# Governance & Asset Strategy – V1

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# Asset Allocation and Weighting Strategy

## Introduction

The Hedera Index Fund is designed to provide diversified exposure to the Hedera ecosystem by utilizing a **Market Capitalization Weighting** strategy. This approach ensures that assets are allocated based on their market value, while maintaining industry-level balance through sector caps. The goal is to create a structured and adaptable fund that mitigates risk, optimizes growth potential, and remains flexible to market fluctuations.

## Sector-Based Allocation

To achieve diversification, the fund is divided into **five key sectors**, each representing a distinct component of the Hedera ecosystem. Each sector is assigned a **weighted allocation** based on the total market capitalization of all tokens within it. However, to prevent over-concentration in any single sector, a **maximum cap of 40% per sector** is applied.

The five sectors included in the fund are:

1. **Smart Contract Platforms** – This sector includes Hedera's native asset (HBAR) along with wrapped versions of major blockchain assets, such as Wrapped Bitcoin (WBTC), Wrapped Ethereum (WETH), and Wrapped Avalanche (WAVAX). These assets provide foundational stability and high liquidity.
2. **DeFi & DEX Tokens** – Tokens that power decentralized finance (DeFi) and decentralized exchanges (DEXs) on Hedera, such as SAUCE (SaucerSwap), xSAUCE, HBARX, and HLQT.
3. **Stablecoins** – Hedera-native and bridged stablecoins like USDC, USDT, DAI, and HCHF. These provide price stability and liquidity to the fund, ensuring smooth transactions and rebalancing.
4. **Enterprise & Utility Tokens** – Tokens representing business applications, sustainability initiatives, and tokenized launchpads, such as Calaxy (CLXY), DOVU, and HeadStarter (HST).
5. **GameFi & NFT Infrastructure** – Tokens supporting gaming finance, NFT marketplaces, and entertainment ecosystems, including Tune.FM (JAM), Karate Combat (KARATE), HashPack (PACK), GRELF, and STEAM.

## Token Weighting Within Each Sector

Within each sector, individual tokens are **weighted purely based on their market capitalization**. Unlike traditional index funds that may impose caps at the token level, this fund allows **the largest tokens within each sector to receive the highest weight**. This method ensures that assets with strong market performance are proportionally represented in the portfolio.

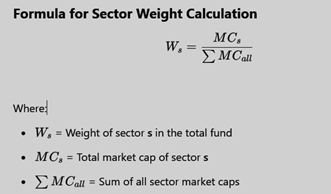
The formula for token allocation within a sector is:

This dynamic approach allows token weights to **naturally adjust over time**, reflecting real market trends while keeping sector allocations balanced.

## Weighting Industries (Sectors) by Market Cap

Each **sector's weight** in the total index fund is determined **by its total market capitalization** relative to the **total market cap of all sectors**.

### ****Formula for Sector Weight Calculation:****



Where:

* = Weight of sector **s** in the total fund
* = Total market cap of sector **s**
* = Sum of all sector market caps

### ****Example Calculation: Sector Weights****

|  |  |  |  |
| --- | --- | --- | --- |
| **Sector** | **Market Cap ($M)** | **Weight Calculation** | **Final Weight (%)** |
| **Core Hedera & Smart Contract Platforms** | 10,000 | 10,000/30,000 | **33.33%** |
| **DeFi & DEX Tokens** | 7,000 | 7,000/30,000 | **23.33%** |
| **Stablecoins** | 5,000 | 5,000/30,000 | **16.67%** |
| **Enterprise & Utility Tokens** | 5,000 | 5,000/30,000 | **16.67%** |
| **GameFi & NFT Infrastructure** | 3,000 | 3,000/30,000 | **10.00%** |

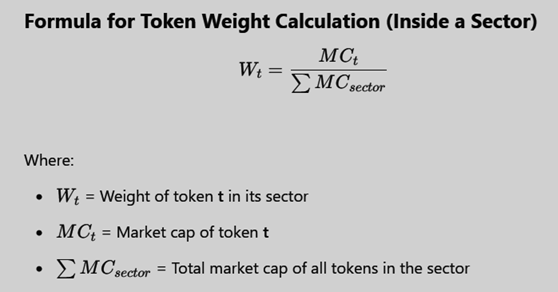
#### ****Total Market Cap of All Sectors**** = ****$30,000M****

Thus, the sum of all sector weights must **equal 100%**.

## Weighting Tokens Within a Sector by Market Cap

Once sector weights are determined, each **token within a sector is also weighted by its market cap** relative to the **total market cap of that sector**.

