Fundamental Report - Metaverse

Prime Rating Report V1.2

Protocol: Illuvium
Category: Gaming
Date: 26/04/2022
Previous Report: DarkForest Capital report

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Season/competition: Metaverse Rate-athon

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	10 / 15
b) Target market size	12 / 15
c) Product-market fit	8 / 15
Total Points - Value Proposition	**30 / 45**
2. Competitive moat	**Points**
a) Integrations & partnerships	7 / 10
b) Intellectual property	7 / 10
c) Infrastructure - security	8 / 10
d) Infrastructure - fees and ancillary infrastructure	9 / 10
e) Treasury management	1 / 10
Total Points - Value Proposition	**32 / 50**
3. Tokeneconomics	**Points**
a) Genesis token distribution	13 / 15
b) Purpose of the token	7 / 10

c) Ongoing token issuance / inflation	**8 / 10**
d) Value capture	**8 / 10**
e) Token liquidity	**5 / 5**
f) Extrinsic productivity	**0 / 5**
Total Points - Tokenomics	**41 / 55**
4. Team	**Points**
a) Credibility and reputation	**10 / 10**
b) Relevant experience	**10 / 15**
c) Thought leadership and public presence	**10 / 10**
d) Ability to foster a community and coordinate resources	**12 / 15**
Total Points - Team	**42 / 50**
5. Governance	**Points**
a) Extent of governance capabilities	**8 / 10**
b) Active governance contributors	**3 / 5**
c) Governance infrastructure robustness	**9 / 10**
d) Process and ease of use	**3 / 5**
Total Points - Governance	**23 / 30**
Total	**168 / 230**

a) Novelty of the solution (15 points)

This score evaluates the novelty (uniqueness) of the protocol. Has the protocol introduced any innovations that help solve users' problems, either technical or organisational? Or has it just forked someone else's code?

Answer:

Illuvium is an RPG Blockchain-based game with decentralised governance built on Immutable X to be released in 2022. It resembles the game structure of Pokemon Red/Blue and following, with the addition of the potentialities from DeFi and Nfts, such as property of the game objects and staking.

As far as the novelty of its solutions, the protocol is tackling two problems: A performance problem caused by Ethereum being overloaded with transactions leading to high gas fees; An organisational problem relating to governance and its optimization.

On the one hand, the performance problem has been tackled by developing the game on Immutable X, a layer 2 scaling solution for NFTs on Ethereum. It aims to improve Ethereum's scalability and user experience. According to Illuvium whitepaper, high gas fees lead to a bad gaming experience due to the lack of "emotional connections between the player and their collections". An emotionally engaging experience is vital for a game to be successful, if players are not satisfied with their gaming experience they will switch game to play very quickly causing the death of the protocol. Immutable X seems to be a reliable solution for this problem as shown by its recent partnership with Gamestop. It remains to be seen how this solution will work out in the coming adoption era of blockchain's gaming.

In addition to that, Illuvium is being built on a serverless architecture which allows an "infinite scaling solution". This architecture implies that all the players of Illuvium "won't be divided into regional zones and limited to only playing with other players on their server because the serverless model brings everyone into the same world. It also means that at launch there's no chance that the game will lack enough servers to support the number of players".

On the other hand, we understand governance as the means for organisational and economic coordination utilising decision rights, incentives, and accountabilities. Decision-making rights and their enactment are placed on the formal organisation's hierarchy where two entities (The Illuviunati Council and the Executioner Dao) are responsible for proposing and implementing the decisions. This mechanism aims to avoid common governance problems by tackling it with a "progressive governance approach" with a centralised management and a decentralised governance. This governance mechanism was inspired by the Synthetix governance model, which can be seen both in the structure and in the selections of name's entities (Illuvinati Council/ Spartan Council; Illuvium Configuration Change Proposals/ Synthetix Configuration Change Proposals). Since Syntetix is a Defi protocol, it remains to be seen if this governance model is fit for gaming as well.

The Immutable X choice is not a novelty for the blockchain gaming solution since there are multiple games already building on that before Illuvium (Gods Unchained, Guild of Guardians). Conversely, even though there are some big players in mobile gaming using the serverless architecture, Illuvium is one of the first action oriented games for PC which makes use of this technology according to Illuvium's Medium. Finally, the Governance mechanism can be seen as a soft-fork from another protocol, but recently one of the co-founders acknowledged that and is planning to

