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funds europe

RESHAPING INVESTMENT: TOKENISATION, ETFS AND SUSTAINABILITY

Sustainability, ETFs, tokenisation

THE FINANCIAL SERVICES INDUSTRY continues to evolve quickly, driven by innovations such as digital assets and growing regulatory expectations on sustainability. We've been partnering with Funds Europe for several years to uncover important themes for asset and wealth managers. Last year, we focused on climate governance within the asset management landscape.

This year, we wanted to uncover how asset owners are addressing some of the big themes that we see emerging – namely, digital assets, sustainability and ETFs, more specifically, active ETFs.

The industry is on the verge of a major technological transformation, which will likely see the increasing adoption of tokenisation, potentially facilitating greater access to private markets, a growing area for asset owners. Meanwhile, asset owners across Europe are taking leadership positions in how they integrate sustainability, and this is likely to dominate the future investment landscape for them, alongside the demands they place on their asset managers.

Asset owners are also becoming increasingly sophisticated in how they leverage ETFs. We believe this reinforces our view that ETFs will increasingly become a core component for asset owners going forward, and the increasing focus on sustainability will also drive the development of more active ETFs.

Arnaud Misset – Chief Digital Officer, CACEIS
Scott Foster – Head of Digital & Governance Solutions, CACEIS
Gilles Dubos – Senior Expert, ETF Solutions, CACEIS

Transformative impact

FUNDS EUROPE RESEARCH, in partnership with CACEIS, seeks to shed light on three of the most important drivers that are shaping the future of asset allocation. We asked more than 250 asset owners, investment consultants, family offices and sovereign wealth funds from all over Europe to give their opinions on how they are approaching digital assets and tokenisation, ESG and sustainability, and ETFs.

It becomes clear that the key driver of asset allocators' sustainability strategy is a mixture of government policy, legislation, and the net-zero agenda from regulators (see p4). For example, we find that more than half (51.2%) of respondents to our survey said policies - such as ambitious net zero targets to reduce carbon emissions - have informed their investment approach.

The presence of dedicated ESG risk management teams in the industry (another finding of our research) arguably shows how ESG risk management has developed into a serious discipline.

Finally, there is little doubt from our research that ETFs remain an important tool for asset allocators or that digital assets will have a transformative impact on investment funds.

Nick Fitzpatrick, Group Editor, Funds Europe

(Report author: Rob Langston)

IN THIS REPORT:

ESG risk gains due recognition

ESG RISK MANAGEMENT IS TAKEN SERIOUSLY IN A NUMBER OF EUROPEAN COUNTRIES. BUT THERE REMAINS A DIVERGENCE ON THE ISSUE, FINDS THE SECOND PART OF OUR EXCLUSIVE FUNDS EUROPE/CACEIS RESEARCH AMONG 250 ASSET OWNERS

GREATER FOCUS ON SUSTAINABILITY AND ESG has been one of the biggest drivers of asset allocation in recent years, as investors have pledged increasing proportions of their portfolios to strategies that aim to have a positive environmental or social impact.

Such is the enthusiasm for this area of investing, that institutional assets under management are forecast to rise to $33.9 trillion by 2026 from $18.2 trillion in 2021, according to PwC.

Unlike other themes, such as digital assets where conversations have been driven by investors or the wider industry, the biggest influence on sustainability investment strategy is government policy.

Funds Europe research, in partnership with Caceis, finds that more than half (51.2%) of respondents said policies, such as ambitious net zero targets to reduce carbon emissions, have informed their investment approach (Fig 1).

"It is pretty clear that the key driver of asset allocators' sustainability strategy is a mixture of government policy, legislation, and the net-zero agenda from regulators," said Scott Foster, head of digital & governance products at CACEIS. "Investment managers are designing the products, consultants are advising schemes on how to meet their goals and targets, and their peers are providing benchmarks."

ESG risk now fully recognised

Environmental and social risks were for a long time considered as non-financial risks. But over the years, as ESG crept up the agenda, investors came to see how oil spills or collapsing factories that kill workers in a company's supply chain can be disastrous for the financial bottom-line.

