

A sceptic's guide to digital assets

Part 3: Tokenisation - Making smaller holdings more efficient and how this could benefit institutional investors

Tokenised assets total c.£24bn as at 31 March 2026, roughly 1% of the digital asset market. While this is currently a small part of the market, we believe this is where the most exciting developments could happen, with this area of the market expected to grow significantly. We can see a credible path for tokenisation to improve how institutional investors can access certain asset classes, such as private markets.

If you are baffled by the jargon and unconvinced by the rationale, but curious as to what has driven the growth of this market to such heights and where this might go, the Guide to Digital Assets series is for you. In this series, we describe the digital finance industry in our own words and explain our view of the potential opportunities and pitfalls that we see in this hugely interesting new area of finance. We have covered cryptocurrency in previous briefings and maintain our view that it is not suitable for institutional investment. But digital assets represent so much more than just cryptocurrency.

1

In Part 1, we explained how the digital asset market works and how blockchain technology could pave the way for a faster, lower cost finance industry.

2

In Part 2, we looked at the important role for high quality stablecoins and central bank digital currencies.

3

In Part 3, we are investigating how tokenisation could revolutionise real-world investing.

Tokenisation highlights

- Tokenisation allows investors to hold a digital token that represents ownership of, or exposure to, an underlying asset. Using this approach allows the potential benefits of digital asset markets to be accessed across the full range of investments and asset classes.
- Digital assets can offer scope for faster transactions and much shorter settlement times. In some cases, this may include atomic settlement, where payment and asset transfer happen simultaneously, reducing settlement times and counterparty risks.
- Tokenisation also permits fractional ownership, which can make assets such as private markets more accessible by reducing the impact of high minimum investment sizes. This could also support more diversified portfolios, as investors may be able to hold smaller interests across a wider range of assets.
- In practice, the extent to which any benefit can be achieved depends on what tokenised assets are available. It also requires there being a sufficiently robust, regulated and trusted digital asset market with the right digital infrastructure in place to access, hold and trade them.
- As discussed in our earlier papers, the FCA and Bank of England are creating space for tokenisation to develop, but the technology remains at a relatively early stage.
- For institutional investors, the market is still nascent, with tokenisation to date focused mainly on liquid assets such as money market funds. **Building knowledge in this area will leave you well positioned to make decisions in the future.**

What is tokenisation?

At its simplest, tokenisation is the process of turning ownership of an asset into a digital record on a blockchain. Instead of holding investments through traditional registries and intermediaries, ownership is represented by a token - a digital unit that reflects a claim on the underlying asset.

This can be thought of as a bit like a digital version of a ticket you would get when you hand an item of clothing into a cloakroom. The ticket represents your ownership of the asset in a similar way to a token, noting that unlike digital tokens, cloakroom items aren't intended to be traded.

Reminder: What is blockchain?

Blockchain is the generic name for technologies that provide an online record book that keeps track of transactions and ownership across a "distributed ledger". The distributed ledger refers to multiple computers all maintaining an identical record. The term "blockchain" comes from the way transactions are grouped together into "blocks", which are then linked together to form a "chain".

Blockchain is crucial for digital asset markets as it provides the infrastructure that makes it possible to own and transfer digital assets.

Importantly, the asset itself does not need to change because of tokenisation. What changes is how ownership is recorded, transferred and managed. This has potential to make investing faster, more flexible and less reliant on multiple layers of financial infrastructure, which in traditional finance typically involves several intermediaries, each presenting a layer of cost and potential drag in the system.

To better understand this, see the visual below. We begin with a real-world asset example of property. By tokenising this property asset, it can be placed "on-chain" and then tokens can be sold to investors and traded.



Later in the paper we will explore other assets that are being tokenised. We are particularly excited about how this could be applied to private market assets.



Tokenisation is just a way to wrap an asset or fund up, a bit like an Exchange Traded Fund (ETF). Once adopted into mainstream finance, it's quite likely that investors won't even notice the difference with other assets, other than that costs are lower and transactions faster.