propose changes. For these reasons the score is 10/15.
Score: 10

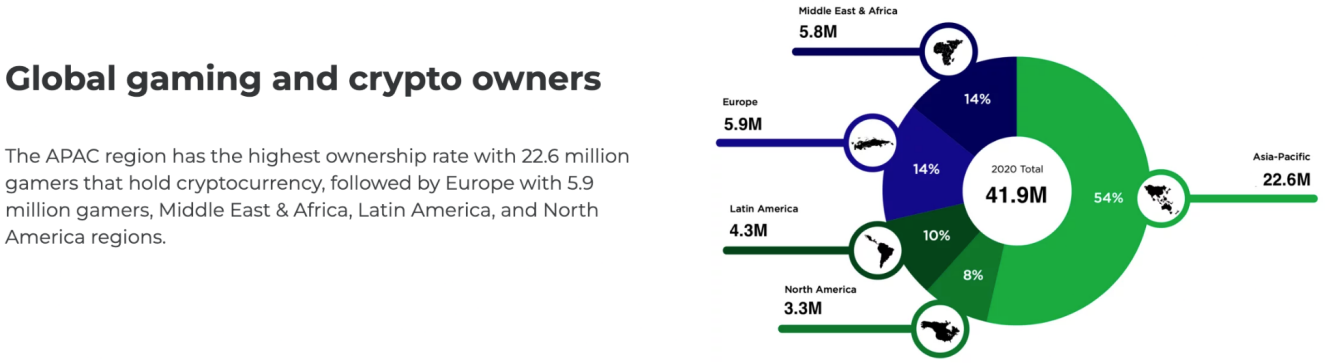
b) Target market size (15 points)

The target market size evaluates the current and future size of the problem a protocol aims to solve. While the term Metaverse is all-encompassing, what is the target market size for the relevant sector? For example, NFT games are trying to disrupt the traditional gaming industry, which is reported to be worth roughly $175 billion.

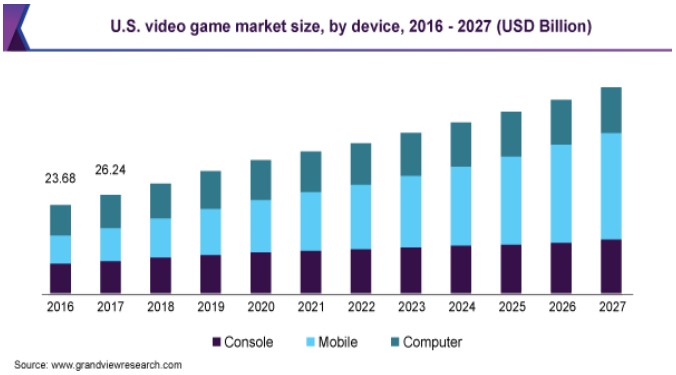
Answer:

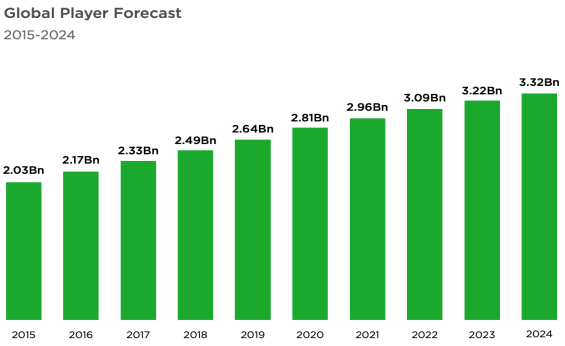
In the last months the “blockchain is going to disrupt the gaming industry” narrative has begun to take hold. According to this narrative, NFT gamification transforms in-game elements from virtual items into tradable commodities with real-world value. With this transformation, many typical in-game elements that players will already be familiar with are becoming instruments of financial liberation.

The gaming industry is now worth $198.40 billion in 2021 ($300 Billion including indirect value according to Accenture), surpassing movie and music combined and it counts almost 3 billions of active players worldwide. However only a small percentage of players hold cryptocurrency, as shown in the infographic below.



As both players and revenue forecasts are growing, it is reasonable to expect that there will be room in the market for blockchain-based games as well, despite the fact that they are currently opposed by most gamers.





However, traditional gaming companies are preparing to enter the blockchain gaming space as well. Given their experience, their knowledge and their funds, it would not be easy for new blockchain companies to seize a competitive advantage in the market.

For these reasons, the score is 12/15. Too much has yet to be done to think that Illuvium can compete with Ubisoft or Epic games, even if the market size is substantial and shows signs of future growth. This score leaves room for future improvements as Illuvium development continues.

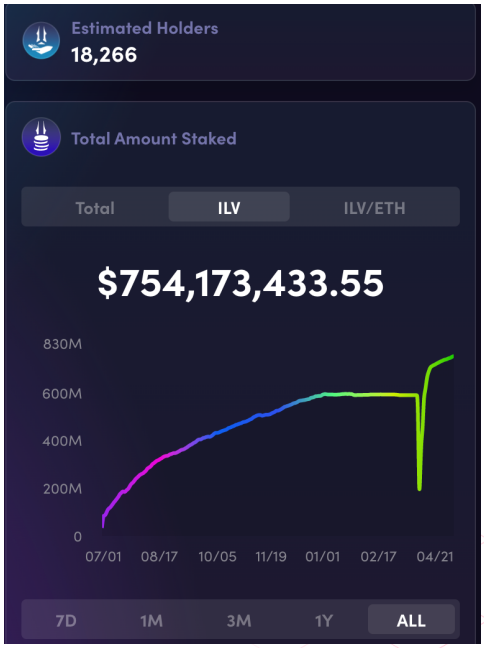
Score: 12

c) Product-market fit (15 points)

Product-market fit evaluates the degree to which a protocol satisfies market demand in their specific sector. How many users does a protocol have? What is the trading or transaction volume on a platform? Is there growth on both the buy and sell side of the market? Is the protocol targeting the right product segment at all?

