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Independent research on blockchain startups and ICO's

## A brief analysis on Tranchess (CHESS)

7 Sep 2021 – Lennard Neo, CFA & Adrian Siegwart

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# TRANCHESS (CHESS)

Spec Buy

**A novel structure redefining fund management in blockchain**

Concept

MVP

Established

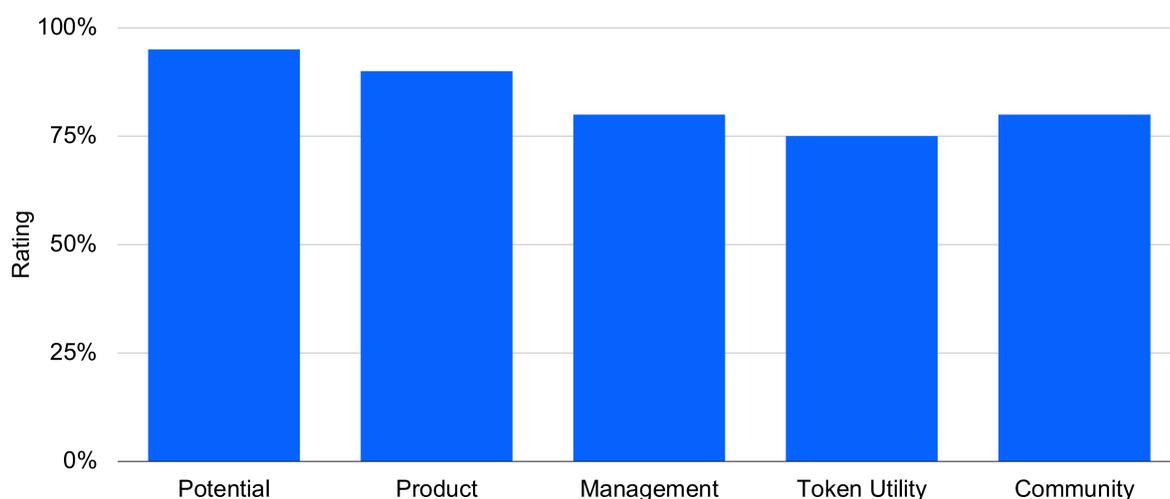
## Summary

As the DeFi Ecosystem grows past its exploration stage, it starts to attract an increasing variety of investors with different risk capacities and appetites. Tranchess addresses these needs in a novel way through its unifying tokenized asset management platform. It offers a full suite of DeFi features with single-asset yield farming, fixed-interest rate lending and leveraged trading on Binance Smart Chain.

Tranchess' main offering currently consists of three products. The QUEEN tranche is a Bitcoin tracker with enhanced yield, BISHOP is a yielding delta-neutral token similar to a stablecoin and ROOK is a 2x leveraged BTC tracker. Holders of the protocol's governance token CHESS currently earn 50% of protocol fees and determine the internal interest rate spread charged to ROOK holders. The team plans to expand to more chains in the future and add different underlying assets.

Since its launch on June 24 this year, Tranchess has rapidly accumulated TVL of over \$1.3B and climbed the ranks to become BSC's 4th most popular protocol. This remarkable growth validates its product-market fit and shows that investors are attracted to the innovative tokenized risk-return solutions.

## Birds-Eye View



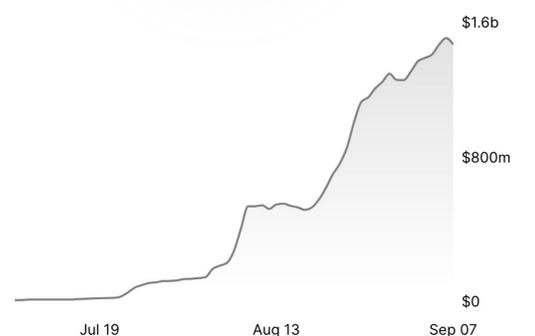
## General

Ticker: CHESS  
Website: [Click here](#)  
White Paper: [Click here](#)

## Token Details

Price: \$3.9  
Market Cap: \$62M  
1y Price Range: \$0.37 – \$5.63  
1y Daily Avg Trading Volume: \$3.6M  
Current Circulating Supply: 15.9M

\*As of 7 Sep 2021



Tranchess TVL. Source: DefiLlama

## DeFi on Binance Smartchain

Binance Smartchain (BSC) gained a lot of traction at the beginning of 2021 when Ethereum's high gas prices pushed users to find alternative solutions. BSC's more centralized structure with a low number of active validators allows for lower fees and transaction times but comes with its drawbacks. Its close ties to Binance, who recently came under regulatory scrutiny and controls major on and off-ramps to BSC is a known concern in the market. The recent launch of several liquidity mining programs on other Layer 1s has also seemingly shifted the market's attention away from BSC.

