Entropy Advisors

ARBITRUM

Arbitrum Treasury Management: Investment Policy Statement

Q4 2025

Presented by Entropy Advisors

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1. Introduction

This Investment Policy Statement (referred to as “IPS” onward) was initially developed by Entropy Advisors for the Arbitrum DAO in October 2025.

The purpose of the IPS is to outline a treasury management investment policy that will set forth general financial objectives of the Arbitrum DAO and corresponding objectives of the Arbitrum DAO Treasury as it relates to broader DAO goals, and will cover intended investment guidelines and operating principles, including but not limited to:

- Governance Structure
- Asset Classes and Strategies
- Benchmark Rates
- Rebalancing and Reallocation Considerations
- Risk Management Principles
- Future Initiatives
- Performance Analysis and Reporting Cadence

The goals of the Arbitrum DAO Treasury are multifaceted and will evolve with time and changing circumstances, resulting in the IPS being designed with sufficient guiding principles to establish an operating framework that can adjust to a shifting environment.

2. Background: History of Arbitrum

Arbitrum is an Ethereum Layer 2 scaling solution launched in 2021 by Offchain Labs, designed to increase transaction throughput and reduce costs while maintaining Ethereum's security guarantees via optimistic rollup technology. As one of the largest L2 networks by total value locked and transaction volume, Arbitrum computes and processes transactions offchain and posts transaction data to the Ethereum mainnet, enabling faster and cheaper transactions for end users and applications. In addition to revenue derived from transactions taking place on the rollup, Arbitrum offers its technology to developers, allowing them to launch their own L2s & L3s in return for a licensing fee when the blockchains do not settle to Arbitrum One or Arbitrum Nova.

In March 2023, Arbitrum underwent progressive decentralization with the launch of the ARB governance token and the formation of the Arbitrum DAO, transitioning governance, control of the treasury, and decision-making authority to the ARB token holders. The DAO now oversees many key protocol decisions, revenue levers, asset allocations, ecosystem growth and development initiatives, and the broader strategic direction of the Arbitrum ecosystem.

3. Arbitrum DAO Treasury Purpose

On a high level, the Arbitrum DAO treasury can be defined as a set of smart contracts on the Arbitrum One blockchain that hold a collection of tokens, mainly ARB, ETH, and wETH. These smart contracts are directly controlled by Arbitrum Governance through the Treasury Governor contract that is used for creating proposals that, once passed and executed, move funds from the treasury contracts into predefined destination addresses.

Assets withdrawn from the treasury are generally either directly distributed to an end recipient or sent to an address controlled by the Arbitrum Foundation, a Cayman Islands foundation entity. In the latter case, the Foundation might move funds around for conversion or simply custody the funds if distribution is tied to milestones or a structured timeline. The DAO's treasury management portfolio can be defined as a subset of Arbitrum Foundation-controlled multisigs that both hold capital and directly deploy this capital across approved allocation destinations.

In accordance with the Arbitrum DAO's Mission, Vision, and Purpose, the DAO's purpose is to defend and guide the Arbitrum ecosystem. The DAO treasury is intended to support this purpose by operating and existing in perpetuity, used to facilitate ongoing DAO operations, ecosystem growth, and long-term financial sustainability. The treasury management portfolio exists as a non-core business line source of income, supplementing the DAO's main revenue source of supplying high-quality blockspace.

4. Key Parties

4.1. General

The Arbitrum treasury management framework operates through a penta-party system with clearly defined roles and complementary responsibilities.

1. Arbitrum DAO (Voting Body)
2. Entropy Advisors (Proposer of Granular Actions)
3. OAT (Final Say/Veto Power)
4. OpCo (Communications)
5. Arbitrum Foundation & Offchain Labs (Observatory Body; Custody & Strategic Visibility)

This structure is designed to enable efficient, professional treasury management while maintaining appropriate checks and balances, and leaving the ultimate funding power to the DAO.

4.2. Arbitrum DAO (Voting Body)

Key Influence:

- Vote on funding tranches to the Arbitrum Treasury Management Committee (ATMC)

Responsibilities:

- Approve or reject funding requests for high-level treasury management initiatives
- Communicate feedback and concerns through multiple channels
- Review transparent reporting on allocation decisions and performance
- Exercise the ultimate authority through funding votes

Scope of Authority:

- The DAO has the ultimate funding authority, but does not approve granular allocation or operational decisions
- This division exists by design, as the ATMC's purpose is to enable more rapid and granular execution, reduce risks associated with public discourse, and increase accountability, among other benefits.

4.3. Entropy Advisors (Proposer of Granular Actions)

Key Influence:

- Evaluating opportunities and proposing granular strategy and allocation decisions to the OAT

Responsibilities:

- Recommend investment allocation strategies to the OAT within IPS guidelines
- Assess yield- and growth-focused allocation opportunities utilizing the framework established in the IPS
- Negotiate terms with protocols, partners, and service providers for both yield optimization and growth initiatives
- Coordinate with the AF and OAT to execute approved allocations
- Continuously track performance of deployed strategies against benchmarks and target rates, notifying the custodian of rebalancing needs when appropriate
- Produce monthly performance reports and create and maintain real-time dashboards
- Ongoing review and updating of the IPS to ensure continued effectiveness, relevance, and implementation of improvements when necessary

Limitations:

- Cannot access capital without DAO approval
- Cannot unilaterally push through granular allocations without OAT approval
- Must operate within IPS guidelines and constraints
- Subject to OAT veto authority on allocations

4.4. OAT (Final Say/Veto Power)

Key Influence:

- Approve or veto allocation decisions presented by Entropy before execution

Responsibilities:

