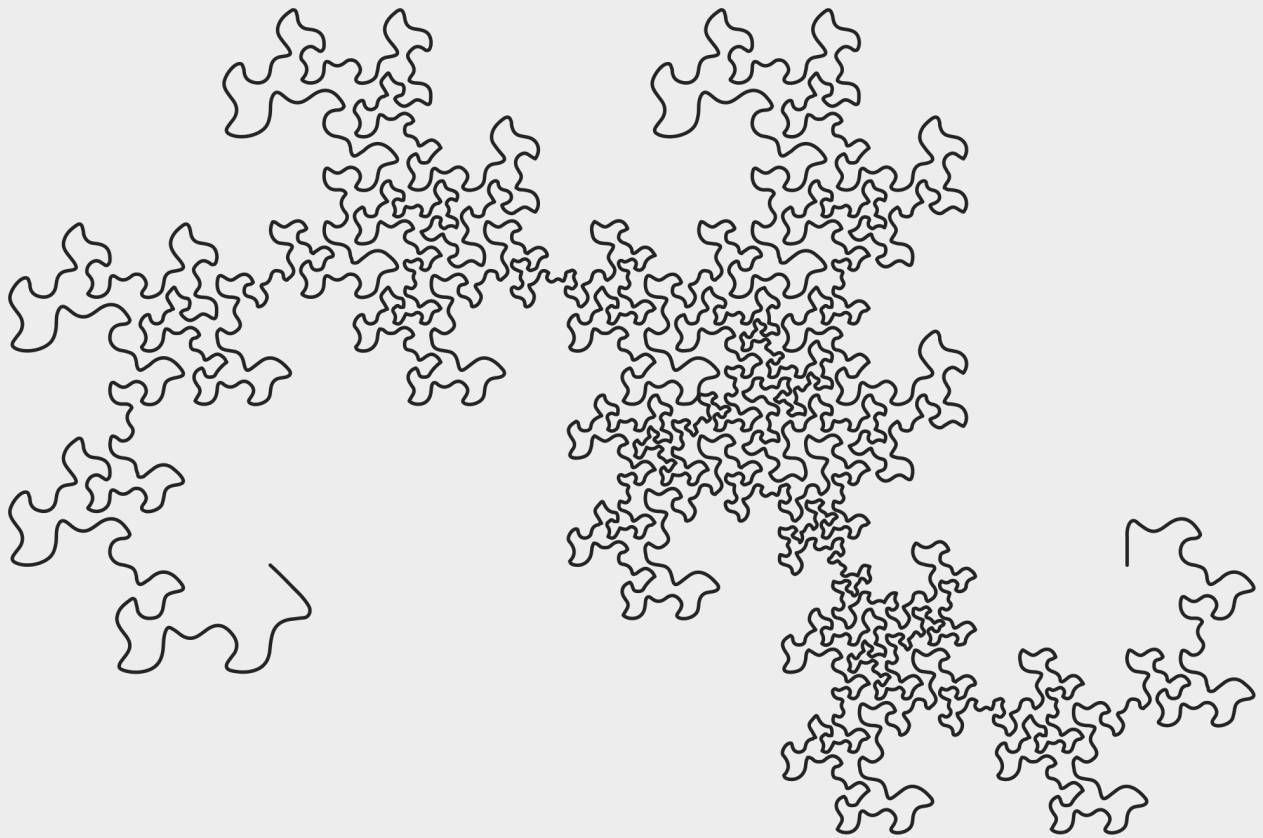


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karpatkey

# ENS Investment Policy Statement



Introduction	3
Background	3
Purpose of Investment Policy Statement	3
Governance and Oversight	4
Responsibilities of Parties Involved	4
Responsibilities of ENS DAO	4
Responsibilities of Endowment Manager	4
Investment Objectives	5
Investment Objective	5
Risk Objectives	6
Investment Guidelines	7
Constraints	8
Asset Allocation Guidelines	8
Portfolio Rebalancing Guidelines	8
Endowment Expansion Guidelines	9
Reporting and Performance Review	9
Reporting	9
Performance Review	9