Regardless of these considerations, BSC's fundamentals are strong and point to a different reality as seen by its on-chain activity. After Ethereum, BSC is still the largest chain in terms of TVL, with more than \$18B locked in its dApps. User activity measured by daily active addresses also hovers close to its all-time high of 1.3M, which is roughly twice the amount of Ethereum's. Comparing the number of daily transactions paints a similar picture: BSC outpaces Ethereum severalfold.

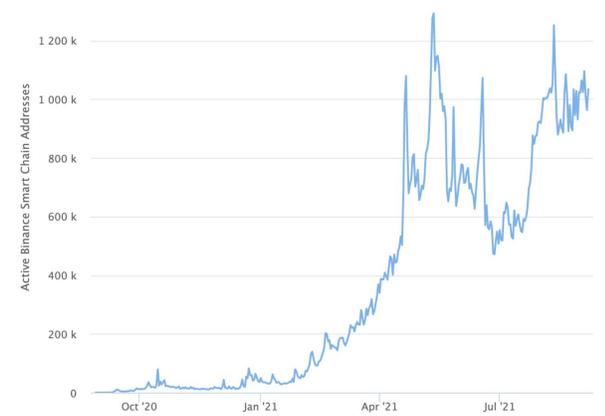
## Trancess' Value Proposition

Trancess uses an innovative approach known as tranching, which is used in structured finance to derive different risk-return characteristics from a primary fund. These tranches cater to classes of investors with varying risk appetites.

With its tokenized solution, Trancess solves the following three pain points in DeFi:

- Long-term holders of major assets like BTC want to maintain market exposure in a highly liquid fashion while earning an additional return on their position. So far, limited single-asset yield farming opportunities exist for Bitcoin holders.
- Risk-averse investors prefer stable investment returns with little or no market risk. The current DeFi market lacks such options, as most yield farming opportunities involve price risks of at least two assets and suffer from impermanent loss.
- Risk-seeking investors require leveraged exposure through derivatives with high capital utilization, low cost, and no risk of forced liquidations (e.g. through oracle or liquidation engine failures). Unlike centralised exchanges with real-time matching engines, challenges exist for on-chain settlements such as congestion. Hence most protocols would implement a large margin requirement that is detrimental for capital efficiency.

Trancess seeks to address these limitations and offers users an intuitive and safe experience. Trancess' smart contracts underwent multiple rounds of code audits by CertiK and PeckShield. A bug bounty program has also been launched on ImmuneFi, with rewards of up to \$50'000 for critical issues.



BSC Daily Active Addresses. Source: BscScan

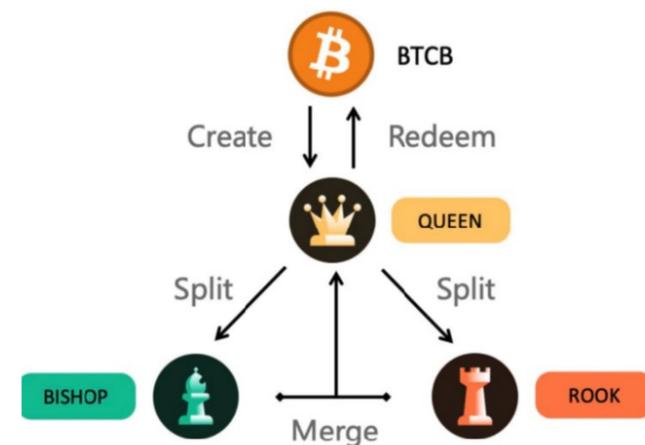


BSC Total Value Locked. Source: DefiLlama

## Product Portfolio

With its unique combination of products, Tranchess addresses a majority of crypto investors, who either pursue a passive buy-and-hold, active trading, a passive yield strategy, or a combination thereof.