- Review all proposed allocations by Entropy to ensure they serve the DAO's best interests
- Verify Entropy's proposed allocations fall within the operating framework of IPS, fit strategic objectives, and risk parameters
- Initiate emergency withdrawals or reallocations in response to exploits, security incidents, or material risks
- Review performance reports and hold Entropy accountable for results and the custodian accountable for the timeliness of fund movements

4.5. OpCo (Communications)

Key Influence:

- Keeping the wider DAO up to date on treasury management developments and ensuring all open questions from delegates are answered

Responsibilities:

- Maintain open communication channels with DAO members, respond to feedback, and answer questions that arise on the DAO side
- After consulting with other ATM-related members, escalate concerns to the broader DAO if necessary. Similarly, escalate DAO feedback to ATMC when required
- Ensure that no bottlenecks form within the ATM structure due to breakdowns in communications

4.6. Arbitrum Foundation & Offchain Labs (Observatory Body)

Key Influence:

- Custody of treasury management assets, transaction execution, and ensuring relevant parties have visibility into upcoming Arbitrum partnership efforts

Responsibilities:

- Arbitrum Foundation
    - Custody and safekeeping of assets, ensuring the security of the portfolio
    - Transaction settlement to process purchases and conversions in a timely manner
    - Execution of approved allocations within established target timelines
    - Compliance with legal and regulatory requirements
    - Entity for counterparty agreements
- Offchain Labs
    - Ensure the ATMC has the required visibility into planned Arbitrum partnerships

5. DAO Financial Needs – Q4 2025

At current run rates, ecosystem operations (including the Arbitrum Foundation, other AAEs, and DAO) can be financed for approximately 8 years, assuming no material change to the ARB token price. In recent times, monthly expenses have fluctuated between being ~5-10x higher than core-operating income (net transaction fees, Timeboost revenue, and Orbit licensing fees). This naturally means that the ecosystem will have to start decreasing spend notably at some point in the near to medium term unless the topline grows or the native token price increases, while ongoing operating expenses must continue to be funded through ARB token sales/dilution.

The DAO's capital resources can be viewed in two ways:

- Capital Structure Perspective – ARB tokens held by the DAO are authorized but unissued, i.e., should not be considered an asset and written to zero. This implies the size of the DAO's resources as ~$150M.
- Financing Capacity Perspective – Includes native tokens, with ~90% of the DAO's holdings being concentrated in volatile assets, those being ARB and ETH.

From the Capital Structure perspective, the DAO's holdings could cover operations (excl. the Arbitrum Foundation) for ~3.5 years (for ~2 years when only including cash and cash-like assets), while treasury management income covers ~3% of run-rate expenses. In other words, the growth and compounding of the treasury management portfolio should currently be prioritized over capital distribution such that the DAO can fulfill its purpose even if core income sources were to drop.

From the Financing Capacity perspective, the DAO faces extreme concentration risk and reliance on the ARB token. Only ~5% of the DAO's total financing capacity (assuming no impact from floating more ARB) is in cash and cash-equivalent assets. A $0.05 decrease in the ARB price roughly results in the ecosystem runway shortening by one year. From this point of view, the treasury management portfolio should strive to minimize the effect of crypto market volatility on the DAO's runway by further diversifying into stable assets and different asset classes.

Combining the two above-mentioned perspectives has been used to formalize this Investment Policy Statement, and overall has the following implications for the Treasury Management Portfolio. The portfolio is the DAO's main lever to diversify its exposure to crypto market movements and should thus lean towards stable assets and assets impacted by factors other than the crypto market. Notable further growth is required before a meaningful share of ongoing expenses can be covered through treasury management yield, but with consistent compounding of the portfolio, the yield can fairly swiftly become a notable income stream relative to the DAO's core operating revenue, further smoothing out income fluctuations.

While we firmly support incorporating ARB options strategies into the Treasury Management Portfolio in the near term, particularly given the DAO's income structure and sensitivity to market volatility from a financing capacity standpoint, ARB should, for sizing purposes, be marked to zero within the portfolio.

Target State: Grow the Treasury Management Portfolio to a sufficient scale where annual yield generation can cover a meaningful portion of DAO expenses to ensure operational capabilities in the long term, irrespective of core revenue and native token performance. As an example, assuming a $400M portfolio size and 6% average blended yield, ~35% of run rate expenses (excl. AF) could be covered with treasury management income.

6. Investment Objectives

The Arbitrum DAO Treasury Management Portfolio serves the purposes of maximizing income generation given a manageable risk level and sufficient liquidity requirements to support long-term DAO financial sustainability, while flexibly supplementing or replacing large grants and incentives spending on a case-by-case basis when strategic opportunities provide exceptional value. The main measurable objective is to generate returns meeting or surpassing benchmark rates on a portfolio-weighted basis while maintaining capital preservation and strategic, calculated growth initiatives as paramount.