Answer:
Illuvium team claims that they aim at building a AAA game, meaning a game produced and distributed by a mid-sized or major publisher, which typically have higher development and marketing budgets than other tiers of games. AAA nowadays is used to signify the 'goodness' of a game. This is the case of Fortnite, deemed a triple A game even if it doesn't meet the original requirements.

Since the game has yet to be released, users can not be measured. Currently there are roughly 18,000 token (ILV) holders and the total amount of ILV being staked is **$754,173,433.55,** according to Illuvium Dashboard.



In comparison, the number of Fortnite users in 2021 was [350 million.]

However, it should be highlighted that the Illuvium community is very large and committed. Both on [Twitter] and [Youtube] there are already accounts dedicated exclusively to illuvium, despite the game being still in development. Very few other games could boast such a following at this early stage, especially in the blockchain industry.

Since the game is currently still being developed, its growth is driven only by users' expectation, staking incentives and its triple A narrative. Assessing its product market fit now risks being a purely speculative exercise.

Given the great competition that the game will have to defeat to become a triple A, and without factoring in upcoming updates the score is 8/15.
Score: 8

2. Competitive Moat

The "Competitiveness" section looks at a protocol's competitive moat in the space and its unforkable assets. This includes integrations and partnerships, intellectual property, the underlying infrastructure being used, and treasury management.

a) Integrations & partnerships (10 points)

Due to crypto's open-source nature, the code of most protocols can easily be forked. This score represents one piece of unforkable value. Some indicators are the number of applications built on top of the protocol (vertical integration) and other entities integrating the protocol's services (horizontal integration).

Answer:

Illuvium's partnerships with games include Yield Guild Games, Death Road, Galaxy Fight and Warena. These partnerships can be seen as part of Illuvium go-to-community approach, wherewith Illuvium tries to expand its user base through economic incentives thanks to the staking of ILV and interoperability of characters and skins.

Staking flash pools can be considered as partnerships as well. The DAO has set up several short term "Flash" pools to connect with other crypto communities to draw interest to Illuvium. Examples so far have included SNX, the project led by Kain Warwick, brother of CEO Kieran Warwick and lead game designer Aaron Warwick, and a unique Flash pool to earn ILV by staking AXS, the game token of Axie Infinity, driving connection with the incumbent leader in the P2E space. Both of these lasted a short period of time (~2 weeks), and distributed a small number of tokens from the staking pool.Recently, a proposal for establishing an Apecoin flash pool was rejected.

The Illuvium game has not been launched yet, therefore there are no vertical or horizontal integrations built on top of it.

Even though there is no sign of any integration, the Illuvium team is working hard to establish connections both with other gaming apps and DeFi protocols. For these reasons the score is 7.

Score: 7

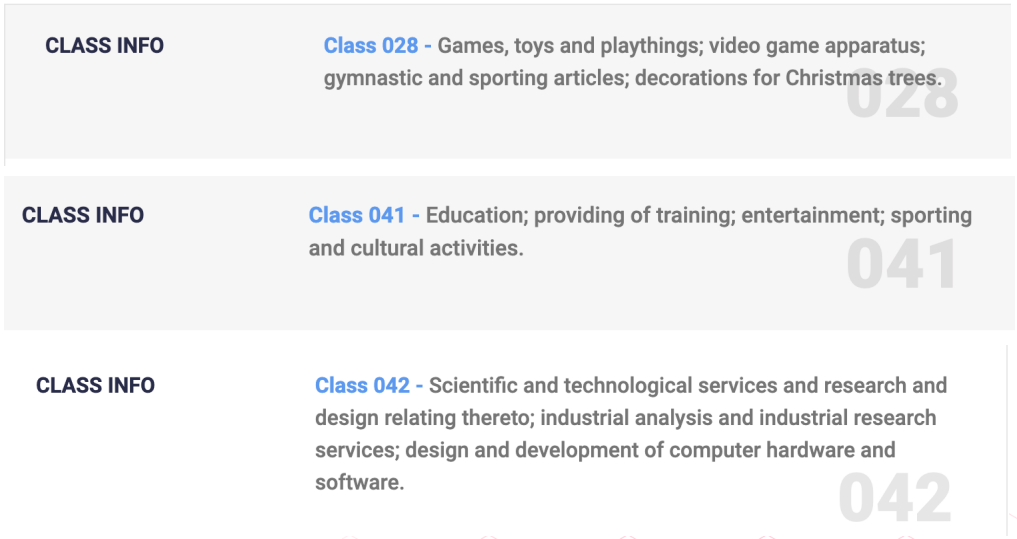
b) Intellectual property (10 points)

Intellectual property is and will continue to be a crucial part of the metaverse. This score considers if a project, for example, developed a unique IP that creates a sustainable competitive moat around it or, as an alternative, secured IP through agreements with outside parties.

Answer:
Illuvium protects its intellectual property through trademarks filed at the Australia Intellectual Property office in September 2021.