The current product offering focuses on Bitcoin as the underlying, with more assets to be added in the future. Users can create QUEEN tokens with BTCB (the BEP-2 version of Bitcoin) to track the performance of BTC and farm additional CHESS rewards. The QUEEN token can be split equally into two sub-funds, called BISHOP and ROOK. All of the three tokens can also be traded anytime in the secondary market via USDC through the platform's exchange.



Tranchess' Product Portfolio and Tranching Process.  
Source: Tranchess

### Queen - BTC Tracker with Enhanced Yield

The main fund is a BTC-tracking token with yield farming feature and currently has around \$1.3B in TVL. The product is targeted at long-term BTC holders, who seek BTC exposure with enhanced yield, which currently stands at 30% and is paid in CHESS tokens. To acquire QUEEN, users can either buy it in the secondary market with USDC or create it in the primary market with their BTCB. Creation and redemption requests can be submitted anytime and will be processed daily at 14:00 UTC. There is no lock-up period and users can freely redeem the underlying through the daily redemption process. Currently, there are no fees for the creation of QUEEN, but a 0.2% fee applies at redemption.

### Bishop - Stable Interest Rate Product

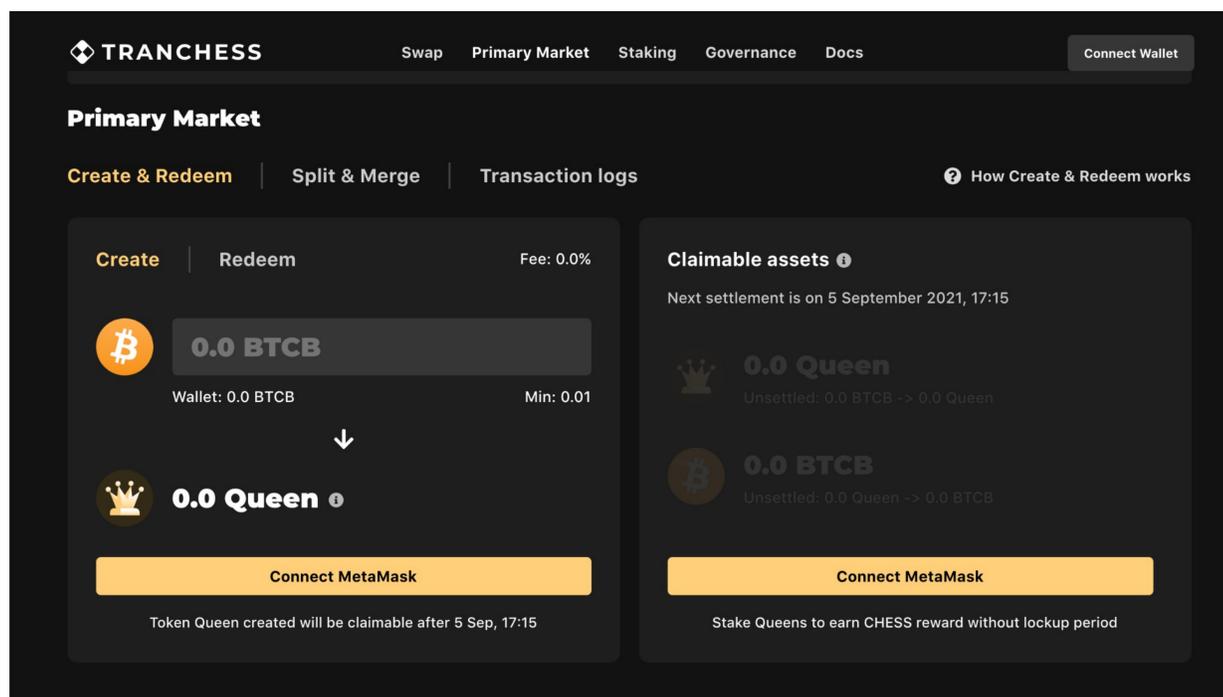
The BISHOP token can be compared to a high-yield savings account and primarily attracts stablecoin denominated investors. BISHOP is delta neutral and therefore is not affected by the price of BTC. BISHOP is a sub-fund of the main fund and provides liquidity to the ROOK tranche in exchange for stable interest rate payments. Tranchess uses money market protocol Venus' USDC borrow rate from the previous week to determine the next week's interest rate. Through ballot voting, the community can decide to add a spread of up to 4% to the base rate. The total then determines the fixed APR that BISHOP holders will receive for the next 7-day period. Fees for splitting and merging QUEEN into BISHOP and ROOK are 0.05% and TVL currently stands at \$22M with an APY of around 60%.