There are several ways for respondents to integrate sustainability into their investment strategy, but the most common for respondents was through maintaining a dedicated ESG risk management team (61.5%). Exclusion policies are used by 35.4% of respondents, while stewardship and overlays were also common (Fig. 2).

The preference for maintaining dedicated teams arguably shows how ESG risk management has developed

FIG 1: Who/what is the biggest influence on your sustainability strategy? (select top two answers)

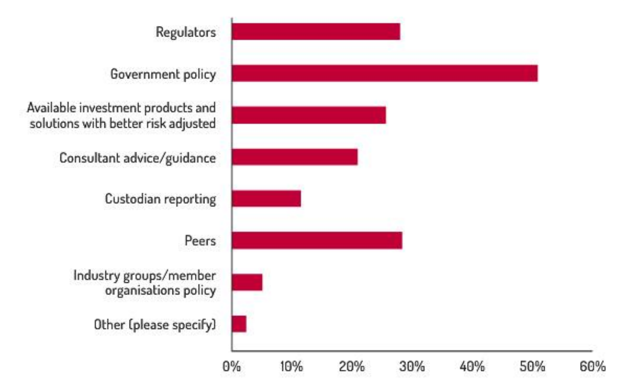
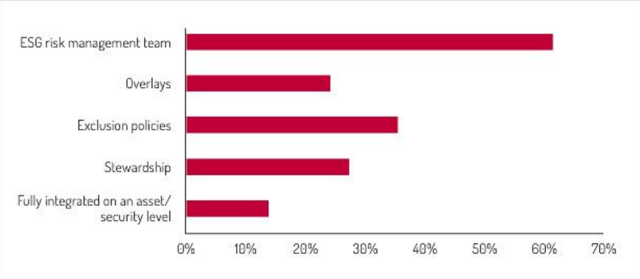


FIG 2: How do you integrate sustainability into your investment strategy? (select all that apply)



into a discipline.

"These results show respondents have rightly identified ESG as a risk," says Foster. "Even though policies and strategies are being driven by regulators and government legislation, it is not a tick-box exercise. Asset allocators have identified that climate change holds various risks for their portfolio, including transition risks, decarbonisation risks and physical risks."

"Overlays can be useful, but exclusion policies may become more common to determine what pension funds invest in, Foster says. He adds that CACIES sees pension schemes using exclusion-based reporting to identify their look-through exposure to revenue connected to 'sin' products, such as alcohol, tobacco, and oil and gas within their portfolios. Schemes want more transparency across all responsible investment areas.

The soaring popularity of applying sustainability factors is not just due to regulatory requirements or marketing. More than a third (38.5%) of respondents said sustainability was a risk management tool, compared with 23.1% who said it was the result of a compliance requirement (Fig 3).

At the country level, there were some notable differences between respondents. French, British and German respondents were most likely to view sustainability predominantly as a compliance issue. Dutch and Swiss respondents, meanwhile, were more likely to consider sustainability to be a risk management tool.

"THESE RESULTS SHOW RESPONDENTS HAVE RIGHTLY IDENTIFIED ESG AS A RISK."

Scott Foster

Foster said sustainability risks should be viewed in the same way as financial risks - and should be fully embedded in governance processes.

"Risk management teams are in charge of the integration of sustainability into respondents' investment strategies, but French, British and German respondents do not primarily see it as a risk management tool," said Foster. "The fact that initiatives such as TCFD reporting has only been rolled out in the UK within last year or two, as well as the arduous complication of SFDR and EU taxonomy reports, could explain why many think of it primarily as a burdensome compliance requirement.

"Over time, once the regulatory reporting element is stabilised, asset owners and other investors will start to appreciate the facts and figures, identify trends, and the impacts these new metrics have on long term investment performance. The integration of accurate sustainability data, ESG reporting, and scenario analysis will eventually feed more into the risk management mindset."

FIG 3: Do you see sustainability predominantly as a:

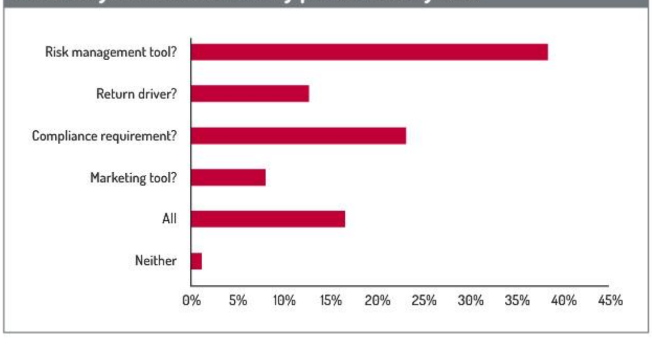


FIG 4: Do you have a different sustainability strategy for public and private market assets?