Using a trademark prevents others from "using a company or individual's products or services without their permission. They also prohibit any marks that have a likelihood of confusion with an existing one. This means that a business cannot use a symbol or brand name if it looks or sounds similar, or has a similar meaning to one that's already on the books, especially if the products or services are related."

The Illuvium mark is filed in multiple categories, ranging from video games (class 028), to scientific research (042) and education (041) and it's used in a lot of business related to crypto-currencies, such as entertainment services, software development and so forth.



These trademarks might be the first steps to build a very strong and sustainable moat around Illuvium and its ecosystem, securing for Illuvium the chance of becoming something like Pokemon in crypto. However, in comparison to the Sandbox or Axie infinity, Illuvium doesn't really have much since trademarks just prevents others from using their brand assets like Illuvium name. The foundations have been laid for now, it is up to the team to build awareness on top of it.

Score: 7

c) Infrastructure - security (10 points)

Metaverse projects make all kinds of choices when it comes to infrastructure. Some build their own solutions, whether Ethereum side-chains or a new blockchain entirely, and some deploy to an existing sidechain or a level 1 blockchain. These decisions have significant trade-offs across security, maintenance, ease of use, costs and scalability, etc. This score assesses specifically the security of the chosen infrastructure solution.

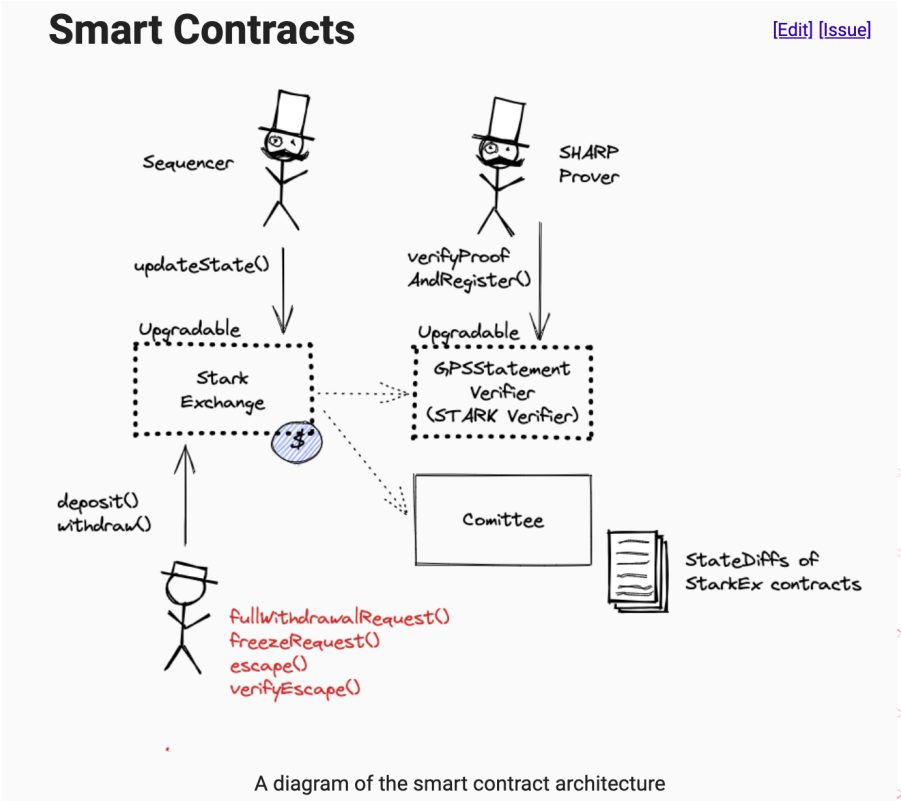
Answer:

As mentioned in the first section, Illuvium partnered with Immuntable X, an Ethereum layer 2 solution for NFTs. The Immutable X stack consists primarily of: the ZK-Rollup scaling engine, Link UI, and the APIs. In particular, instead of creating one transaction per transfer, rollups bundle hundreds of transfers into a single transaction. Together, these components lower the barriers of entry in the NFT space for developers and users, enabling instant trade confirmation, massive scalability, and gas-free minting and trading — all without compromising user custody.

Furthermore, Immutable X is an Ethereum layer 2 meaning it settles its transactions on Ethereum Mainnet, allowing users to benefit from the security of the Ethereum network. In an ideal world, Layers 2 are as safe as L1 Ethereum. However, many of the projects like Immutable X are still young and somewhat experimental.

According to L2beat, which provides a framework for L2 risk assessment, there are some risks to be taken into account when it comes to Immutable X security. For instance, the current smart contract architecture carries the risk of funds being stolen if a contract receives a malicious code upgrade.

Other risks are listed here, including the possibility of users being censored and funds being lost.



A diagram of the smart contract architecture

Being the things as it may be, Immutable X seems to be capable of guaranteeing a certain degree of security, however it still needs to go through a stress period to validate this hypothesis. For these reasons the score is 8.

Score: 8

d) Infrastructure - fees and ancillary infrastructure (10 points)

The section above assessed specifically the security of the chosen infrastructure solution. This score, however, looks at the other side of the scalability trilemma - fees and the ancillary infrastructure like bridges, wallets, etc.

