Driving meaningful opportunity: tokenization in asset management

EY Parthenon

Building a better working world

Contents

- **Methodology of survey**
- Implications for asset managers
- Survey highlights
- Demographics overview

Background and methodology

Demand for tokenized assets is rising quickly and asset managers, as well as other traditional financial players, are beginning to make significant movements and investments into the space.

To better understand how accredited and institutional investors think about tokenization (including sentiment, planned future allocations, top asset classes of interest, etc.), EY-Parthenon conducted two surveys:

High-net worth investors (HNWI) survey

N=251

- Only US-accredited investors (defined as investors with investible assets over $1m, excluding primary residence)
- Mix of respondents who have/are currently invested in bonds (i.e., fixed income debt) and/or alternatives (i.e., real estate, private equity, private debt, commodities, infrastructure, hedge funds)

Institutional investors survey

N=78

- Only US institutional asset owner investors from pension funds, endowments, foundations, family offices, insurance general accounts and sovereign wealth funds
- Institutional asset owners with allocations in alternative investments
- Decision-makers with expertise and knowledge in the respective firm's allocations to alternatives, such as portfolio managers, product strategists and investment specialists

Conducted in May 2023

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Tokenization can drive a meaningful opportunity for asset managers, particularly for HNWI and smaller institutional investors

#		Key takeaway	Supporting data
1	Investor interest in tokenized assets is accelerating	Both institutional and HNW investors plan to allocate meaningful capital toward tokenized assets.	▸ Thirty-seven percent of institutional and 61% of HNW investors plan to invest in tokenized assets this year (2023) or next (2024).
2	HNWI and smaller institutional investors are more interested	HNW investors and smaller institutional investors are more interested in allocating to tokenized assets.	▸ HNW investors plan to allocate 6.3% to tokenized assets in 2024. ▸ Institutional investors with <\$1b in AUM plan to allocate 4.1% to tokenized assets vs. 2.3% of those with >\$1b in AUM in 2024.
3	PE and RE are the primary asset classes of interest	Compared to other alternatives and asset classes (e.g., private credit, stocks, bonds), the main tokenized assets of interest for investors are PE and RE.	▸ Sixty-three percent of institutional and 59% of HNW investors ranked private equity as the No. 1 or No. 2 tokenized alternative of interest, with real estate as a close second.
4	Investors prefer access to tokenized assets through traditional intermediaries	Investors want to gain access to tokenized assets via traditional means (e.g., broker/dealers, exchanges, wealth managers) vs. FinTechs/tokenization platforms.	▸ Eighty percent of HNW investors and 77% of Institutional investors want distribution of tokenized assets through traditional financial institutions.
5	HNW investors may be willing to pay a premium for access	HNW investors, many of whom do not typically have access to RE and PE (and alternatives overall), may be willing to pay more to access these investment opportunities.	▸ Fifty-five percent of HNW investors want access/better access to alternatives. ▸ Forty-five percent of HNW investors would be willing to pay higher fees to access direct real estate equity; of these, the majority would pay between 0-50bps.
6	Institutional investors may expect discounted fees	Institutional investors, potentially as an expected pass-through of perceived operational savings on the issuer's side, expect lower fees for tokenized assets vs. traditional.	▸ Fifty-seven percent of institutional investors expect lower fees on tokenized assets vs. comparable traditionally issued assets.
7	Lower investment minimums may also attract more institutional investors to tokenized assets	Institutional investors would participate in RE investments without voting rights over real estate property such as sales, renovations, etc., if it would mean a lower investment minimum.	▸ Sixty-three percent would consider investing in tokenized RE investments without voting power if it meant lower investment minimums.

Source: EY-Parthenon HNWI Tokenization Survey (n=251); EY-Parthenon Institutional Investor Tokenization Survey (n=78)

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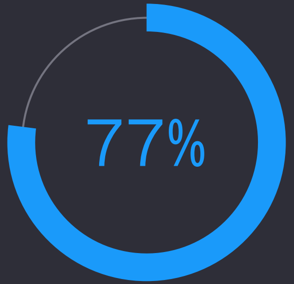
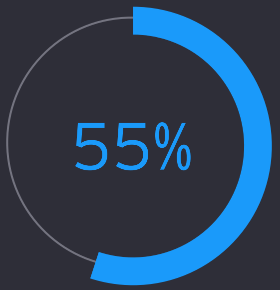
Institutional and HNWIs believe in the long-term value of tokenized assets, plan to invest this year or next, and are focused on alternatives

Institutional and HNW investors ...

1 Are interested in allocating to tokenized assets



of investors already **invest, plan to invest or want to learn more** about tokenized assets



of investors **plan to invest in tokenized assets this year or next**

2 See multiple benefits of tokenization

Both institutional and HNW investors are most motivated to invest in tokenized products due to the below benefits:

1. **Increased liquidity**
2. **Lower transaction costs**
3. **Improved performance/returns**
4. **Increased transparency**

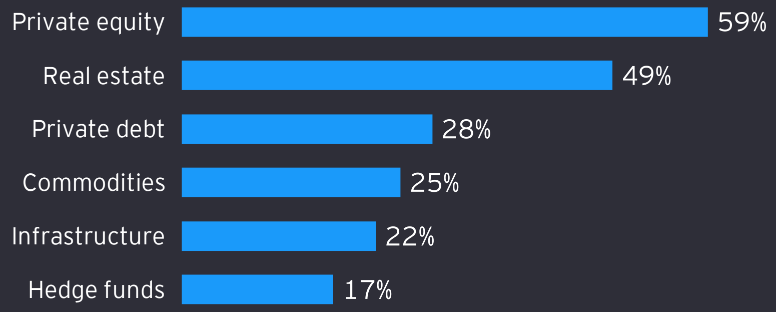
3 Are planning to allocate to tokenized assets

5.6% portfolio allocation to **tokenized assets** by institutional investors by 2026

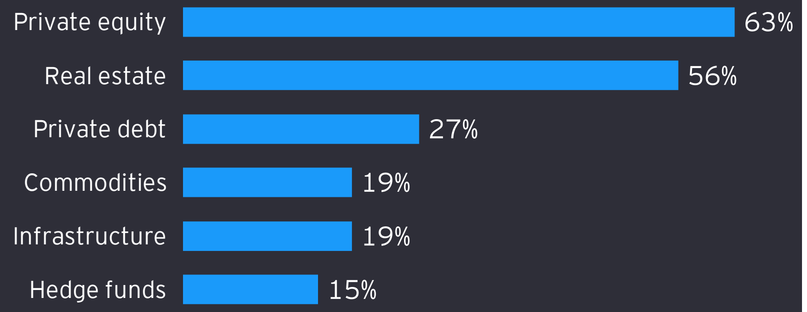
8.6% portfolio allocation to **tokenized assets** by HNW investors by 2026

4 Are interested in investing in tokenized alternatives

HNW investor top alternatives



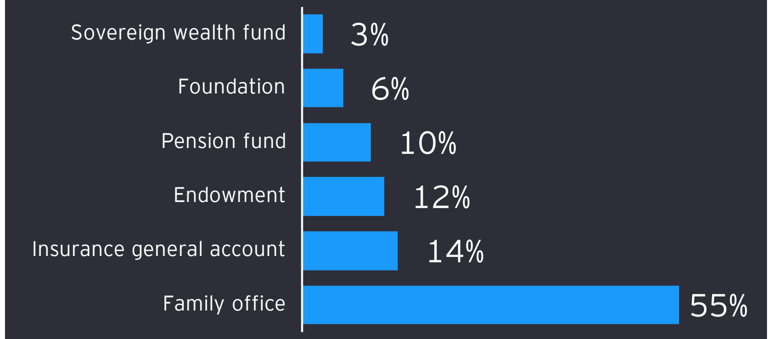
Institutional investor top alternatives

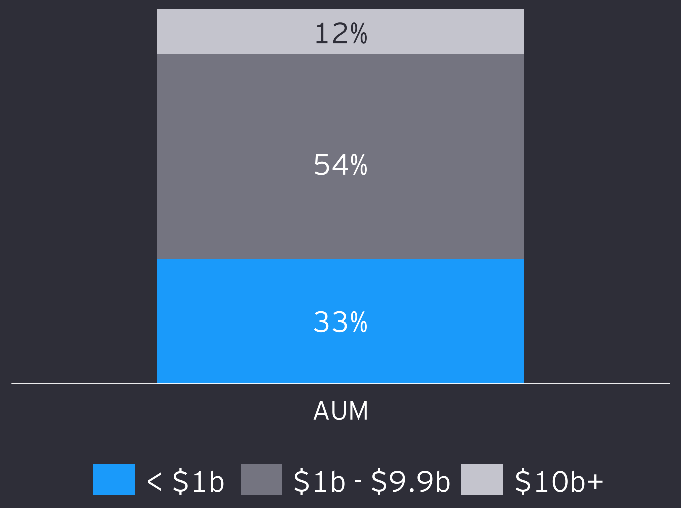


Source: EY-Parthenon HNWI Tokenization Survey (n=251); EY Parthenon Institutional Investor Tokenization Survey (n=78)