### Rook - Leveraged BTC Token

The ROOK token offers a 2x leveraged BTC position with no risk of forced liquidation. It offers a simple way to gain leveraged exposure without the hassle of managing margin, liquidations, collateral, or funding rates. The tranche borrows equity from BISHOP holders to gain leveraged exposure to the main fund. The return to ROOK holders is equal to the main fund's return less the interest paid to the BISHOP tranche. With a spread between the farming rewards rate and borrowing rate currently around 5%, ROOK holders are essentially getting paid to take positions. TVL stands at around \$40M.

## Tranchess Exchange

In addition to the creation/redemption process for QUEEN tokens, the Tranchess exchange allows users to trade in and out of all Tranchess' tokens directly. The exchange uses a premium/discount order book relative to the forward-starting 30-minute TWAP. Each 30-minute trading window is defined as one epoch, allowing users to place an order at a premium or discount of the next epoch's NAV. Compared to other DeFi protocols, which rely on discrete tick prices from oracle price feeds and are thus susceptible to oracle exploits, Tranchess' robust trading mechanism is resilient against such attacks.



Tranchess' Primary Market Interface. Source: Tranchess

## **Competitor Analysis**

By combining multiple products on a simple and user-friendly platform, Tranchess is a unique protocol that lacks direct comparables. However, individual parts of Tranchess' offering compete with other DeFi products.

### Bitcoin-Tracking Products

The market for BTC-trackers with native yield has been growing steadily and a few protocols are offering similar products to QUEEN.

- BadgerDAO offers two trackers with native yield: DIGG a synthetic, rebasing token, which currently yields around 12% when staked and ibBTC, an interest-bearing BTC token that generates yield sourced from Curve and yearn.
- Bancor offers impermanent-loss-protected liquidity products with yield generated through BNT and rebated swap fees. APY for its BTC pool comes in at around 40-60%. However, to benefit from the full impermanent loss protection, users need to stake their assets for at least 90-days.
- KeeperDAO also provides users with a single-asset yield opportunity, although the source of yields is quite unique, as it redistributes on-chain profit (MEV) back to its users. With yields in the low single-digits, KeeperDAO's rewards paid out in ROOK (KeeperDAO's native token), are substantially lower than Tranchess'.

- Belt Finance's beltBTC token with about \$180M in TVL is Tranchess' largest competitor on BSC. Through a multi-strategy yield approach, 4x daily auto-compounding and BELT rewards, beltBTC generates a mid-to-high single digit yield. Belt Finance also offers a variety of underlyings, such as BTC, ETH, BNB and several stablecoins. By accessing these products through Autofarm protocol, users can increase APY and farm additional AUTO tokens.

With the exception of Bancor, which comes with a "lock-up" period and limited space, Tranchess' APY for QUEEN is significantly above that of competing BTC trackers. However, with rewards coming purely from farming CHESS tokens, it remains to be seen how TVL will change, once rewards are scaled down.

#### Fixed-interest Rate Products

Increasing demand for stable returns has led protocols to develop savings products with fixed interest payments generated through different mechanisms.

- BarnBridge transforms risk profiles for lenders on protocols such as Aave or Compound by splitting up asset pools into tranches. The senior tranche earns a guaranteed, fixed interest rate and is protected by assets in the junior tranche in case of a shortfall in yield.
- Anchor, on the other hand, pays a stable interest rate of around 20% by lending out stablecoin deposits to borrowers who put down PoS-assets from major blockchains as collateral. Anchor manages to stabilize deposit yields by using block rewards accruing to PoS-collateral.
- Bancor also offers impermanent-loss protection for stablecoins with additional BNT farming rewards. Due to their high yield, these products run at full capacity and are currently not open to new investors.