Answer:

immutable X uses Zk rollups to ensure almost zero gas fees and instantaneous trade settlement.

The rollup moves bundles of transactions to Layer 2 and generates a validity proof for every bundle. The validity proofs are then submitted to Layer 1 to serve as proxy for their corresponding bundles. This method greatly reduces the resources needed to validate blocks and allow Illuvium to build an Ethereum game without gas fees.

The current disadvantage of ZK-rollups is general computation: it is more challenging to port smart contract logic directly into the rollup, and therefore only limited functionality is available e.g. transfers and trades. However, the StarkWare team is working on it with CAIRO, in order to give ZK rollups parity in terms of general computation as well.

Regarding ancillary infrastructures, Immutable X works with Metamask as a wallet. A bridge is provided on the Immutable X website under the section marketplace which is very user friendly to use to bridge Ether on Immutable.

The scalability solution provided by Immutable X is the best for NFTs scaling and its ancillary infrastructures do not present obvious specific criticalities, the score is 9 because there is space for future improvements.

Score: 9

e) Treasury management (10 points)

Treasury management refers to the project's management of its assets and balance sheet. How diversified is its treasury? If diversified, are the assets productive? For example, does the project own its liquidity? Are there procedures and plans in place for managing the treasury?

Answer:

The treasury manages 3 billion in liquidity. Little diversification is observed, with ILV making up 99% and USDC and USDT stable coins cumulatively weighing less than 1%. From a risk management point of view, this situation leaves the treasury at the mercy of the market and that's before even considering the idiosyncratic risk of each specific asset: smart contract failures, hacks or coding errors that can tank ILV price.To illustrate that point, imagine that illuvium tried to sell 500K of its native token. When executing this trade via 1inch, the price impact on ILV would be 64%. On Sushi would be 65%.

Furthermore, there is no sign of any treasury strategy nor financial derivatives strategies for mitigating or adjusting the risks.

For these reasons the score is 1.

Score: 1

3. Token Economics

The "Token Economics" section assesses the function of a protocol's token. This includes the token distribution, its functionality, the ability of the token to incentivise desired behaviours and value capture potential.

a) Genesis token distribution (15 points)

Token distribution can be an indicator of a healthy protocol and, if done well, can improve coordination and alignment among different stakeholders. Was the initial distribution fair and balanced? Are the tokens distributed widely or is the ownership concentrated?

Answer:

10 million tokens will be distributed over 3 years beginning in December 2020.

Here is the breakdown of how the tokens are distributed.

Distribution	Status	Amount	Month
Pre Seed	Concluded	500,000	Dec
Seed	Concluded	1,500,000	Jan
Team	Concluded	1,500,000	Feb
Treasury	Concluded	1,500,000	Feb
Launchpad	Not started	1,000,000	Mar
Yield	Not started	4,000,000	Apr

Pre seed: 500k Ilv sold for $1 to early investors. The profit generated was used to start building the foundation of the project.

Seed: 1.5M sold at $3 each. This round also served to fund the beginnings of the project. Seed and pre-seed tokens are locked with a linear unlock vesting schedule that was meant to start in march 2022 . This means that for the token held from preseed and eed purchases , 1/12 would become circulating in March, 1/12 in April, and so on until March 2023. However, preseed and seed token unlocks have been delayed to June 2022. They can only be staked when unlocked.

Team: 1.5M (15%). High but average percentage. Recently the team decided to extend the unlock until 2025. Their intent is showing the team's commitment to the game, while also reducing the dilution of circulating supply that will occur in 2022 (this is why score is 13).

Treasury: 1.5M. These tokens have a linear unlock vesting schedule and remain under control of the DAO. The purpose of the treasury is to reserve some central revenue generation and storage, as these tokens are eligible for revenue distribution. The primary publicly stated role of these tokens is for player rewards, either through in-game accomplishments.

Launchpad: 1M. The launchpad tokens established the existing circulating supply, and was conducted by a Balancer Liquidity Bootstrap Pool in March 2021.

Yield: 4M. 1M used for contest prizes; 3M will be used for staking payment. There are two core staking options. First is the ILV pool, where token holders can stake their ILV directly, currently earning up to ~85% APY in additional reward ILV. The second is the ILV/ETH Sushi Liquidity Pool, where ILV token holders can go to Sushi.com and pool an equal dollar value amount of both ETH and ILV, and receive Sushi Liquidity Pool (SLP) tokens in return, which can be staked at Illuvium.io.

Score: 13

b) Purpose of the token (10 points)

This score evaluates the purpose of a token in the project's ecosystem. For example, does it provide utility? Does it have governance rights attached to it or a built-in value capture mechanism?

Answer:

There are two tokens used in Illuvium: ILV and sILV.