Simeon Willis
Chief Investment Officer

Under the bonnet: how tokenisation works

In traditional funds, ownership records are kept in several different places, which means that every trade must be updated across multiple systems. This can make the process slower, more complex and more expensive.

With tokenisation, there is a shared digital record on a blockchain. Investors receive digital tokens that represent their holding in an asset or fund. When someone invests, new tokens are credited to them at the same time that payment is made. Likewise for the seller, if tokens move from one investor to another, the record of ownership can be updated straight away. This is known as “atomic settlement” where the transaction completes simultaneously, or doesn’t complete at all, which reduces the potential for one party to pull out after the other party has already paid.

Depending on the type of asset, in many cases, legal ownership records and identity checks still sit “off-chain”, outside the blockchain. In these instances, tokenisation does not replace the existing system entirely, but it can make parts of it more efficient.

This is where many of the potential benefits come from. Tokenisation can help speed up transactions, reduce operational complexity and make it easier to divide assets into smaller pieces. This can support fractional ownership, allowing investors to access assets that might otherwise require large minimum investments.

Jargon buster



- **Minting** - creating new tokens.



- **Burning** - removing tokens when they are redeemed.



- **Digital wallet** - the place where tokens are held.

Read our full jargon buster [here](#).

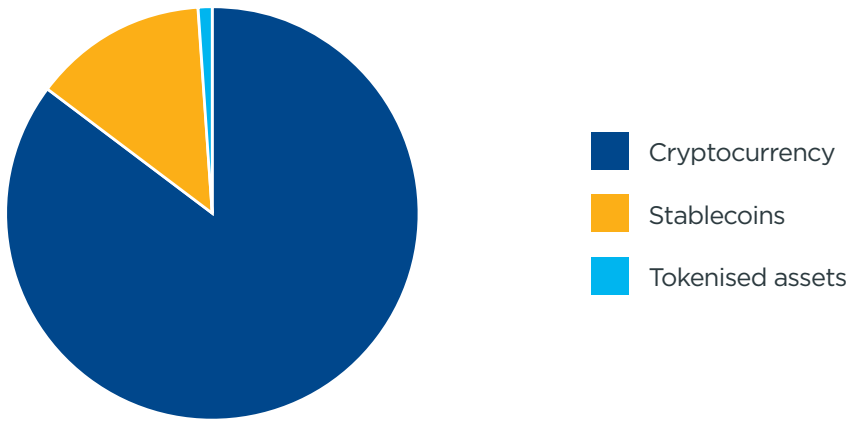
For investors, the key point is that tokenisation may improve how assets are held, transferred and accessed, even if the underlying investment remains the same.



What does the market look like now?

The total digital asset market remains heavily concentrated in cryptocurrency and stablecoins, making up **c.85%** and **c.14%** respectively of the total market cap of **c.£1.8tn** as at 31 March 2026. Tokenised real-world assets accounted for just **c.£24bn** (approximately **1%** of this market), but this number is expected to increase rapidly if adopted across traditional investment asset classes.

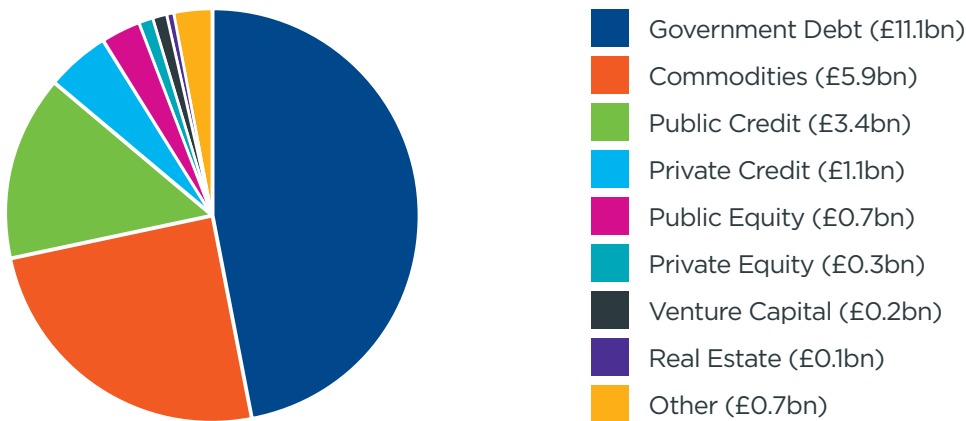
Chart 1: Digital asset market capitalisation as at 31 March 2026



XPS have converted from USD to GBP as at 31 March 2026.
Source: TradingView for market capitalisations.

