UMAMI

Litepaper

Pioneering the **Institutional Adoption** of DeFi

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Executive Summary

Umami is a hybrid **Decentralized Finance (DeFi) protocol and digital asset custodian** that is pioneering the institutional adoption of DeFi with its expanding array of DeFi Yield products **tailored to financial institutions.**

The blockchain ecosystem is evolving rapidly, creating abundant opportunities for digital asset liquidity providers to generate yield. Unfortunately, **there are currently no trusted pathways for institutional investors** to tap into yields in the DeFi space.

Umami is bridging the gap between the institutional market and DeFi by creating **best-in-class DeFi Yield products and distributing them to financial institutions** through its in-house digital asset custodian, Umami Advisors, and its expanding partnership network.

In Q4, 2022, Umami is launching its first suite of DeFi Yield Vaults, which will generate competitive yields on core crypto assets including USDC, BTC and ETH.

Umami will launch additional DeFi Yield products in 2023. All of Umami's rigorously backtested strategies source yield from established DeFi base layers on networks such as **Ethereum and its Layer 2 scaling chains**.

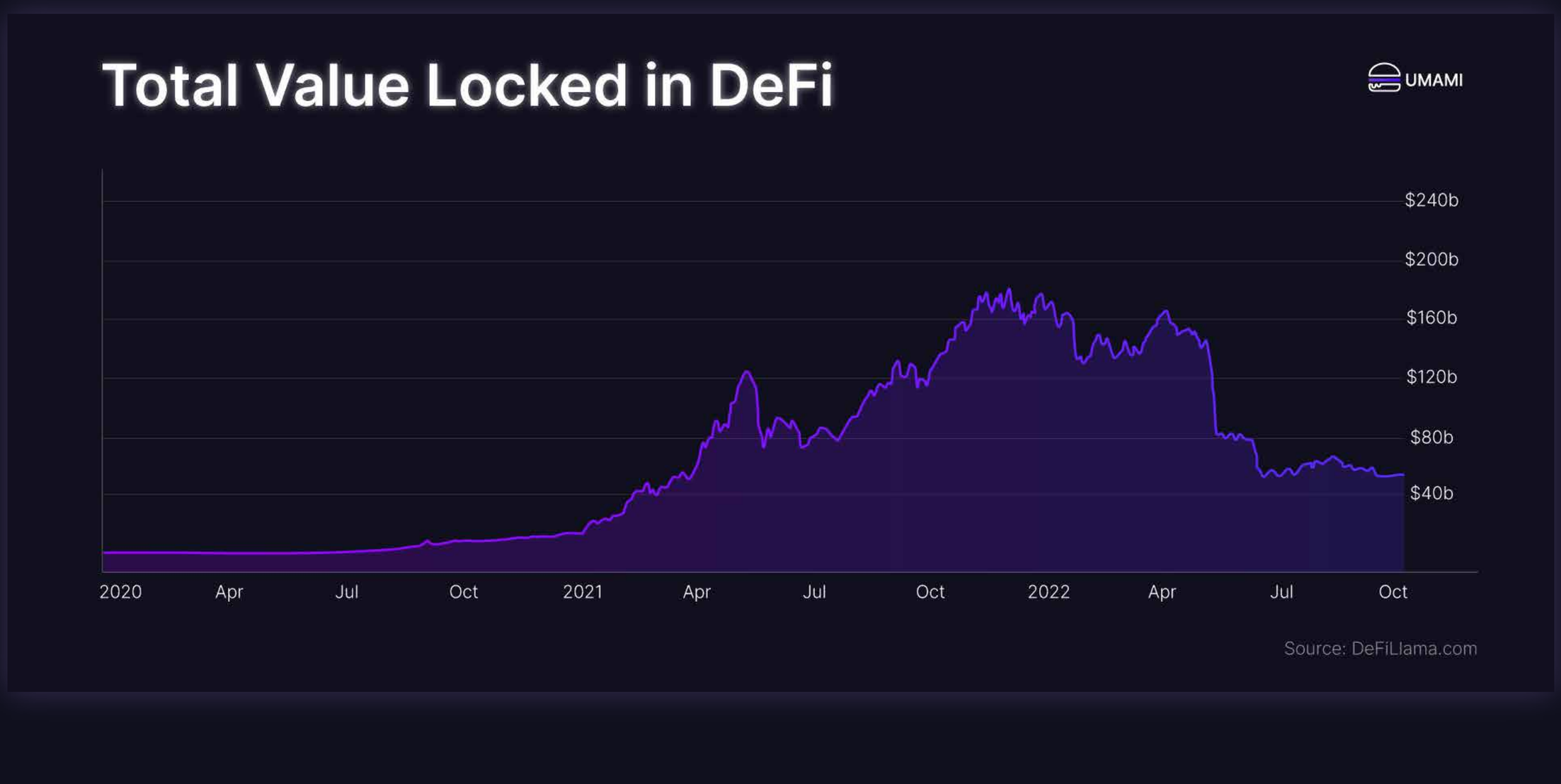
Umami's Vaults employ trustless, non-custodial smart contracts; they do not custody or control depositors' assets. **Umami's clients can queue deposits or withdrawals at any time.** They can even track Vault performance in real-time via the network's decentralized ledger.

