

Context

This snapshot draft is one of the deliverables of the AVI pilot and expands on the concepts introduced in the original AVI Proposal (Apr'24), leading to the Venture Catalyst Investment Vehicle presented at GovHack Brussels and subsequent AVI Pilot <https://link.farstar.co/avi-deck>. The nature of the DAO and the markets have required consistent iteration since the inception of the working group. This document represents our latest work and includes insights gathered during the pilot phase. We welcome your feedback towards refining it ahead of the anticipated Tally vote.

TL;DR

We are proposing the execution plan for the setup of Arbitrum Ventures, a Multistrategy Evergreen Ecosystem Investment Fund with an operational budget of \$1m - \$1.5m. This includes the setup costs and management of Arbitrum Ventures during a 1-year period starting on 1st of January 2025. The budget supports full-time working group efforts to conduct the phased rollout of the AVI vehicle, ensuring timely investment execution and a robust foundation for the DAO's future capital strategies.

This plan is designed to be iterative and collaborative, adapting to the DAO's needs through active engagement with key stakeholders and workstreams. By utilizing phased development and integrated governance, it aims to produce a scalable foundation for future investment strategies while maintaining alignment with DAO priorities.

The mandates key objectives include:

1. Infrastructure Development:
2. Build legal, compliance, reporting, and administrative structures including a Fund-in-a-Box (FiB) solution, streamlining operations for long-term scalability.
3. Establish an Interim Expert Council to aid the working group in achieving DAO alignment and transparency.
4. Initial Investments and Deal Warehousing:
5. Deploy \$5–15M during the interim phase to fund strategic projects, while refining governance processes for long-term capital management.
6. Integration with Existing DAO Operations:
7. Anchor frameworks (CapCo/OpCo) for consistency, scalability, and alignment with DAO-wide governance, treasury, and foundation initiatives.
8. Collaborate with key stakeholders to ensure seamless integration of structures.
9. Scale up Arbitrum Ventures:
10. Establish various investment mandates via DAO votes once sufficient maturity is reached.
11. Transition the ongoing team and oversight with all appropriate elections and appointments required.
12. Establish Arbitrum Ventures as a preferred investment partner.

Abstract

The goal of this proposal is to secure funding for the set-up and phased roll-out of Arbitrum Ventures - an evergreen ecosystem fund, including all its relevant legal, strategic, governance, and operational structures necessary for large-scale investments throughout a 6-year deployment mandate. Our vision is to foster continuous ecosystem growth and extend Arbitrum's reach through strategic investments into highly targeted venture initiatives and external venture funds. During the first year Farstar will take care of the fund set-up and will further work on a number of strategic deals and the design of the relevant processes for the selection of management teams alongside an Interim Expert Council.

The full sustainability plan for the Arbitrum Evergreen Ecosystem Fund involves deploying significant investment capital broken down in various mandates over six years. With these funds, we will develop proprietary pipelines, produce investment capital to support projects on Arbitrum, and align 1B+ in available market capital.

Motivation // Why set up an Evergreen Ecosystem Fund?

Venture capital is a driver of innovation and adoption. By creating the capability to invest into the ecosystem, the DAO will unlock value on multiple levels:

1. Ecosystem talent booster:

Comprehensive portfolio of investment programs to create and support proprietary pipelines of web2 and web3 talent with deep domain expertise and insights on 'real world issues' to build on Arbitrum.

1. Enhance Network Effects and Revenue Growth:

Enhancing DAO revenues by empowering an active ecosystem of builders through investment programs tailored for removing the blockers, enabling them to focus on bringing in new users, more capital and real assets, and capturing real world data.

1. Strategic alignment:

Investing in protocols that are strategically advantageous for Arbitrum to ensure all interests are aligned and to strengthen the relationships in the long term.

1. Capital boost:

Investing as an LP into existing funds to mobilize 2x to 5x the invested capital to deploy into and better support a more mature Arbitrum ecosystem.