To date, tokenisation has been popular for short-term, high-quality assets such as government debt, money market funds and cash-like products.

Chart 2: Market value of tokenised real world assets as at 31 March 2026



XPS have converted from USD to GBP as at 31 March 2026.
Source: RWA.xyz for sector valuations

What could the market look like?

The tokenised market is unlikely to grow evenly across all asset classes. **Adoption is likely to happen fastest where the benefits are most compelling**, and the operational barriers are lowest.

Early growth is most likely in **cash, money market instruments and short-dated fixed income**. These assets are relatively simple, already follow standardised processes, and can benefit quickly from faster settlement and more efficient record keeping. This growth may reflect that these assets are often traded frequently as part of company treasury management functions, and therefore the potential benefits of faster transactions and lower transactions costs may be considered greater here as the market develops. The recent launch of tokenised cash products by large asset managers would seem to support this trend.

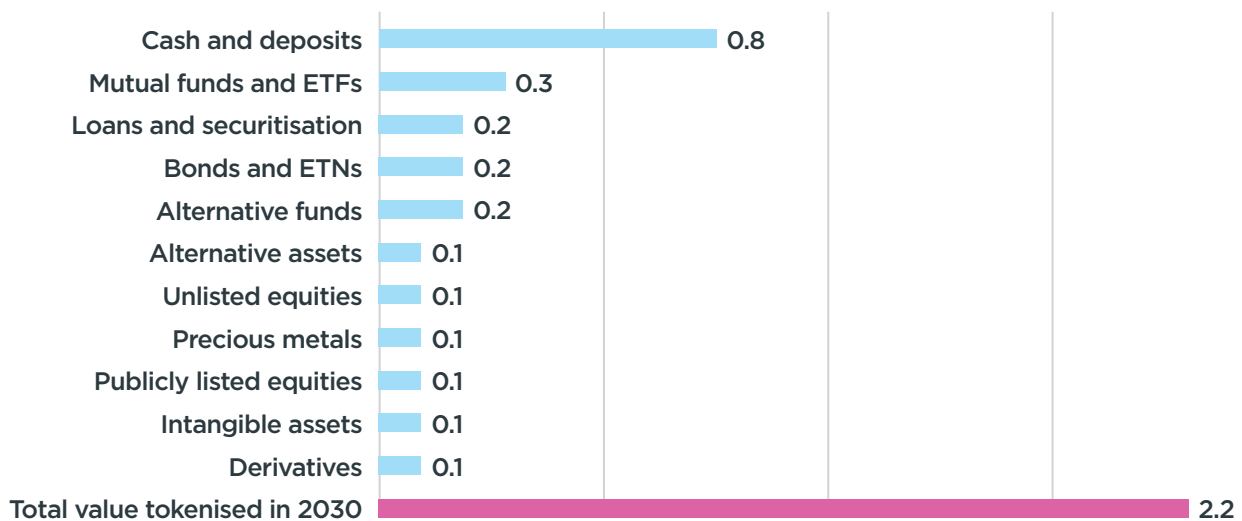
Public equities may take longer to develop in tokenised form. These markets already have relatively deep liquidity, efficient trading systems and established infrastructure, so the additional benefits of tokenisation are smaller where the investor has a longer holding period. However, with typical settlement periods of T+3 days for global equity funds, faster settlement would be helpful for investors who are tightly managing their overall portfolio's liquidity needs.