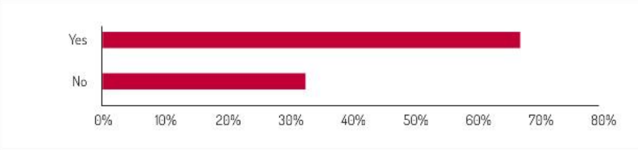
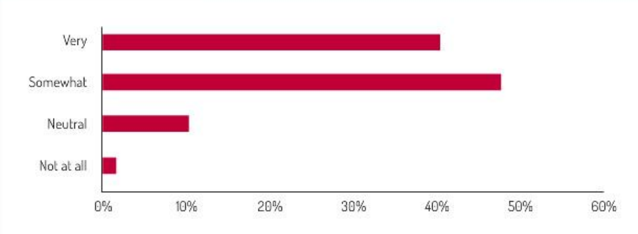


FIG 5: How useful is fund labelling when making your investment decisions?



A challenge for private markets

While it has been easier to compare the sustainability of traditional asset classes, such as publicly listed equities and bonds, it has been more challenging for private assets, which can be less transparent. Just over two-thirds (67.3%) have a different strategy for public and private market assets (Fig 4)). Respondents said they operate different strategies for different asset classes, but they often have an overarching approach to sustainability and ESG that guides these strategies.

"Private equity businesses can hold greater emphasis on financial returns than ESG factors, although this is changing as sustainability becomes increasingly important," said one of the respondents.

The respondent adds: "Public markets are subject to stricter reporting and transparency guidelines, some of which may specifically target sustainability.

"Private market investments may focus on long-term impact and customisation, while public market investments provide liquidity, transparency and scalability."

The popularity of sustainable funds means asset managers have been very active in marketing their ESG strategies to investors. However, accusations of greenwashing have prompted regulators to act and introduce fund labelling to ensure investors are not misled. The EU's SFDR and forthcoming SDR from the UK Financial Conduct Authority aim to level the playing field.

Fund labelling ethos

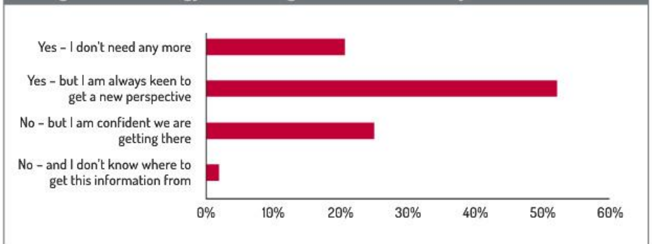
Fund labelling was extremely popular with respondents, with 88.1% making use of labels when making investment decisions.

"The ethos of fund labelling is correct, and we should be doing it to prevent issues including greenwashing, to make it clear to consumers what they are buying," said Foster. "The biggest issue will be divergence in fund labelling regimes globally. You could end up with one classification in Europe and a completely different one in the US or the UK. That will only add confusion to the market, and amongst investors."

When considering their ability to create a long-term sustainability strategy, most respondents were confident they had the right information and support in place. Some 20.8% said they didn't need any more help, while 52.3% said they were keen to get new perspectives (Fig 6). While one-quarter of respondents said they did not have enough support or information, they were confident they would receive this in the long term.

As more asset owners and investors embrace sustainability in their investment approach and make decisions that have a real impact on the world, they will likely become more involved in stewardship. It is an area where the respondents have a high

FIG 6: Do you have enough support/info to help you create a long-term strategy that integrates sustainability?



degree of confidence, with 42.7% very satisfied with their engagement and achievements (Fig 7). There was some room for improvement, however, with just 43.5% saying they are only 'somewhat' satisfied with their achievements. A further 11.2% are dissatisfied with their stewardship approach.