ILV has nothing to do with game play of Illuvium, and someone just interested in playing the game does not need to own the ILV token.The ILV token serves as governance for Illuvium, and when staked it entitles holders to revenue

generated by the game. The Dao treasury will distribute 100% of all revenue to staking ILV holders through this mechanism. To conduct revenue distribution, the DAO will automatically purchase ILV from the Sushi ETH/ILV pool, putting buying pressure on the ILV token, raising its price, while distributing those ILV to staking ILV holders. This is why having sufficient liquidity in the Sushi pool is critical, and a self-sustaining cycle of providing more ILV and providing that value to the long term ILV holders.

ILV can be staked both in the ILV pool and in the Sushi ETH-ILV pool.

When the staker decides to claim, they are faced with a choice - either claim as ILV and begin a 1-year vesting period, or claim as sILV, or synthetic ILV and have an equivalent amount of funds (one ILV = one sILV in token price) available to spend in-game immediately. So sILV can be seen as cash to be used inside the game, as defined by one of the founders.

The score is 7 because on paper the mechanism might work. However, only the adoption of the game will tell us more about the efficiency of the designed mechanisms.
Score: 7

c) Ongoing token issuance / inflation (10 points)

Most tokens have built-in inflation. This section evaluates the purpose of that inflation. Is it justifiable? Does it help improve the coordination and alignment of incentives for the protocol? Does it incentivise positive-sum behaviour? Are the benefits flowing to all relevant stakeholders or just select groups?

Answer:
As outlined in precedent sections, there are some circulating tokens, but the majority of tokens are locked, or not yet issued.

Major unlocking of tokens presents opportunities for selling pressure as early investors and token holders get their opportunity to cash in on gains. The majority of unlock events conclude by March 2023, when we can expect around 4.5 million ILV to be in circulation. At that point, the monthly dilution will decrease to around 3%, and will last through mid 2025, when all staking rewards are likely to become unlocked or claimed as sILV.

However, the selling pressure could be offset by treasury purchases, and should the game become mainstream, the price of the token could also increase rather than decrease. A rise in price of the tokens is unlikely to generate gamer adoption. Gamers might not be onboard due to speculative prices and the fear of “buying in too high”. Higher prices of tokens where governance is required via staking tokens might increase the barriers to entry for individuals.

Another factor worth mentioning is the ILV burning mechanism when claiming sILV, which adds a deflationary element to the game economy. When the staker decides to claim, they are faced with a choice - either claim as ILV and begin a 1-year vesting period, or claim as sILV, or synthetic ILV and have an equivalent amount of funds (one ILV = one sILV in token price) available to spend in-game immediately. When sILV is claimed rather than ILV, those ILV tokens will never be issued, and are deducted from the possible total of 10 million ILV. When the sILV is spent, these tokens are burned and will never be reissued. The revenue spent using sILV is not part of revenue distribution, and this currency is just eliminated from existence.

Abstractly it can be said that the issuance model is reasonable and that’s why the score is 8.

Score: 8

d) Value capture (10 points)

The ability to accrue value and consequently distribute it to stakeholders can be an effective coordination mechanism and deliver long-term benefits to a project.

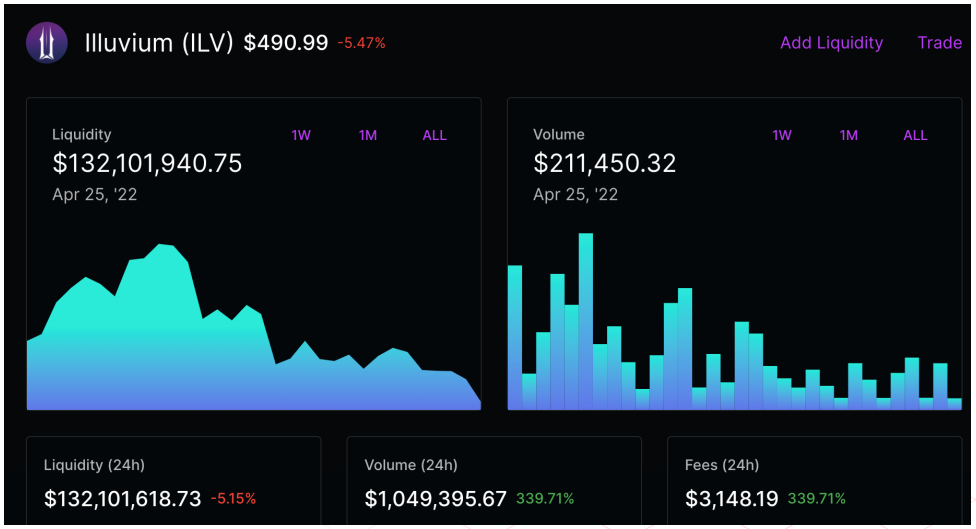
Answer:
ILV token has a built-in value capture mechanism as described in previous sections. The revenue mechanism is deeply tied with the success of the game which can't be predicted right now. However, the token is designed to accrue and distribute that value to stakeholders. In this section we have to judge just the mechanism, regardless of the fact that the game is not live yet. Score is 8 because the mechanism is designed to capture value from game activity and distribute it to stakers, plus there is a buyback element too with sILV.