The opportunity for private market assets

Over time, **tokenisation could become more important in private markets**, particularly private credit, real estate and infrastructure. In these areas, it may help address some long-standing challenges such as high minimum investment sizes, slow transfer processes and limited transparency. Solutions to some of these issues already exist in conventional markets. Parallels can be drawn between tokenisation and listed forms of private market assets, such as property real estate investment companies (REITs) and other similar listed private market funds. Where tokenisation can benefit further is through reduced transactions costs and fractionalisation to permit smaller more diversified holdings for an individual investor.

The chart below illustrates the estimated growth across different areas by McKinsey. While cash and deposits dominate their projection, the forecasted asset market capitalisation of £0.1tn (or £100bn) is set to be reached or exceeded by many asset classes by 2030.

Chart 3: Forecasted 2030 tokenised asset market capitalisation (£tn)



XPS have converted from USD to GBP as at 31 March 2026.



Tokenisation is starting in the simplest markets today, but has the potential to revolutionise access to more complex assets in the future.



James White
Assistant Investment Consultant

The benefits and challenges of tokenisation

The benefits

Tokenisation is gaining attention because it could help address some real challenges in investment markets. Institutional investors are exploring ways to invest with **greater flexibility, efficiency and ease**, with an eye on technological advancements. Tokenisation ticks a lot of these boxes. However, this doesn't come without its challenges.

In the following tables we set out the key benefits and challenges we see for tokenisation.

Benefit	How the benefit is created
Lower minimum investment size	Tokenisation can divide an asset or fund interest into many smaller units, making it easier to invest in smaller amounts. Combined with lower costs, this can make investments more accessible than before (such as for private markets outlined below in our potential use cases).
24/7 transferability	Tokens can be transferred on a blockchain at any time, so changes in ownership have great flexibility.
Greater diversification	Tokens can be divided into smaller units, allowing investors to hold precise fractions of an asset rather than whole units or large fund positions. This could also support more diversified portfolios, as investors may be able to hold smaller interests across a wider range of assets.
Faster settlement	Many investment processes still rely on multiple intermediaries, manual checks and fragmented record-keeping. A shared ledger updates ownership in one place, reducing reconciliation between intermediaries and potentially allowing much faster settlement. This reduces the drag on returns from traditional finance where no interest is earned during the settlement period of typically 1 to 3 days.
Intraday income	Income accrues from the underlying assets; tokenisation enables more automated calculation and distribution for intraday holding periods (e.g., via smart contracts, which are self-executing code that automatically enforces agreed rules).
Potentially better secondary transferability	Transfers can become technically simpler, which may support secondary market activity where suitable infrastructure and buyers exist.
Supportive regulatory direction	In the UK, the FCA and Bank of England are beginning to create regulated frameworks for digital securities and tokenised markets. That does not mean widespread adoption is immediate, but it does mean the direction of travel is becoming clearer.

Two potential use cases for institutional investors

- 1. Private market assets** - it is typically the larger institutional investors who hold private markets such as private credit, infrastructure and real estate. These assets can offer diversification and return opportunities, but they are also complex, illiquid and often difficult to access in smaller sizes. Tokenisation can divide an asset into many smaller digital units of tokens, allowing investors to own only a fraction of the whole asset rather than needing to buy it outright.

Example: instead of needing £5 million to invest in a private credit fund or infrastructure project, tokenisation could allow investors to access a much smaller stake through digital tokens representing a fraction of that holding.

- 2. Liquidity and collateral** - recent market stress, including the 2022 gilt crisis, highlighted the importance of being able to move cash and collateral quickly. Tokenised assets could support faster settlement and more efficient movement of liquidity within investment portfolios.

The challenges

While tokenisation offers a range of potential benefits, it also brings challenges for institutional investors. A key factor in how widely it is adopted will be whether those benefits can be clearly demonstrated in practice. Institutional investors are unlikely to adopt tokenisation simply because it is new or innovative - they will need clear evidence of value and credible real-world use cases.

The market also needs to develop further. At present, there are still relatively few tokenised investment options available, even before considering the digital infrastructure that needs to evolve to support them.