Voting with their feet

Increasingly, respondents are not afraid to vote with their feet by backing fund managers with strong sustainability credentials, or challenging those who do not align with their sustainability approach. More than two-thirds (69.6%) of respondents said they had engaged or exited a fund manager because of its sustainability approach (Fig 8).

Of those that had exited a fund manager, 45.9% had exited immediately when they became aware of an issue and 49.7% had left after attempting to engage with the fund manager (Fig 9).

For those that had never exited, 70.9% said their attempts at

"AT PRESENT, DIFFERENT DATA PROVIDERS USE DIFFERENT EVALUATION METHODS AND INDICATORS, MAKING IT DIFFICULT FOR ME TO COMPARE AND EVALUATE THE SUSTAINABLE PERFORMANCE OF DIFFERENT COMPANIES."

A survey respondent

FIG 7: Are you satisfied with your stewardship activity and its achievements?

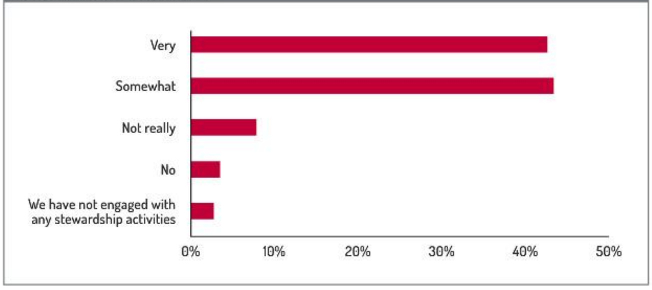


FIG 8: Have you ever exited or engaged a manager due to its sustainability approach?

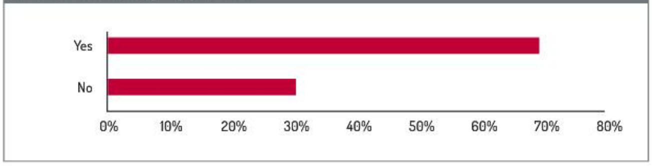


FIG 9: If yes, have you ever exited or engaged a manager due to its sustainability approach? (select all that apply)

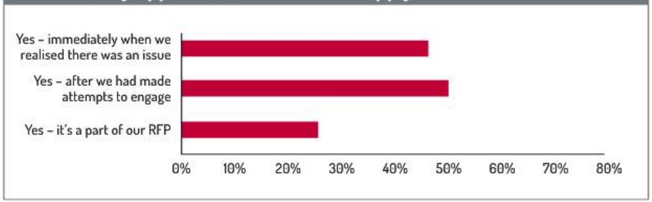
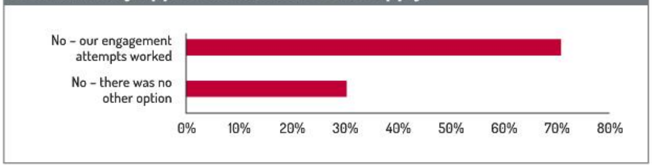


FIG 10: If no, have you ever exited or engaged a manager due to its sustainability approach? (select all that apply)



engagement had worked. However, a significant proportion said they had not exited only because there was no other option available to them.

Finally, when asked to share their biggest data-related challenge, respondents highlighted a range of issues impacting their ability to implement their sustainability strategy. While there were many concerns raised by respondents, a lot of them centred on the lack of standardised ESG data, which continues to make it difficult to compare funds and managers.

"At present, different data providers use different evaluation methods and indicators, making it difficult for me to compare and evaluate the sustainable performance of different companies," said one respondent. "In addition, some companies do not disclose ESG data publicly, making it difficult for me to obtain comprehensive information.

"Therefore, establishing a more standardised ESG data system and improving the transparency of companies' ESG disclosure are the main data challenges I currently face." **f**e

"PRIVATE EQUITY BUSINESSES CAN HOLD GREATER EMPHASIS ON FINANCIAL RETURNS THAN ESG FACTORS, ALTHOUGH THIS IS CHANGING AS SUSTAINABILITY BECOMES INCREASINGLY IMPORTANT."