1. Self sustainability:

Capturing ROI and reinvesting profits to scale successful initiatives and launch new programs, creating a perpetual flywheel without exceeding the initial treasury allocations.

1. Create space for better grants and incentive mechanisms:

Creating an investment capability in the Arbitrum ecosystem addresses critical capital needs, which would enable the DAO to focus on designing more targeted grants and effective incentive programs.

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Rationale

Despite investing millions in incentive programs, Arbitrum has seen [overall low retention rates](#) from these initiatives. Currently, the DAO has [paused to re-evaluate our incentive programs](#), following the recent Short-Term Incentive Program (STIP) which saw a [net loss of \\$60M](#), with [around 35% of all recipients failing to post a final report](#). As the community discusses ways to improve these programs, we aim to enrich the dialogue by identifying additional investment opportunities that will establish Arbitrum as an innovator in the Ethereum ecosystem. Currently, there is an [opportunity gap in capital allocation](#) that Arbitrum can leverage. Concentrating on highly targeted investment programs will create a better environment for Arbitrum-native projects, while still supporting cross-chain products and attracting external capital. This approach positions Arbitrum to lead the multichain future.

We propose an evergreen investment vehicle with a multifaceted strategy featuring a portfolio of captive and non-captive investment programs. The captive side entails a more direct approach to driving strategic benefits, akin economic development programs, sovereign wealth, or Corporate VC. This includes programs designed to boost founder engagement with Arbitrum, thereby strengthening our position as L2 leader. The non-captive side features a Fund of Funds approach for investing in venture and liquid funds as an LP extending Arbitrum's reach to new founders, use cases, and markets. The evergreen approach enhances the portfolio by facilitating uninterrupted and long-term execution of investment strategies, while providing the DAO with the flexibility to reinvest profits, or dissolve the fund as deemed necessary.

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Examples of key strategic initiatives can be found [here](#) (slides 10-20).

Roadmap

Phase 1: Pilot [In final stages of completion]

During Phase 1, we have been exploring how Arbitrum Ventures fits into the broader Web3 ecosystem and how it can best deliver value. We engaged with key ecosystem players, including delegates, members of the foundation, and key stakeholders. We conducted market research with builders and investors, tested market hypotheses, and fine-tuned strategic recommendations for building a solid investment framework.

Phase 2: What's Next [This proposal]

Now, it's time to act. With the groundwork laid, the focus shifts to building the essential legal, governance, and operational structures for Arbitrum Ventures. This phase focuses on building Arbitrum Ventures, establishing the legal, governance, and operational frameworks to enable its success.

Supported and overseen by the Interim Expert Council, Farstar will drive efforts to:

- Develop the legal, administrative and operational Infrastructure
- Mature an investment thesis
- Deploy Initial Investments
- Integrate with Existing DAO Operations
- Collaborate with key stakeholders
- Kick off Arbitrum Ventures in scalable manner

Phase 3: Evergreen Fund

This is where the vision really takes off. Over a six year mandate, Arbitrum Ventures will roll out a multifaceted investment strategy, deploying significant capital across targeted projects and programs. By aligning over \$1B+ in market capital, we'll build and co-invest in high-value initiatives, grow our deal pipeline, and support the ecosystem in ways that matter most.

We envision Arbitrum Ventures as a self-sustaining, scalable investment framework and a flywheel propelling the Arbitrum ecosystem to the next stage of maturity.

Considerations

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The Arbitrum Ventures Investment Vehicle (AV) should strike a careful balance between its roles as an independent entity with a long-term mandate and its close integration with the DAO.

Externally, it should function and appear as a stable, reliable investment fund and its policies should be designed to make it a nimble, high-agency, performance-driven entity, appealing to top-tier market participants.

From the DAO's perspective, AV should be easy to understand, aligned with DAO goals, connected to key initiatives, and maintain the integrity of the positive narrative around it by the time it takes for measurable results to be observed. Its initiatives should leverage DAO resources, for example, by using DAO contributors as scouts for investment opportunities. Within the broader crypto market, AV should be seen as a respected, competent entity, adding assets to the DAO's balance sheet and thus accruing value in the token, rather than diluting it.

