

# Overview

The potential for the DAO to enable strategic investments has been widely discussed. Currently, the DAO is not equipped to establish large-scale investment mandates, limiting its ability to effectively participate in the market. The aim of AVI is to propose an approach to implementing structures that will empower Arbitrum to allocate capital based on DAO decisions, with a focus on venture-style investment opportunities.

Through ongoing discussions and the [Directional Temperature Check](#), we continue to refine our strategy for a strong foundation to enable short-term investments that contribute to ecosystem development during this foundational phase and to scale seamlessly into the full version of the fund. Effective oversight is critical to ensure alignment across working groups, governance structures, and the foundation. This article outlines how scalable oversight mechanisms can evolve from the initial stages to the fully realized AV fund.

## TL;DR

The proposed structures, an Evergreen Fund of Funds (FoF) and a streamlined Fund-in-a-Box (FiB) structure, will help establish sustainable and efficient investment processes. To support their development and ensure alignment with the broader thesis and DAO goals, oversight will begin with an Interim Expert Council guiding a one-year mandate to build the necessary governance structures and integrate them with DAO practices. This staged approach enables immediate action on strategic opportunities while laying the foundation for long-term, scalable investment management.

This document outlines our plan to scale governance and oversight to support these goals, covering the following key points:

- A brief summary of our investment thesis and the fund approach
- Role of the Interim Expert Council in oversight
- An approach to enabling investments while AV's scaling governance and oversight
- How to effectively execute the AV proposal
- Next Steps

## Vision and Fund Approach

Before addressing oversight, it's important to provide a brief overview of the overall vision and general fund approach to establish what will be overseen.

While history knows some ecosystem funds attached to complex organizations who have outperformed the market (including those in our team's leadership experience), we shouldn't rely on financial gain as our primary driver. Instead, we should view ourselves as a highly performant investor driven by the unique value we bring as Arbitrum to our investees. This is our "unfair advantage" that would drive both ecosystem growth and financial success.

For more information about this vision, see [AVI's Ecosystem Investment Thesis and Its Ethos](#)

### **Investment Arm: Arbitrum Ventures Evergreen Fund of Funds (FoF)**

To enable investments, an investment vehicle must be established. The Arbitrum Ventures Evergreen Fund of Funds (FoF) serves this purpose managing the flow of funds between the Arbitrum DAO and various investment strategies. By facilitating the recycling of capital, the FoF enables continuous investment opportunities, ensuring the longevity and sustainability of the treasury while growing an ecosystem investment portfolio.

### **Simplified Investment Administration: Fund-in-a-Box (FiB)**

The [FiB](#) structure consolidates legal, compliance, reporting, administrative and some platform activities into a single well-optimised solution. The cost and overhead of managing the administrative requirements as well as the term of the fund (the period that needs to be provisioned until liquidation) makes running experimental, very small or short term investment programs unviable.

## Governance and Oversight Staging

Based on this vision and the fund approach, some key considerations for oversight include:

- Governance Design and Integration with Grants, CapCo, OpCo, etc.

- Clear Decision-Making Processes

Key structures include:

- Arbitrum DAO:

The Arbitrum DAO provides the initial capital for investments.

- Oversight:

We will be working in stages to build the necessary infrastructure and begin execution of investments. In the first stage, an interim council of experts will be established to guide and oversee the development and implementation of a 1-year mandate to develop and implement all necessary structures, and expand upon the work started with the AVI pilot.

- AV Management Company:

The AV Management Company is responsible for the operations of the fund, investment strategy and execution, and providing platform, program and portfolio management services for capital allocators and builders. It serves as the central coordinating body for investment activities, ensuring smooth execution across multiple components. The individual investment programs will have (to varying degrees) further management capacity as well as their own individual investment decision-making processes.

To ensure a seamless transition during the setup phase, the funding and management structures will be launched under the guidance of an interim expert council.

## Responsibilities of Interim Expert Council

During the mandate, the Interim Expert Council will be instrumental in shaping the framework's development and aiding the working group to promote DAO alignment and transparency. This will include:

Responsibilities:

- Advisory function guiding the creation and development of the CapCo
- Overseeing financial decisions as stipulated by the proposal (eg legal services quotes, milestone payments, etc)
- Supporting the representation of the work of the working group to the DAO
- Supporting in the further development of the investment thesis
- Monitoring potential conflicts of interest

Qualifications:

- Deep familiarity with the Arbitrum Ecosystem
- Relevant professional experience related to VC investment and ecosystem development
- Incentive aligned with the success of Arbitrum (eg investors or large token holders)
- Key delegates with experience with GCP oversight

Appointment:

- Consists of 3 to 5 members
- Directly appointed by the Tally proposal for the second phase of AVI

Time commitments & availability:

- 2h / week on an ongoing basis
- 8h / week around key milestone delivery deadlines (eg kickoff, capital allocation proposals, etc)
- Capped to 40h per quarter

## Transition to long-term setup:

The one-year mandate enables the working group to work full-time and exclusively for Arbitrum. This time would be used to refine their processes working with other workstreams in the DAO to create a longer-term solution for the management of

the fund. It also enables the working group to deploy the necessary structures for investment capability. Once all the structures are implemented, oversight will be put in place in a manner that is integrated with existing DAO-wide governance practices. This might include running elections, appointing subcommittee members to the DAO Advocacy Alliance, or other appropriate solutions at that time.

