Ctrl Alt

We Need to Talk About Tokenisation

A back to basics guide and the impact on the future of alternative asset investing.

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The CEO of Blackrock, Larry Fink, recently said that tokenisation will be "the next generation for markets". His speech went viral, amassing almost quarter of a million views, reinforcing the growing appetite for and interest in tokenisation.

Fink explained that just like ETFs were the driving force behind the last evolution in investing, tokenisation will under-score the coming one. He went on to say:

“Think about instantaneous settlement... no middlemen, we’re going to bring down fees even more dramatically.”

Fink’s speech reinforced what the data already shows: A new era of future-facing, tech-enabled wealth accumulation is now well underway.

The conversation is moving fast.

In this report we will explain why you need to understand the impact of tokenisation and what it likely means for your business. This report goes back to basics on tokenisation and explores its significant impact on opening up alternative asset investing.

Back to Basics: What is Tokenisation?

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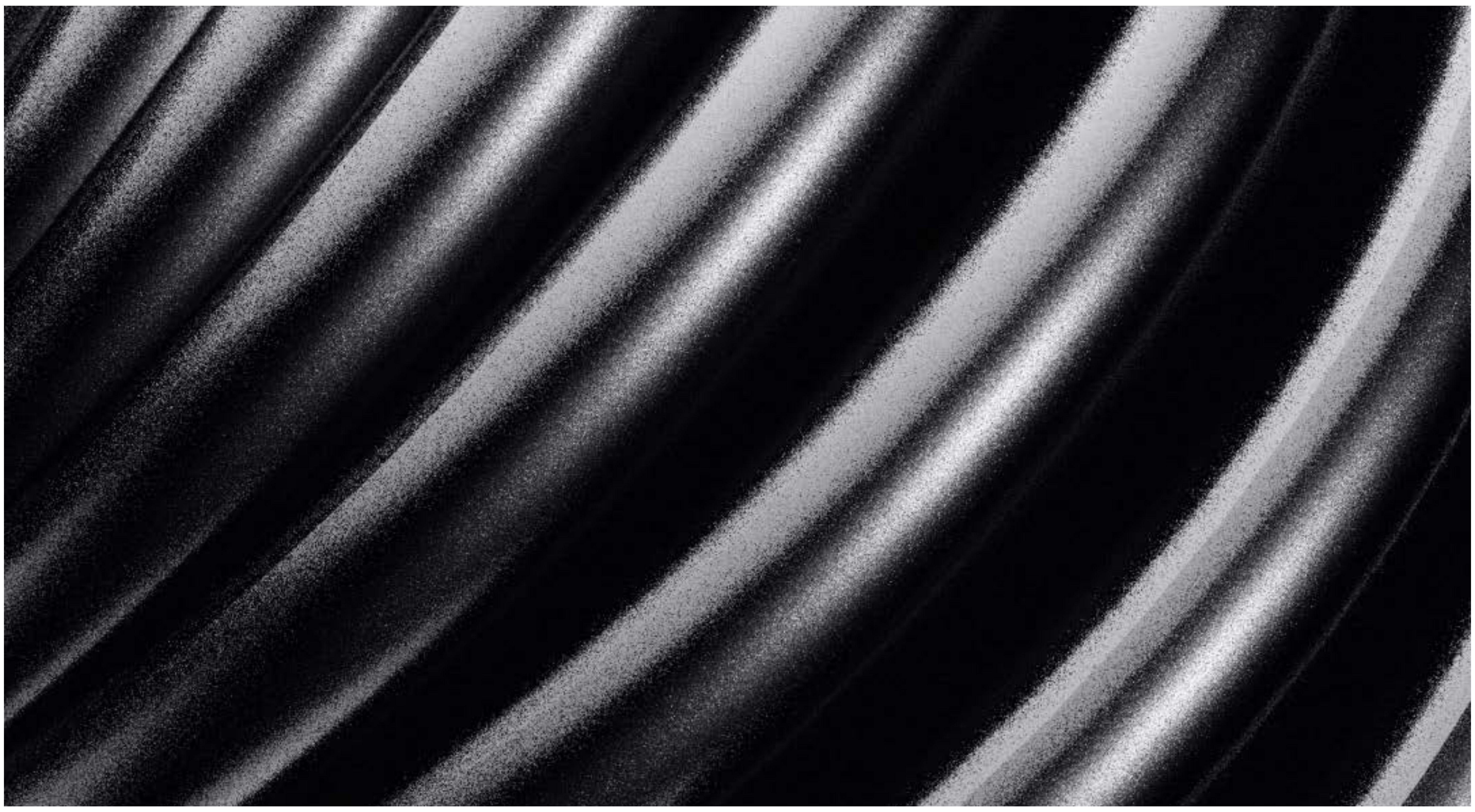


Let’s start with a back to basics on what tokenisation is. At its heart, tokenisation is the process of converting rights to an asset into a digital token on a blockchain.