Sixty-five percent of institutional investors expect to allocate to tokenized assets by 2026 and are primarily interested in tokenized real estate and private equity

Surveyed institutional investor demographics (N=78)





Investment horizon/anticipation

37% of institutional investors **plan to invest in tokenized assets this year or next**

5.6% portfolio allocation to **tokenized assets** by institutional investors by 2026

Perceived benefits/challenges

56% of institutional investors see **increased liquidity** as the top driver to invest in tokenized assets

49% of institutional investors see the **uncertain regulatory environment** as the No. 1 hurdle for tokenization

Asset class preference

86% of institutional investors ranked **alternatives as the top tokenized asset class** they would be interested in investing in

63% of institutional investors ranked **private equity** as the No. 1 or No. 2 tokenized alternative of interest

Asset ownership and fees

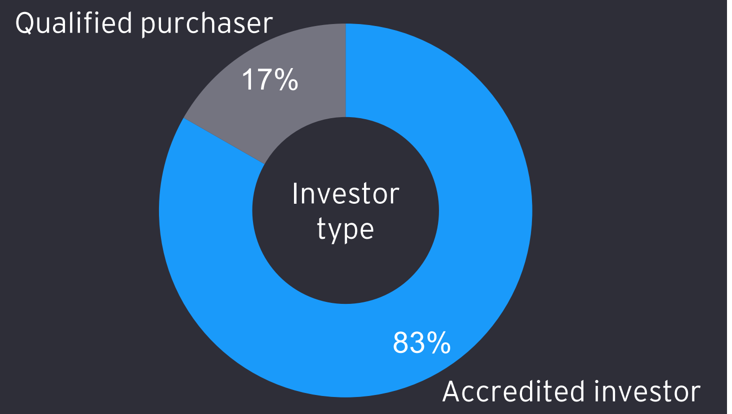
57% of institutional investors expect **lower fees** on tokenized assets vs. comparable traditionally issued assets

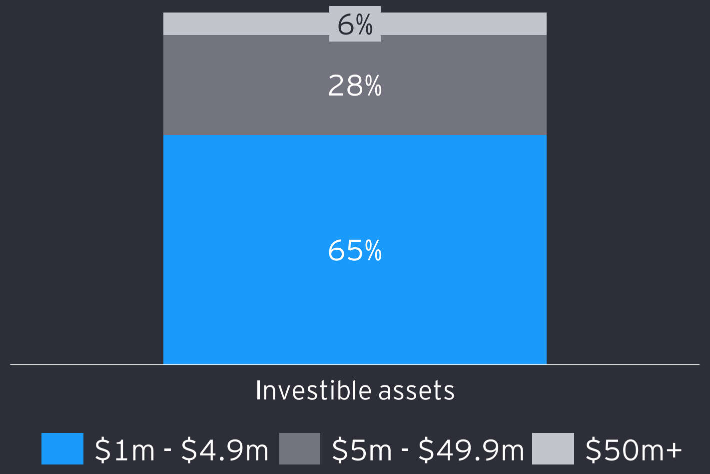
37% of institutional investors **are indifferent to owning tokenized assets directly or via fund,** compared to 32% preferring direct access to assets and 31% preferring partial ownership of a fund

Source: EY-Parthenon Institutional Investor Tokenization Survey (n=78)

Seventy-eight percent of HNW investors expect to allocate to tokenized assets by 2026 and are primarily interested in tokenized real estate and private equity

Surveyed HNW investor demographics (N=251)





Investment horizon/anticipation

61% of HNW investors plan to **invest in tokenized assets this year or next**

8.6% portfolio allocation to **tokenized assets** by HNW investors by 2026

Perceived benefits/challenges

58% of HNW investors see **lower transaction costs** as the top driver to invest in tokenized assets

24% of HNW investors see the **uncertain regulatory environment** as the No. 1 hurdle for adoption

Asset class preference

62% of HNW investors ranked **alternatives as the top tokenized asset class** they would be interested in investing in

59% of HNW investors ranked **private equity** as the No. 1 or No. 2 tokenized alternative of interest

Asset ownership and fees

50% of HNW investors with larger investible assets expect to pay **higher fees** on tokenized assets if it gets them access to assets they typically can't invest in

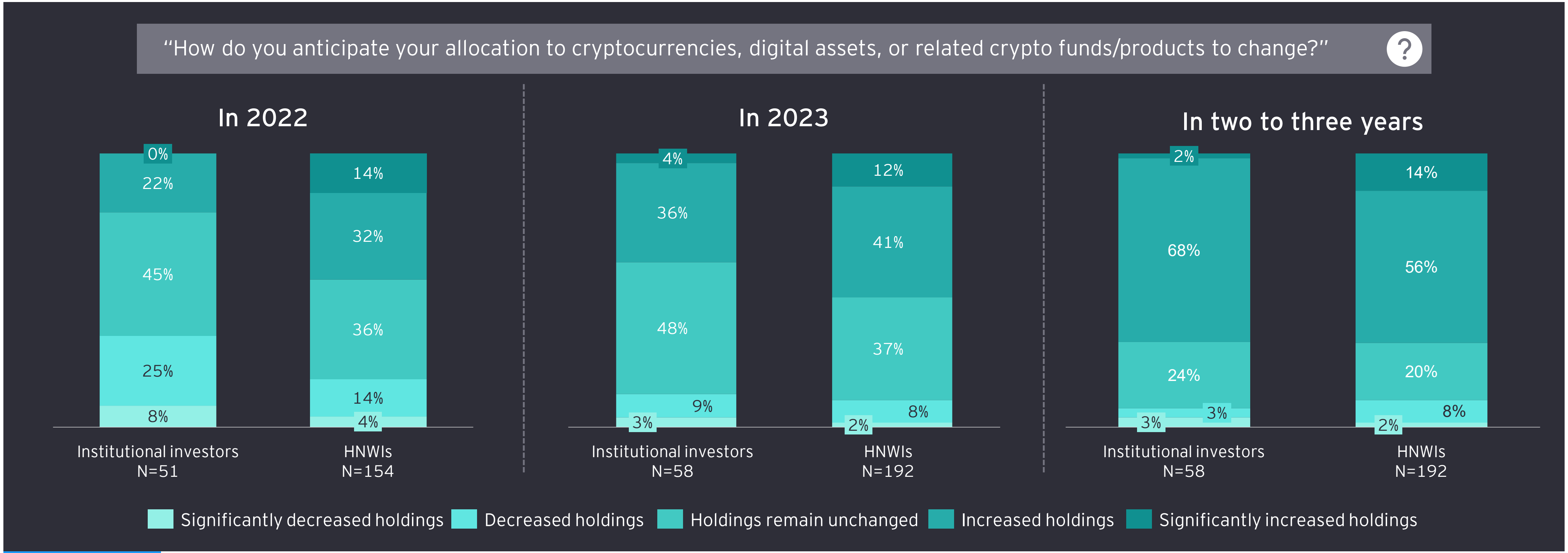
42% of HNW investors are more interested in **owning a part of a fund** that invests in multiple assets, compared to **27% of investors wanting direct access to the asset**

Note: accredited investor defined as investors with investible assets over $1m, excluding primary residence; qualified purchasers defined as an individual investor or a family-owned business that holds at least $5 million in investments

Source: EY-Parthenon HNWI Tokenization Survey (n=251)

EY Parthenon

Outlook on holdings remains mixed through 2023, but 70% of HNW and 69% of institutional investors plan to increase holdings in two to three years