Motivation

The Emergence of DeFi

The launch in 2015 of Ethereum, the first smart contract compatible blockchain network, laid the foundation for the emergence of Decentralized Finance. DeFi is a web of interconnected protocols, now spanning numerous blockchains, that enable users to **transact "trustlessly" — i.e. without assuming counterparty risk.**

Trustlessness reduces or **eliminates numerous costly frictions endemic to traditional finance**. In DeFi, cross-jurisdictional counterparties transact without concerns about contract enforceability; investors monitor how their assets are being allocated on transparent decentralized ledgers; lenders and borrowers experience improved economics from disintermediation.



In recent years, user-adoption of DeFi has increased dramatically. Since 2020, DeFi's aggregate Total Value Locked (TVL), a measure of the value of assets deployed on blockchain protocols, has **increased from just over $500 million to more than $50 billion**, according to DeFiLlama. Total unique wallet addresses have increased even faster, **from fewer than 100,000 prior to 2020 to nearly 5 million** as of May 2022, according to Consensys.

The Liquidity Bottleneck

Access to liquidity has been among DeFi's most significant bottlenecks. Protocols require deep, stable liquidity to facilitate transactions, which can include lending, borrowing, asset swaps, derivative trades and more. **On-chain liquidity is limited**, even for core crypto assets such as ETH and BTC, and it is fragmented across multiple networks and protocols, resulting in high costs for large transactions.

Unsurprisingly, DeFi liquidity providers (LPs) often receive **highly competitive yields**. Historically, APRs for blue-chip DeFi LP positions have been **>2x higher** than for other asset types with comparable risks. Moreover, the addition of crypto assets to an investment portfolio significantly increases its Sharpe Ratio vs. a traditional 60/40 allocation to bonds and equities, according to Bitwise.

Limited Institutional Adoption

Only a small portion of investors have the sector-specific knowledge to operate as LPs. The majority of on-chain liquidity comes from DeFi-native retail investors. **Crypto hedge funds**, the largest source of institutional TVL, only command Assets Under Management (AUM) of **around $4 billion** as of mid-2022, according to Price Waterhouse Cooper.

The lack of institutional liquidity in DeFi is the result of a persistent disconnect between DeFi protocols and institutional investors. True to their name, DeFi protocols tend to be highly decentralized, with horizontal, engineering-focused organizational structures, globally-distributed teams, and scant resources for navigating financial regulatory frameworks.

Meanwhile, the regulated CeFi platforms that custody the majority of institutional crypto holdings typically have **minimal in-house knowledge** of the DeFi ecosystem. They also tend to lack engineering teams fluent in smart contract logic, such as Solidity.

As a result, institutional investors currently have few, if any, options for securely and compliantly deploying digital assets on-chain.

Low Yields, High Risk

The only digital asset yield products available to most institutional investors are those on CeFi platforms. Virtually all of them feature either **suboptimal APRs or elevated counterparty risks**.