6.1. Current Asset Classes/Strategies

6.1.1. ETH and ETH-Correlated Assets

- Baseline Assumption: Arbitrum is an Ethereum Layer 2, generates core operating revenue in ETH, and should maintain ETH exposure
- Alignment: Demonstrates commitment to growing the Ethereum vision and ecosystem
- Portfolio Growth Potential: ETH provides directional exposure to crypto market upside
- Liquidity: Extremely liquid asset for large onchain deployments
- Flexibility: Easy growth lever for bootstrapping and supplementing protocol liquidity when attractive strategic opportunities arise

6.1.2. Stablecoins

- Yield Optimization: Onchain stablecoin lending often generates yields exceeding treasury bill rates, and delta could grow in a forward-looking environment of a rate-cutting regime
- Low Volatility and Asset/Liability Matching: Many expenses are denominated in USD, while most of the DAO's financing capacity is exposed to wider market movements. Having stablecoin exposure provides both stability and allows for predictability
- Flexibility: Can shift between onchain and RWA strategies for USD-equivalent exposures based on relative yields
- Ecosystem Support: Easy-to-use asset for one-off strategic growth initiatives

6.1.3. Tokenized Assets (“Real-World-Assets/RWAs”)

- Capital Preservation: Sovereign-backed instruments provide safety
- Uncorrelated Returns: Less sensitive to crypto volatility cycles (if lending market demand were to contract)
- Ecosystem Development: Supporting tokenized asset deployment on Arbitrum while also getting competitive USD-denominated yields
- Future Expansion: Adopting a tokenized asset strategy on Arbitrum opens the door to move further on the tokenized assets risk curve
- Lower Smart Contract Risk: Compliant and walled-garden structures mean that these assets, by default, have lower risk than stablecoins deployed to various DEXes and lending markets

6.2. Future Asset Classes/Strategies (Investable Universe)

6.2.1. Overview

Asset Class/Strategy	Strategic Rationale
ARB Options Strategies	Generate yield on unissued ARB holdings via systematic call overwriting, monetize volatility, and significantly increase income from treasury operations relative to core operating revenue
Bitcoin/Wrapped BTC	Strong historical risk-adjusted returns, lower correlation to mid/small cap crypto than ETH/ARB, productive deployment capabilities similar to ETH strategies within Arbitrum protocols
Tokenized Equities	Traditional equities exposure uncorrelated to crypto, stable appreciation, and dividend possibilities, supports tokenization efforts across the ecosystem
Tokenized Commodities	(e.g., gold) - Inflation/debasement hedge, crisis asset characteristics, less correlated to both crypto and equities, store-of-value properties
Tokenized Private Credit	Higher yields than public treasuries, supports a real-world lending ecosystem, attractive risk-adjusted returns, but with increased operational work due to underwriting for additional credit risk incurred

6.2.2. Considerations for Future Assets Classes/Strategies

ARB Options

- Extremely high priority due to financing capacity concentration, potential to reduce volatility, and notable income opportunity relative to core operating revenue
- Requires detailed analysis, venue selection, and counterparty assessments

BTC

- Requires past risk analysis with several years of data to compare versus ETH for evaluating upside exposure characteristics
- Also requires analysis of yields on comparable onchain deployments

Tokenized Equities

- Continue to monitor ecosystem development for the introduction of tokenized equity indices, assess product availability on Arbitrum, continue strategic deployments to tokenized treasuries/tMMFs to keep Arbitrum a competitive ecosystem for future potential deployments

Tokenized Commodities

- Analyze correlation during stress periods, explore various tokenized asset setups and custody arrangements, and determine liquidity and sizing constraints

Tokenized Private Credit

- Includes both traditional tokenized private credit as well as innovative structures (e.g., new yield-bearing stablecoins)
- Continuously evaluate new products coming to market, see how the ecosystem matures, assess track records, evaluate default rates and recovery, and explore the opportunity set

6.3. Benchmark Rates for Current Asset Classes/Strategies

Benchmarks are subject to change depending on, among other things, which assets and markets are the most liquid for extended periods of time.

6.3.1. ETH Benchmark: Lido stETH Staking Rate

- Industry Standard: Lido is the largest liquid staking protocol by a significant margin
- Deep Liquidity: Enables easy entry/exit without material slippage, making it the default choice for comparing others, which may incur increased execution costs
- Deployment Opportunities: wstETH deployed in numerous DeFi protocols, allowing direct comparison of incremental returns for risk units taken on versus baseline
- Minimal Operational Overhead: No node management, validator selection, or technical complexity required
- Most Comparable to "Risk-Free-Rate": ETH Yield perceived as achievable without any effort or expertise
- Measurement: Lido Finance official dashboard, use a 30-day moving average to smooth fluctuations, track monthly in performance reports as a moving benchmark rate

6.3.2. Stablecoin Benchmark: Aave V3 USDC Supply Rate (Arbitrum)

- Highest AUM: Largest stablecoin lending market in DeFi, both globally across all chains and specifically on Arbitrum
- Deepest Liquidity: Most liquid and "trusted" venue for stablecoin deployment, especially when in size, such as a DAO Treasury
- Genuine Market Demand: Reflects real borrowing demand, not as many temporary spikes due to incentives
- Consistent Rate: A more static, stable rate compared to smaller venues, which can fluctuate largely and are most affected by one-off outsized flows
- Easy to Track: Clear historical yield data directly on the Aave frontend, which can be directly verified by any user without data expertise
- Measurement: Aave V3 Interface (Arbitrum deployment), use a 30-day moving average supply APY for USDC, excluding any incentives (if applicable), update monthly in performance reports as a moving benchmark rate

6.3.3. RWA Benchmark: 3M US Treasury Note Yield -25 Basis Points

- Market-Tracking Rate: Adjusts with Federal Reserve policy, avoiding static targets in a changing rate environment
- Standard Underlying: 3-month Treasury notes are one of the most common instruments used in tokenized money market funds
- Fee Accounting: 25bps haircut accounts for management fees and tokenization costs that are typical in this product class (15-50bps common)
- Expense Optimization: Picking a 25bps discount as a baseline to surpass ensures we don't settle for high management fees on relatively simple products
- TradFi Risk-Free Rate: This is a traditional finance baseline, and we want to opt for a simple and effective benchmark rate
- Source: US Treasury website (Treasury.gov), update monthly in performance reports as a moving benchmark rate

6.3.4. Growth Benchmarking: Balancing Yield and Strategy

Entropy evaluates each proposed growth deployment against the appropriate ETH/Stablecoin/RWA/etc. benchmark in place. This creates a direct comparison between what the DAO could earn passively and what it expects to gain from growth.