In simpler terms, it's about transforming real-world assets into digital representations that can be easily and securely traded, shared, or owned in fractional portions on a digital platform.

Imagine a property valued at £1 million. Traditionally, it's challenging for multiple investors to own portions of this real estate unless they establish some complex legal and trust structures. Tokenisation changes this.

By converting the property’s value into one million individual tokens (or any other specified number), each token represents a 0.0001% stake in the asset. These tokens can be traded, bought, or sold, granting individual investors the ability to own a piece of the property without ever physically ‘owning’ it in the traditional sense.

At Ctrl Alt, we were the first company to successfully tokenise a property in the UK. The tokens / ‘digital shares’ in the property contained legal recourse to the asset. This provides the same protections as purchasing shares in a company.

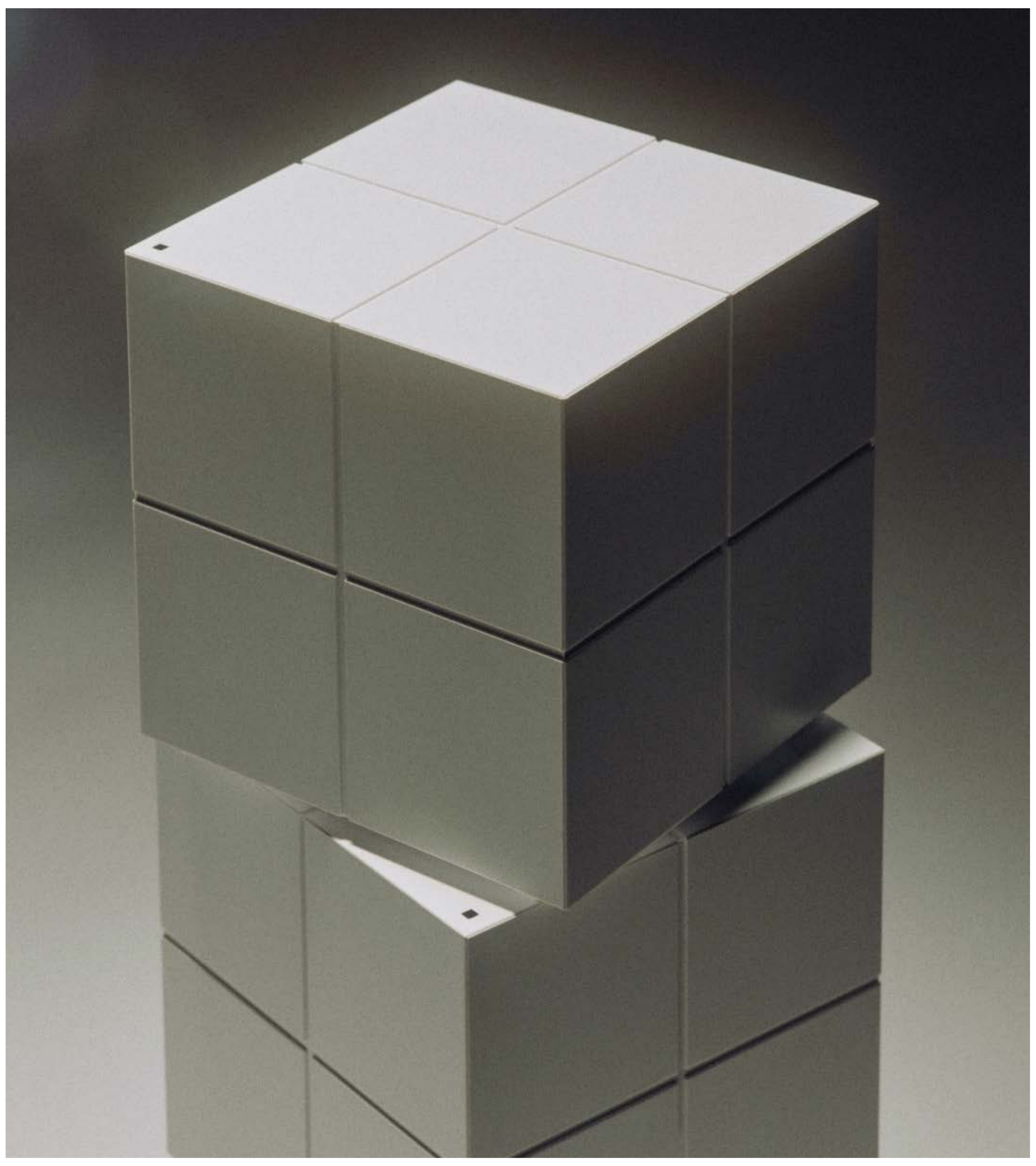
Now, let's distinguish between traditional assets and tokenised assets:

Traditional Assets

- These are tangible or intangible assets. Think real estate, stocks, or bonds.
- Transactions involving these assets often require intermediaries, like brokers or banks, leading to delays and additional costs.
- Ownership is most often represented by physical certificates or is maintained on centralised electronic registers.
- There's usually a higher barrier to entry due to the substantial capital requirements.

Tokenised Assets

- Tokenised assets represent ownership in an underlying asset, but this ownership is recorded on a decentralised digital ledger (blockchain).
- Transactions are peer-to-peer, removing the need for most intermediaries, which streamlines deal processes and reduces costs.
- Tokenisation democratises access to assets. Instead of one person owning one asset, multiple people can own fractions of that asset.
- The decentralised nature of blockchain ensures a higher level of security, transparency, and immutability. Each transaction on a blockchain is encrypted and linked to the previous transaction, forming a chain that is nearly impossible to alter without detection.



Because alternative assets typically offer lower liquidity, accessibility, and transparency compared to conventional investment assets, they are prime candidates for tokenisation.

Incorporating blockchain technology for tokenisation could bring huge upsides to both investors in these assets and those providing and managing them.

When insights about the potential of tokenisation is combined with data on the growing popularity of alternative asset investing, the opportunities compound.

Data from the Chartered Alternative Investment Analyst (CAIA) Association shows that from 2003 to 2018 alternative investments saw a nearly threefold growth, reaching an impressive USD 13.4 trillion. This translates to about 12% of global investments being funnelled into alternative channels during this timeframe.