Challenge	How the challenge arises
Limited investment products	The range of tokenised assets currently available remains narrow, with most activity focused on cash-like instruments and money market products. This limits the ability of institutional investors to build broader tokenised portfolios today.
Need for investor understanding and evidence of value	Institutional investors are unlikely to adopt tokenisation simply because it is innovative. Wider adoption will depend on investors understanding how it works, how the risks are managed, and seeing clear evidence of tangible benefits in practice.
Regulatory uncertainty	Tokenised assets may fall under different regulatory classifications, and rules on custody, settlement and investor protection are still evolving.
Technology integration	Existing systems, fund administrators and custodians will need to adapt to work with blockchain-based records, creating operational and IT demands.
Compatibility	Different blockchains and tokenisation platforms may not work well together, limiting transferability and increasing complexity.
Unfamiliar providers	Participants must have approved digital wallets and meet new technical and compliance requirements, meaning they need to engage with a new breed of often unfamiliar financial services providers which may slow adoption.

Recognising the challenges, if we can address some of these areas over time, we believe that tokenisation could have huge potential benefits for institutional investors.

Regulation

In April 2026, the FCA said authorised fund managers can use distributed-ledger technology (DLT) for core fund tasks, which means a fund can keep its official ownership records on a shared digital ledger instead of the traditional approach on multiple separate systems. The FCA also approved an optional UK regulation which is starting to support tokenisation in a more practical way and has approved new models that could simplify how investors buy and sell fund units. At the same time, the FCA and Bank of England have launched the Digital Securities Sandbox, allowing firms to test tokenised securities in a controlled, regulated environment.

For institutional investors, the key point is that tokenisation is moving beyond theory. Regulators are now creating frameworks that could make tokenised funds and securities more credible, better governed and easier to use in practice. In July 2026, recommendations published by the Transatlantic Taskforce for the Markets of the Future set out a more progressive stance on digital assets for the UK market. Digital assets could move into the mainstream more quickly if some of the ambitions set out (such as issuing a digital UK sovereign bond in early 2027) are realised.



A digital UK sovereign bond may not transform portfolios immediately, but it would be an important signal of intent. It could build momentum for wider adoption, including future opportunities in tokenised private market assets.

Faye Clark
Head of Manager Research



Case study: Singapore

Singapore provides an early example of how tokenisation and fractional ownership could work in practice. Through initiatives such as Project Guardian, led by the Monetary Authority of Singapore, banks and asset managers have been testing tokenised funds, bonds and other investment products in a regulated environment. Over 40 financial institutions are participating in the Project.

The key idea is that large assets can be divided into smaller digital units, making them easier to access, transfer and manage. While these developments are still largely at the pilot stage, they show **how tokenisation could improve flexibility and broaden access to investment markets over time**, particularly where large minimum investment sizes have traditionally been a barrier.

Project Guardian was launched in 2022. It has developed from proof of concept to considering how to best support adoption. The Guardian Funds Framework was published in November 2024 to provide guidance to asset managers on tokenised investment funds. In late 2025, the fixed income section of this Framework was further defined as one of the more mature workstreams (aligned to where we expect to see the initial growth).

Conclusion and future outlook

Tokenisation is still at an early stage, but its potential for institutional investors could be significant. In the near term, the areas of fastest growth may come in the areas of greatest immediate benefit, particularly in cash, money market funds and bonds, where faster settlement, clearer ownership records and more efficient transfers could improve liquidity and collateral management.

Over time, we think that the bigger opportunity lies in how portfolios are built. By enabling fractional ownership, tokenisation could make it easier to access assets in smaller sizes, reduce the impact of large minimum commitments and support more flexible, diversified allocations, particularly in private markets.

Tokenisation does not necessarily change the underlying investment, but it could improve how assets are accessed, held and managed. If the market, infrastructure and regulation continue to develop, we believe tokenisation could become a significant platform for institutional investors in the years ahead.

For now, institutional investors can seek to better understand this market and opportunity so that they are well positioned to consider the benefits and how adoption could work in the future.

Find out more

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Glossary

Given the complexity of the digital assets space, which is unfamiliar to many, we have produced a glossary with a definition of each term in a normal and simplified version.