Survey respondent

CROSSOVER: THE OPPORTUNITIES & CHALLENGES OF ESG AND ETFS

As the popularity of ESG and sustainable strategies continues to grow, new ETFs are beginning to emerge, offering investors access to a range of low-cost specialist strategies. Indeed, flows to ESG ETFs have been strong with around €51 billion invested in the products in 2022, according to Morningstar data.

Sustainable ETFs offer all the advantages of the fund structure – such as liquidity, transparency and ease of trading – together with innovative products that can offer exposure to specific sectors such as electric vehicles as well as sustainable indices or exclusion strategies. Some 85% of respondents said ETFs are useful tools for sustainability strategies.

"There is a growing recognition among many asset owners and institutional investors that ETFs are a good tool for helping them to gain exposure to sustainable themes," said Gilles Dubos, senior expert in CACEIS' ETF division.

Not only do ETFs offer the benefits of the fund structure, but they are also increasingly playing an important role in helping with stewardship .

Some 84.6% of respondents said they could achieve effective stewardship through ETFs, with some respondents noting they may lack the resources and expertise to actively engage with companies in their portfolio.

"ETFs can potentially provide good stewardship, depending on the fund's approach and the underlying holdings," said one respondent. "Innovation and increasing scale mean that ESG ETF investors can make a big impact.

"More respondents believe ETFs provide effective stewardship and this can be directly related to the number of ESG products that have been launched in recent years," said CACEIS' Dubos. "In Europe, we had the introduction of SFDR, and funds have to demonstrate their ESG credentials."

Nevertheless, not all respondents believed ETFs are the best vehicle for ESG/ sustainable exposure. Some highlighted the limitations of passive ETFs in implementing an effective stewardship strategy. Dutch respondents were the biggest sceptics in the survey, with 20.4% saying that they did not believe ETFs can deliver effective stewardship.

"Stewardship, to me, implies investing in companies doing the right things, implying the manager is making active decisions, which is not common among the passive management styles in ETFs," cautioned one asset owner.

FIGURES: The practical benefits of ETFs have made them firm favourites with investors of all stripes.

Beyond index tracking, ETFs gain more use cases

EXCLUSIVE FUNDS EUROPE/CACEIS RESEARCH AMONG 250 ASSET OWNERS AND PROFESSIONALS REVEALS HOW ETFS HAVE BECOME AN ESSENTIAL PART OF ASSET ALLOCATORS' TOOLKITS. AS WELL AS BEING A LOW-COST WAY TO TRACK INDICES, OUR SURVEY FINDS ETFS ALSO BEING USED FOR OTHER PURPOSES.

SINCE THEY LAUNCHED in the early 1990s, exchange-traded funds (ETFs) have revolutionised the asset management industry. Their low fees, simple structure, greater transparency, highly liquid characteristics and ease of trading have made them firm favourites with investors of all stripes over the years.

Having gained much popularity initially for being able to track indices cheaply, these products have evolved over the years to offer investors a wide range of asset classes and strategies to choose from. Whether factor-based, thematic, leveraged or, more recently, actively managed, investors can find strategies that can fit into almost any portfolio.

Funds Europe research, in partnership with CACEIS, the asset servicer, finds ETFs remain an important tool for asset allocators. We asked more than 250 asset owners, investment consultants, family offices and sovereign wealth funds from all over Europe to give their opinions on how they are approaching three key areas shaping the future of asset allocation: digital assets and tokenisation; ESG and sustainability; and ETFs.

French appetite

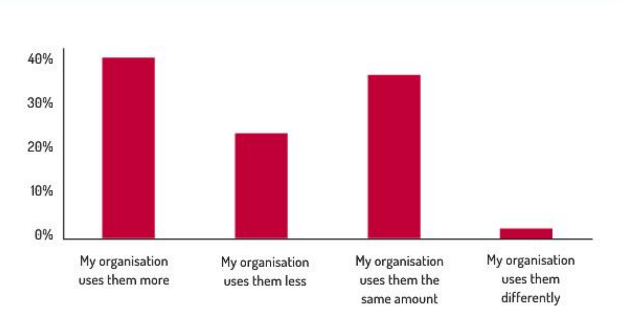
Compared with ten years ago, 39.6% of respondents said they now make more use of ETFs in their portfolios, while 35.4% continue to use the same amount. Not everybody uses them just as much, however, with 23.1% reducing the volume of ETFs in the portfolio over the past decade.