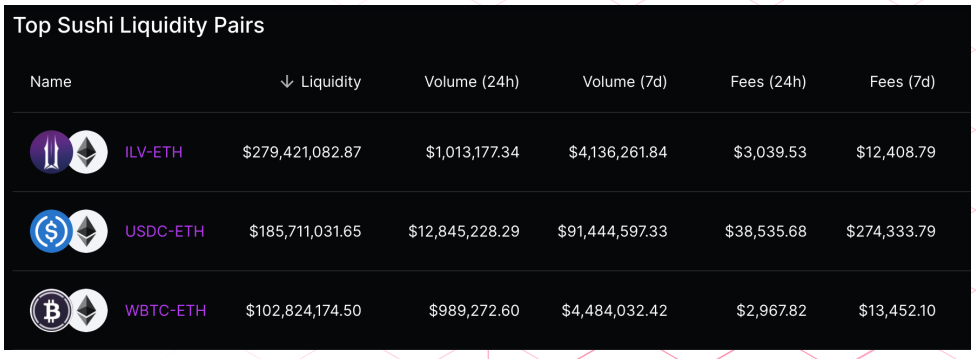
Score: 8

e) Token liquidity (5 points)

Is the token widely available and is there sufficient liquidity to facilitate all protocol functionalities?

Answer:
According to Coingecko, ILV token has 48 pairs across multiple exchanges, making it easy to buy or sell both in Defi and Tradfi (centralised exchange). In particular, the Sushi pool has the highest level of liquidity and transaction volume, as shown below, making ILV-ETH the top pair on Sushiswap for liquidity. The data are very impressive considering the limitation on the token's utility right now.





Top Sushi Liquidity Pairs

Name	Liquidity	Volume (24h)	Volume (7d)	Fees (24h)	Fees (7d)
ILV-ETH	$279,421,082.87	$1,013,177.34	$4,136,261.84	$3,039.53	$12,408.79
USDC-ETH	$185,711,031.65	$12,845,228.29	$91,444,597.33	$38,535.68	$274,333.79
WBTC-ETH	$102,824,174.50	$989,272.60	$4,484,032.42	$2,967.82	$13,452.10

Score: 5

f) Extrinsic productivity (5 points)

Can the token be used outside of the project's ecosystem? For example, can it be used as collateral elsewhere, be staked for yield or rewards, etc.

Answer:

At the time of writing (late april 2022) ILV token can not be used as lego money in other protocols, whether gaming or Defi. It can not be excluded that in future it will take advantage of defi composability, but for now it is not. Therefore the score is 0.

Score: 0

4. Team

The “Team” section describes the quality of the team behind the protocol. The current version of Prime Rating favours teams that are publicly identifiable. In the case of an anon team, the track record of the specific anons involved can be taken into account.

a) Credibility and reputation (10 points)

Are the identities of the core team public? In the case of anon team members, do they have a track record or reputation in the crypto space?

Answer:

Kieran Warwick , co-founder of Illuvium, is visible both on Twitter and Linkedin.

Aaron Warwick, Kieran brother and Illuvium co-founder and Game Designer, is visible both on Twitter (although is less active than his brother) and Linkedin.

Grant Warwick, co-founder and art director, is visible both on Twitter and Linkedin.

Basil Gorin, Illuvium Blockchain Lead, is visible on Linkedin.

Nate Wells, game producer, is visible on Linkedin.

John Avery, CTO, is visible on Linkedin.

The core team can be seen on Illuvium's website while the entire team can be found on Linkedin (90 employees) with more than 40 artists. For these reasons and the fact that there are no anonymous members, the score is 10

Score: 10

b) Relevant experience? (15 points)

Does the team have a track record of execution? Have individual team members built a product or a business before? Does the team have the necessary skills? For example, if a project is making a game, do they have a game developer?

Answer:

Kieran defined himself as a “serial entrepreneur”. He worked close to his brother Kain (Synthetix founder) and both are earlier adopters of Bitcoin and Ethereum. This passion led him to join Blueshyft as sales marketing director and “started the world's first OTC cryptocurrency exchange” according to Illuvium doc. Eventually his passion for Defi brought him to create Illuvium with his brother Aaron.

Aaron has a background in computer science and physics led him to become the Illuvium Game designer. His Linkedin page does not provide information about his career path from 2010 to Illuvium inception (sept 2020). However, by

listening to the numerous podcasts where he appeared, it is clear he had a game-related passion since a young age when he used to be a modder.

Grant is the art director with 20 years of experience in the industry, ranging from founding art-related companies to freelancing from Marvel.

Basil Gorin is a senior software engineer with 15 years of experience divided in two projects.

His first employer, for whom he was a software engineer, is not public because it is covered by NDA (even though it happened in 2014...) and therefore can not be evaluated.

He then worked as a solution architect since 2017 for CML Team LTD, an IT consulting firm**.** There he started gaining experience with Blockchain technology such as Solidity and Dapps.

Nate Wells is a game producer with 20+ years of experience in the gaming sector. However, his Linkedin does not mention collaborations with Illuvium. His current job appears to be Art director at Epic Games.