For example, **CeFi yields for lending Bitcoin are often less than 0.5%**. Similarly, CeFi staked ETH products offer below-market yields, largely because they fail to fully utilize blockbuilding best-practices known as Maximal Extractable Value (MEV).

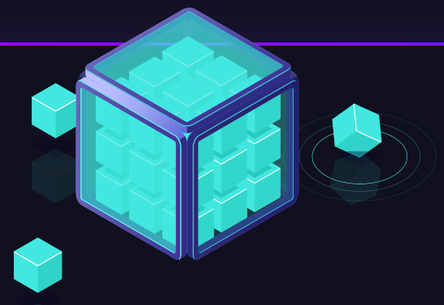
Meanwhile, CeFi platforms that tout competitive APRs frequently come with hidden risks, including **opaque asset allocation strategies, long lock up periods and undisclosed leverage**. The recent bankruptcy of Celsius Network, which vaporized over $1 billion in investor assets in the first half of 2022, is a prime example of the shortcomings inherent to centralized, custodial crypto yield strategies.

Proposal

A Hybrid CeDeFi Model

Best of DeFi

- Trustless, non-custodial smart contracts audited by Tier-1 auditors
- Permissionless deposits and withdrawals
- Fungible, tradable receipt tokens
- Transparent real-time performance data from decentralized ledger

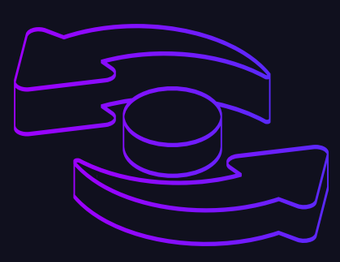


Best of CeFi

- Rigorously modeled and backtested
- Regulatory compliant in United States and other relevant markets
- Builds only on proven base layers with sustainable yields
- Insured by reputable underwriters

There is a need for a new layer in the blockchain ecosystem that **connects institutional capital with DeFi protocols.** Umami's hybrid **CeDeFi model** combines the strengths of CeFi platforms and DeFi protocols to take on the challenge from both sides.

Through its on-chain DeFi protocol, Umami DAO, Umami is setting the industry standard with its **best-in-class DeFi Yield Vaults**. Meanwhile, through Umami Advisors, its U.S.-regulated crypto custodian, Umami is **seamlessly and compliantly onramping institutions** into its DeFi products. Umami is also in active partnership discussions with numerous established digital asset custodians, including **crypto-native banks, fiat <> crypto onramps, digital asset prime dealers, and exchanges.**



Umami's model synthesizes the best of both DeFi and CeFi.

Umami differentiates itself from CeFi platforms by exclusively building its products using trustless, non-custodial smart contracts **audited by Tier-1 security auditors**. Umami's clients can deposit into or queue withdrawals from its Vaults at any time (withdrawals may take up to 24 hours to execute); track their performance in real time using data from a decentralized ledger; and **freely swap or borrow against the Vault's fungible receipt tokens**.

Meanwhile, Umami stands apart from DeFi projects with its **commitment to compliance, transparency and professional rigor**. Umami's core team members are "doxxed;" its operating expenses are published publicly each month; its DeFi strategies are carefully backtested against all available historic data; and it operates in full compliance with jurisdictional rules in all of its markets.

Product Strategy

In Q4, 2022, Umami is launching its **first suite of DeFi Yield Vaults**, which will generate competitive yields on core crypto assets including **USDC, BTC and ETH**. Umami will launch additional DeFi products throughout 2023 focused on the same core assets.

Umami's upcoming product suite consists of three Vaults that pay yield on USDC, BTC and ETH, respectively. The Vaults generate yield by **providing liquidity to GMX**, a decentralized perpetuals exchange on **Arbitrum**, which is Ethereum's most widely-used Layer 2 scaling chain.

GMX is one of DeFi's most successful emerging base layers. It has generated more than $75 million in exchange fee revenue since its inception in 2021. It pays out 70% of its revenues to liquidity providers, who receive its GLP receipt token. GLP's APR has been consistently **in the double-digits**.