Commentary

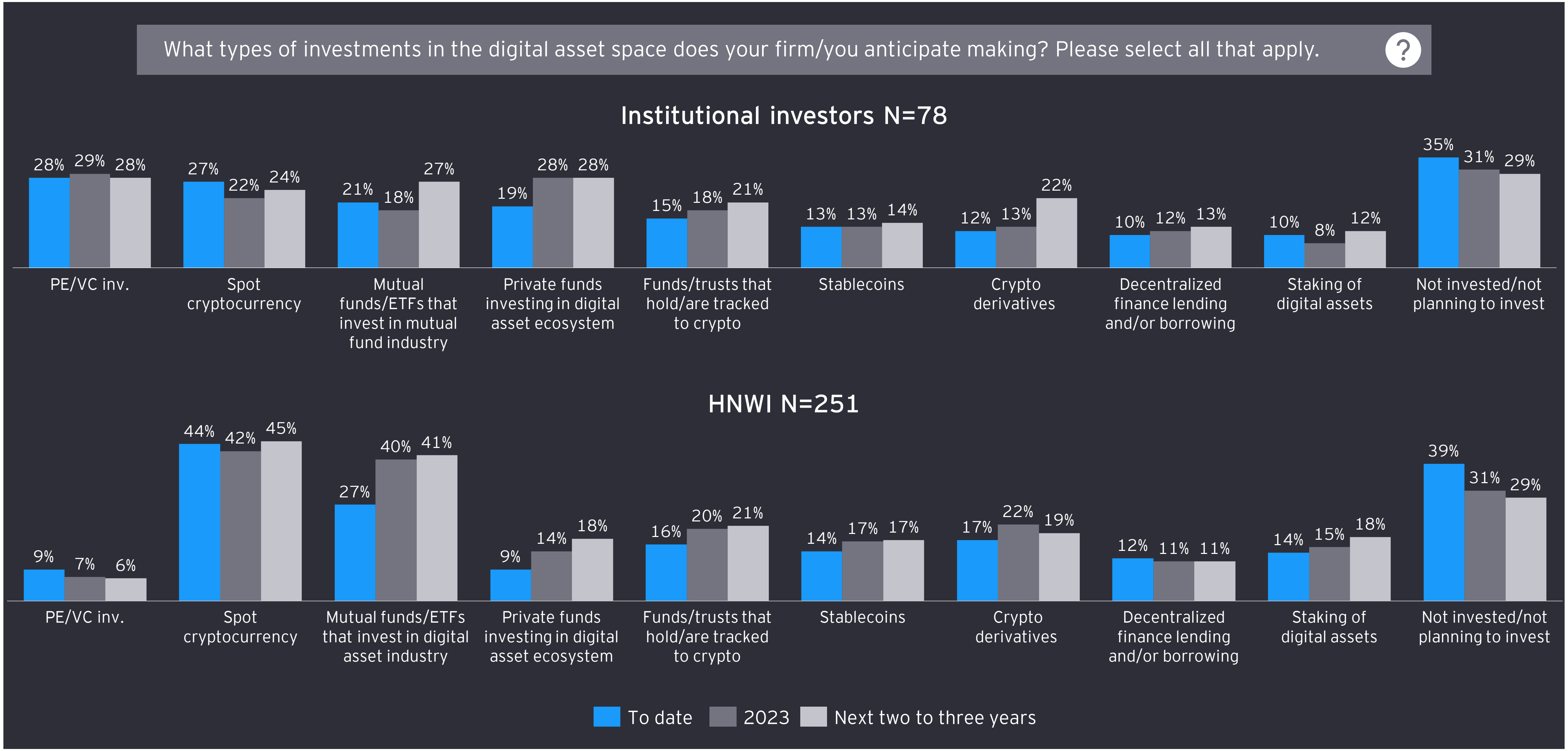
Institutional investors' plans to increase holdings to crypto/digital assets or related funds rose from 22% in 2022 to 70% in the next two to three years.

HNW investors' plans to increase holdings to crypto/digital assets or related funds rose from 46% in 2022 to 70% in the next two to three years.

Sixty-five percent of institutional investors and 61% of HNW investors have invested in cryptocurrencies, digital assets or related crypto funds/products; of those who have not invested to date, 26% of institutions and 39% of HNWIs plan to invest in the future.

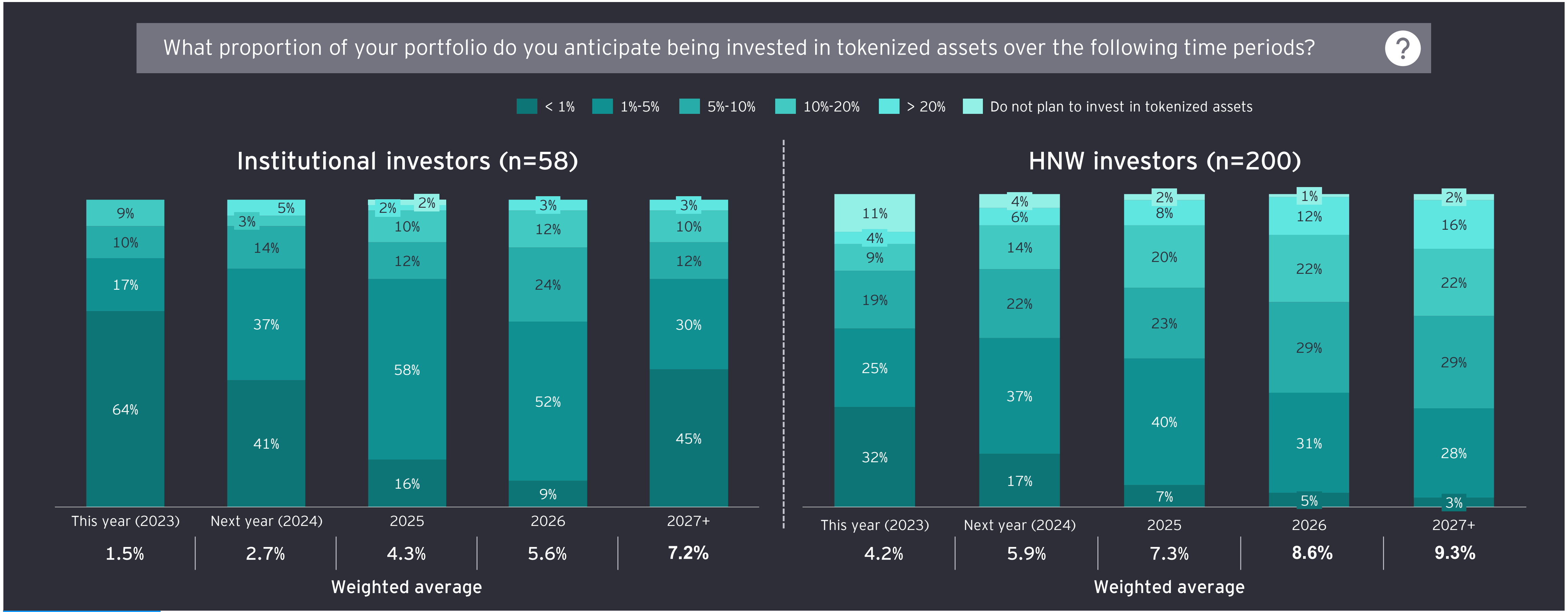
Source: EY-Parthenon HNWI Tokenization Survey (n=251); EY Parthenon Institutional Investor Tokenization Survey (n=78)

Spot cryptocurrency is the most popular investment for HNWIs, and PE/VC investments in Web3 companies are the most common investments for institutional investors



Source: EY-Parthenon Tokenization Survey (n=251); EY Parthenon Tokenization Survey (n=78)

HNW investors anticipate notably higher allocations toward tokenized assets vs. institutional investors; allocations >20% set to increase 2x-5x from 2025-2027



Commentary

- Institutional allocations >20% set to increase 5x from 2025-2027; HNWI allocations >20% to double during same period.
- Sixty-eight percent of HNW investors plan to allocate 5% or more of their portfolio to tokenized assets by 2027.