Each opportunity is analyzed in two dimensions:

- Expected Yield Differential: the spread between the benchmark yield and the forecasted return of the proposed allocation (taking into account deployment size, duration, and risk incurred)
- Relative Revenue Impact: the differential as a percentage of total DAO income, which determines how stringent the approval threshold should be

As the relative opportunity cost increases, whether due to larger size, lower yield, or longer lock-up, the hurdle for expected ecosystem impact rises accordingly.

To evaluate the expected value of growth, Entropy applies a Multiple-Criteria Decision Analysis (MCDA) framework that blends quantitative and qualitative factors. Quantitative criteria include, among other things, expected onchain fee generation, liquidity depth, and user adoption; qualitative factors include, among other things, strategic alignment, protocol synergies, and long-term ecosystem positioning.

Growth deployments must demonstrate tangible new value to the Arbitrum ecosystem, including but not limited to new distribution channels, exclusivity, sequencer fees, or strategic protocol integrations. Protocols that provide more value to Arbitrum may receive more favorable consideration in the growth value assigned to an opportunity.

This structured approach ensures growth deployments are judged on clear inputs, while preserving discretion for strategic judgment when ecosystem opportunities justify taking short-term yield trade-offs.

6.4. Asset Allocation Weighting Framework (Exposure Bands)

6.4.1. Recommended Target Treasury Management Portfolio Structure

Asset Class	Long-Term Target Weight	Maximum Acceptable Weight	Current Weight* (Oct 2025)
ETH & ETH-Correlated	30%	60%	~54%
Cash & Cash-Like Assets	35%	N/A	~46%
Future/Special Strategic Initiatives**	35%	N/A	~0%

** Projected weights following approval of ongoing proposal to allocate 8,500 ETH from DAO Treasury to the Treasury Management Portfolio*

*** Includes BTC-equivalent assets, tokenized equities, tokenized commodities, tokenized private credit, and any other possible future onchain & offchain asset initiatives. Excludes ARB and ARB-based derivatives since, as mentioned above, these should be marked to zero within the Treasury Management Portfolio*

6.4.2. Rationale for Long-Term Target Weights

ETH/ETH-Correlated Assets (30%)

Arbitrum receives 100% of its core operating revenue in ETH. As an Ethereum Layer 2, success is intrinsically tied to Ethereum's growth in both adoption and valuation. Targeting sufficient ETH exposures serves several purposes:

- Demonstrates alignment with the greater Ethereum ecosystem and signals confidence in growth
- Provides directional exposure to the market to appreciate alongside Arbitrum's own growth
- Enables strategic flexibility: ETH is the most liquid asset for large onchain deployments and allows a broad range of opportunities for strategic growth allocations

Capping exposure weight to 60% serves several purposes:

- Need diversification amongst assets for volatility smoothing
- DAO's financing capacity is already highly concentrated in ARB, which is highly correlated to ETH's growth and scaling roadmap success
- Want uncorrelated return streams to the crypto market, as downturns in market cycles and activity also reflect on core revenue via usage decreases
- A large portion of critical DAO expenses are dollar-denominated to which ETH cannot fulfill without conversion

Cash & Cash-Like Assets (35%)

Currently, the two sub-categories of stablecoins and tokenized treasuries/tMMFs serve similar purposes (USD-equivalent yield, both returning ~4% or higher).

Rationale for Target Weightings:

- Can provide stable income uncorrelated to crypto volatility
- Enables operational expense coverage if necessary without forced ETH sales
- Diversifies counterparty and protocol risk
- Supports both existing crypto-native ecosystem initiatives (stables in DeFi lending, DEX liquidity provision) and innovative efforts from traditional finance (RWA tokenization)

Future Initiatives (35%)
The long-term target weighting for future initiatives is established to guide the treasury management portfolio to further diversification across asset types, as detailed above in Investment Objectives, in a manner similar to how endowments and sovereign wealth funds allocate capital.

6.5. Rebalancing Guidelines

Well-defined, systematic rebalancing protocols ensure portfolio management discipline on each end of the spectrum (undermanaging versus overmanaging). It prevents both excessive discretionary trading decisions as well as drifting too far away from target allocations with passive holds.

The primary rationale for the following rebalancing recommendations (which could be interpreted as wide triggers) is that ETH price volatility naturally causes relatively strong portfolio weight shifts. A 20-30% ETH price movement can easily shift portfolio weights by 10+ percentage points within “normal” periods of volatility. A negative outcome of having too narrow exposure band rebalance triggers would be excessive operational overhead and increased execution costs. This approach balances portfolio management discipline while ensuring we retain flexibility and ample upside exposure during periods of price appreciation.