Initially, AV should focus on immediate strategic goals, such as building a stronghold around DeFi by aligning with key technology providers. Over time, it should expand to open new markets and Web3 use cases, drawing in users, data, and capital from outside the ecosystem. Some funding should replace or supplement grants with investment programs that may yield a loss but are designed to create higher-impact outcomes or drive pipeline opportunities captured elsewhere.

The AV operational team or management should have long-term appointments under a high-commitment expert oversight structure, subject to DAO elections. This structure should be established with a series of DAO votes, mandating funds sufficient for 5-6 years, aiming to make AV an evergreen vehicle. Further governance involvement by the DAO should happen through the elected oversight roles. The mandate should be structured to discourage deviations, ensuring that any change aligns with industry standards and commitments to investees or managers. This ensures orderly decision-making that avoids unexpected actions and limits uncertainty, while retaining meaningful DAO oversight. Otherwise, the DAO should have limited day to day influence on AV operations.

Specifications

Exclusivity:

Farstar agrees to 1-year exclusivity with Arbitrum upon passing this proposal. During this time Farstar will not work with other clients in the Web3 space. The partnership will begin on the first working day of the month after the proposal passes.

Interim Expert Council:

3 to 5 member council including investors in Arbitrum, key delegates with venture experience, stakeholders with experience of the oversight of GCP to advise and assist in the set-up of the fund and further development of the thesis.

Outcomes

1. Strategic Capital Utilization:

Enable the Arbitrum DAO to leverage the full power of its treasury into targeted, high-impact investment deals, fostering sustainable growth and delivering measurable returns over time.

1. Professionalized Fund Operations:

Establish a professional and predictable counterparty to engage, evaluate and enter into agreements with fund managers and external LPs in a sophisticated manner ensuring appropriate negotiations and accountability.

1. Sustainable Investment Flywheel:

Establish a self-sustaining financial model where returns are reinvested to expand programs, ensuring ongoing innovation and long-term ecosystem scalability.

1. Defined Strategic Ecosystem Objectives:

Establish what success looks like for the ecosystem and how they can be impacted via investment ensuring alignment of incentives between ecosystem participants.

1. Operational Readiness:

Complete the setup of the legal, governance, and operational structures required for Arbitrum Ventures, ensuring the foundation is in place for scalable and compliant operations.

1. Talent Mobilization and Ecosystem Integration:

Harness DAO and community talent for investment scouting and ecosystem support, creating pathways for meaningful participation while ensuring alignment with Arbitrum's strategic priorities.

1. Operational Transparency and Reporting:

Implement robust reporting mechanisms to provide transparency on spending, progress, and impact, building trust and confidence among DAO members.

1. Defined Metrics for Ecosystem Success:

Develop clear criteria for evaluating the success of strategic ecosystem investments, linking them directly to Arbitrum's long-term goals, including network adoption, ecosystem maturity, and value accrual.

Steps to Implement

The proposed roadmap to allocate, staff and deploy Arbitrum Ventures Ecosystem Fund:

1. Passing the Snapshot temp check and Tally for the setup of the legal and operational structure, incl. the Interim Expert Council and a budget of \$1m-1.5m for 1 year.
2. Tally vote approving the working group + expert committee to make an initial batch of investments in warehoused

deals 'out of model' during the 1-year setup period.

3. Transition the ongoing team and oversight to permanent configuration with all appropriate elections and appointments required.
4. After sufficient maturity is reached, run Tally votes for the various long term investment mandates.
5. Snapshot vote for assessing the bonus to be awarded to the working group.

Overall Cost

A budget of \$1.5M* for the year paid in quarterly installments and stored with the Foundation for DAO-clawback capabilities, along with an optional up to 1 million ARB for performance-based bonuses voted on by the DAO near the end of the term and put in a 3-year vesting contract to ensure long-term alignment.