Tranchess' saving product BISHOP lies somewhere between these products. Although BISHOP earns a fixed interest rate, its returns are still heavily dependent on market cycles. This is due to the fact that lending rates are readjusted every week and rely on Venus' USDC benchmark rate, which correlates with cyclical demand for stablecoin borrowing. However, the additional interest-rate spread and farming rewards provide a buffer over purely variable rates.

#### Leveraged Bitcoin Products

Leveraged tokens allow for an easier user experience, as positions are regularly rebalanced and liquidation risk is drastically reduced. While exchanges (such as Binance and FTX) have offered such instruments for quite some time, they are still a rather new sight in the DeFi world.

- Set protocol (a project by Index Coop) has launched flexible leverage tokens, which use a collateralized debt position and gas-efficient rebalancing algorithms to provide leveraged exposure. The BTC and ETH tokens currently have a market cap of \$10M and \$160M, respectively.
- Fulcrum (by bZx protocol) offers a tokenized margin trading platform on Ethereum, BSC, and Polygon and allows users to go long or short on BTC and other assets simply by selecting the desired leverage ratio. However, these products have not gained significant traction yet, with volumes much below their centralized counterparts.

## Competitor Overview

Protocol	TVL	Mkt Cap	Mkt Cap / TVL	Relevant Products	Description	Comp. Tranchess Token	Ecosystem
<b>Tranchess</b>	\$ 1.4B	\$ 62M	0.04	QUEEN, ROOK, BISHOP	QUEEN is a BTC tracker with enhanced yield, BISHOP is a yielding token with no asset price exposure and ROOK is a 2x leveraged BTC tracker.	-	BSC
<b>BarnBridge</b>	\$ 79M	\$ 124M	1.57	SMART Yield	Fixed or levered variable yield on stablecoins through integrations with lending markets like Aave or Compound.	BISHOP	Ethereum
<b>KeeperDAO</b>	\$ 260M	\$ 156M	0.6	renBTC Liquidity Pool	Single-asset liquidity pool and yield generation through redistribution of on-chain profit (MEV)	QUEEN	Ethereum
<b>Badger</b>	\$ 760M	\$ 213M	0.28	bDIGG, ibBTC	bDIGG is an elastic-supply, yield-farming BTC tracker. ibBTC is an interest-bearing BTC tracker, generating yield through curve and yearn.finance.	QUEEN	Ethereum
<b>Anchor Protocol</b>	\$ 2.7B	\$ 365M	0.14	EARN	The protocol pays out a low-volatile rate of ~20% to UST lenders.	BISHOP	Terra
<b>Belt Finance</b>	\$ 1.5B	\$ 54M	0.04	beltTOKEN Vault (e.g. beltBTC, beltUSDC)	beltTOKENS are single-asset vaults that earn multi-strategy yield and farm additional BELT token rewards. beltBTC represents BTCB deposited in the Belt BTC Vault. Stablecoin vaults earn variable yield from several lending platforms.	QUEEN / BISHOP	BSC
<b>Bancor</b>	\$ 1.7B	\$ 1.1B	0.61	WBTC and USDC Pools	Impermanent-loss protected pools with single-side yield farming for WBTC and stablecoins	QUEEN / BISHOP	Ethereum
<b>Fulcrum (bZx Protocol)</b>	\$ 18M	\$ 112M	6.12	Tokenized margin trading	Tokenized margin trading with up to 5x of leverage and minimal liquidation penalties	ROOK	Ethereum / BSC / Polygon
<b>Index Cooperative</b>	\$ 398M	\$ 93M	0.23	BTC Flexible Leverage Token	2x leveraged BTC tracker using collateralized debt with optimized transaction costs and minimized risks.	ROOK	Ethereum / Polygon

Sources: Coingecko, Project Websites

## Roadmap

Tranchess has not specified a detailed roadmap, but rather states broadly defined goals. In terms of its product offering, it aims to track more underlying crypto assets, add a variety of fund structures through innovative synthetic derivatives and implement more use cases for its governance token CHESS. Tranchess is looking to expand multichain, build a full-fledged tech and marketing team and collaborate with other protocols in the ecosystem. A community DAO is planned to be established by the end of this year, taking over the management of the protocol.