6.5.1. Sectoral Rebalancing

Quarterly Review (Standard Cadence)

- Review actual asset class/strategy weights vs target ranges
- If any asset class exceeds 5 percentage points above the target exposure upper band by quarter end, lower it to no further than 10 percentage points under the maximum acceptable weight
- Rebalance to occur within 14 days of quarter end

Example:

- Target ETH Cap: 60%
- Actual ETH at Quarter End: 67%
- Deviation: 7 percentage points above the target cap
- Action: Quarterly rebalance to bring back to between 50% and 60% of the total portfolio

Monthly Review (Significant Deviations)

- Monitor treasury weightings throughout the month for material changes that may impact portfolio risk exposures that will warrant sooner rebalancing actions
- If any asset class exceeds 10 percentage points above the target exposure upper limit within a month, rebalance as soon as possible to no further than 10 percentage points under the maximum acceptable weight
- Best efforts execution speed to take action (target <7 days)

Example:

- Target ETH Cap: 60%
- Actual ETH Weight at Month End: 75% (following a large monthly ETH price surge)
- Deviation: 15 percentage points above the target cap
- Action: Monthly Rebalance to between 50% and 60% of the total portfolio

Sectoral Rebalancing Execution Approach

- Gradual execution for large rebalances ($10M+), spread over 1-2 weeks (asset/deployment dependent, accounting for affecting pool utilization within protocols if applicable)
- Consider market impact/monitor costs: target <20bps execution costs for rebalancing trades
- Coordinate timing: work with Arbitrum Foundation on optimal execution windows that are operationally feasible

6.5.2. Position-Specific Rebalancing

Yield Strategy Rebalancing

For yield-focused strategies (i.e., those without growth/strategic as the primary rationale for position), rebalancing is based on performance deviation from the benchmark.

Quarterly Performance Review:

- Trigger: Strategy underperforms benchmark by 50 basis points over the trailing quarter
- Action: Evaluate alternative strategies and reallocate if better options exist

Monthly Performance Review:

- Trigger: Strategy underperforms benchmark by 100 basis points or more over the trailing month
- Action: Immediate review and likely reallocate to a better-performing strategy

Example Scenario: ETH Lending Protocol

- Target Yield: 3.6% (benchmark 2.6% +100bps)
- Benchmark: 2.6%
- Actual Yield (30d trailing rate): 2.5%
- Deviation: -10bps from benchmark, -110bps vs target

Assessment Stage:

- Underperforming the benchmark by only 10bps is not extreme, but significant underperformance vs the target yield
- Is this temporary (a utilization spike/trough) or a structural change?
- Was this purely due to incentives from another protocol, which will soon expire and revert to the prior status quo?

Before Rebalancing:

- Is underperformance assumed to be temporary (utilization curve effects, short-term incentive changes from comparable protocols)
- Are there better alternatives? Don't rebalance just for the sake of doing so
- What are the execution costs? Will the benefit of switching outweigh the associated transaction costs?
- What are the risks of the alternative venue? Don't chase marginal yield into significantly higher risk

New Opportunity Threshold:
Underperformance versus benchmarks alone isn't the only driving cause of reallocations within portfolio sectors. This logic would naturally disqualify new, attractive opportunities solely due to low-level outperformance from existing allocations. The portfolio can face proactive reallocations (even if a current position is performing adequately) if:

- New strategy offers 100 bps or more in projected yield improvement over the current strategy
- The new strategy has a comparable or lower risk profile
- Friction switching/execution costs are reasonable
- New strategy is deemed sustainable (i.e., not outlier yield reading; yield calculated over similar time frames and taking into account outlier market actions such as liquidations, forced selling, or incentives programs)

Growth Strategy Rebalancing (Strategic Allocations)
Growth allocations follow a structured evaluation process with many qualitative factors on top, rather than purely quantitative triggers as with strictly yield-focused allocations.

At deployment, in addition to having passed the growth allocation benchmarking mentioned earlier, every growth allocation is paired with an evaluation period (monthly, quarterly, 6-month, 12-month, etc.), quantitative success metrics with Base/Exceeds/Trails thresholds, and specified data sources for how metrics will be accurately measured. As part of contract negotiations, some of these factors may be confidential, further detailed in the Information Management section. The primary purpose of establishing specific growth criteria and metrics is to avoid situations in which it becomes a purely discretionary decision to pull, keep, or upsize growth/strategic capital.

At the evaluation date, the following process will be followed to analyze the effectiveness of growth capital allocations:

Step 1: Gathering Data

- Collect actual performance across all defined metrics
- Compare to Base/Exceeds/Trails thresholds
- Assess rate of change (is the trajectory of metrics improving, static, or declining?)

Step 2: Categorizing Performance

- Exceeds Expectations:
    - Protocol met or exceeded all/most target metrics
    - Action: Continue allocation if still effective for growth, consider expanding if strategic and meets criteria for yield generation
    - Alternate Action: Consider downsizing if the team/protocol achieved critical mass with organic user deposits, no longer requiring Treasury Management capital (applicable when yield shortfall vs benchmark)
    - Reporting: Highlight success in monthly reports, study what made successful to apply for future opportunities

- Meets Base Expectations:
    - Protocol achieved the minimum acceptable performance
    - Action: Continue allocation if yield meets benchmark at minimum, or if metric growth rate of change is still steady, monitor closely in the next period. If the growth metric trajectory stalls or reverses, enter the performance review process (Step 3 below)
    - Reporting: Note adequate performance, watch for improvement

- Trailing Expectations:
    - Protocol underperformed minimum thresholds on success metrics
    - Enter the performance review process (Step 3 below)

Step 3: Performance Review Process
For allocations that are in the “trailing” category, or reached base but with declining/slowing metrics:

- Root Cause Analysis:
    - Why did the protocol trail expectations?
    - Market conditions? Competitor dynamics? Execution issues?
    - Is the trajectory improving or further declining?

- Engage with Team:
    - Direct discussion with the protocol team
    - Understand challenges and path forward
    - Assess the credibility of improvement plans
    - Assess the validity of noted causes for trailing

- Strategic Value Reassessment:
    - Has the strategic rationale changed since the time of entering the position?
    - Was the initial thesis correct, but the timing off?
    - Is there still a unique value vs alternatives?
    - How has the competitive landscape fared during this time?