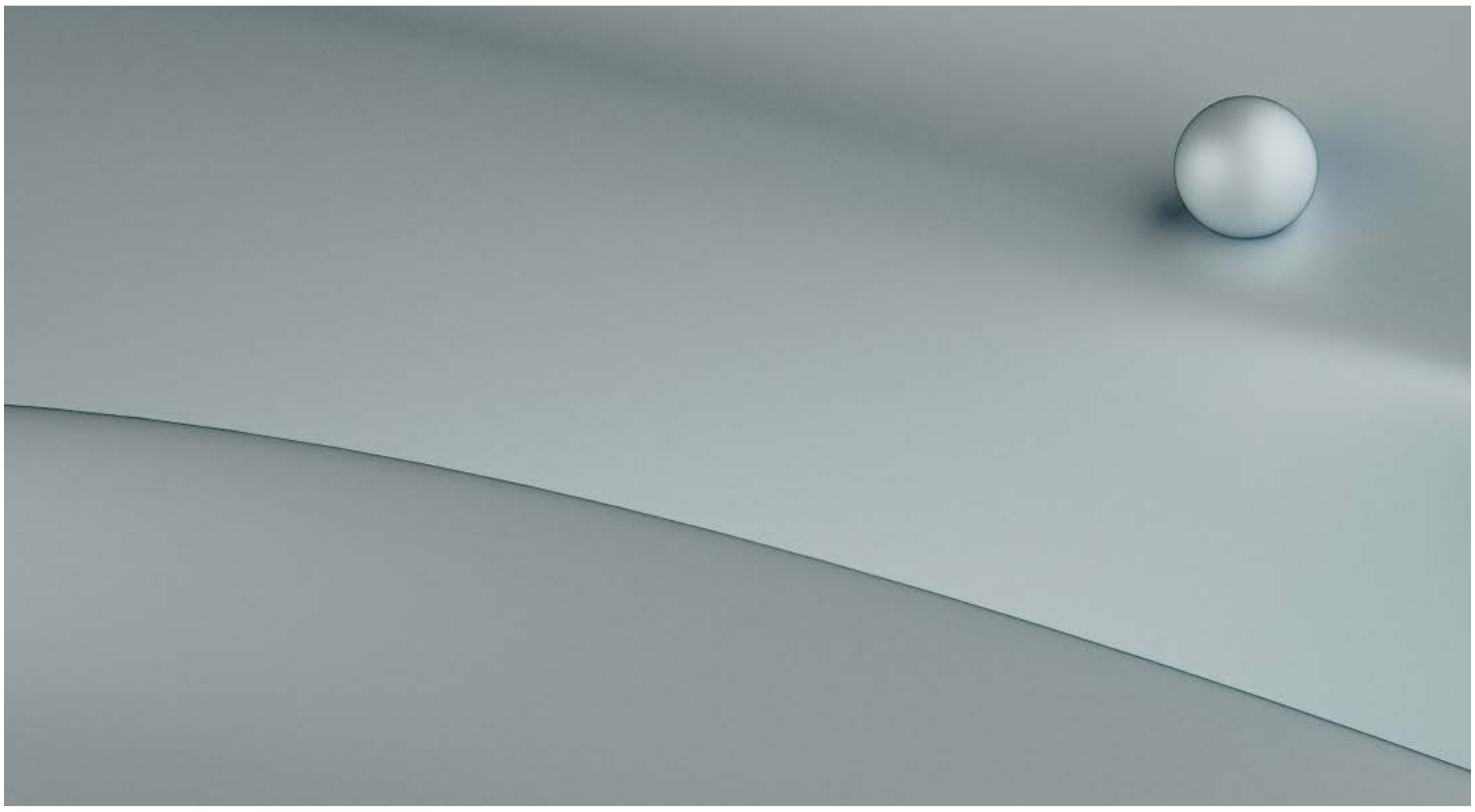
Jasper De Maere, Researcher at Outlier Ventures and ex-Morgan Stanley VP Analyst of Thematic Research had this to say on the impact of tokenisation and its future implications:

“Tokenisation has the potential to reengineer cash flows associated with financial assets. We already see this with property. In the future, we will have long moved away from the prehistoric 60/40 portfolio asset allocation into something very fluid where we effectively can take exposure to an infinite number of different financial assets if we wish to.”

While traditional investing still has its advantages, it is not the sole strategy for building wealth.

Continually evolving economic dynamics, characterised by market fluctuations, changing returns on traditional assets, and a shifting global economy, have led investors to consider a much broader range of options.

New approaches aim at wealth generation through a mix of traditional and alternative asset investments, potentially offering a more balanced and adaptive investment strategy. Tokenised assets are becoming a major part of this mixed investment strategy. While these traditionally carry **higher risk profiles, the potential returns are also in turn greater.**



Why Now?

Understanding the Increased Focus on Tokenisation

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These trends observe the growing factors that have been steadily developing over the last decade. Taken together, these elements set the stage for a new financial landscape.

The Digital Future

As the world becomes increasingly digitised, the financial sector is adapting. The growth of digital currencies, the integration of blockchain technologies, and the prevalence of digital transactions have all converged to create an environment ripe for the emergence of tokenised assets.

Transparency and Security

Using blockchain technology, tokenisation offers unparalleled levels of transparency and security. Every transaction is recorded on a decentralised ledger, ensuring both the authenticity of the asset and the integrity of its ownership records. This transparency builds trust, and trust is vital for long term relationships in the financial world.

Demand for Liquidity

Traditional investments often come with liquidity challenges. Assets like real estate, art, or certain equities demand a lot of time and effort to convert to cash. Tokenisation, however, allows these assets to be divided into smaller, more liquid units, giving investors more of the flexibility they crave.

