# Chapter 1: 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. **Core Hedera & Smart Contract Platforms (40%)** – 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 (20%)** – Tokens that power decentralized finance (DeFi) and decentralized exchanges (DEXs) on Hedera, such as SAUCE (SaucerSwap), xSAUCE, HBARX, and HLQT.
3. **Stablecoins (15%)** – 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 (15%)** – Tokens representing business applications, sustainability initiatives, and tokenized launchpads, such as Calaxy (CLXY), DOVU, and HeadStarter (HST).
5. **GameFi & NFT Infrastructure (10%)** – 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.

## 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%** |

## Key Takeaways

1. **Industry-Based Capping (40%)** – No single industry can dominate the fund.
2. **Market Cap Weighting Within Sectors** – Larger tokens receive proportionally higher weights.
3. **Dynamic Adjustments Over Time** – The fund rebalances naturally as market caps fluctuate.
4. **No Token-Level Caps** – Allocations remain organic within each sector, preventing artificial constraints.
5. **Stablecoin Buffer (15%)** – Ensures liquidity for rebalancing and fund stability.

By structuring the fund in this way, we create a **diversified, adaptable, and market-driven investment vehicle** for the Hedera ecosystem.

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# Chapter 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 |

## 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 strict boundaries, allowing dynamic but secure governance.  
  
The next chapter will outline how voting works on-chain, how proposals are submitted, and how governance tokens interact with the voting system.