Source: EY-Parthenon HNWI Tokenization Survey (n=251); EY-Parthenon Institutional Investor Tokenization Survey (n=78)

Allocations to tokenized assets are expected to increase 2x-6x through 2027+ with institutional investors trailing HNW investors in adoption

Portfolio segment	Percentage of their portfolios institutional investors expect to allocate tokenized assets from 2023 to 2027 and beyond					Percentage of their portfolios HNW investors expect to allocate tokenized assets from 2023 to 2027 and beyond				
	This year (2023)	Next year (2024)	2025	2026	2027 and beyond	This year (2023)	Next year (2024)	2025	2026	2027 and beyond
Entire portfolio	1.5%	2.7%	4.3%	5.6%	7.2%	4.2%	5.9%	7.3%	8.6%	9.3%
Alternative portfolio	1.4%	2.3%	3.8%	5.0%	6.7%	4.5%	5.5%	7.5%	8.5%	7.5%
Real estate portfolio	1.3%	1.6%	3.3%	4.0%	6.0%	4.8%	5.6%	7.2%	8.7%	10.2%
Fixed income portfolio	1.1%	1.9%	3.6%	5.4%	6.5%	4.3%	5.0%	6.6%	8.1%	8.9%

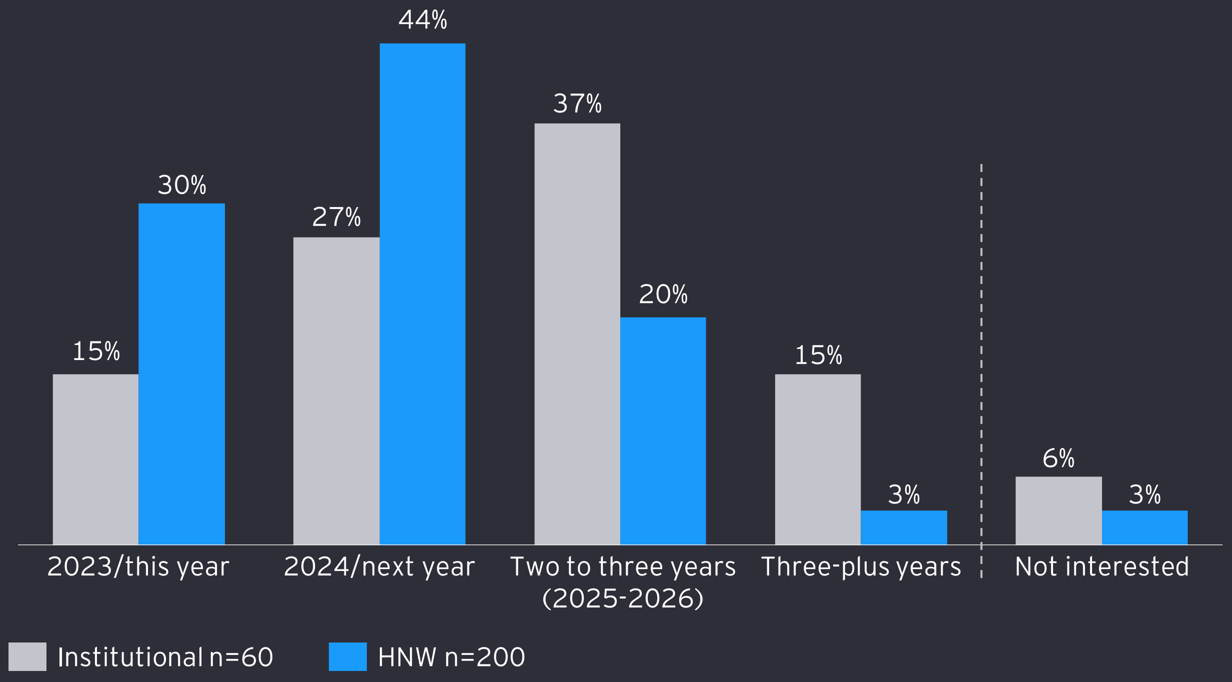
Commentary

- HNW investors plan to allocate a greater portion of their portfolios to tokenized assets than do institutional investors.
- HNWI with more investable assets plan to allocate a larger percentage to tokenized assets: HNW investors with >$10m in investable assets plan to allocate 9.7% of their portfolios to tokenized assets in 2024, while investors with <$10m plan to allocate 5.5%.
- Institutional investors with fewer investible assets expect to allocate a larger percentage to tokenized assets: Institutional investors with >$1b in AUM plan to allocate 2.3% of their portfolios to tokenized assets in 2024, while investors with <$1b plan to allocate 4.1%.

EY Parthenon

Assuming no regulatory barriers, HNWIs are planning to invest in tokenized alternatives at a quicker rate (ramping up in '23-'24) than institutional (ramping up in '25-'26)

Assuming no regulatory impediments, when do you plan on investing in tokenized alternatives?

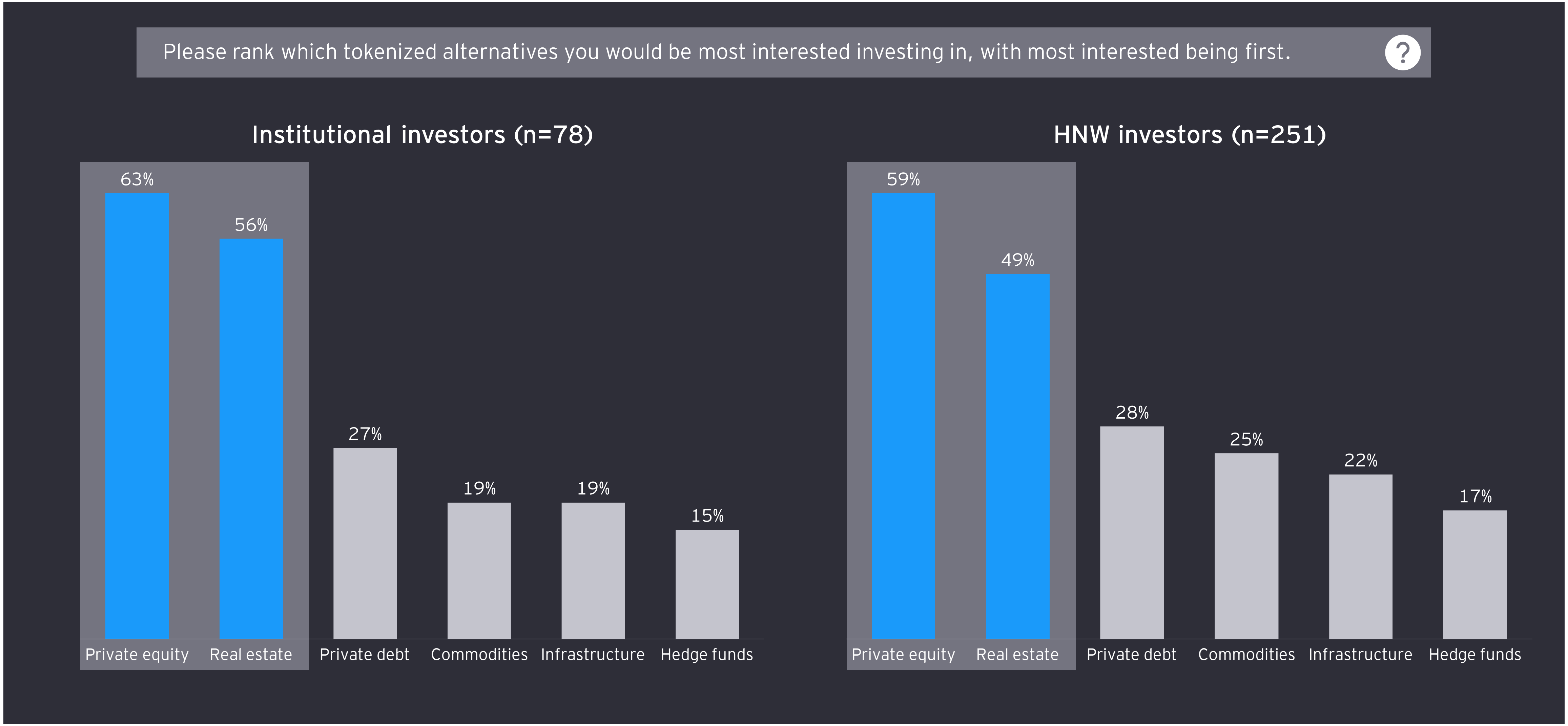


Commentary

- By the end of 2024, 74% of HNW investors plan on investing in tokenized alternatives, compared to only 42% of institutional investors.
- Seventy-two percent of institutional and 62% of HNW investors would increase their allocations to tokenized assets if the marketplace were to mature (e.g., regulatory clarity, more asset managers issuing tokenized assets, more marketplaces).