### ****Formula for Token Weight Calculation (Inside a Sector)****



Where:

* = Weight of token **t** in its sector
* = Market cap of token **t**
* = Total market cap of all tokens in the sector

### ****Example Calculation: Token Weights in Core Hedera & Smart Contract Platforms****

|  |  |  |  |
| --- | --- | --- | --- |
| **Token** | **Market Cap ($M)** | **Weight Calculation** | **Final Weight in Sector (%)** |
| **HBAR** | 8,000 | 8,000/10,000 | **80.00%** |
| **Wrapped BTC** | 1,000 | 1,000/10,000 | **10.00%** |
| **Wrapped ETH** | 500 | 500/10,000 | **5.00%** |
| **Wrapped AVAX** | 500 | 500/10,000 | **5.00%** |

#### ****Total Market Cap of Core Hedera Sector**** = ****$10,000M****

Each token’s weight in the **sector** must sum to **100%**.

## Applying Sector Weights to Token Weights

Now that we have **sector weights** and **token weights within each sector**, we calculate the **final weight of each token in the entire fund**.

### ****Formula for Final Token Weight in the Index Fund****

Where:

* = Final weight of token **t** in the entire index fund
* = Weight of sector **s** in the fund
* = Weight of token **t** in its sector

### ****Example Calculation: Final Token Weights****

|  |  |  |  |
| --- | --- | --- | --- |
| **Token** | **Sector Weight (%)** | **Token Weight in Sector (%)** | **Final Weight in Fund (%)** |
| **HBAR** | 33.33% | 80.00% | **26.67%** |
| **Wrapped BTC** | 33.33% | 10.00% | **3.33%** |
| **Wrapped ETH** | 33.33% | 5.00% | **1.67%** |
| **Wrapped AVAX** | 33.33% | 5.00% | **1.67%** |

For example, **HBAR’s final weight in the fund**:

This process **repeats for every token in every sector**, ensuring a **fully market cap-weighted index fund**.

## Example Allocation

Using estimated market capitalizations, the following is an example of how the fund is structured:

**Smart Contract Platforms (40%)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Token** | **Market Cap** | **Weight Within Sector** | **Final Fund Weight** |
| HBAR | $5B | 83.33% | **33.33%** |
| Wrapped BTC | $500M | 8.33% | **3.33%** |
| Wrapped ETH | $300M | 5% | **2%** |
| Wrapped AVAX | $200M | 3.33% | **1.33%** |

**DeFi & DEX Tokens (20%)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Token** | **Market Cap** | **Weight Within Sector** | **Final Fund Weight** |
| SAUCE | $35M | 70% | **14%** |
| xSAUCE | $5M | 10% | **2%** |
| HBARX | $5M | 10% | **2%** |
| HLQT | $5M | 10% | **2%** |

**Stablecoins (15%)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Token** | **Market Cap** | **Weight Within Sector** | **Final Fund Weight** |
| USDC | $50M | 33.33% | **5%** |
| USDT | $50M | 33.33% | **5%** |
| DAI | $25M | 16.67% | **2.5%** |
| HCHF | $25M | 16.67% | **2.5%** |

**Enterprise & Utility Tokens (15%)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Token** | **Market Cap** | **Weight Within Sector** | **Final Fund Weight** |
| Calaxy (CLXY) | $20M | 40% | **6%** |
| DOVU | $15M | 30% | **4.5%** |
| HeadStarter (HST) | $15M | 30% | **4.5%** |

**GameFi & NFT Infrastructure (10%)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Token** | **Market Cap** | **Weight Within Sector** | **Final Fund Weight** |
| Tune.FM (JAM) | $10M | 20% | **2%** |
| Karate Combat (KARATE) | $10M | 20% | **2%** |
| HashPack (PACK) | $10M | 20% | **2%** |
| GRELF | $10M | 20% | **2%** |
| STEAM | $10M | 20% | **2%** |

# Governance and Voting Mechanisms

## Introduction

The Lynxify Index Fund is governed by a fully decentralized DAO, where community members propose and vote on changes. To ensure decentralization while preventing governance abuse, this chapter outlines the rules, constraints, and voting mechanics that govern the fund.

## 1. Voting on Fund Management

|  |  |  |
| --- | --- | --- |
| **Governance Area** | **Allowed Range** | **Voting Parameters (User Input)** |
| Rebalancing Frequency | Weekly – Bi-Weekly – Monthly-Quarterly | set\_rebalance\_frequency("weekly" | "bi-weekly" | "monthly" | “Quarterly”) |
| Stablecoin Allocation | 15% – 50% | adjust\_stablecoin\_allocation(user\_input%) |

## 2. Voting on Token Weights Within Each Sector

|  |  |  |
| --- | --- | --- |
| **Governance Area** | **Allowed Range** | **Voting Parameters (User Input)** |
| Max Cap Per Token | 20-70% of sector allocation | enforce\_max\_token\_cap(50%) |
| Redistribute Excess Weight | Auto-redistributed within the sector | auto\_redistribute() |