The survey found the greatest increase in enthusiasm among French respondents, with 60.4% of this cohort expanding their use of ETFs compared with a decade ago. Approximately half of German and UK respondents also now use ETFs more than did ten years ago.

There has been a wide range of reasons for the changing use of ETFs over the past decade. Many respondents highlighted ETFs' transparency and low costs as key reasons for including them in their portfolios.

Some respondents said ETFs have helped them to reduce risk in their investment portfolios by increasing the diversity and liquidity of their holdings, which has been particularly important during volatile market conditions of the past two years when interest rates have changed. Additionally, the growing range of assets and strategies mean respondents have also been able to construct portfolios from a variety of ETFs.

How has your use of ETFs changed over the past 10 years?



Transition management

ETFs have traditionally been used for their ability to replicate the performance of indices, providing a cheap source of beta exposure; it remains a key feature of portfolios. But they are increasingly using ETFs in other ways too. Almost half (47.3%) of respondents have used ETFs as an aid for transition management, due to their tradability and scalability, facilitating the move to a new manager or strategy more easily. Liquidity is also a key reason for their inclusion in portfolios, highlighted by 44.2% of respondents.

There is clearly a split between respondents based in different European countries when it comes to their use of ETFs.

Dutch and Swiss respondents were the most enthusiastic users of ETFs for cheap index tracking and transition management. French and UK respondents were more likely to use ETFs for liquidity and thematic exposure. German respondents, meanwhile, reported using ETFs predominantly as cheap index trackers and for liquidity purposes.

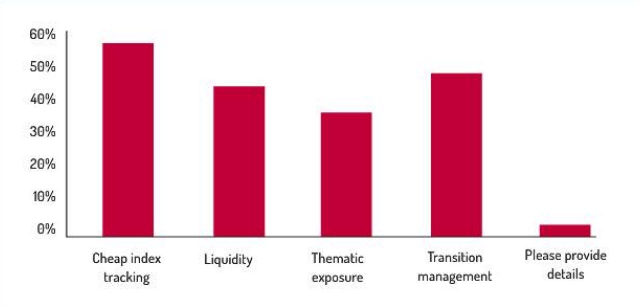
Swiss and Dutch respondents are heavy users of ETFs for passive exposure, with 44.7% and 42.9% respectively using ETFs for over half of their allocations. However, UK and German respondents were the lightest users of ETFs for passive exposure, opting to spread their allocation across other products.

"ETFs are part of investors' investment strategy for various reasons," said Gilles Dubos, senior expert in CACEIS' ETF division. "Cheap index tracking might be reductive, but it is still one of the biggest reasons that asset owners like these products. However, the popularity of ETFs for transition management shows how sophisticated and adept they have become at wielding these products."

For respondents, the unique attributes of ETFs make them an effective tool for managing several aspects of their portfolios. An overwhelming majority (91.5%) of respondents said ETFs are an effective tool for risk management. Moreover, a high proportion of respondents said ETFs can be useful tools for helping to implement their sustainability strategies and manage liquidity.

Liquidity is a key feature of ETFs and one of the reasons for their rising popularity over the years. This aspect of ETFs has been brought into greater focus in recent years, following the pandemic-induced volatility in markets and the LDI crisis in the UK. Indeed, liquid instruments such

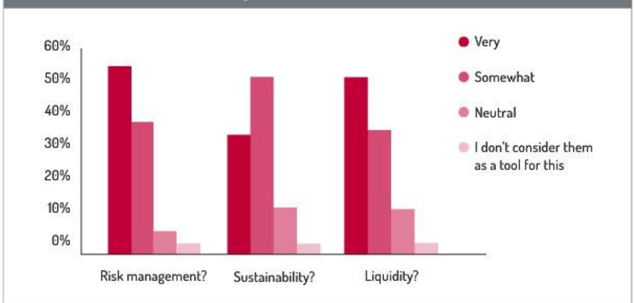
How do you use ETFs in your portfolio/investment strategy? (select all that apply)



"ETFs BRING GREATER TRANSPARENCY AND LOWER FEES. THE TRANSACTION AND HOLDING COSTS OF ETFs ARE USUALLY LOW BECAUSE THEY DO NOT NEED TO TRADE FREQUENTLY AND REBALANCE LIKE OTHER FUNDS."