Step 4: Decision Framework

- CONTINUE:
    - Credible plan to improve still exists
    - Timeframe was too aggressive, needs more time to realize growth
    - Strategic value realizing despite yield shortfall
    - Extenuating circumstances adequately explain underperformance, solution raised

- REDUCE:
    - Mixed signals from performance analysis and team discussion, concerns remain
    - Want to reduce exposure while still providing some time
    - Gradual exit to avoid user disruption and impact on the protocol

- FULL EXIT:
    - The protocol is fundamentally failing versus the thesis
    - No credible path to improvement
    - Strategic value not materializing, or competitive landscape/outexecution rendering obsolete
    - Firmly better opportunities for capital with a large delta in yields

Step 5: Exit Considerations

When exiting any growth allocation, consideration should be given to the following factors:

- User impact: Will large withdrawals harm protocol users?
- Execution approach: gradual versus immediate
- Communication: Inform the protocol team when appropriate
- Timing: Are there upcoming, material catalysts worth waiting for that may help liquidity or provide temporary boosts to yield above baseline realized rates?

6.5.3. Rebalancing Documentation

All approved rebalancing decisions that can be publicly disclosed (sectoral, yield, or strategic/growth) will be documented in monthly reports with clear rationale, visible on public dashboards showing new allocations, and attributed to specific trigger conditions (performance, risk, strategic reassessment). The DAO should be able to understand why rebalancing occurred, what metrics triggered the decision, where capital was reallocated, and the expected impact on portfolio performance.

6.5.4. Management of Protocol Incentive Rewards

Treasury Management strategies across DeFi protocols frequently generate secondary sources of yield via protocol tokens paid out as incentives. These tokens, which are common across many sectors, including but not limited to liquid staking/restaking, lending supply, DEX liquidity provisioning, and others, require a systematic approach to prevent:

- Excessive operational overhead from creating many discretionary management decisions
- Unintended directional exposure that conflicts with the treasury management portfolio's primary mandate
- Governance implications, where holding protocols' tokens may create perceived conflicts of interest in ecosystem support decisions

Incentive tokens should be seen primarily as yield, not strategic positions. Unless explicitly designated otherwise for strategic reasons, all incentive rewards should be treated under the assumption that they will eventually be converted to core treasury assets such as ETH or stablecoins. Pre-defined schedules will prevent market-timing decisions and ensure consistent execution. Tokens that have deeper liquidity and lower volatility, which are more established, may warrant longer holding periods than more novel protocols with newly launched tokens, which may require more timely conversion.

Unless deemed otherwise as an exception, the default disposition schedule for incentive tokens received will be on a quarterly basis. Net proceeds by default will be in stablecoins and reinvested in the cash and cash-equivalents strategies, but if sector rebalancing indicates otherwise, proceeds can fund other directives.

Strategic Hold Exemptions: The ATMC may designate specific tokens as "strategic ecosystem holdings" eligible for extended hold periods beyond the standard disposition schedule. This exemption can apply to incentive tokens received as yield, as well as for potential token swap agreements as part of special strategic deals. This exception requires an explicit committee vote and approval through the OAT.

7. Risk Considerations

Risk Management First Principle: Don't Lose Money.

The Arbitrum DAO has substantial financing capacity on paper but faces a notably high operational burn rate, unpredictable spending and liquidity needs, a highly concentrated native token exposure (>90% ARB), and a somewhat volatile primary revenue stream tied to crypto market cyclicality. Therefore, the treasury management portfolio exists to provide stability, reliability, liquidity, and capital preservation. Taking on excessive risk undermines the core purpose of a steady, separate stream of revenue.

7.1. Diversification Requirements

Large positions in single protocols create increased smart contract risk concentration, potential exit friction and slippage if liquidity profiles drastically change, increase responsibilities regarding potential user impact for large withdrawals, and increase the surface area for governance attacks, or economic model/oracle exploits.

7.1.1. Target Portfolio Concentration Limits

- Maximum 35% of the portfolio supplied in any single protocol
- Maximum 45% of portfolio in any single strategy type (i.e., all lending, all liquidity provisioning on DEXes)
    - An exception may be made for "ETH Staking" as a category, given the maximum portfolio weight for ETH. Future circumstances may indicate that the best risk-adjusted return is found in purely staking-related strategies if broader economic activity contracts in lending markets, DEX trading volumes, etc.
    - An exception may also be made for passively holding cash equivalents in the best-returning tokenized fund

Notable exceptions to the above (in any strategy) may be made for extremely opportune strategic deals, subject to explicit OAT approval.

7.1.2. Target Liquidity Pool/Market Concentration Limits

Having too high concentrated ownership in any one specific pool or asset-specific deployment has the possibility of creating material exit slippage, a likely impact on other users' yield and liquidity, pressuring us to not withdraw even if prudent, and is likely to give us systemic importance we may not necessarily want. To acknowledge this, the following concentration limits will be put in place

- Maximum 35% ownership of any given liquidity pool
- Maximum 30% of lending market supply for any single asset
- Maximum 20% of total protocol TVL in smaller protocols

Exceptions may be made to any of the above for bootstrapping new protocols for strategic reasons.

7.2. Liquidity/Time Constraints

The portfolio must maintain substantial liquidity to meet unforeseen DAO needs at any given point by satisfying minimum liquidity requirements.