Source: EY-Parthenon HNWI Tokenization Survey (n=251); EY-Parthenon Institutional Investor Tokenization Survey (n=78)

Institutional and HNW investors prefer real estate and private equity as top tokenized alternatives of interest

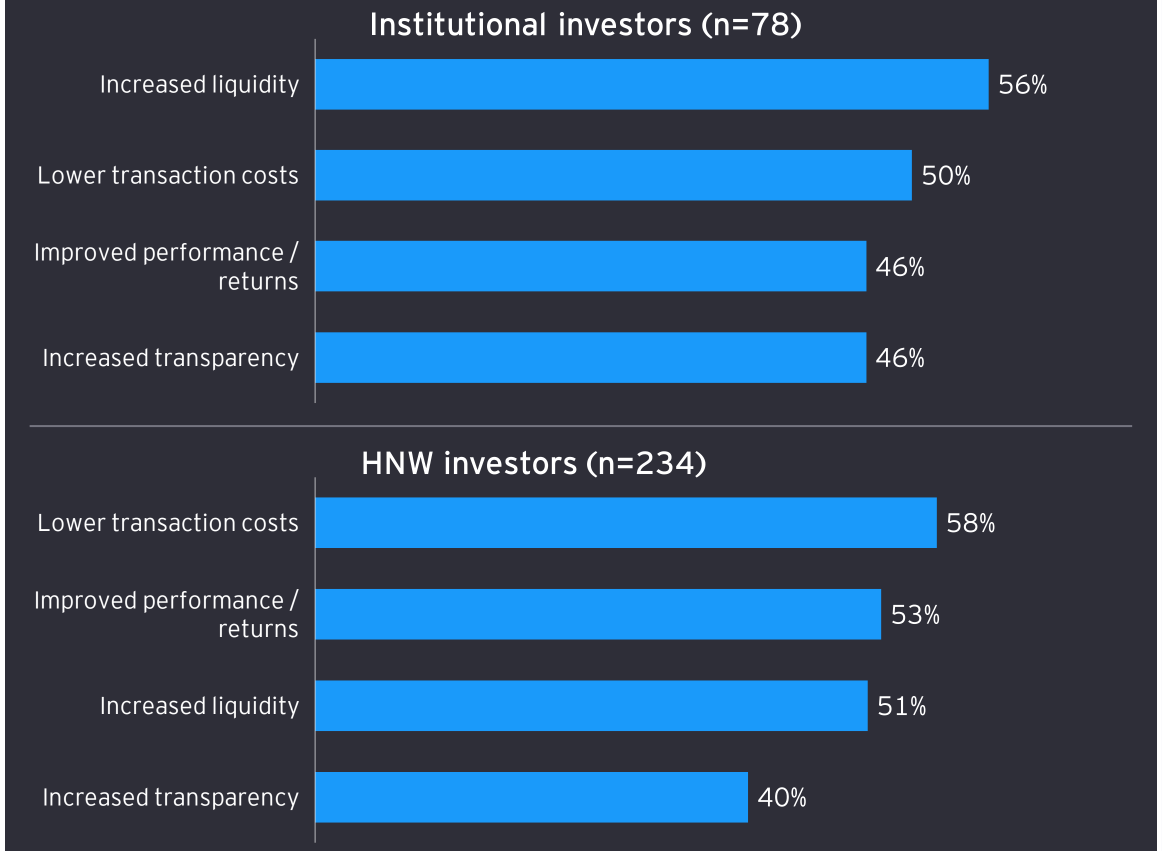


Rank order determined by percent of respondents that ranked each choice 1 or 2.

Source: EY-Parthenon HNWI Tokenization Survey (n=251); EY-Parthenon Institutional Investor Tokenization Survey (n=78)

Investors see benefits, including increased liquidity and lower costs, yet challenges remain due to a perceived lack of providers and an uncertain regulatory environment

What would motivate you to invest in assets issued in tokenized form (e.g., funds, bonds or real estate issued using DLT (blockchain) technology)? Please rank in order of priority.



What hurdles do you expect for investing and holding tokenized assets? Please rank from biggest perceived hurdle to least.

Institutional investors (n=78)

1. Uncertain regulatory environment
2. Lack of trusted service providers in the market
3. Lack of internal education about blockchain technology/tokenization
4. Lack of established marketplaces/alternative trading system (ATS)

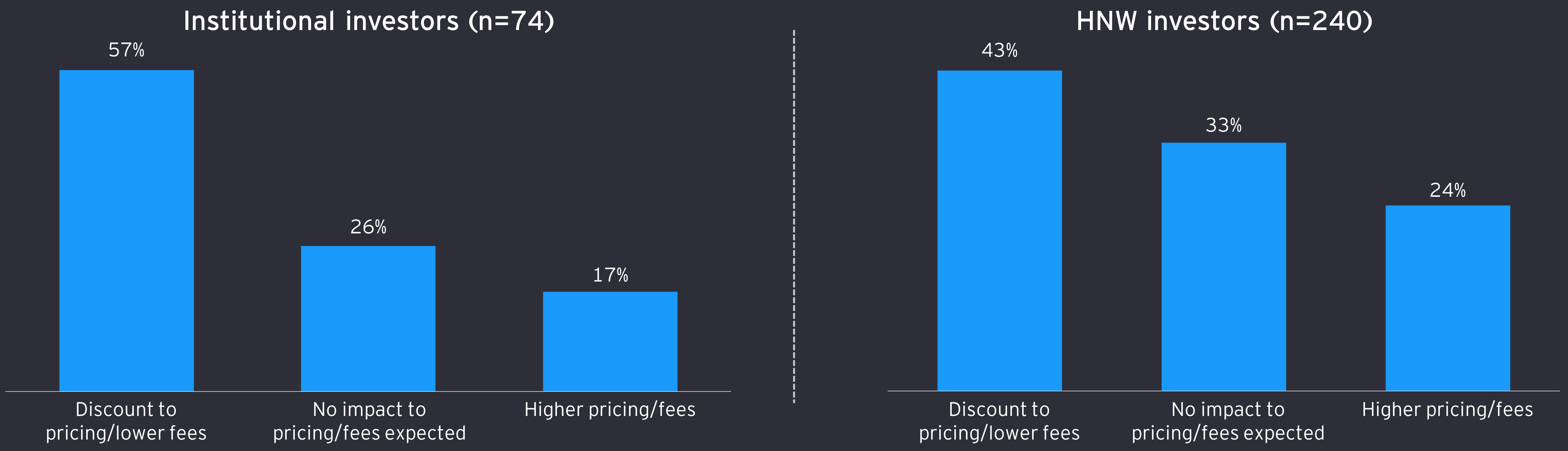
HNW investors (n=251)

1. Uncertain regulatory environment
2. Lack of trusted service providers in the market
3. Lack of internal education about blockchain technology/tokenization
4. Lack of established marketplaces/ATS

Rank order determined by percent of respondents that ranked each choice 1, 2 or 3.
Source: EY-Parthenon HNWI Tokenization Survey (n=251); EY-Parthenon Institutional Investor Tokenization Survey (n=78)

Majority of institutional investors expect to pay lower fees to get access to tokenized assets, while some segments within HNWI expect to pay higher fees

Would you expect to pay a pricing discount or premium to get access to tokenized assets, if tokenized assets could provide you with access to new products, potential for higher liquidity, potential for diversification, etc.?