Survey respondent

Please tell us how useful you consider ETFs as a tool for:



"CHEAP INDEX TRACKING MIGHT BE REDUCTIVE, BUT IT IS STILL ONE OF THE BIGGEST REASONS THAT ASSET OWNERS LIKE THESE PRODUCTS. HOWEVER, THE POPULARITY OF ETFs FOR TRANSITION MANAGEMENT SHOWS HOW SOPHISTICATED AND ADEPT THEY HAVE BECOME AT WIELDING THESE PRODUCTS."

Gilles Dubos

as ETFs have helped pension funds weather some of the most challenging market conditions since the Global Financial Crisis.

"ETFs' ability to provide greater diversification and help reduce risk is well understood by respondents," said CACEIS' Dubos.

"These types of strategies, where you have exposure to an entire index, market or theme, provide a more secure investment vehicle than investing in one security."

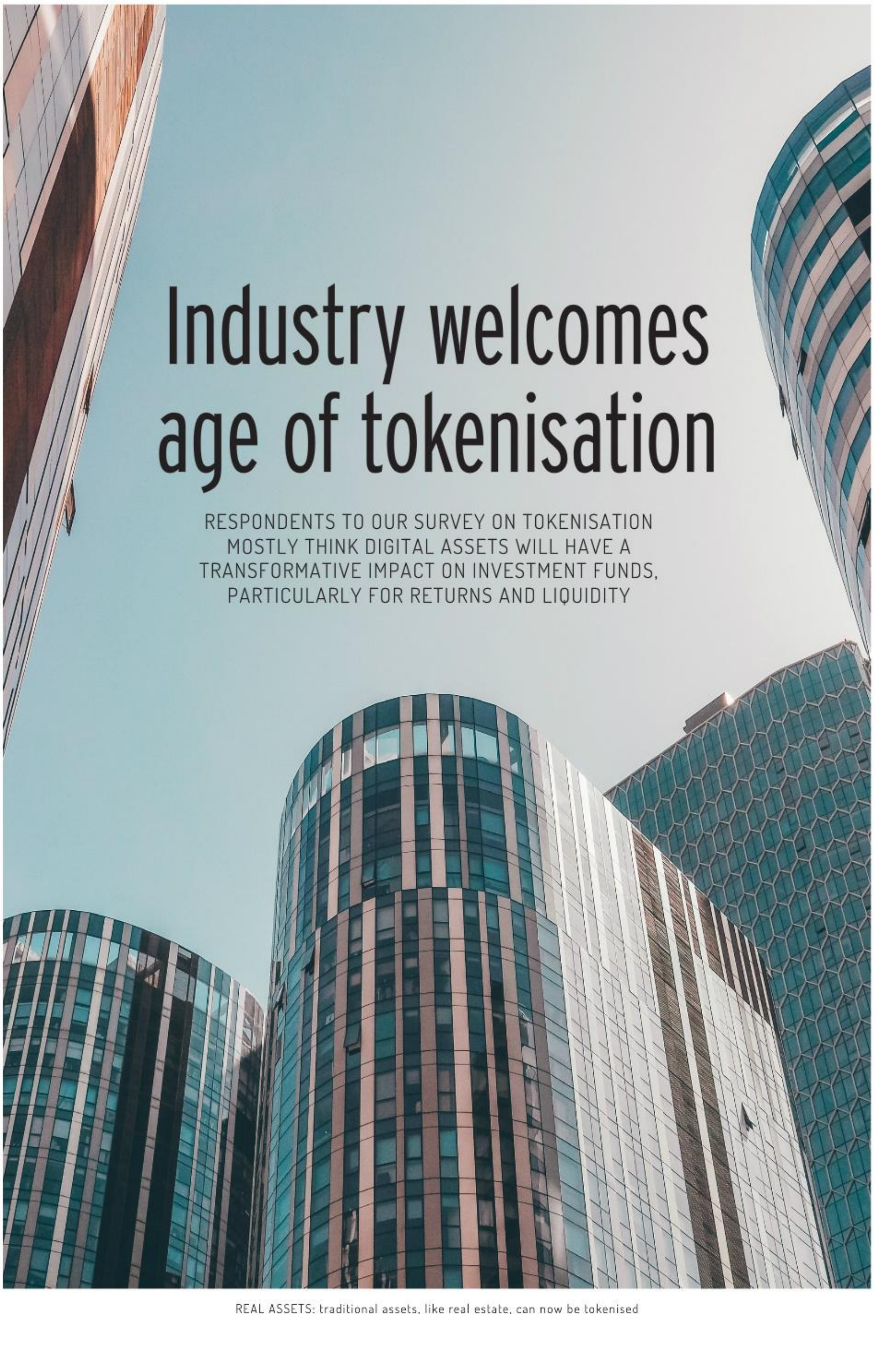
"Lower transaction costs"