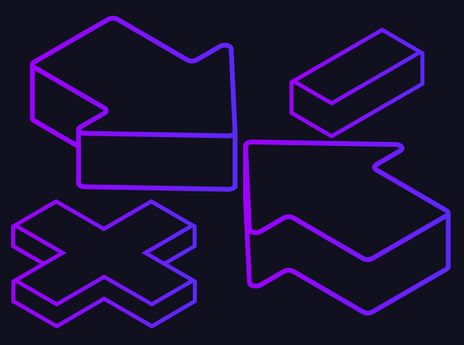
One potential drawback of GLP, however, is its complex and varying **exposure to market delta**. Holders of the GLP token have price exposure to the full basket of digital assets traded on GMX, which includes stablecoins, BTC, ETH and a small allocation to altcoins LINK and UNI. GLP's exposure **changes dynamically** based on supply and demand for each asset type in its basket.

GMX's GLP

- Has consistently paid double-digit APR in ETH
- Exposes LPs to price volatility from GLP's dynamic crypto index
- Not tradable
- No institutional custody solution

Umami GLP Vaults

- Passes GLP's yield onto depositors while hedging out unwanted market risk
- Maintains price exposure and matches yield payout to deposited
- Fully fungible and tradable
- Offers compliant onramping and custody solutions for institutions



Umami's Vaults employ a capital efficient hedging strategy that mitigates depositors' exposure to unwanted market delta in GLP while continuing to pass on nearly all of its highly-competitive APR.

A crucial element of Umami's hedging strategy is **internal netting**. Each of its Vaults acts as a **hedging counterparty to the others**. Instead of costly external hedges, Umami's Vaults swap delta among themselves while keeping the vast majority of their TVL deployed to GLP to generate yield. When required, Umami's Vaults take external long or short hedging positions on GMX or similar exchanges. Umami's modeling shows that GMX's leveraged perpetuals are an **exceedingly cost effective tool** for hedging out unwanted delta for its Vaults.

Umami's Vaults employ a proprietary algorithm to systematically adjust their hedges to maintain a target delta exposure. It has **backtested its algorithmic hedging model** against all available historical data for GLP. Umami's Vaults are non-custodial, meaning its team will never actively manage its asset allocations.

Umami's GLP Vaults are expected to deliver some of the most competitive risk-adjusted returns on USDC, BTC or ETH in the institutional crypto market.

Currently, the GLP pool on Arbitrum has a TVL of more than $400 million. Umami anticipates that it can scale TVL in its GLP Vaults to more than $200 million without diluting GLP's yield. By the end of H1, 2023, Umami plans to launch additional yield products for USDC, BTC and ETH, with the goal of increasing its Max TVL Capacity **to more than $1 billion**.

Marketing and Distribution

Umami's institutional clients will be able to seamlessly deposit into its DeFi yield products through its **in-house digital asset custodian, Umami Advisors**, and its **expanding partnership network** of third-party digital asset custodians. Umami will be able to rapidly scale TVL by leveraging its CeFi partners' robust compliance frameworks, highly secure digital asset custodial platforms and extensive client networks.

Longer term, Umami plans to onboard an increasing amount of institutional TVL through Umami Advisors, an affiliate of its U.S.-based operating company, **Umami Labs**. Umami Advisors is a U.S.-based Registered Investment Advisor (RIA) and is pursuing Money Services Business licenses in all 50 U.S. states. It already has access to an enterprise-grade **fiat <> crypto onramp from Circle**.

Umami expects to have all requisite licenses required to onramp and custody digital assets in the U.S. market by mid-2023.