# Introduction

This Investment Policy Statement (“IPS”) is intended to outline the principles and guidelines for the effective management of the ENS Endowment Fund (the “Endowment”). By establishing a clear understanding within the DAO regarding the purpose, constraints, and governance mechanisms for the Endowment, the DAO will be able to:

- Plan for appropriate asset allocation and implementation of its Endowment (‘investment strategies’).
- Plan for resource allocation of the DAO (‘financial planning’).
- Establish responsibility and accountability of all involved parties (‘accountability’).

## Background

### History of ENS

Founded in 2017, Ethereum Name Service (“ENS”) is a distributed, open, and extensible naming system based on the Ethereum blockchain. ENS accomplishes this by mapping human-readable names to machine-readable identifiers, such as Ethereum addresses, other cryptocurrency addresses, content hashes, metadata, and more. Further information on the mechanics of ENS can be found in its [Technical Documentation](#).

### Purpose of ENS

As laid out in the [ENS DAO Constitution](#), ENS’ focus is on building a decentralised public good (ENS domains); with regards to finances, the Constitution states that any income generated to the ENS treasury should be used first of all to ensure the long-term viability of ENS, and to fund continuing development and improvement of the ENS system.

## Purpose of Investment Policy Statement

The IPS is set forth by ENS DAO and karpatkey in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives of Endowment assets.

3. Offer guidance and limitations to the Endowment Manager regarding the investment of Endowment assets.
4. Establish a basis for evaluating performance of the Endowment Manager.
5. Manage Endowment assets according to prudent standards.

In general, the purpose of this statement is to outline a philosophy and framework, which will guide the management of the Endowment toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

## Governance and Oversight

### Responsibilities of Parties Involved

#### Responsibilities of ENS DAO

- *Establishing Objectives*: Define the investment goals, risk tolerance, time horizon, income requirements, and any unique circumstances or preferences.
- *Approving the IPS*: Formally approve the IPS, ensuring it aligns with the overall objectives and constraints.
- *Oversight and Review*: Regularly review the investments' performance against the objectives outlined in the IPS. This includes assessing the effectiveness of the endowment manager and other endowment-related service providers.
- *Communication*: Inform the endowment manager of any significant changes in the investment policy, financial situation, or any other factor that might affect the investment strategy.
- *Reviewing and Revising the IPS*: Periodically review and, if necessary, revise the IPS in response to changes in the market, the DAO's circumstances, or investment policy.

Given the structure of the ENS DAO, the Meta-Governance Working Group shall facilitate the above responsibilities.

#### Responsibilities of Endowment Manager

The Endowment Manager will have the discretion to make investment decisions for assets placed under its management while observing and operating within the boundaries of the Investment Policy Statement, both in letter and in spirit. Responsibilities include:

- *Strategy Implementation*: Implement the Endowment Management strategy in accordance with the guidelines and constraints set out in the IPS.
- *Reporting*: Regularly report to the DAO on the performance of the endowment. Maintain accurate records of all transactions.
- *Risk Management*: Monitor the risk profile of the Endowment, including but not limited to market risk, counterparty risk, and smart contract risk.
- *Communication*: Maintain open and transparent lines of communication with the DAO, and communicate any major changes to investment outlook, investment strategy, or any other matters affecting the implementation of endowment management.
- *IPS Review*: assist in periodic review of IPS to ensure its continued appropriateness in the context of broader market and DAO-specific environments.
- *Other Support*: Support the DAO on ad hoc projects and transactions related to Endowment and financial health.

karpatkey shall facilitate the above responsibilities as the established Endowment Manager.

## Investment Policy Review and Update Process

The IPS will be reviewed annually by the Meta-Governance Working Group to ensure its continued appropriateness in the context of broader market and idiosyncratic environments. The IPS should also be reviewed in case of fundamental changes to the DAO (e.g., a change to the Constitution) or to the Endowment (e.g., a change in service provider).