Term	Definition	Simplified Definition
Bitcoin	The first blockchain based currency, introduced in 2009 by the pseudonymous creator Satoshi Nakamoto.	The first and biggest cryptocurrency, created in 2009.
Blockchain	A decentralised ledger system that is shared across a network, storing transactions in order and making them visible to all participants, while keeping the accounts involved anonymous.	A shared online bookkeeping record, which everyone can see and which no single person controls.
Consensus	The collective agreement among blockchain participants on the accuracy and validity of recorded transactions.	Agreement among participants in the network about the blockchain's state.
Consensus Algorithm	A set of rules that allow blockchain participants to agree on the validity of transactions and the state of the ledger.	Rules that help blockchain users agree on what's valid.
Cryptocurrency	A form of digital currency secured by cryptographic methods, designed to function without reliance on a central authority.	Digital money that works without banks or any other central authority.
Cryptography	The science of encoding information to protect data and secure communications, essential for blockchain systems.	Using maths to keep information safe and private.
Decentralisation	The distribution of authority and control across multiple participants rather than a single governing body.	Spreading control across many people instead of one authority.
Ethereum	A blockchain network that supports programmable contracts and decentralised applications through its native token, Ether.	A blockchain that lets people build apps and smart contracts.
Gas fee	A payment made to compensate for the computational effort required to process transactions or smart contracts on Ethereum.	A payment to run transactions or contracts on Ethereum.
ICO (Initial Coin Offering)	A fundraising mechanism where new blockchain projects sell tokens to investors in exchange for established cryptocurrencies.	Selling new tokens to raise money for a project.
Ledger	The blockchain's continuously updated record of all transactions, accessible to every participant in the network.	The blockchain's record of all transactions.
Mining	The computational process of verifying blockchain transactions and adding them to the ledger, often rewarded with new coins.	Using computers to check transactions and add them to the blockchain.
Native token	The primary cryptocurrency of a blockchain, typically used to pay fees and sometimes to support governance (e.g., Bitcoin or Ether).	The main coin of a blockchain (like Bitcoin or Ether).
Node	A computer that connects to a blockchain network, helping to validate, store, and distribute transaction data.	A computer that helps run the blockchain network.

Term	Definition	Simplified Definition
On-chain	Any activity or transaction that is permanently recorded on the blockchain itself.	Activity that happens directly on the blockchain.
On ramping / Off ramping	On ramping: Converting fiat currency into digital assets. Off ramping: Exchanging digital assets back into fiat currency.	On ramping: Turning cash into crypto. Off ramping: Turning crypto back into cash.
Permissioned blockchain	A blockchain network where access is restricted to approved participants, often used in enterprise contexts.	A blockchain where only approved people can join.
Permissionless blockchain	A blockchain network open to anyone, allowing unrestricted participation in validation and transactions.	A blockchain open to anyone, no approval needed.
Private key	A confidential string of characters that grants control over cryptocurrency funds linked to a blockchain address.	A secret code that lets you access and spend your crypto.
Proof of Work (PoW)	A consensus method where participants solve complex mathematical problems to validate transactions and secure the network.	A system where people use their computers to solve puzzles to confirm transactions. Whoever solves it first gets rewarded.
Proof of Stake (PoS)	A consensus method where validators are chosen based on the amount of cryptocurrency they commit as collateral.	A system where people lock up their tokens to help confirm transactions. Whoever offers to lock up the most tokens will be the validator.
Public key	A cryptographic identifier that can be shared openly to receive funds.	A code you share so others can send you crypto.
Smart contract	Computer code stored on a blockchain that automatically executes agreements when predefined conditions are met, removing the need for external systems to enforce an agreement.	Code on a blockchain that runs automatically when conditions are met.
Token	A digital unit created on a blockchain that can represent value, ownership, or rights depending on its design.	A digital voucher that exists on a blockchain. The voucher can be for many different things: money, ownership of something, or even a right to vote.
Wallet	Software or hardware that manages blockchain addresses and keys, enabling users to store and transact cryptocurrencies.	An app or tool to store and use cryptocurrencies.