## Capital allocation during the mandate:

Once the appropriate structures and general oversight are in place there will be a number of individual Tally proposals allocating funds to specific investment mandates. These allocations will also be based on capital calls distributed over time in line with industry norms and will be subject to the management of the respective investment program meeting their contractual and fiduciary responsibilities.

Example:

- A proposal for investing \$50M in support of Orbit adoption is approved on Tally.
- 20% are allocated to management costs, 40% are to be invested over a 3-year investment period and 40% are reserved for follow-on investments, allowing the fund to make 20 investments with an average initial check size of \$1M.
- Upon approval the funds are transferred to a multisig controlled by the AF and released in bi-annual capital calls based on management cost needs and projections for investment capital required in the upcoming period.
- An alternative to the AF multisig approach would be to keep the funds in FoF-controlled multisigs or implement appropriate functionality in an on-chain treasury solution.

## Investing in the interim period:

- As the full setup will take a significant amount of time and there is a need to make some strategic deals more rapidly, the approach to be considered is to enable Farstar in conjunction with the Interim Expert Council to deploy \$5M to \$15M.
- This would be done in a 'non-scalable, out of model' approach where the rule of thumb would be to fund activities that the DAO might otherwise consider to do as grants.
- As there is still unresolved complexity in terms of how such investments might be managed, the allocation of this capital might be subject to a separate Tally proposal.

The staged approach enables timely action on investment opportunities while allowing ample time for the DAO's governance structure to be established in a fully mature way. This also provides a testbed for refining governance processes and decision-making workflows of what might in principle become a structure with over \$1B AUM.

# Executing the Proposal Effectively

To execute this initiative successfully, we propose the following steps:

### 1. Development of the Working Group and Oversight

- Working group:

Farstar will continue to be the lead facilitator of the working group while including other contributors where necessary and will be accountable for the development of the required structures and capabilities.

- Oversight:

We will have an Interim Expert Council advising on the development and implementation of the proposed structures, ensuring transparency and alignment with the DAO's objectives. This will be the intermediate step while the DAO establishes the fully fledged Oversight Committee structure. The members of the Expert Council will be selected for: relevant domain expertise, deep understanding of the Arbitrum ecosystem, alignment with the best interest of the DAO.

### 2. Separation of Roles for Fund Deployment

- Once the structures are in place, neither the working group, nor the oversight committee will automatically hold a role in deploying funds. Any future involvement in investments or rights to future compensation, will require re-elections by the DAO, ensuring impartiality and eliminating conflicts of interest.

### 3. Anchoring CapCo Framework

- We propose anchoring CapCo's design to align closely with Entropy's operational setup for the OpCo. This alignment ensures consistency, making it easier for the DAO and stakeholders to understand and adopt CapCo's framework.
- The proposed structures will be designed to be lean and effective from the get-go, but with keeping long-term efficiency and scalability in mind, and enabling CapCo to evolve as the DAO's needs grow.

#### 4. Collaborate with the existing groups

- Foundation Observer Seat on Oversight Council:

To foster collaboration with the Arbitrum Foundation, we suggest creating an observer seat for their representative on the interim oversight council. This inclusion will provide valuable insights and ensure alignment with the foundation's objectives.

- Entropy:

Collaborating with Entropy will help us align CapCo with these concepts and build on existing work.

- Treasury:

While we do not see dependencies between the current work being done by the Treasury Working Group and AVI, we'll seek active collaboration to align on topics related to treasury diversification and liquidations of ARB tokens in the market, where AVI's activities might have such an effect.

## Next Steps

1. Directional Snapshot 1:

Publish and put to a vote directional snapshot proposal concerning the setup of the Expert Council, Operational Budget for Phase 2 and role of Farstar and other contributors in the process.

1. Establish the Interim Expert Council:

Develop the Expert Council that will advise on the creation and effective execution of Stage 1.

1. Align with Stakeholders:

Collaborate with the foundation, the OpCo, and other working groups to integrate their input and align efforts and stewardship of the administrative budget.

1. Snapshot 2 on Interim Investment Facility:

After clarifying roles for the Interim Expert Council and working group, this snapshot would consult the DAO on an approach for investment decision making during the interim phase.

1. Tally Proposal:

Refine proposal and operational plan, incorporating all relevant feedback, post approval on snapshots, and publish for a vote to: grant the mandate, approve the budget, authorize the investment capital provision, ratify the Interim Expert Council members, and establish the investment decision making process.

1. Launch the Framework:

Implement the operational and governance structures to start building the DAO's investment capacity, begin executing investments in the interim, and develop the proposal for long term investment mandates.