## 3. Voting on Moving a Token to a Different Sector

|  |  |  |
| --- | --- | --- |
| Governance Area | Allowed Range | Voting Parameters (User Input) |
| Reassign a Token to a Different Sector | Any token can be moved to another existing industry sector | move\_token\_to\_sector(token\_id, new\_sector\_id) |
| Minimum Quorum to Approve a Move | 25% of token holders must vote | set\_token\_move\_quorum(25%) |

## 4. Voting on Governance Mechanisms

|  |  |  |
| --- | --- | --- |
| Governance Area | Allowed Range | Voting Parameters (User Input) |
| Quadratic Voting Parameters | Adjust vote cost curve steepness | adjust\_vote\_curve("moderate" | "strong") |
| Proposal Submission Rules | 0% – 0.5% of circulating supply | set\_proposal\_requirement(user\_input%) |
| Quorum Requirements | 10% – 30% of total votes required to pass | set\_quorum\_requirement(user\_input%) |
| Execution Delay | 1 – 5 days | set\_execution\_delay(user\_input\_days) |
| Governance Change Cooldown | 6-month lock for major governance changes | keep\_6m\_cooldown() | remove\_6m\_cooldown (67% supermajority required) |
| Two-Round Approval for Governance Changes | Required for major voting rule changes | keep\_two\_rounds() | remove\_two\_rounds (67% supermajority required) |

## 5. Voting on Fee & Revenue Allocations

|  |  |  |
| --- | --- | --- |
| Governance Area | Allowed Range | Voting Parameters (User Input) |
| Lynxify Fee Percentage | 0.5% – 3% | set\_lynxify\_fee(user\_input%) |
| Pool Revenue Allocation | Always 100% reinvested | immutable\_rule (no\_vote) |

## 6. Safeguards Against Governance Manipulation

|  |  |  |
| --- | --- | --- |
| Governance Area | Allowed Range | Voting Parameters (User Input) |
| Supermajority Approval | 67% required for governance changes | Prevents small groups from altering governance rules |
| 6-Month Cooldown for Governance Changes | Prevents repeated manipulation | Ensures long-term stability |
| Two-Round Voting for Major Governance Changes | Ensures long-term community support | Prevents rushed decisions |
| Minimum Participation Requirement | 20% voter turnout required | Prevents unnoticed rule changes |
| Immutable Core Rules | Certain rules cannot be changed | Protects fundamental fund mechanics |

## Governance Generation and Staking Model

### Overview

Governance tokens serve as the foundation for decentralized decision-making within the Lynxify ecosystem. These tokens are earned through staking LXY tokens and allow users to participate in governance activities. To ensure fair distribution and prevent excessive accumulation, governance token holdings are capped at **96% of the user’s total LXY balance**.

### Governance Token Staking Model

Users generate governance tokens by staking their LXY holdings. The staking mechanism is designed to be straightforward, ensuring transparency and ease of understanding.

#### ****Formula for Governance Token Rewards****

Governance tokens are earned at a fixed rate based on the user’s staked LXY tokens:



Where:

* **R\_user** = Governance tokens earned per period.
* **S\_u** = LXY tokens staked by the user.
* **r** = Fixed reward rate per period (**8% per month** or **96% per year**).

#### ****Example Calculation****

* If a user stakes **10,000 LXY**, they earn:
  + **800 governance tokens per month** (**8% per month**).
  + **9,600 governance tokens per year**, reaching their **maximum cap**.

### 3. Governance Token Holding Cap

A user **cannot** hold more than **96% of their total LXY holdings** in governance tokens. This ensures active participation in governance while preventing the hoarding of governance power.

#### ****Formula for Maximum Governance Tokens a User Can Hold****



Where:

* **H\_max** = Maximum governance tokens a user can accumulate.
* **LXY\_held** = Total LXY tokens owned by the user.

#### ****Example Calculation****

* If a user holds **10,000 LXY**:
  + They can **accumulate up to 9,600 governance tokens**.
  + If they exceed this amount, they must **use governance tokens** (via voting or other mechanisms) or **increase their LXY holdings** to continue earning.

## Voting Mechanics

### ****Proposal Submission Requirements****

Users must **stake governance tokens** to submit a proposal. If the proposal passes, users **receive their staked tokens back**. If it fails, **tokens are burned** to discourage spam proposals.