John Avery has a great deal of experience as an IT consultant in Australia and his past employers include Oracle. He also founded a mobile gaming company called JNS. Although Illuvium doc claims that JNS "reached over 1 million users and was also one of the top Unity Asset Store publishers", there is no proof of that available. The website looks poor and the company does not even have a Linkedin page.

On the one hand, from an analysis of CVs and social media, it is clear that almost each element of the core team has some grey area that must be taken into account in the score since their goal is a triple-A game. On the other hand, they have been hiring people with gaming experience that will help them in achieving their triple A standard.

Score: 10

c) Thought leadership and public presence (10 points)

To what extent do the protocol contributors participate in the public debate around the metaverse? Are the team members giving presentations, sharing their thoughts and opinions, and do they help raise the industry's collective intelligence?

Answer:

Both Kieran and Aaron actively participate in the public debate. They have a great presence especially on youtube, where they appear both together and separate to answer and clarify all the doubts and questions of their community.It is also noted how during their appearances on social the two brothers try to position themselves as pioneers of the play to earn model and in general of gaming in the web 3.

The two brothers are the social frontmen of Illuvium, while the other members never appear.

Score: 10

d) Ability to foster a community and coordinate resources (15 points)

How effective is the team at attracting and coordinating resources for the benefit of the protocol? Do they manage the community well, fostering a welcoming and positive environment? Does the community represent the project well externally?

Answer:

The Illuvium community appears very strong with over 290K followers on Twitter and 195K members on Discord. Worth mentioning Illuvium official youtube channel, with over 42k subscribers. Another sign of a good community-building management is given by the many youtube channels born in the last two years, dedicated exclusively to Illuvium where both Aaron and Kieran regularly go to talk.

Score: 12

5. Governance

The "Governance" section evaluates all aspects of the protocol's governance, from infrastructure to processes and distribution of governance power.

a) Extent of governance capabilities (10 points)

Distributed governance should allow token holders to participate in the governance process. How much influence does the current governance process have when everything works as intended? What parts of the protocol does governance touch? Who can put forward a vote, and are there any limits or requirements (number of tokens, only the team can queue votes up, etc.)?

Answer:

ILV token holders can participate in the governance process by electing the five members of the Illuvinati council responsible for direction of the organisation. To limit power of the founders, whales, and other large stake holders, the DAO uses quadratic voting, meaning that to determine the number of votes one has, take the square root of the number of tokens. Someone with 1 ILV has one vote, someone with 25 ILV has 5 votes, someone with 1000 ILV has 31 votes and so forth. Candidates can be nominated or self-nominated. To nominate yourself or someone else, one must complete the Google form . There is a discussion channel for candidate bios, as well as a separate channel for candidate discussion. All this makes the selection process very transparent.

The drawback is that the token holder can only vote for council members without having power in voting on proposals. This is why the score is 8.

Score: 8

b) Active governance contributors (5 points)

Governance is time-consuming, and governance apathy is a common problem in most democratic systems, including crypto. Therefore, it's essential to have a sufficient number of community members allocate resources to the governance process of the protocol. How many individuals participate in the debate around the protocol? How active are voters? Is delegation enabled?

Answer:

The governance process works by delegation: community members can submit and discuss proposals but is up to the council to vote on it.

Every Council member is in charge for one Epoch and it takes a super majority formula for a proposal to be approved.

As far as participation is concerned, the last Council election, which should be the most important event of the Illuvium ecosystem, saw the participation of only 505 voters, a significant drop in comparison to the previous one (1459). Moreover, the official page of the Council has only 672 members.

The only proposals on the governance forum are those related to the election of board members, there is no sign of any other proposals.

Finally it is worth noting that no core team member seats in the Council.

For these reasons the score is 3. The governance mechanism has potential but we will have to see the actual participation of the community once the game is launched.

Score: 3

c) Governance infrastructure robustness (10 points)

Robust infrastructure relates to how well the technology, software, and models used by the protocol's governance withstand actual use cases. Does the protocol have a reliable voting mechanism? How robust is the governance process, and does it facilitate good governance? Are the votes binding, or do they function solely as signals to the team?

Answer:

The governance infrastructure used Snapshot as a decentralised voting system which has become a standard for Daos and it has proved to be very reliable.

The voting mechanism can be deemed as reliable even though it has not been stress tested yet. However, a scenario where five bad actors are elected to the Council and take control of Illuvium is unlikely for two main reasons. Firstly because the Council is only able to vote on proposals made by the community which passed a certain threshold. Secondly, the E-Dao can always intervene as an emergency brake to change bad decisions or solve problems as happened with this scam.

Score: 9

d) Process and ease of use (5 points)

This score is based on the documentation and process for governance. More specifically, how easy it is to participate in governance. Does the protocol have a formal governance process? Is sufficient documentation available? Is there a basic framework to establish social consensus? Are there channels dedicated to governance debate?

Answer:

The process for governance is very open and transparent, documented in Discord, Illuvium white paper and the official medium. Documentation is widely available and clear, with every process well documented and a Discord active community to answer all the questions one might have.

However, since the Council is made up of only 5 persons, the social consensus formed around a certain proposal made by the community might not be approved by the Council itself. This is why the score is 3.

Score: 3

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