## Investment Objectives

The primary investment objective of the Endowment is to ensure long term survival of ENS, meaning investment profits should be used to cover its ongoing expenses to the greatest possible extent, without having to liquidate its principal.

In the long run, the aim is for ENS to be self-sustaining, and for the DAO to work within constraints of the Endowment returns. However, it is also important to acknowledge that Endowment, in its current form, is insufficient to achieve this, and its medium-term (5-years) goal will be to grow its size to eventually achieve the long-term goal.

## Investment Objective

In order to meet its spending needs and contribute to the broader ENS- and Web3- ecosystem, the Endowment will have the following investment objectives:

- **Return Objective:** Endowment returns seek to provide a reasonable, predictable, and sustainable level of spendable revenue to support current needs without the need to liquidate DAO-native assets (\$ENS) or the principal of the Endowment. The Endowment's benchmark return shall be 60-40 (60% ETH, 40% USD) weighted average on-chain rates of Ethereum and stablecoin.
  - Benchmark Ethereum on-chain rate: simple average of 1. Lido stETH staking rate, 2. Rocketpool rETH staking rate, 3. Lending rate of ETH on Aave v3, 4. Lending rate of ETH on Compound v3
  - Benchmark stablecoin on-chain rate: simple average of 1. DAI Savings Rate ("DSR"), 2. Lending rate of USDC on Aave v3, 3. Lending rate of USDC on Compound v3
- **Ecosystem Objective:** Endowment's investments should be consistent with ENS' ethos as a public goods project. This includes, but is not limited to, prioritising health of the Ethereum ecosystem, and deployment of capital in venues that are consistent with ENS' ethos. All else held constant, opportunities that benefit the ecosystem should be prioritised. As an example, Ethereum liquid staking derivative (LSD) protocol exceeding critical consensus threshold of 1/3 can pose security risk to overall health of the Ethereum ecosystem.
  - Based on the above priorities of ENS, Endowment shall not allocate to an LSD protocol, or to its benefit, with >20% of consensus.
  - Endowment shall favour LSD protocols with emphasis on decentralisation, such as operating via permissionless node operators.
  - Endowment shall not allocate ETH to centralised exchanges, and will limit exposure to permissioned providers to 10% of Endowment size.
- **Preservation of Capital:** emphasis is placed on deploying assets in blue-chip protocols to minimise smart contract risks and probability of loss of funds.
- **Growth of Capital:** in order for the Endowment to eventually achieve self-perpetuity, it needs capital appreciation. The Endowment shall seek to achieve this via high allocation to ETH.

## Risk Objectives

There are many ways to define risk, and it is important to define risk so that assets are managed in a manner consistent with the Endowment's objectives and investment strategy.

For the purpose of this IPS, risk is defined as:

1. Probability of not meeting the DAO's liabilities or cash flow requirements.
2. Probability of losing principal.

Over long periods of time, there is a relationship between the level of investment risk assumed and the level of return that can be expected, i.e. one has to accept higher risk in order to attain higher returns. Level of risk tolerance influences how aggressively or conservatively the Endowment can be invested.

While maintaining the above Investment Objective, the DAO has very low risk tolerance, and prefers capital preservation to additional yield generation. Corollary of the very low risk objective is that:

1. No speculative trading activities shall be conducted, with the exception of rebalancing between ETH and stablecoins.
2. Endowment shall only be deployed in venues deemed as 'low risk'.

It is also important to establish that ETH is considered a low-risk asset that aligns with the DAO's values.