- 30% of portfolio withdrawable within 24 hours
- 60% of portfolio withdrawable within 7 days
- 80% of portfolio withdrawable within 30 days

DAO needs are unpredictable and can be largely capital-intensive. Outside of the scope of normal operations, which aren't directly funded by treasury management as it currently stands, but can aspire to be a primary contributor in the long term, one must take into account unforeseen circumstances. Some examples of these, both positive and negative, are security incidents, emergency funding requirements, or time-sensitive strategic opportunities that require liquidity that can't wait weeks or months in locked, committed positions. We must maintain flexibility to meet obligations without forced sales at inopportune times, accepting excessive slippage, or defaulting on prior commitments.

7.2.1. Specific Considerations for Primary Asset Classes

- ETH Staking:
  - Lido stETH/wstETH: Instant withdrawal capabilities via DEX, up to a certain sizing with an exit buffer, can count as 24-hour liquidity
  - Native ETH unstaking can have upwards of a 10-day withdrawal queue. As a default, we can count this in the 7-day liquidity bucket, but must monitor the queue length
  - Other LSTs/LRTs require individual liquidity assessment

- RWAs:
  - Most tMMFs range from T+0 to T+2 redemption and will be counted as 24-hour liquidity
  - Some products have longer redemption periods and must be assessed individually

- Stablecoins:
  - Lending markets are usually instant (up to available liquidity)
  - Vault strategies vary by individual vault structures (assess individually)
  - Monitoring utilization rates across any strategy is necessary, as high utilization can lead to constraints with withdrawal capacity

7.3. Safety/Audits/Economic Underwriting

7.3.1. Smart Contract Risk Mitigation

- At a minimum, protocols must have a public audit from a reputable firm, but preference will be given to those with multiple audits
- Protocols must have >6 months of live operation (like-deployments, i.e., ETH Mainnet or comparable L2s count toward this) with >$50M TVL demonstrating battle-testing in production
  - Novel Protocol Exception: new protocols, especially when being evaluated for strategic growth allocations, are allowed but limited to a collective maximum of 5% total portfolio allocation
  - This requires extraordinary strategic justification and a higher monitoring frequency (i.e., monthly vs quarterly or biannual reviews)
- Audits must be reviewed for critical/high-severity findings, and there must be verification that findings were addressed
- Consideration will be given to ongoing security practices, such as sizable bug bounties and multiple audits

7.3.2. Economic Model Assessment

For every allocation, must understand and evaluate:

- Revenue sources
    - Do we have high confidence in the reported platform data accuracy?
    - Are revenues real and demand-driven or circular?
    - Is the yield sustainable long-term?
    - What likely happens when incentives end, if applicable?
- Incentive Structures
    - How are yields generated (fees, incentives, emissions)
    - Are incentives temporary or permanent, and what is the supply schedule curve?
    - What is the post-incentive steady-state baseline yield?
- Counterparty Risk
    - Who are the counterparties involved in any position?
    - Is the platform documented as facilitating any illicit or unwanted activity?
    - What is their creditworthiness, if applicable, and how will this be measured?
    - For RWAs, who custodies the underlying assets? Bankruptcy remote?
- Sustainability
    - What is the implied competitive moat here? Will the opportunity dry up with increased competition?
    - Is TVL growth sustainable or incentive-driven?
    - Is the general economic model deemed sustainable with growth, or is it capped?

Despite all documented risk considerations, the ATMC retains the right to reject technically sound opportunities with high implied yields if the economic model raises concerns, the governance structure presents risk, centralization risks are excessive, or other unquantifiable risks exist.

7.3.3. Oracle and External Dependencies

Primarily, when considering lending and leverage-prone protocols:

- Assess the oracle manipulation potential
- Preference given to decentralized oracle networks when possible
- Disadvantageous to allocation decisions when there are dependencies on in-house, novel oracle solutions without a track record
- Understand oracle update frequency and deviation thresholds
- Understand the impacts of potential oracle failures or delays

Broader external dependencies will also be considered, with questions such as:

- What other protocols does this protocol heavily rely on?
- What happens if a dependent protocol fails?
- What is the likelihood of said allocation being caught up in a cascade risk throughout the ecosystem?

Governance risk is the last main area of external dependencies:

- Can a malicious governance proposal harm the DAO's position?
- What is the timelock on governance changes?
- Who controls admin keys?

7.4. Execution/Operational Constraints

7.4.1. Deployment Efficiency Targets

- 14 days from OAT approval to execution by the Arbitrum Foundation
- Target no more than 5% of portfolio in non-productive assets at any given time
- For applicable assets, evaluate the feasibility and pricing advantages of OTC execution versus onchain

7.4.2. Multisig and Custody

- All funds custodied by the Arbitrum Foundation
- Multisignature requirements in place as per AF protocols
- ATMC does not have unilateral custody or execution rights
- Requires coordination between ATMC proposal, OAT approval, AF execution, and, of course, the DAO's approval to deploy idle funds from the treasury

7.4.3. Operational Risk Management

- Document all allocation decisions with clear rationale
- Maintain a centralized source of execution results for cost basis, performance review, accounting, and analytical purposes
- Backup plans for key personnel
- Regular security reviews of processes with industry best practices

Note that information is not made fully public here for security practices

7.5. Information Management Constraints

7.5.1. Full Public Transparency (Default State)

- All deployed positions visible on public dashboards
- Monthly reports detail all allocations and the performance of allocations
- Quarterly reviews provide strategic context and intra-asset class weighting decisions
- DAO members have full visibility into results

7.5.2. Justified Confidentiality

Certain elements of deployments (especially in strategic growth allocations) will remain confidential only when necessary, for greater DAO interests, for one or more of the following reasons:

<u>Pre-Deployment Negotiations</u>

- Terms are being discussed before being fully finalized
- Pricing negotiations to prevent front-running
- Strategic discussions that could be harmful to either party if made public

