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Sent: 6/4/2021 9:14:42 AM
To: investment@terra.money
CC: Brian Curran [curran@terra.money]
BCC: mirror_investors@terra.money
Subject: Terraform Labs Investor Update, May 2021
Attachments: Terraform Labs Investor Update, May 2021 vF.pdf

Dear Investors,

It's been a brutal month for many in the crypto markets, and certainly the busiest time for Terra in the company's history.

From peak to trough, the total market cap for all cryptocurrencies fell nearly 45%, and a number of inter-connected, cascading events led to a sharp price drop in LUNA, and caused UST to trade ~5% off peg for about 48 hours. Now that the dust has settled, we've dedicated significant internal resources to assure that we learn from this event, to mitigate future impacts from the broader macro climate on our ecosystem, and to emerge from this stronger than before.

A tweetstorm recap of events can be found [here](#).

Stablecoins

Our top priority as a firm is to maintain the stability and trust in our stablecoins. As a first step, JumpTrading has introduced a community proposal to adjust the liquidity parameters of Terra assets to make the expansion and contraction of the stablecoin money supply more efficient.

Prop 90 will effectively raise the on-chain swap spread capacity to \$100 million at 2% spreads from the current \$20 million redemption capacity at 2% spread capacity. This occurs while conservatively accounting for the security requirement that on-chain liquidity < off-chain liquidity. Since off-chain liquidity for LUNA/UST has increased roughly 30X since the previous Jump Proposal (already live), the new parameters will help alleviate downward volatility during contractionary periods significantly.

Secondly we are working on putting in place more guardrails around borrowing on Anchor Protocol, which will lower the risk of cascading liquidations. Our research team will also be studying the events from this month and continue to run stress-test simulations to continue to improve the robustness of our ecosystem. You can find a list of the volatility events affecting Anchor along with proposed solutions [here](#).

Despite all of this, demand for our stablecoins did not contract. \$UST market cap grew by about 6% MoM, and we expect growth rates to pick back up as trust in our stablecoins returns and new applications launch on the

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Terra network (e.g., Mars, Orion,



etc.).

We continue to believe that decentralized stablecoins will be the critical piece of infrastructure in building decentralized applications, and are continuing to execute against that vision. In light of Maker doubling down on USDC collateral, we believe the need for a trusted, decentralized, algorithmic stablecoin is greater than ever before

Mirror Protocol

Liquidity is returning back to Mirror after the drop from two weeks ago, and is now ~\$1B, and volumes have seen a steady uptick over the last few months, peaking at over \$100M in 24hr trading volume in May.

MIR is continuing to see widespread community demand / interest, with a number of prominent exchange listings in the last few weeks, including Binance, Huobi, Poloniex, Crypto.com, Coinbase, and KuCoin Futures.

A fantastic community-created dashboard can be found here. An in-depth update to the community can be found here.

The launch of Mirror V2 is also right around the corner, introducing a series of major upgrades to the protocol, including yield-bearing synthetics using aUST (Anchor UST) as collateral for minting mAssets. A full list of Mirror V2 specs can be found here.

Anchor Protocol

First a thread on what happened with Anchor and what we're doing to mitigate issues in the future.

In summary, we are working on both mechanism improvements as well as user experience enhancements to lower liquidation risk in the future. We are also working on the inclusion of additional collateral assets to decrease the system's dependency on a single asset (bLUNA). Foremost, we're working on integrating stETH as bETH as collateral on Anchor, which will initially launch with the Shuttle bridge before being migrated to Wormhole once the PoA bridge is live.

Despite the liquidations and temporary instability, \$UST deposits into Anchor actually increased MoM from \$250M to \$290M at the time of this writing, a 16% increase. We believe this is indicative of capital inflows from higher-risk, crypto assets in times of high market volatility. The events from the month have been an incredible test of the protocol's ability to continue providing stable yields (18–20%) under extreme conditions, and Anchor has continued to perform.

Additionally, a community-proposal that will be initiated by the Anchor team will raise the threshold rate to 19.5% and the target rate to 20.5%, allowing the protocol to retain a tighter band around 20% APY during even the most extreme market volatility.

Future: Our Growing Ecosystem

We are incredibly optimistic about the people and teams that get involved in the Terra ecosystem. The IDEO and Delphi-backed [Terra Hackathon](#) was an incredible success, introducing over 30 new innovative teams to the Terra ecosystem. Results can be found [here](#).

Terra.js, a JavaScript SDK for writing applications that interact with the Terra blockchain, has continued to see an explosion of [weekly downloads](#), up to nearly 20,000 this week. This is a proxy for developer interest in the Terra ecosystem.

Action Items

1/ In light of the growing ecosystem around Terra, we are putting together a no-fee ecosystem fund that will connect projects building on Terra to high quality sources of capital. The only requirement is that investors are "committed" in Anchor deposits, and allocations will be pro-rata of committed capital into Anchor. We are looking to cap this at \$100M. To get more details or discuss, please contact jeffrey@terra.money

2/ Just a friendly reminder that CoinList offers access to Anchor (not available to US and Canada residents), as does Hextrust. If your fund or any LPs, partners, or friends are thinking about depositing into Anchor with idle funds, we'd be happy to do an intro call. Feel free to put them in touch with jeffrey@terra.money or Matt Cantieri <matt@terra.money>

3/ We are actively hiring: <https://terra.breezy.hr/> and have a bunch of ideas for things that we want to build, with not enough manpower to do it. If you know of any devs/teams that might be a good fit for our ecosystem, please let us know.

We are grateful for your encouragement, trust and support. Onward!

Best,

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Jeff Kuan
[Linkedin](#)