The Endowment Manager shall monitor the following types of risk to ensure that venues and strategies in which the Endowment is deployed into fall under the appropriate risk category:

- **Market Risk:** uncertainties associated with price volatility.
- **Smart Contract Risk:** uncertainties associated with failure or attacks of smart contract.
- **Liquidity Risk:** potential difficulty in meeting short-term financial obligations due to inability to convert treasury assets without incurring a substantial loss.
- **Governance Risk:** uncertainties associated with governance procedures of the DAO, e.g. potential takeover attempt on treasury
- **Operational Risk:** uncertainties associated with day-to-day treasury operations.
- **Regulatory Risk:** uncertainties associated with changes in laws and regulations that might materially impact the treasury.

## Investment Guidelines

The DAO recognises that risk (i.e., the uncertainty of future events) and volatility (i.e., the potential for variability of Endowment values) are present to some degree in all types of

investment vehicles. While a low level of risk is to be followed, the assumption of risk is warranted, and an appropriate level of risk is encouraged to allow the Endowment Manager the opportunity to achieve satisfactory long-term results consistent with the endowment's policy and guidelines.

## Constraints

Constraints of the Endowment deployment are as follows:

- **Liquidity needs:** at least 3 years of DAO's operating expenses runway should be held in stablecoins and stablecoin-neutral positions, based on the last calendar year's expenses. Based on 2023 spending rate, this represents \$26.7M in stablecoins.
  - The idea was initially floated on [Routine DAO treasury management](#) proposal, but was never formalised. Instead, [EP 3.3](#) facilitated procurement of the runway, via a [swap](#) of 10,000 ETH into \$16.2M USDC on CowSwap. At the beginning of 2024, \$11.5M of USDC was remaining in the DAO wallet (not under Endowment), representing ~0.95 years of runway.
- **Deployment venues:** no more than 25% of the Endowment can be held in a single protocol; all assets must be held and/or deployed on Ethereum mainnet.
- **Delta neutral deployment:** unearned revenue may be incorporated into the fund, but must be risk-neutral with regards to ETH.
- Constraints specified in other sections of the IPS should also be observed.

## Asset Allocation Guidelines

- Allowed assets
  - ETH, and their staked equivalents
  - Stablecoin Equivalents: USDC, USDT, DAI
- Allowed strategies
  - Lending & Borrowing
  - Liquidity Provision
  - Staking
  - Cash-and-carry trades

## Portfolio Rebalancing Guidelines

The IPS shall have the following target portfolio:

- Target Allocation: 60% ETH and 40% stablecoin



- Minimum stablecoin allocation: 3 years of DAO's operating expenses runway, based on last calendar year. This represents ~\$26.7M.
- Rebalancing trigger: Endowment will be rebalanced bi-weekly, to achieve target allocation and minimum stablecoin allocation. Rebalancing will be conducted in tranches of 1,000 ETH
- Post-IPS Initial rebalancing: Based on the Endowment Constraints and Objectives as specified in the IPS, the Endowment shall be rebalanced to achieve its target allocation by end of 1H'2025 (30 June, 2025)

## Endowment Expansion Guidelines

Based on Cash Flow Analysis, expansion of Endowment is highly recommended to increase overall financial health and capital efficiency of ENS. Currently, new revenues accumulate on [ENS Controller](#), before being transferred to the [DAO Multisig](#). As of [September 26, 2024](#), ~11k ETH and 4.9M USDC are sitting on Controller and DAO Multisig.

Given the expected cash flow buffer of 33%, ENS shall regularly transfer 33% of its cash flows accumulating on ENS Controller to the Endowment. This percentage shall be updated at the same cadence as the IPS, or as when needs arise.

## Reporting and Performance Review

### Reporting

1. Monthly performance report: performance reports shall be compiled at least monthly, and communicated to the DAO for review.
2. Annual review: annual review covering in-depth analysis on broader market and DAO-specific conditions, and strategic asset allocations, shall be presented to the DAO.

### Performance Review

The DAO shall assess the extent to which the investment results and allocation are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The DAO intends to evaluate the portfolio(s) over a 1-year period, but reserves the right to terminate a

Endowment manager or any Endowment-related service provide) for any reason including the following:

- Investment performance, which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
- Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
- Significant qualitative changes to the investment management organisation.