Regulatory Compliance

UMAMI

- Governed by UMAMI tokenholders
- Exclusive beneficiary of all Umami Net Operating Income
- Represented off chain by Umami DAO Foundation, a Cayman Islands legal entity

UMAMI LABS

- U.S. tech services company that employs Umami team
- Does not control DAO or custody its assets
- Contracted services provider for DAO Foundation
- Retains zero profits, invoices DAO at-cost
- Publishes monthly invoices for DAO community

UMAMI ADVISORS

- U.S. digital asset onramping and custody solution
- New York Registered Investment Advisor (RIA)
- Pursuing Money Services Business (MSB) licensure in all 50 states
- Fully operational in 2023, currently partnering with established CeFi platforms

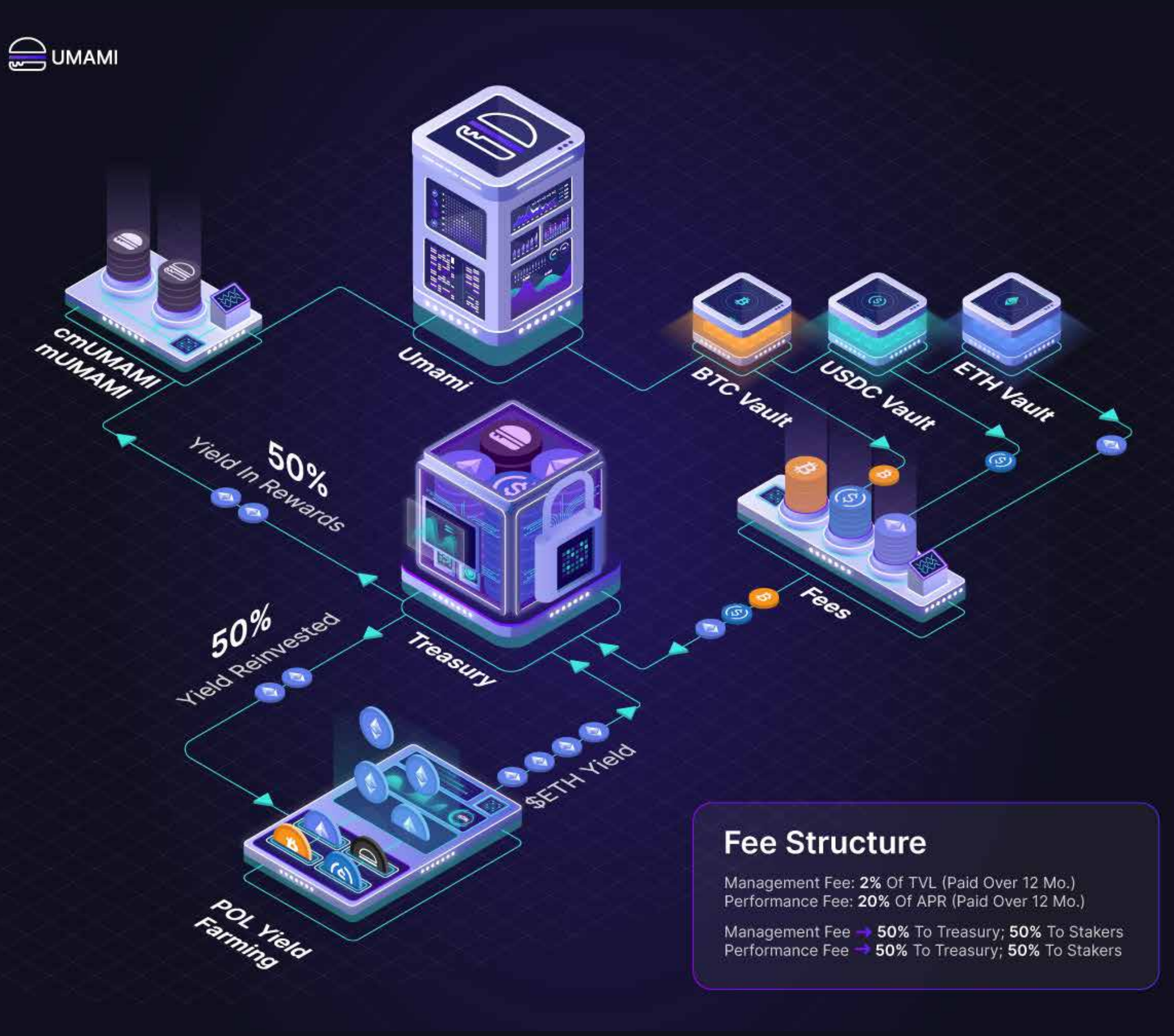
Umami maintains a clear separation between its community-governed DeFi protocol and its off-chain custodial platform. Its legal structure enables it to distribute DeFi products to institutional investors while remaining **fully compliant with regulators**.