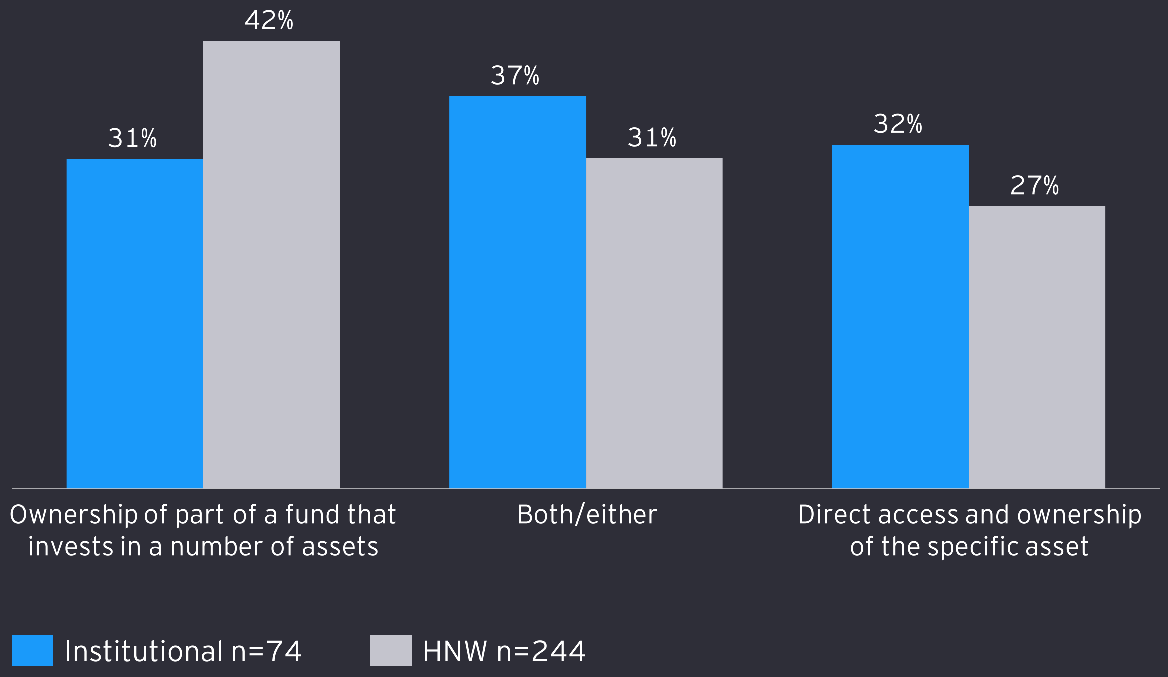
Commentary

- Majority of HNWIs and institutional investors expect to receive a discount to pricing to get access when investing in tokenized assets.
- Lower transaction fees are a top motivating factor for both HNW and institutional investors when investing in tokenized assets.
- Within HNW, those with higher investible assets (>$50m) expect to pay a higher price/fee (50%), compared to those expecting to pay lower (31%).

Note: Removed individuals who stated other.
Source: EY-Parthenon HNWI Tokenization Survey (n=251); EY-Parthenon Institutional Investor Tokenization Survey (n=78)

While HNW investors may have a slight preference for ownership in tokenized funds over the underlying asset, institutional investors seem indifferent between the two

When investing in tokenized alternatives, would you be more interested in owning part of a single asset or owning part of a fund? (e.g., buying a token that represents ownership in an oil rig/ specific underlying asset vs. buying a token that represents ownership in a fund that invests in various strategies and assets)?

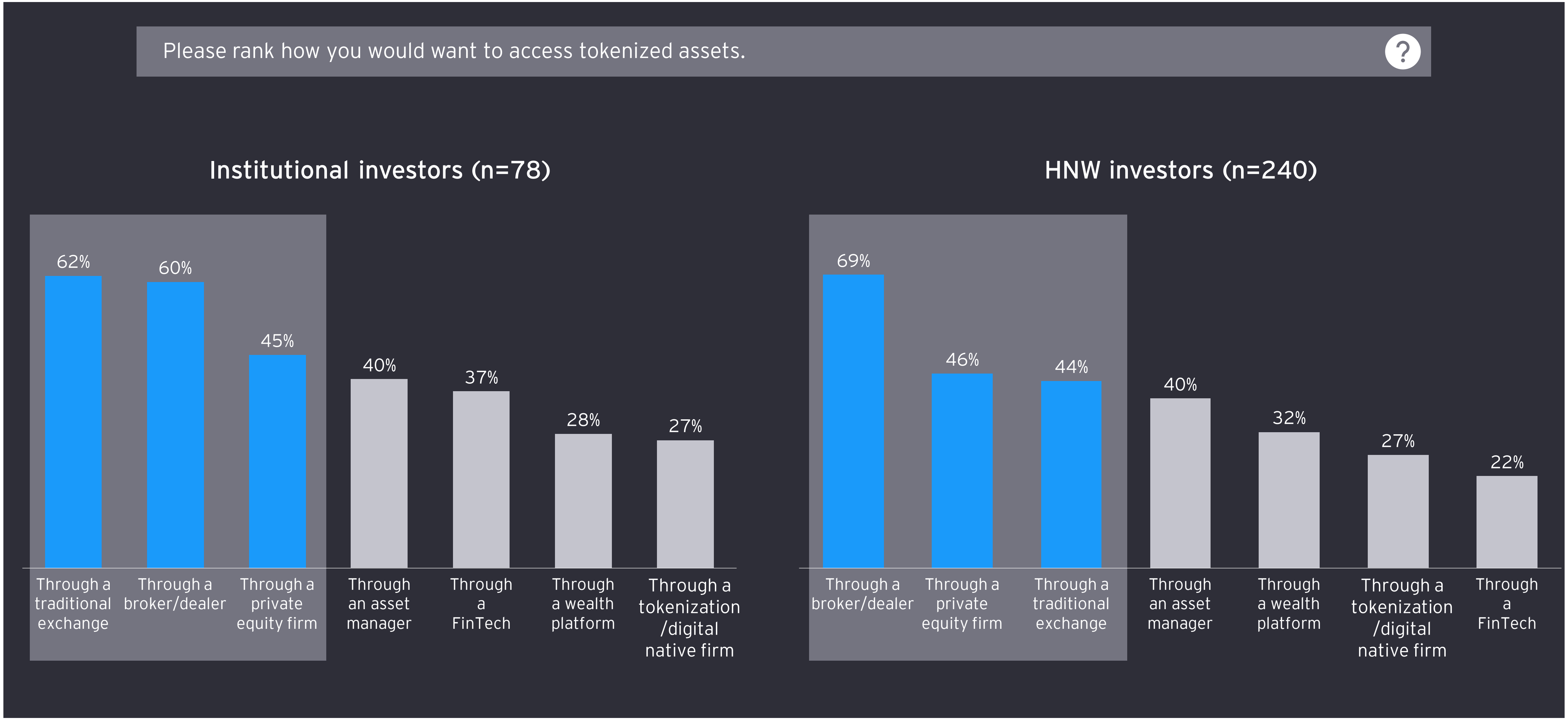


Commentary

- HNWIs slightly prefer ownership of part of a tokenized fund (42%).
  - Only 27% of HNWIs are interested in investing in tokens that represent ownership in a single asset vs. a fund.
- Institutional investors are evenly split between level of interest for tokenized funds, specific assets or both.

Source: EY-Parthenon HNWI Tokenization Survey (n=251); EY-Parthenon Institutional Investor Tokenization Survey (n=78)

To access tokenized assets, institutional investors prefer traditional exchanges, while HNWIs prefer to access via broker/dealers



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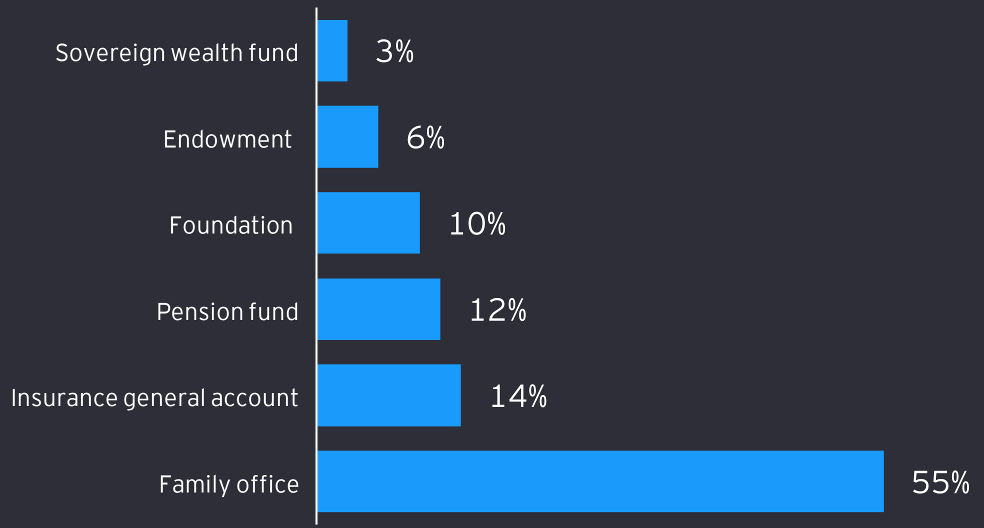
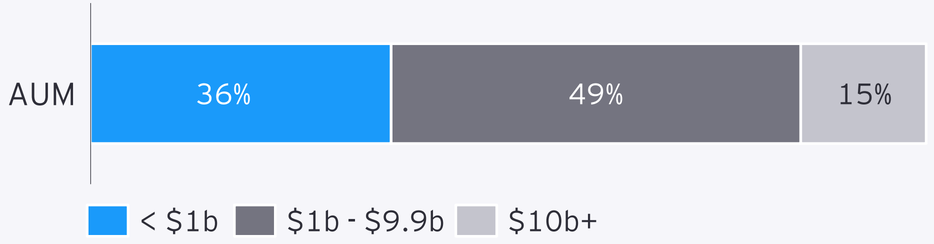
EY Parthenon