To get to a final amount by the Tally proposal we are:

- Engaging with the Arbitrum Foundation and GCP teams to get better insights about lessons learned related to costs and efforts from the GCP setup
- Developing the scope of the Expert Council and evaluating appropriate compensation
- Collaborating with stakeholders to refine the team requirements and better plan compensation budget
- Evaluating suggestions by potential Expert Council members for additional DAO stakeholders contributing to research activities and budgeting

Current Estimate:

Up to 750k for working group compensation (incl. oversight)

Up to 750k for direct costs such as legal, incorporations, events, etc

Cost optimisation measures will be practiced and any remaining funds will be returned to the DAO.

Transparency reporting

At the end of each fiscal quarter, we will publish a transparency report that goes over our activities and total spending. Information included will be what we have done, an analysis of impact, and the total cost associated with operating.

Voting Options

1. Fund Farstar to work on the CapCo Development
2. Abstain
3. Do not fund

FAQ

The following FAQ is a living document that will continue to evolve over time:

Who is Farstar?

Farstar was established in 2008 as a platform that mobilizes teams around venture development opportunities in various (emergent) startup ecosystems. To date, over 100 vetted contributors have been involved in its programs, spanning over 25 countries and working with startups in Enterprise Software, Fintech, Financial Services, DeFi, Telcos, Cleantech, Cybersecurity, Health tech, Loyalty Programs, Pharma, Biotech, Consumer Internet Applications, Economic Development, Aerospace, DeSci, Fashion and Consumer.

More information about the team can be found in the team profile[here](#).

What's the scope of Farstar's exclusivity?

Exclusivity terms are solely for the benefit of Arbitrum DAO. Meaning Arbitrum DAO will be under no contractual limitation to work with other vendors. For the period under which Farstar is contracted to work on the setup of the CapCo, Farstar will not undertake other mandates with other stakeholders in the Web3 industry.

Furthermore, the exclusivity terms proposed as part of this temp check is only for the scope of engagement covered in it - AVI Phase 2. Structures created during this phase will remain DAO property. Further exclusivity agreement is assumed as

part of a mandate as part of Phase 3, the terms of which are subject of the next agreement. If Farstar is to have an ongoing lead role in the management of the CapCo/AV exclusivity will be guaranteed.

Isn't the investment thesis supposed to be part of the Pilot?

Yes, we've referred to this as the Ecosystem Investment Thesis to distinguish it from aspects outside this scope, such as detailed analyses of specific spaces and investment strategies, which fall under individual programs. The pilot focuses on demonstrating the case for ongoing development.

The plan for releasing deliverables, as well as all published works, can be found in the [Deliverables Hub](#).

What does the thesis output include?

- Types of funds, instruments, and initiatives to target (venture funds, accelerators, incubators, venture studios, etc.)
- Development of foundational hypothesis for key strategic sectors for growth, investee profiles across multiple stages of maturity, and which markets and trends to focus on (integrated with active work of other working groups)
- Portfolio construction
- Evaluation frameworks for funds and initiatives (initial version)
- Evaluation frameworks for Ecosystem Fund's - Impact on the Arbitrum ecosystem and long-term value creation (initial version)

The plan for releasing deliverables, as well as all published works, can be found in the [Deliverables Hub](#). More about how specifically the thesis is being addressed can be found [here](#).

What steps are being taken for transparency?

- Quarterly reports, monthly briefs, and office hours.
- Establishing an Interim Experts Committee with deep expertise and DAO alignment.
- Developing an optimal model for community engagement and governance.

More on governance and oversight staging can be found [here](#).

How can the community be involved in AVI's success?

This will be covered in separate strategic recommendations or updates that are in the works. Namely the Community Engagement Report, which is a part of our next content roll-out.

What's the plan for interim investments?

The interim facility supports short-term needs before mature mandates are ready. It will address gaps in ecosystem infrastructure with a flexible approach. More information can be found [here](#).

What does the \$1.5M budget cover?

This includes operational setup, team compensation, and legal costs. Specific details will be outlined in the upcoming Operational Plan.