coordinates user representatives.

Overall the infrastructure is pretty limited.

Score: 3

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:
Documentation can be found here. The technical council members have to disclose their identity and are bound by fiduciary responsibility, this reduces the risk of individual bad behaviour. Additions to the council have to be approved by two-thirds vote of existing members, new member votes are made transparent to the wider community and applicants have to meet a criteria (ENZIP). Additionally members are incentivised with a portion of the protocol's yearly inflation.

User representatives are delegated by the community, they act as a counterweight against the technical council and can vote on the exclusion of ETC members.

There is a well documented governance process that in its format has measures to promote good governance. As governance is ultimately not decentralised a score of 7 is given.

Score: 7

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:
A DAO since 2019, Melonport AG dissolved and released control to the DAO council Enzyme Council (formerly Melon DAO). The council includes former members of Melonport AG but formally don't own the protocol, only

providing governance and direction. Individuals on the council are made public however legal action is limited as "ultimate choice and responsibility relies solely on the user."

Some mechanism for accountability exists but legal actions against breaches are limited seeing as neither Melonport or Avantgarde finance (founder Mona's current company that builds on top of Enzyme) actually owns the protocol. Therefore this section is excluded.
Score: x

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:
None, see 5a (excluded)
Score: x

About the Author: OriginalSK