Abstract

This proposal seeks to allocate additional funding to a select Cohort of Protocols that, despite not advancing beyond the screening phase of the LTIPP program, have demonstrated:

- An innovative approach to DeFi with new products and new use cases

- Sustainable vaults/activities where incentives can be used to accelerate growth

- Potential to the Arbitrum ecosystem as all protocols are deeply integrated on the L2

- Flexibility by addressing the feedback provided by the council.

The sum of the proposals requests a total of 942,000 ARB

- which is within the unallocated budget of 18.5M ARB from the total 45M ARB designated for the LTIPP program.

This strategic funding initiative aims to integrate these capable Protocols into the LTIPP program, bypassing the need for a comprehensive new proposal and review cycle requiring significant resources and time.

This proposal addresses the absence of a formal mechanism for Protocols to utilize the council's feedback in the LTIPP program. By funding projects with strong fundamentals that have responded well to the DAO council's insights, it adheres to the LTIPP's original specifications and timelines. This ensures efficient resource allocation and enables protocols to contribute to Arbitrum's advancement through the LTIPP.

For further details on the LTIPP program and application process, please refer to the following link[LTIPP How To Apply FAQ](#)

Joint Effort

This proposal, developed collaboratively by representatives from Connext, D2 Finance, Smilee, and Yearn (hereafter also referred to as "the group"), aims to enhance the Arbitrum ecosystem through participation in the Long-Term Incentive Proposal Program (LTIPP). The LTIPP seeks to address three main issues identified in the Short-Term Incentive Program (STIP):

1. The excessive burden on delegates.

2. The lack of substantial feedback for protocols on their proposals.

3. The stringent restrictions on incentive mechanisms.

While the first issue was effectively mitigated through the diligent (and mighty) efforts of advisors and an initial council screening process, the second issue's underlying causes were not addressed, merely shifted to the screening phase. Consequently, protocols were disqualified from the voting process without the opportunity to incorporate or respond to feedback from the DAO Council.

The group proposal provides a compelling pathway for including these proposals in the LTIPP voting round.

Protocols Included and Feedbacks addressed

The LITPP Council screening round rationale can be found here:[LTIPP Council Feedback - Google Docs](#)

Following the guidance from the LTIPP next steps as noted below

"Should the DAO feel an application that was rejected by the council should be funded, any delegate with sufficient voting power (500K ARB) may post a snapshot requesting to fund said applicant just like they would any other DAO proposal."

Table 1.

Protocol

Original Proposal Link

Connext

[Connext] LTIPP Application - FINAL

D2 Finance

[D2 Finance] LTIPP Application Draft - FINAL

Smilee

[Smilee Finance] LTIPP Application - FINAL

Yearn

Yearn LTIPP Application - FINAL

Connext - Request 417,000 ARB (prev. 540, 000)

Summary of Feedback:

- Incentives should go more towards users

- Lack of benchmarking with other bridging projects to justify LP requests

Grant Request Size Modification

Connext has already brought more than $250m in LRTs to Arbitrum via our innovative Native Restaking Module. We know we are on the right track and want to further push Arbitrum as a lead in this area.

Our priority remains to attract more users to bridge into Arbitrum and Restake ETH on the L2.

In order to provide the best experience, we can incentivize users by subsidizing part of the bridging fees, and this will further boost the utilization of our pools which will increase our ETH TVL. Higher TVL enables us to provide the best pricing when the Restaking module is used.

Incentivizing users to bridge into Arbitrum has 2 benefits:

1. We can help more users bridge away from mainnet fees, onboarding them permanently onto Arbitrum

2. It helps to rebalance the AMM pool, as the restaking activity tends to unbalance the pool in the opposite direction. Having a balanced pool means that users restaking ETH don't incur a negative price impact.

Following the Council's feedback, we decided to:

- Remove the request of liquidity incentivization for our routers and LPs, and shift focus towards our users as requested by the Council.

- Refund 95% of the fees to the users bridging into Arbitrum, up to 13bps. Fees vary depending on the origin chain (from mainnet it's 9bps, from other L2s, 13bps) so only the actual fees incurred will be refunded.

Gas fees will only be subsidized to users who are onboarding to Arbitrum (from any other network), and users exiting Arbitrum will not get subsidized.

- This aligns fully with requests from other players in the space like Across, Hop, deBridge who saw their LTIPP request fully approved.

Our estimate (according to the average of the last 7 days at the time of writing the original proposal) is for users to bridge 137k ETH during the pilot program.

Bridging fee rebate: 137,000 * 3600 (ETH price) * 0.0013 (max fee) * 0.95 = $609,000

Tot: $609,000

ARB (priced @ 1.46): 417,000

The Connext team agrees to return to the Arbitrum DAO any unused ARB funds once the 12 week LTIPP program is concluded

D2 Finance - Request 100,000 ARB (prev. 195,000)

Summary of Feedback:

1. Addressing the "Spike" in Metrics and Achieving Stickiness

Delegate's Concern:

Metrics spikes and concerns over user retention and liquidity stickiness post-incentivization.