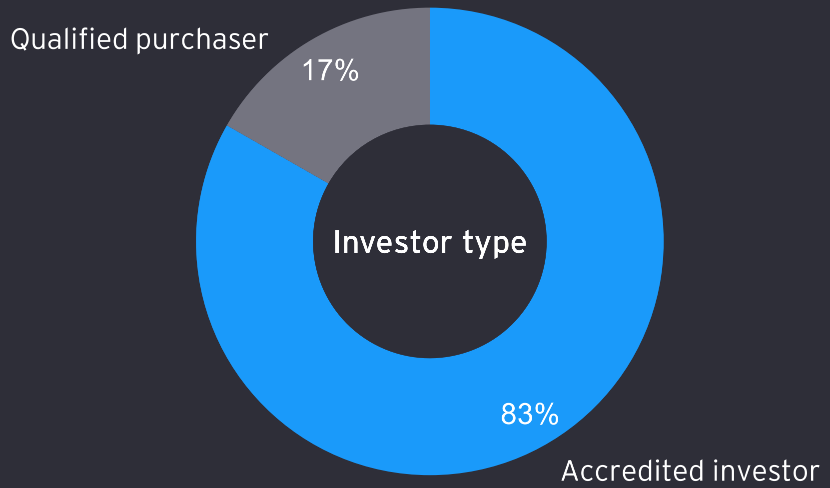
Seventy-eight decision-makers from various asset owners and 251 high-net worth investors in the US were surveyed

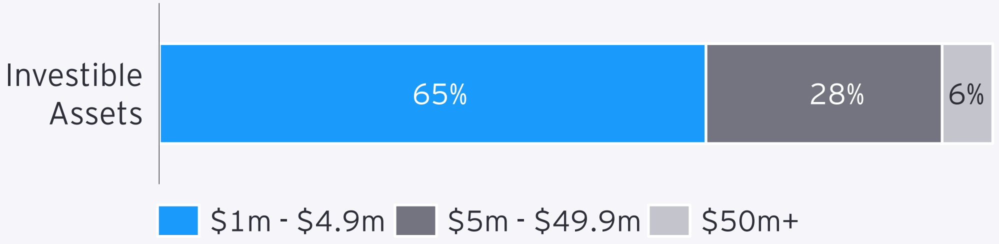
78 institutional investors were surveyed





251 accredited investors and qualified purchasers (HNWIs) were surveyed



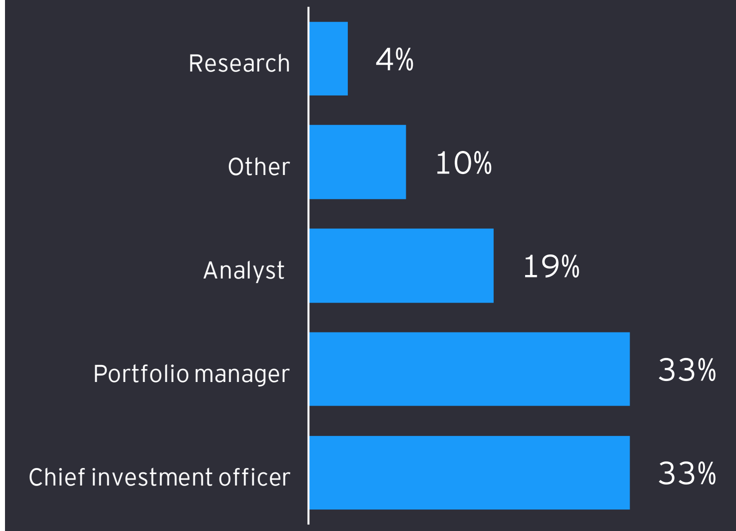


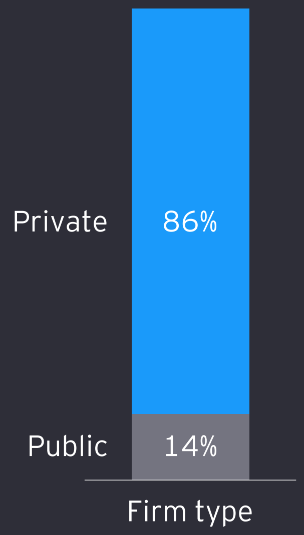
Note: accredited investor defined as investors with investible assets over $1m, excluding primary residence; qualified purchasers defined as an individual investor or a family-owned business that holds at least $5 million in investments.

Source: EY-Parthenon HNWI Tokenization Survey (n=251); EY-Parthenon Institutional Investor Tokenization Survey (n=78)

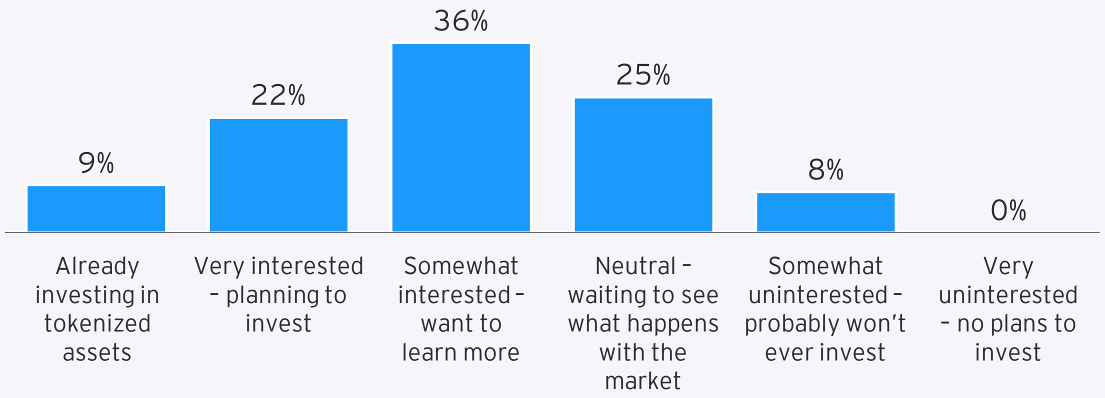
Surveyed institutional investor demographics

Surveyed institutional investors are mostly CIOs and portfolio managers at private firms (n=78)





Only a small proportion of institutional investors currently invest in tokenized assets, but strong interest is driving growth (n=78)



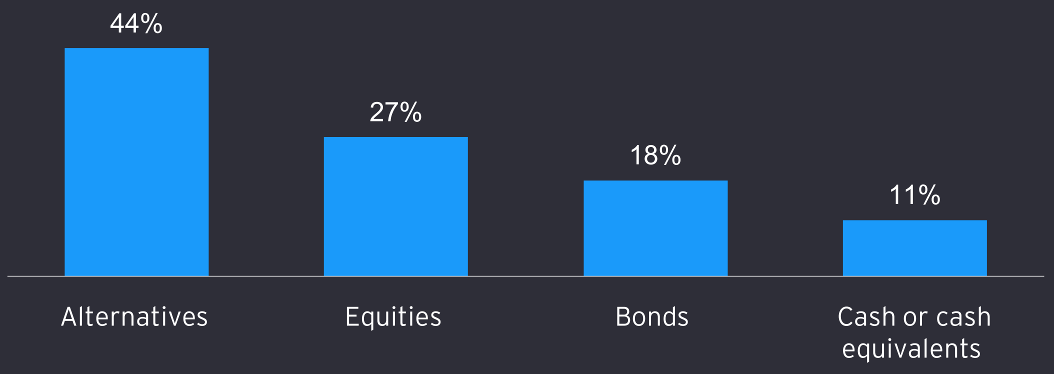
Source: EY-Parthenon Institutional Investor Tokenization Survey (n=78)