Diversification Potential

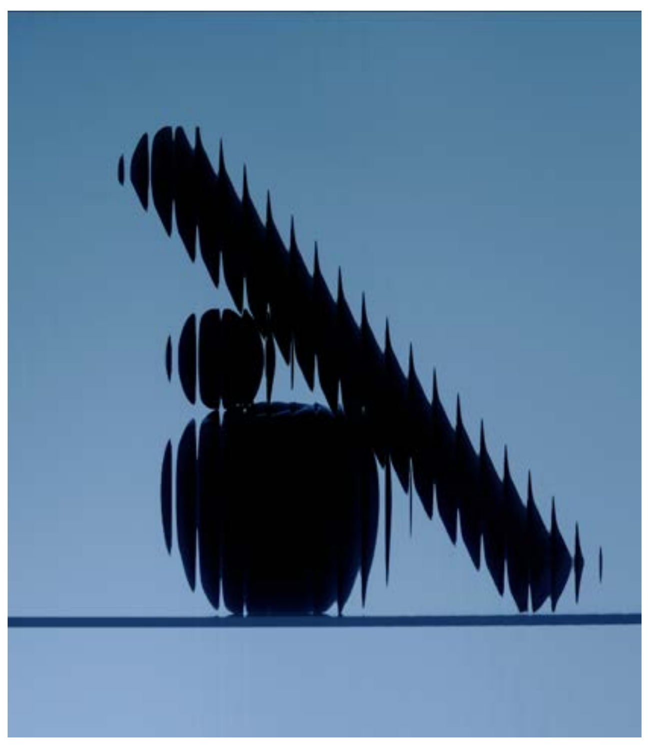
Investors are always on the hunt for diversification to help mitigate risks. Tokenised assets provide a fresh way to diversify because they span across so many asset classes, be it property, collectibles, intellectual properties, solar farm developments, or eco-tourism. You name it; it can be tokenised.

Inclusivity and Accessibility

One of the most compelling aspects of tokenisation is its access potential. By breaking down expensive assets into smaller fractions, a broader range of investors can participate in opportunities previously out of their reach. This inclusivity is driving a new generation of investors towards tokenised assets.

Gen Z & Millennial Engagement

The data is clear: younger investors are increasingly looking beyond traditional stocks and bonds, seeking alternative investments instead.


Young investors are are also interested in investments that allow them to make a positive impact on the world. Tokenised assets resonate with their digital-first mindset and appetite for innovative, accessible, and green investment avenues.

De Maere, also shared his views with us on why he thinks tokenisation is gaining such rapid momentum now:

“There are three key reasons why we are seeing so much excitement about tokenisation now. Firstly, there is increased mindshare around tokenisation from larger players who have the asset pools to tap into. Secondly, we are also seeing stronger developer tooling and infrastructure lowering barriers to entry for innovation. And finally, regulatory clarity around asset ownership and tokens in general is being formed.”

How can you Actually Tokenise an Asset?

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Tokenising an asset means converting the rights to an asset into a digital token on a blockchain. Let's walk through the process:

1. **Asset Selection and Valuation:** The first step involves choosing an appropriate asset to tokenise. This could be real estate, green energy projects, private equity, or any other valuable asset. Once selected, the asset undergoes a thorough valuation by experts to determine its current market value.

2. **Legal Clarity:** Before an asset can be tokenised, it's key to make sure that it doesn't have any legal encumbrances. Ctrl Alt uses expert structuring capabilities to ensure token holders have the same legal rights that shareholders in a company would have. This means token holders can have ease of mind that they have ownership rights over the investment.

3. **Creation of a Digital Token:** Using blockchain technology, a digital representation of the asset, or a 'token' also known as 'digital share', is created. This token signifies ownership of a portion of the underlying asset. It's similar to a digital certificate of issuance, just like you'd get from a government bond, for example.

4. **Leverage a Platform:** A platform is needed for investors to buy, sell, and manage their tokens. Ctrl Alt, provides bespoke proprietary tech which allows seamless management and trade of these digital tokens.

5. **Token Sale or Distribution:** Once the platform is set up, the tokens / digital shares can be sold to eligible investors, either through a private sale, a public offering, or other distribution methods. This process is just like investors buying shares in a company, except they're buying shares representing parts of an asset.

6. **Ongoing Management and Trading:** After the initial distribution, tokens can be traded on secondary markets, which gives that much needed liquidity to token holders. Ctrl Alt, facilitate things like yield payments making sure investors receive their returns.

Understanding the Demand

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Now that we have looked at how you tokenise an asset, let's walk through why there is so much demand for tokenisation in the alternative assets space in the first place.

The importance of alternative asset investments and their potential is gaining increasing international recognition, and major financial institutions underscore this shift. BlackRock, the world's largest asset manager, emphasised in a recent report the increasing appetite for alternative asset investments, arguing that alternative assets are becoming core to investor portfolios.