D2 Response:

The observed 'spike' in D2 Finance's trading metrics during late February was not related at all with GMX grant or lack of organic volume, simply the vaults were not in trading epoch (only small helper vaults like Lyra ++ were trading).

Specifically, the temporary cessation of trading activities for our ETH++ and RODEO++ vaults from February 23rd until March 8th was aligned with broader operational objectives, including refining our application for the Arbitrum DAO grant, enhancing our front-end interface, and bolstering our trading team with experienced hires, such as a new Chief Risk Officer.

It's noteworthy that during this interlude, we maintained a 100% retention rate for ETH++, underscoring the deep trust our users place in our protocol's direction and management.

Our trading strategies have generated $11 mil of organic volume through more than 19 protocols in the Arbitrum ecosystem + $12 mil volume in Lyra alone for a total of $23 mil real volume through the Arbitrum ecosystem as of today.

[

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](https://global.discourse-cdn.com/standard17/uploads/arbitrum1/original/2X/a/af2c84330e443e68f1fde13abb7255dc38da56a1.png)

2. Lack of Information on ARB++ Vault Strategy

Delegate's Concern:

Insufficient details were provided on the actual strategy employed by the ARB++ vault.

D2 Response:

The ARB++ vault employs a strategy that maintains delta exposure ranging from 20% to 60% of ARB, designed to navigate market conditions efficiently while minimizing downside volatility while keeping ARB upside. ARB++ acts as a natural buyer in "market dumps' ' hence if ARB++ achieves reasonable TVL, it can work as a shock absorber for the ARB ecosystem. Example of last week trading in GMX for ARB++:

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](https://global.discourse-cdn.com/standard17/uploads/arbitrum1/original/2X/0/0a1adb6fa168bfde1b67544ab6b4c1ecf2e7d7dd.png)

In our ongoing efforts to maintain transparency and foster understanding of our strategic initiatives, D2 Finance regularly publishes detailed communications about our trading strategies and vault operations.

For example, our Medium article on the launch of the ARB++ vault (which was included in the proposal) shows a detailed breakdown of the strategy.

Medium – 25 Mar 24

D2 Finance: ARB++ Market Launching on Camelot

We are excited to announce the launch of the ARB++ Vault, the latest addition to our tactical vaults portfolio.

Reading time: 8 min read

The medium offers an in-depth look at the underlying mechanics and strategic objectives of this particular financial instrument. This level of detail is a testament to D2 Finance's commitment to transparency and aligns with our goal to deliver long-term, risk-adjusted performance to our investors.

3. Concerns Over TVL and Reward Distribution

Delegate's Concern:

The grant size exceeds current TVL and concerns over ARB rewards benefiting a small group of users. Current TVL = $350,000, Original Grant Request 195,000 ARB (~$288,600)

D2 Response:

The decision to cap TVL in D2 is a deliberate security measure, ensuring the vault's integrity and performance could be maintained without compromising user assets. This cautious approach reflects D2 Finance's commitment to security and its

strategic plan for controlled growth.

It's important to note, this TVL is purposefully capped by D2 Finance until our DAO vote to enable deposits via our front end. This is set to happen prior to LTIPP grant streaming and will facilitate exponential growth of D2 Finance TVL based on current demand and commitments for our products

D2 will be reducing our request from 195,000 ARB to 100,000 ARB putting the TVL/Grant ask well in line with those protocols who passed the screening round

That' said if you compare to claiming ARB concentrations vs OpenBlock Labs we have displayed a decent distribution in comparison

4. Justification for Requested Grant Size and Expected Native Yield

Delegate's Concern:

The requested grant size was ambitious, and the expected native yield of the strategy vault wasn't considered, which could offset the need for the amount of ARB requested.

D2 Finance Response

: D2 Finance's approach to generating native yield is deeply rooted in sophisticated active trading strategies, similar to those utilized by market makers and asset management firms. These strategies are inherently subject to market volatility and are designed to capitalize on this volatility to achieve a positive expected value (EV) over the long term. Thus we do not provide estimates on base yield at the start of an epoch; instead, our yield is dynamically generated based on the performance of our active trading strategies.

The request for a sizable grant from the Arbitrum DAO is timed with the release of the new FE, ensuring that the grant distribution process will be streamlined and accessible to a wider range of users, moving beyond the current limitations of depositing solely through Arbiscan for compliance reasons which required limited TVL up to now. With that friction removed we believe we can have exponential growth, in part facilitated through the grant.

Such strategic foresight is vital for a growing operation like D2 Finance. The initial phases of our strategy's implementation play a pivotal role in shaping market perception and bolstering user confidence.

Grant Request Size Modification

D2 Finance is committed to growth and sustainability within the ecosystem and open to feedback from the council. As such we would amend our grant ask as follows:

- Current TVL = $350,000 (DeBank | The Web3 Messenger & Best Web3 Portfolio Tracker)

- Its important to note, this TVL is purposefully capped by D2 Finance until our DAO vote to enable deposits via our front end. This is set to happen prior to LTIPP grant streaming and will facilitate exponential growth of D2 Finance TVL based on current demand and commitments for our products

- Therefore we are reducing our request from 195,000 ARB to 100,000 ARB putting the TVL/Grant ask in line with those protocols who passed the screening round

Outside the periods when the vaults were closed, we observed an organic and accelerating trend in volumes even spread out in different weights between different protocols, which correlates with the available market opportunities.

