

# Crypto Quarterly Market Update Nasdaq Crypto™ Index (NCI™) Review: September 2022

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## DeFi's Influence Grows in Latest NCIE Rebalance

The Nasdaq Crypto Index Europe™ (NCIE™) was created to provide European investors a reliable and dynamic crypto asset benchmark. A key feature of the NCIE's methodology, designed to ensure the index is appropriate for professional investors, is a quarterly rebalance of the index constituents and its weightings.

The latest NCIE reconstitution went effective September 1 at the market close. The most notable change was the inclusion of Uniswap (UNI), a decentralized finance (DeFi) protocol that has generated a lot of recent attention. (The other change at the reconstitution was the removal of Litecoin.)

Uniswap, a decentralized exchange (DEX) on the Ethereum blockchain, has performed well through the current "crypto winter" and its traded volumes and fees remain healthy. The operational performance of a DeFi protocol during such turbulent times is especially noteworthy when compared to the performance of centralized finance or "CeFi" platforms that have faced significant challenges—and in some cases bankruptcy (e.g., Celsius, 3AC, Voyager)—during the same period. These CeFi platforms did not have the high level of transparency and lack of human intervention that are built into the structure of Uniswap and many other DeFi protocols. These "blue chip" DeFi protocols (including Uniswap) once again proved to be resilient during challenging times.

## What is Uniswap?

Uniswap was created in 2018 by [Hayden Adams](#), a former mechanical engineer at Siemens. The first version (v1) of the Uniswap protocol was published as a proof-of-concept for automated market makers (AMMs). The second and third versions were launched in May 2020 and May 2021, respectively, introducing new options to allocate liquidity within a certain price range. Uniswap's name may be used in reference to the following:

- **The Uniswap Protocol:** a DEX built on Ethereum that utilizes an automated market-making system rather than a traditional order-book.
- **Uniswap Labs:** the company behind the Uniswap Protocol and [web interface](#). It received investments from venture capital firms such as a16z, Paradigm Ventures, Union Square Ventures, and ParaFi. More recently, Uniswap Labs [announced the acquisition of NFT startup Genie](#) to support the buying and selling of NFTs on its DEX.



- **Uniswap Governance:** a governance system for oversight of the Uniswap Protocol, enabled by the UNI token.

There were one billion UNI minted at the launch of Uniswap, and the tokens are being distributed over four years: 60% to community members and the remaining 40% to employees, investors, and advisors. Holders of UNI are granted certain rights, including the right to vote on governance proposals and collective ownership of the UNI Community Treasury.

Uniswap collects revenues from transactions by charging fees for each order executed. It has generated more than \$2.2 billion in fees since its inception and has traded more than \$1 trillion in crypto assets since the “DeFi Summer” in May 2020.

### The investment case for DeFi

DeFi is a diverse and growing sector with a large market potential. The industry is experiencing massive growth, with the total value locked in DeFi protocols reaching more than [US\\$160 billion earlier this year](#) and its user base growth showing consistent signs of adoption. The DeFi space is developing rapidly and there are some challenges that will need to be addressed as DeFi solutions start to gain more adoption, such as scalability, user experience, and some regulatory risks. However, DeFi is creating an attractive opportunity for investors given its unique attributes, including:

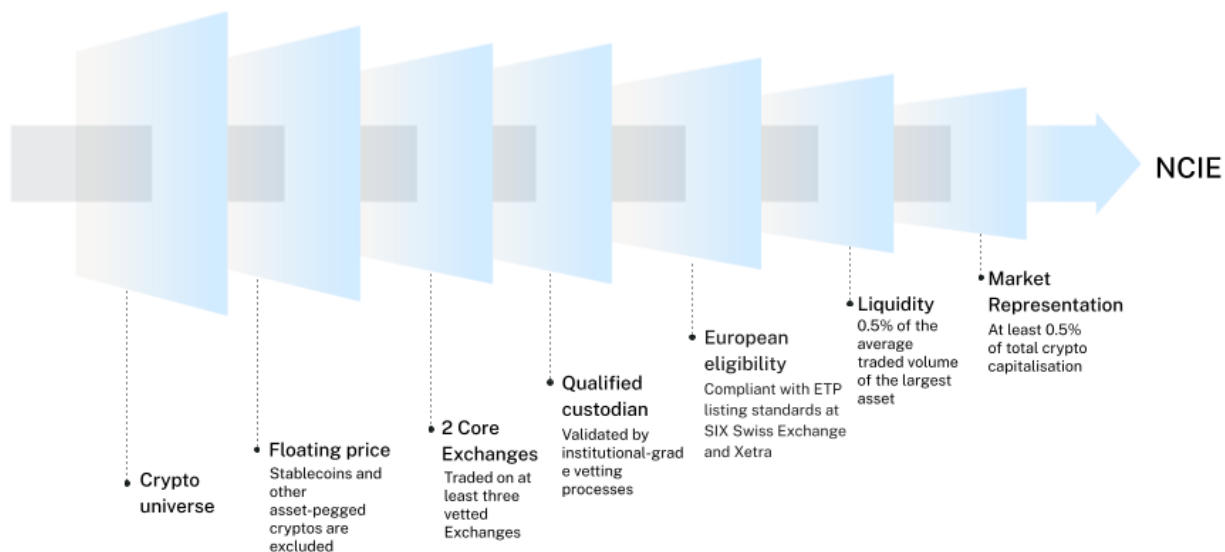
- **Diversity:** The DeFi ecosystem is incredibly diverse, offering a variety of opportunities to both users and developers. The broad range of applications is a direct result of blockchain platforms being an open ecosystem, in which accessibility, composability, and interoperability are at their core.
- **Decentralization:** The value of decentralized technologies is directly related to their adoption rate and demand. DeFi protocols translate the utility they provide into economic value for holders of its native tokens.
- **Resiliency:** Despite challenges and risks, the DeFi industry has proven resilient, attracting a strong and committed community of users, developers, and investors. Ultimately, DeFi has the potential to open up financial markets to millions of financially underserved individuals and institutions.

In July, Hashdex [wrote about Uniswap and other blue chip DeFi protocols](#) that have weathered recent crypto market turmoil better than many other crypto assets. Uniswap stands out from this group, as a leading DEX that has constantly held more than 50% market share traded volume since its inception. The exchange has continued delivering an independent, decentralized, 24/7, permissionless, and immutable solution that supports thousands of digital assets and stablecoins across the Ethereum Ecosystem.

## What Uniswap's inclusion in the NCIE means for investors

The NCIE was designed to be a dynamic benchmark with strict criteria to ensure that only the most promising crypto assets—like UNI—are included in the index. The NCIE's quarterly rebalances, effective at the market close on the first business day of March, June, September, and December, ensure that the NCIE remains an adaptable representation of the evolving crypto asset class.

### Crypto assets must meet strict criteria to be eligible for the NCIE



The addition of Uniswap to the NCIE will improve the overall diversification profile of the index, giving investors more exposure to opportunities arising in decentralized finance. Additionally, a feature of many DeFi protocols that differs from much of the crypto space is the ability to generate revenue (via trading fees in the case of Uniswap), something we believe provides a uniquely attractive proposition for investors.

It's also important for investors to keep in mind that NCIE is a large cap index, so the inclusion of UNI is a clear sign of the growth opportunities that DeFi protocols are presenting. As these platforms continue to mature, we believe investors can benefit from this exposure via a diversified basket index like the NCIE.

For more information on Uniswap or the investment case for DeFi, please see Hashdex's [Uniswap](#) and [DeFi](#) primers. An overview of the NCIE can be found [here](#).

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