The Umami protocol is governed by a Decentralized Autonomous Organization (DAO) comprised of holders of its governance token, UMAMI. The DAO is represented by a **Cayman Islands-based legal entity, Umami DAO Foundation**. Its protocol governance token, UMAMI, is a Caymans registered Virtual Asset. Umami Labs does not market UMAMI to U.S. persons.

Meanwhile, Umami's global team of blockchain engineers, DeFi strategists and other Web 3 professionals is employed by Umami Labs, a U.S.-based technology services company. Umami Labs provides engineering, business strategy and marketing services to the DAO but does not control the protocol or custody its community's assets.

Umami leads the DeFi space in **transparency and accountability**. All of Umami's net operating income is directed to the DAO Treasury to benefit UMAMI holders; Umami Labs only invoices to cover its Operating Expenses. (Note: Review monthly treasury reports, public invoices from Umami Labs, and relevant contracts here.)

The UMAMI Token



Holders of the UMAMI governance token determine the strategic direction of the Umami protocol via on-chain Snapshot votes. They also can stake UMAMI for a **share of protocol revenues**. (Note: Review past DAO Snapshots here).

UMAMI holders can choose between two staking options. The first, Marinate **(mUMAMI)**, pays stakers a portion of protocol revenues, **denominated in ETH**. The second, Compound **(cmUMAMI)**, automatically reinvests ETH payouts to buy and **stake more UMAMI**. (Note: Review Umami's Documentation here for additional details on its Tokenomics).

Umami's protocol revenues come from a transparent fee structure built into its Vaults' smart contracts. Umami's Vaults collect a **management fee of 2%** (of TVL) and a **performance fee of 20%** (of Yield) from depositors. Fees are charged linearly over 12 months.

The UMAMI token has a fixed Max Supply of 1,000,000; more than 650,000 UMAMI tokens are already in circulation and approximately 105,000 are permanently sealed in a defunct "v1" staking contract.

UMAMI

- Native token of Umami DAO protocol
- Swappable for USDC, ETH or cmUMAMI on Uniswap
- Max Supply: 1,000,000 (105,000 of which can never re-enter circulation and are effectively "burned")
- Circulating Supply: >650,000
- Can be staked as mUMAMI or cmUMAMI for DAO governance and a share of protocol revenues

mUMAMI

- Fungible receipt token for Marinated UMAMI
- Stakers receive a share of protocol revenues in ETH
- Timelocked and can be withdrawn on the 1st of each month
- Convertible to cmUMAMI at any time
- Stakers can vote in Umami DAO Snapshots

cmUMAMI

- Fungible receipt token for Compounded mUMAMI
- Automatically uses mUMAMI's ETH payouts to market-buy and stake UMAMI
- Timelocked until first of each month but can be swapped for UMAMI at any time via Uniswap
- Convertible to mUMAMI at any time
- Stakers can vote in UMAMI DAO Snapshots

Team

Umami Labs' global team of more than a dozen Web 3 professionals is working everyday to bring its product strategy and vision to life.

Learn more at **umamilabs.io**.

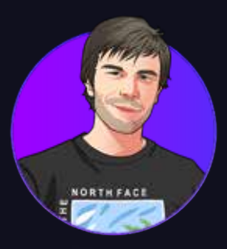
Executive Leadership Team

Alex O
Chief Executive Officer

Michael
Chief Technology Officer

Alex G
Chief Legal Officer

Engineering Team



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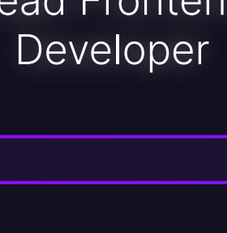

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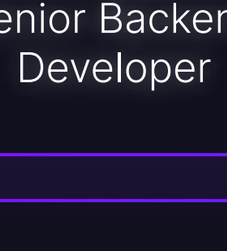
Strategist, Markets & Liquidity



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