EY Parthenon

Surveyed institutional investor demographics

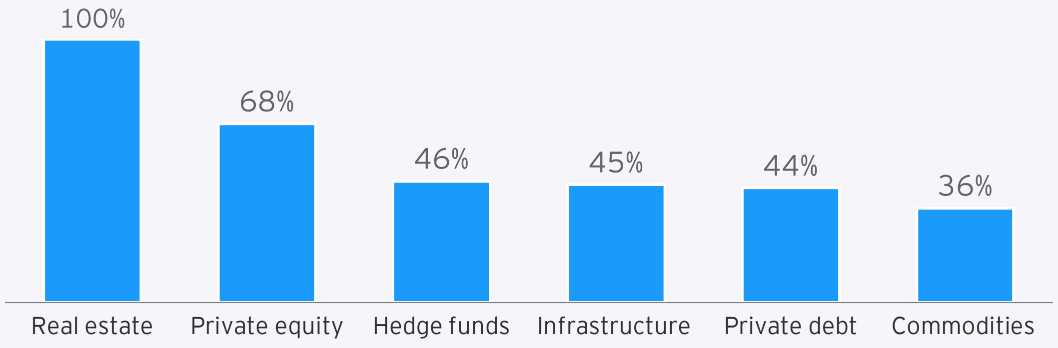
Institutional investors primarily allocate to alternatives (n=78)

What percentage of your investible assets do you allocate to each of the below?



Within alternatives, institutional investors primarily invest in real estate and private equity (n=78)

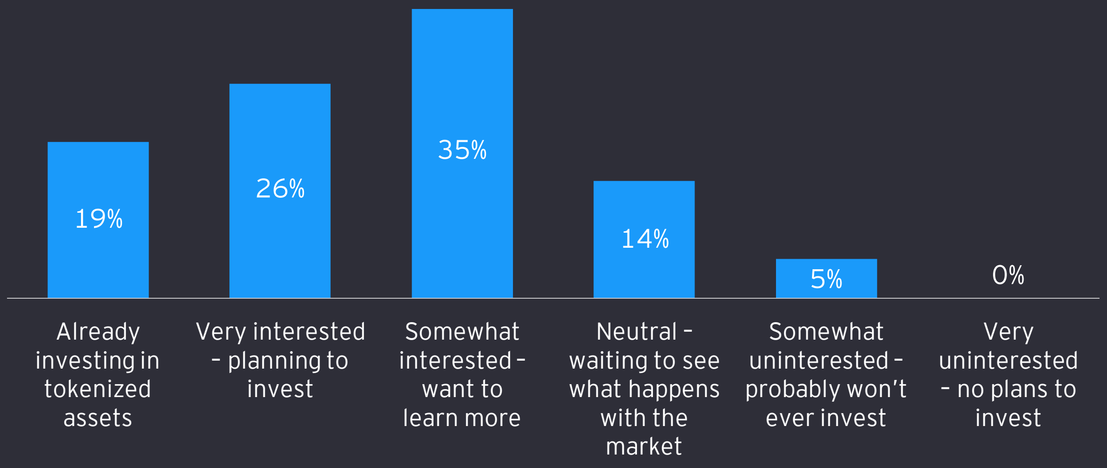
What type of alternative investments does your firm allocate to?



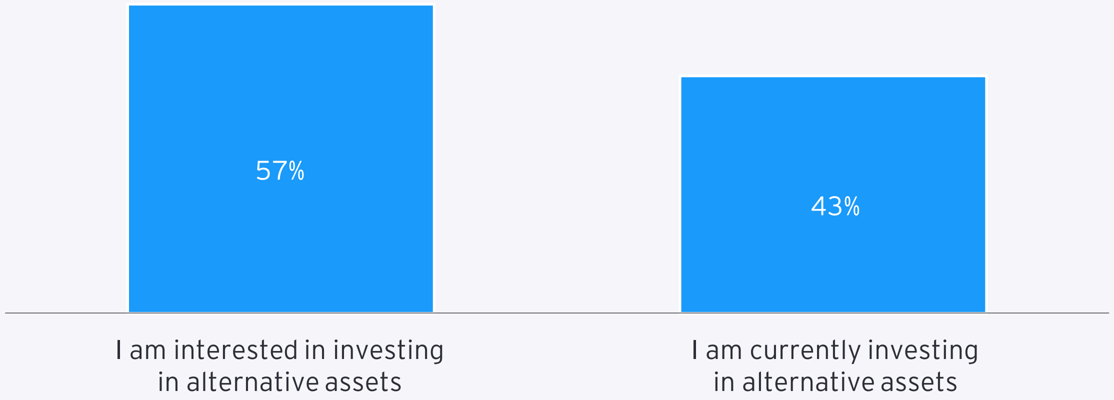
Source: EY-Parthenon Institutional Investor Tokenization Survey (n=78)

Surveyed HNWI demographics

HNW investors are already invested in tokenized assets, planning to invest or want to learn more about the market (n=251)



Majority of HNW investors are not currently investing in alternatives but are interested in doing so (n=251)

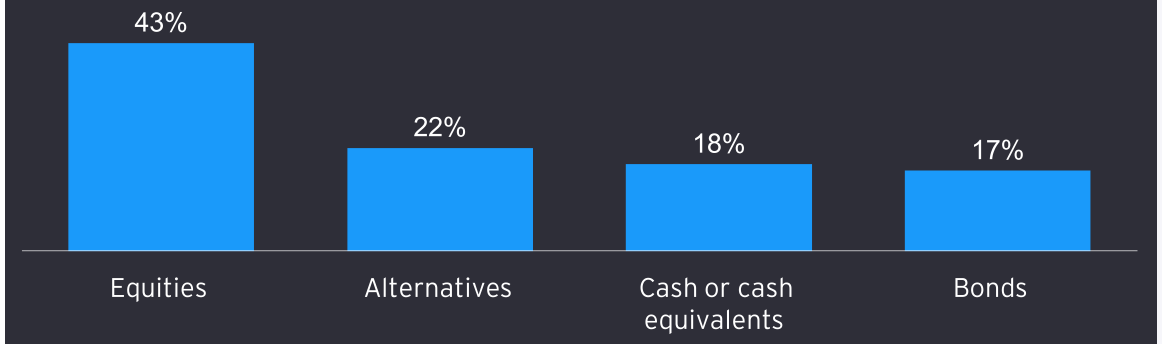


Source: EY-Parthenon HNWI Tokenization Survey (n=251)

Surveyed HNWI demographics

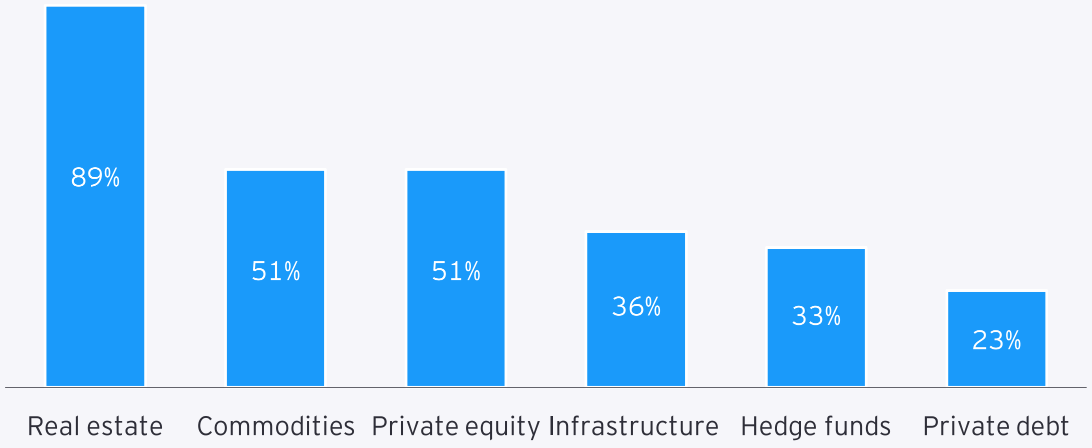
HNW investors primarily allocate to equities (n=251)

What percentage of your investible assets do you allocate to each of the below?



Within alternatives, HNW investors primarily invest in real estate (n=160)

What type of alternative investments do you currently allocate to?



Source: EY-Parthenon HNWI Tokenization Survey (n=251)

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