Based on a simple regression analysis of historical data, our milestones are not only achievable but also conservative, especially when considering Lyra's trading volumes, which are not reflected in Dune data.

Therefore, D2 Finance update our request to 100,000 ARB

Smilee Finance - Request 125,000 ARB (prev. 150,000)

Summary of feedback received (excluding who voted yes):

- GMX: Expresses reservations regarding the proposal due project maturity, performance metrics, and grant size relative to current status.

- KAREL: Suggests resubmitting the proposal in a later grants window with a reduced ask after demonstrating greater traction.

- GFX: Argues against financing fee subsidies to a grantee, citing the finite nature of grants funding.

Smilee Protocol launched shortly before the LTIPP application program but lacked a proper tracking tool to demonstrate performance and traction. As of today, Smilee has been live for less than a month (with one week of trading paused for

redeploying new smart contracts) and has achieved the following performances:

- Total Value Locked (TVL): $2M (increased cap from $2M to $3M on April 11, 2024)

- Trading Volumes: $10M

- Premium: Approximately $40K for Liquidity Providers (LPs)

- Unique users: 154

Detailed performance metrics can be viewed at:

- [https://dune.com/0xpibs/smilee-dashboard

](https://dune.com/0xpibs/smilee-dashboard)- https://defillama.com/protocol/smilee-finance#options-volume (Please note that volume tracking commenced from last week, April 4th, and thus does not include the initial $4.5M traded before redeployment.)

In response to feedback from the Council and recent performance trends, we propose resubmitting the application with a reduced grant amount. This adjustment will fully offset all incentives for the trading fee rebate. Setting the new grant request at 125K ARB, we will implement the following incentive scheme:

- Grow Smilee TVL from $2M to $5M.

- Incentives APR = ~16%

- USD Equivalent of Earn Incentives = 185K USD (Assuming ARB Price of 1.46$)

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- ARB Equivalent of Earn Incentives = 125K ARB

- Trading boost incentives = 0 ARB

Therefore, Smilee Finance update our request to 125,000 ARB

Yearn - Request 300,000 $ARB

Summary of feedback from votes against:

- Very little activity and TVL on Arbitrum today

- No milestones over the 12 weeks

- Lack of net-new in-flows to Arbitrum

Responses:

- Very little activity and TVL on Arbitrum today

- Back when the $ARB token went live, the pool of up-only Yearn strategy possibilities was very small on Arbitrum. We were only able to make strategies that had no exposure to IL, could take large deposits with little slippage, and were essentially lossless. DeFi activity on Arbitrum was booming, but did not align with these prerequisites.

- Today we're in a much better position. We've released Vaults V3 that allows us to open up Yearn strategies to a new spectrum of risk. In the past 30 days we've released 21 new vaults and strategies, with most of those coming out in the past 7 days. The next stage is for us is to kick start adoption through our social and partner channels.

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- No milestones over the 12 weeks

- We'll divide incentives equally over 12 weeks and stream rewards for APY boosting immediately along with a push in socials to drive adoption.

- We propose the following milestones with the understanding that we may not receive the next stage of incentives if we do not cross the goal TVL:

- Weeks 1-4

- Goal: $10 million

- Goal: $10 million

- Weeks 5-8

- Goal: $20 million

- Goal: $20 million

- Weeks 9-12

- Goal: $30 million

- Goal: $30 million

- Weeks 1-4

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- Weeks 9-12

- Goal: $30 million

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- Lack of net-new in-flows to Arbitrum

- This is a valid concern as there are two farms we have in common with another existing Arbitrum project. We will omit Stargate, Curve, and Compound strategies from boosting.

- We will focus on net-new strategies to Arbitrum that will grow:

- Pendle Penpie strategies

- Silo lending liquidity

- Since the submission of this original proposal, we've engaged Silo to onboard to Juiced Vaults with the goal of net-new in flows to Arbitrum.

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- Ajna lending liquidity

- Gamma LP strategies

- wstETH leveraged strategy using Aave and WETH as debt

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Overall Cost

The total cost to implement the AIP Proposal

942,000 ARB

A change from 26,414,599 ARB to 27,356,5599 ARB, still well within the overall allocation of 45,000,000 ARB designated for the LTIPP program.

Given the innovative approach, sustainability, and contributions to the Arbitrum ecosystem demonstrated by the Cohort of Protocols, additional funding is not just an investment but a strategic decision. These protocols have showcased not only the capacity to create novel DeFi products and use cases but also the flexibility to adapt and evolve based on feedback. By accelerating their growth through targeted funding, we can significantly enhance the net benefits to the entire Arbitrum landscape, driving broader adoption and long term value. Thus, supporting this cohort is an opportunity to fuel pivotal developments at a stage that is set to benefit all Arbitrum stakeholders.