## Tokenomics

CHESS is Tranchess' native governance token issued on BSC and has a total supply of 300 million tokens. The tokens are allocated as seen in the chart on the right. Tranchess has not disclosed the vesting schedule for each allocation. However, the deployed smart contracts suggest that the team's allocation of 60M tokens and most or all of the seed investor allocations start to vest linearly on September 23, 2021 over three and two years respectively. According to the whitepaper, the community incentives are planned to vest throughout roughly four years. 120M of the 150M tokens allocated to community incentives is being distributed on the Tranchess App. The liquidity mining campaign is set to run until Nov 11, 2021. The fixed ratio of 3:4:2 determines the CHESS allocation to QUEEN, BISHOP, and ROOK holders.

### Token utility

The CHESS token has two utilities: 1) it allows users to vote for the interest spread accruing to BISHOP holders and 2) redistributes 50% of protocol income.

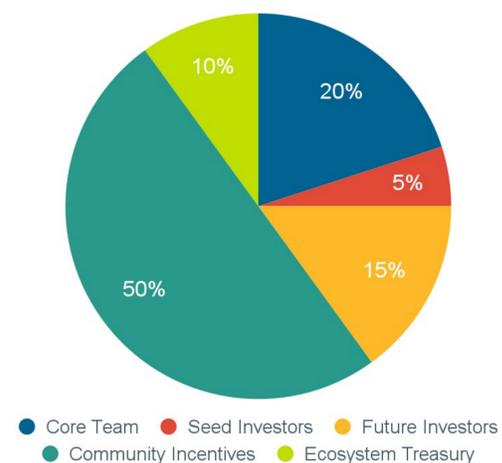
To participate in governance and benefit from the protocol refunds, users need to time-lock their CHESS tokens anywhere from one week to up to four years. The amount of veCHESS (vote-escrowed CHESS) users receive as they lock their CHESS increases linearly from 0 to 1 (i.e 1 CHESS locked for 1 year equals 0.25 veCHESS and 1 CHESS locked for 4 years equals 1 veCHESS). Around 40% of circulating supply is currently staked, with an average lock duration of 4 months.

## Team and Investors

Apart from co-founder Danny Chong, the team is fully anonymous. Danny Chong has more than 16 years of banking experience and previously led the FX & Rates Sales SEA desk at Crédit Agricole CIB. The rest of the team is distributed across the globe and has broad experience in the tech industry (Microsoft, Google, Facebook) and the financial sector (Morgan Stanley, UBS). Tranchess has recently secured \$1.5M in seed funding from top VCs including Three Arrows Capital, The Spartan Group, Binance Labs, Longhash Ventures, IMO Ventures, and other key opinion leaders. The funding will be used to expand to a multi-chain system and to transition to a DAO structure by the end of the year.

## Conclusion

With its varied offering of different tokenized risk-return solutions, Tranchess is at the forefront of DeFi innovation. The strong and continued growth in TVL and increasing amount of time-locked CHESS prove that investors are attracted to its one-stop-shop asset management platform and demonstrate a clear product-market fit. Although there are strong competitors for each of its products, Tranchess stands out with above-average yields and a seamless user experience. In light of its low market cap to TVL ratio of 0.03, the long-term commitment of Tranchess investors and team as well as the upcoming expansion to other chains and markets, we believe that CHESS has significant upside potential and present a "Spec Buy" rating for the project.



Tranchess Token Allocations. Source: Tranchess

## **About the Analyst**

Lennard specializes in fundamental and technical analysis in digital asset investments. He became acquainted with blockchain, cryptocurrency and ICOs in 2016, and recently decided to take a meaningful step away from traditional banking to join this industry. Previously, Lennard spent 3 years with an investment bank in Forex and Debt Capital Markets. Prior to this, he also had entrepreneurship experience working with an e-commerce startup and a local social enterprise. Lennard completed the CFA program and graduated with a master's degree in Applied Finance. He is fluent in English, Chinese with a basic in Korean.

## **Ratings Definition**

Monitor – Continue observation until clarity of information is provided

Sell/ Avoid – Investment is associated with high risk of losing capital

Hold/ Neutral – To maintain current levels of position until the next updated release

Spec Buy – A speculative opportunity for investors with higher risk tolerance

Buy – A high conviction buying opportunity

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