BlackRock noted that alternative assets offer much sought after diversification, are usually less influenced by market fluctuations, and offer potentially higher returns.

Their data suggests a consistent increase in both institutional and retail investor interest in alternative assets over the last few years. Further data from Preqin and the Alternative Investment Management Association indicates that the Compound Annual Growth Rate for all alternative asset types was 10.7% between 2015 and 2021.

At the end of 2015, total assets under management (AUM) stood at $7.23tn. By 2021, this had increased to $13.32tn.

Projections suggest that by 2026, we can anticipate a growth to a total alternative assets AUM of $23tn.

Data from The Bank of America shows that 75% of high-net-worth investors between the ages of 21 and 42 don't expect "above-average returns" solely from traditional stocks and bonds. As a result, 80% of younger investors are looking towards on alternative assets.

Gen Xers are currently the most likely to have alternative investments, but the percentage of millennials who use alternative asset investments is expected to explode into 2024.

This Bank of America study found that 32% of millennials currently use alternative asset investments, but this is expected to increase to 60% by 2024.

Use Cases for Tokenisation: Fractional Investing in Alternative Assets

Because alternative assets like solar farms, films, and private equity, for example, are generally less liquid and transparent, tokenisation has the potential in the future to inject some much sought after liquidity and transparency. It can make things a lot simpler and a lot more accessible.

By breaking down large assets that were historically only accessible to investors with large sums of capital, tokenisation can enhance access for a much broader range of investors. This, in turn, can even further enhance the already established trend of the uptake of alternative asset investing.

Micah Urlass, Web3 Technology Lead at Accenture shared his thoughts on use cases for tokenisation:

“Hovering in the centre of future use cases for tokenisation is the theme of digital ownership. In the future, we will bring our identity, money, and objects with us from experience to experience: both physical and virtual. The winning businesses will be the ones that earn the trust of their customers and have direct access to the data in their digital wallets as the foundation to then create lovable and personalised experiences that show up at the right time in the right context of their customer’s lives.”

Tokenisation: The Future of Alternative Asset Investing

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The move from conventional to fractional investing enabled by tokenisation is not just a trend but a seismic shift in global patterns of capital flow.

Conventional investing has lost some of its appeal as younger generations have already lived through two ‘once in a lifetime’ global recessions. Their trust and confidence in traditional stocks and bonds has decreased as returns have been less favourable than in decades past.

We also had the opportunity to speak with Salman Hussain, a millennial entrepreneur and co-founder of the cutting-edge tech firm Zeed. Hussain, who represents the ambitious and boundary pushing spirit of his generation, explained that:

“We've seen a lot of once in a lifetime financial events take place and because of that, I think a lot of people think that traditional stocks for 20 or 30 years is good, but there are opportunities that come in other forms. So I think it's mainly due to the savviness that they (Millennial and Gen-Z investors) get - they are learning about different things and are willing to take risks at a younger age.”

Micah Urhlass, Web3 Technology Lead at Accenture also added:

“The benefits of tokenisation extend across alternative asset classes. Simplifying operational processes, broadening access, and faster and cheaper transactions can drive significant value for investors, issuers, and intermediaries. These benefits can accelerate investor flows to alternative assets, especially for retail investors that traditionally have limited access to alternative assets.”

Whilst we have seen some interesting movements in the alternative and tokenised asset market, there is still huge untapped potential since the space is in its very early stages of development.

Current predictions for the future of tokenisation are bright. Industry giants like Forbes, The Chartered Alternative Investment Analyst Association (CAIA), and Preqin, agree that tokenised assets will play a formative role in the economy of the future.

Just like open banking was once thought of as an intimidating new way of doing banking, its journey from concept to a natural aspect of everyday finance can give us a prescient analogy for tokenisation. Initially, open banking was met with scepticism and concern, challenging traditional banking norms and raising questions about security and data privacy.

But, in just a few years, open banking was so widely adopted that it became the norm. So much so that its once-revolutionary mechanisms now operate quietly in the background, almost invisible to end-users.

Keeping this in mind, here are our predictions for tokenisation:

Proliferation of Tokenised Assets:

While real estate and art are primary candidates today, the scope will broaden. We will see a proliferation of assets like intellectual property, patents, or even future earnings being tokenised.