<u>Partnership Terms Requiring NDA</u>

- Confidential partners (often institutional, tradfi/neobank-esque) requiring privacy
- Specific fee arrangements or revenue-sharing deals
- Proprietary deal structures

<u>Timing of Large Allocations</u>

- Prevent front-running of large positions
- Avoid gaming of liquidity deployments
- Minimize market impact or potential manipulation

Proprietary Strategy Details

- The MCDA criteria and inputs used to evaluate the expected value of growth opportunities to prevent potential recipients from exploiting the system
- Specific execution approaches that can lose effectiveness if made public
- Competitive intelligence that could benefit competitors when it comes to structuring or costs

Professional treasury management requires some semblance of confidentiality (when appropriate) on certain details to prevent competitive undercutting (public negotiations allowing future partners to demand advantageous terms), to enable high-value partnerships from organizations that won't engage without confidentiality, to maximize negotiating leverage for the DAO, and to avoid front-running of publicly telegraphed information.

Confidentiality never applies to deployed positions (always visible and verifiable onchain or on dashboards), performance results (covered monthly), risk incidents or any losses incurred, nor rebalancing decisions and rationale.

7.6. Prohibited Strategies

The following strategies are explicitly prohibited without direct amendment to the IPS and subject to DAO approval:

7.6.1. Algorithmic Stablecoins

- No exposure to purely algorithmic stablecoins
- Prefer USD-backed or safely overcollateralized stables

7.6.2. Perpetual Futures/Derivatives Trading

- No perpetual futures directional positions can be held on any exchange
- No derivative speculation
- Exceptions/indirect usage of perpetuals may be explored and implemented in the context of delta-neutral funding/hedging type trading, or products that utilize perpetuals future hedging as part of the underlying product

7.6.3. Naked Options

- No selling/buying calls, puts, or other types of options contracts that are not fully hedged/not able to meet settlement obligations without the purchase/sale of the underlying

7.6.4. Unaudited Protocols

- No allocations to protocols without public audits
- Small exceptions can be made to certain strategic growth initiatives with extraordinary justification on value, detailed in the Risk section

7.6.5. Discretionary Spot Trading

- Trading positions in other assets may not be initiated at the discretion of the ATMC using core portfolio assets such as USD, USD equivalents, or ETH
- Protocol tokens may be held as part of incentives received from various treasury operations

7.6.6. Leverage

- No direct leverage to be taken in core treasury management strategies
- Exception for sub-strategies located under active management strategies executed/managed by professional service providers, detailed in their applicable contracts
- Exceptions can be made if required for a specific strategic growth opportunity

8. Reporting and Performance

Entropy will uphold the current reporting cadence and caliber of communications to ensure all relevant parties stay sufficiently informed on operations and performance.

8.1. Reporting Cadence

Monthly Reports Required Content:

- Portfolio value change (beginning vs ending month)
- Major events and allocation decisions
- Key performance highlights
- Return breakdown: price movement vs yield vs capital inflows
- Asset allocation vs maximum portfolio weights
- Strategy-level performance vs benchmarks
- Reallocations, rebalances, and withdrawals

Examples can be found here.

8.2. Real-Time Reporting (Dashboards)

Entropy's public Dune dashboard for Arbitrum DAO treasury management can be found here.

Dashboard contents include:

- Current positions and values
- Yield rates by strategy (30-day moving average)
- Returns attributable to individual deployments
- Historical performance charts
- Asset allocation pie charts
- Portfolio composition over time

Please note that some information on this dashboard has yet to be added as of October 23, 2025, as Dune is unable to support certain event types, yield calculations, offchain RWA-related data, etc.

8.3. Ad-Hoc Reporting (As Needed)

In the event of an emergency situation, such as immediate disclosure of security incidents, exploits, or material losses stemming from other causes, reporting will come sooner than the standard cadence.

8.4. Communication Channels/Feedback

- Office Hours: scheduled OpCo and Entropy Advisors office hours, open to DAO member questions and feedback
- Forum Presence: Monthly report threads open to discussion, and active monitoring of ATMC-related mentions
- Direct Communication: OpCo and Entropy maintain a presence in all key Arbitrum communications channels, and can be directly addressed outside of the forum asynchronously if users do not wish to provide real-time feedback and discussion via Office Hours
- DAO Voting: Funding tranches require DAO approval, and DAO can ultimately "vote with their wallet" as the clearest signal of confidence in committee operational performance

8.5. Investment Policy Statement Review Process

An annual comprehensive review and reassessment will be conducted on the IPS, including:

- Market Conditions Analysis
    - How has the crypto market evolved?
    - Are yield opportunities and trends materially different?
    - Have risk profiles significantly changed?
- DAO Financial Needs Evolution
    - How has the DAO performed financially?
    - Are operational needs any different in funding between ARB vs. the strategic deployment of assets from the treasury?
- Strategic Priorities Alignment
    - Does the IPS still align with the DAO's strategic direction?
    - Are growth allocation frameworks generally working?
        - Which have performed well, and which have fallen short? Why?
    - Should the balance between growth vs pure-yield-focus shift?
- Performance Against Objectives
    - Has portfolio performance met yield targets?
    - Have growth allocations generally delivered value?
    - How has each strategy or asset class performed, and is a shift in weights warranted?
- Industry Best Practices
    - How have other DAOs navigated treasury management in the same time period, and are there any applicable learnings from that data?
    - Are our approaches still best-in-class, or are we missing key strategies or operational processes?
    - Are there any innovative or novel strategies that we could evaluate for the future?

9. Disclaimers

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