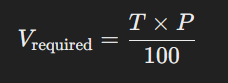
### ****Proposal Categories & Submission Thresholds****

| **Proposal Type** | **Minimum governance tokens Required** | **Approval Threshold** |
| --- | --- | --- |
| **Standard Proposal** (e.g., adjusting token allocations) | 5% of total governance tokens | **51%+ approval** |
| **Major Governance Change** (e.g., fee adjustments) | 7.5% of total governance tokens | **60%+ approval** |
| **Constitutional Amendment** (e.g., governance rule changes) | 10% of total governance tokens | **67%+ supermajority** |

## ****3. Quorum & Approval Thresholds****

To prevent **low voter participation from allowing governance attacks**, each proposal type has a **fixed quorum requirement** based on total **governance tokens (governance tokens) in circulation.**

### ****Formula for Required Votes****

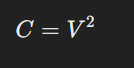


Where:

* Vrequired= Minimum votes required to pass
* T = Total governance tokens in circulation
* P = Required approval percentage

#### ****Quadratic Voting Formula****

In quadratic voting, the cost of **casting VVV votes** is proportional to the **square of the votes cast**:



Where:

* **CCC** = Cost in governance tokens.
* **VVV** = Number of votes cast.

This means **voting power scales non-linearly**, making it costly to concentrate votes on a single decision.

#### ****2. Example of Quadratic Voting****

Let’s assume a user has **100 governance tokens** and wants to vote on a proposal.

| **Votes Cast (VVV)** | **Cost (C=V2C = V^2C=V2)** | **Tokens Remaining** |
| --- | --- | --- |
| 1 vote | 1 token | 99 tokens |
| 2 votes | 4 tokens | 96 tokens |
| 3 votes | 9 tokens | 91 tokens |
| 5 votes | 25 tokens | 75 tokens |
| 10 votes | 100 tokens | 0 tokens |

* If a user wants **10 votes**, they must **spend 100 tokens**, exhausting their balance.
* If another user has **200 tokens**, they could cast **14 votes** (142=19614^2 = 196142=196), but **not 15 votes** since 152=22515^2 = 225152=225 would exceed their balance.

# ****Encouraging Voting Participation****

To ensure active governance participation, Lynxify’s voting system includes several **incentives** to reward engaged users and encourage meaningful decision-making.

## ****Vote Refund Mechanism****

Users who **vote "Yes"** on a **successful** proposal will **receive their votes back**, preventing loss of governance tokens when supporting beneficial changes.

#### ****Mechanics:****

* If a proposal **passes**, all users who voted “Yes” will have their **spent governance tokens refunded**.
* If a proposal **fails**, the spent tokens are **not refunded**.
* This encourages voters to carefully **support proposals with strong community backing** while discouraging spam voting.

#### ****Example Calculation:****

* User votes **10 governance tokens** on a proposal.
* The proposal **passes** → User **gets back all 10 tokens**.
* The proposal **fails** → Tokens are **spent permanently**.

## ****Monthly Voting Bonus – Increased Earnings Cap****

Users who **vote on any proposal within a given month** will see an **increase in their maximum governance tokens earned per month**.

#### ****Mechanics:****

* Normal governance earnings cap: **8% per month**.
* If a user votes on any proposal that month: **Cap increases to 10% for the next month**.
* This rewards **consistent voter engagement** and encourages users to **regularly participate** in governance decisions.

#### ****Example Calculation:****

* User holds **10,000 LXY** → Normally earns **800 governance tokens per month (8%)**.
* If they vote, next month they earn **1,000 governance tokens (10%)** instead.

## ****Increased Governance Token Cap for Active Voters****

To further incentivize governance participation, **users who vote regularly** will have an **increased governance token holding cap**.

#### ****Mechanics:****

* **Default cap:** Users can hold up to **96% of their LXY balance** as governance tokens.
* **Active voter cap:** Users who **vote on at least one proposal per month** can hold up to **120% of their LXY balance** in governance tokens.

#### ****Example Calculation:****

* A user with **10,000 LXY** normally has a cap of **9,600 governance tokens** (96%).
* If they vote in a given month, their cap **increases to 12,000 governance tokens (120%)**.
* This encourages long-term governance participation.

## ****Summary of Encouragement Mechanics****

| **Mechanism** | **Benefit** |
| --- | --- |
| **Vote Refund** | Users who vote “Yes” on successful proposals get their tokens back. |
| **Monthly Voting Bonus** | Users who vote increase their max governance tokens earned per month from 8% to 10%. |
| **Increased Token Cap** | Users who vote can hold **120%** of their LXY in governance tokens instead of **96%**. |

This system ensures **active participation in governance**, **rewards engaged users**, and **prevents hoarding**, creating a decentralized and fair voting process.

## Conclusion

This governance framework ensures full decentralization while keeping protection mechanisms in place to prevent manipulation.  
  
The community has complete control over fund mechanics within boundaries, allowing dynamic but secure governance. While still retaining the original ethos of diversification.