Integration with Traditional Banking:

In a bid to remain relevant and profitable, neobanks and investment platforms in particular will begin to offer tokenised assets as part of their product suite.

A New Asset Renaissance:

Assets that were previously too illiquid or inaccessible will emerge into the market in their tokenised form. Intellectual properties, future earnings, and even personal brands will be commonly traded on digital platforms.

Regulatory Clarity:

As tokenisation gains momentum, regulatory bodies worldwide will introduce more comprehensive frameworks. This will not only protect investors but also provide legitimacy.

FinTechs at the Forefront

The fintech companies who were the first movers in the tokenisation space will lead the charge.These companies will play a central role in reshaping the investing landscape.

Opening up Access

With fractional ownership becoming the norm, high-value assets will no longer be the sole purview of the super rich. More people will find it easier than ever before to diversify their portfolio, ushering in a new era of inclusive finance.

The predictions are that in the future, tokenised assets will be as ubiquitous as shares and bonds are today.

This is exactly what Michael Juul Rugaard, Founder and CEO of The Tokenizer predicts:

“I am very sure that, for instance, all stocks and all bonds will be tokenised by 2050; it’s just a logical development. I think most or perhaps all assets will be traded as tokens. Hopefully, we will also see a significant democratisation of the investment markets, allowing not only professional investors but also retail investors to invest in all sorts of tokens globally and to make their own portfolios of tokens representing assets from many different asset classes worldwide.”

In the future, the typical investment portfolio could be a mosaic of tokenised assets. From real estate to private equity, every asset class could be fractionally owned, enabling diversified investments even for the smallest portfolios.

When thinking forward to the role of tokenisation, Micah Uhrlass, Web3 Technology Lead at Accenture explained that:

“Tokenisation is a technology that can support the market in increasing access, reducing transaction costs, and ensuring market transparency. The next version of our digital world will be based on digitally native money, identity, and objects managed through digital wallets for businesses and individuals. This will be the basis for reclaiming privacy, control and much better digital experiences. We are at an early stage of this shift in our digital world that will ultimately create the highest quality forms of money, identity, and objects.”

Conclusion

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The significance of tokenisation cannot be overstated. Tokenisation is revolutionising the way we think about and interact with assets – offering us a paradigm shift from the conventional to the digital.

Based on the above, firms should keeping a close eye on this trend as it is likely to be a major tool to allow firms to remain relevant for the next generation of investor

Gen Z and Millennials are at the forefront of the transformation towards tokenised alternative asset investing. Research indicates a strong inclination among these groups towards alternative investments and away from traditional stocks and bonds. This is the future wave of wealth builders, and they demand digital, diversified ways to grow their capital.

Fintechs and banks find themselves at a crossroads. Do they continue with business as usual, or do they harness the opportunity tokenisation presents?

Micah Uhrlass of Accenture left us with this final thought:

“Make no mistake, ‘real world’ assets are coming on chain – and as they do, the binding of digital assets to value already recognized by regulated institutions lends legitimacy and trust to the Web3 space, grants market stability, and provides an additional, more accessible entry point into the market, thanks to the introduction of lower-risk and more familiar investment instruments.”
The pull towards tokenised assets lies not just in their novelty, but in the potential they hold for more accessible, transparent, and flexible investment opportunities.The evidence suggests that understanding the rise and relevance of tokenised assets isn't just advantageous, it's imperative if you want to serve and retain your customers.

About Us

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Meet Ctrl Alt, the Expert Solutions Provider for Alternative Assets.

Ctrl Alt was born to open up the previously exclusive world of alternative asset investing.

Ctrl Alt was launched in 2020 by Matt Ong (formerly of Morgan Stanley and Credit Suisse) to make investing in alternative assets more accessible for the individual investor.

Ctrl Alt's solutions empowers fintechs and investment platforms to provide their customers with opportunities to invest in tokenised assets such as green energy, property, and more while making it easier for asset holders to fractionalise assets as a means to raise capital.

By bringing together the needs of fintechs and investment platforms with that of asset holders, Ctrl Alt is enabling access to a previously exclusive world.

We bring a new arm of investing to fintech's and investment platforms tool belt by blending industry expertise in alternative assets with financial technology.

Unlock the Power of Tokenisation

Want to be a leader in the future of asset management and investing?

Book a meeting with us via info@ctrl-alt.co and discover the potential of partnering with Ctrl Alt.

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