Another reason for ETFs' strong growth and enduring popularity has been the low costs associated with the structure.

Costs have been brought into greater focus in recent years, as pension trustees are being pushed to demonstrate how they deliver value for money. As such, more schemes are looking to ETFs to provide lower-cost exposure to markets, sectors and themes.

Respondents overwhelmingly (89.62%) said ETFs offer value for money, praising their lower costs in comparison with other types of investment products.

"ETFs bring greater transparency and lower fees," said one respondent to our survey. "The transaction and holding costs of ETFs are usually low because they do not need to trade frequently and rebalance like other funds." **f**e



Industry welcomes age of tokenisation

RESPONDENTS TO OUR SURVEY ON TOKENISATION MOSTLY THINK DIGITAL ASSETS WILL HAVE A TRANSFORMATIVE IMPACT ON INVESTMENT FUNDS, PARTICULARLY FOR RETURNS AND LIQUIDITY

REAL ASSETS: traditional assets, like real estate, can now be tokenised

"WE BELIEVE TRADITIONAL CUSTODIANS ARE THE BEST OPTION FOR ASSET OWNERS AND INVESTORS WHEN IT COMES TO DIGITAL ASSETS AS THEY CAN PROVIDE CLIENTS WITH A HIGH DEGREE OF CONFIDENCE AND SECURITY – IT'S WHAT CUSTODIANS ALREADY DO WITH TRADITIONAL ASSETS."

Arnaud Misset

ONE OF THE MOST SIGNIFICANT INNOVATIONS to impact asset management in recent years has been the development of blockchain technology, which has paved the way for tokenisation and the introduction of digital assets.

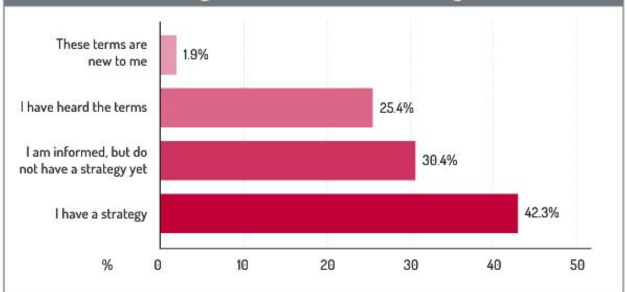
Blockchain is a distributed ledger technology (DLT) that allows data to be stored in linear 'chained', or linked, blocks that can record and verify information. It has been particularly useful for the financial services industry as it permits the recording of transactions that are immutable - cannot be altered later.

The arrival of blockchain technology has also helped pave the way for tokenisation and the launch of a new wave of tradable digital assets. Not only has it enabled entirely new digital-native assets such as cryptocurrencies and non-fungible tokens (NFTs), but it is also being utilised for traditional assets.

Increasingly, less liquid traditional assets, such as real estate, are being converted into digital tokens that can be stored and transferred securely using blockchain technology. As well as providing greater liquidity, tokens can offer fractional ownership and greater accessibility.

Regulators around the world are also turning their attention to facilitate the roll-out of digital assets via tokenisation to protect investors. One of the most recent regulatory initiatives is the European DLT Pilot Regime, which came into force in March 2023 and will allow operators of market infrastructure to test DLT in the issuance, trading and settlement of tokenised financial securities for an initial three-year period.

FIG 1: Current thinking around tokenisation and digital assets



The UK Financial Conduct Authority, for example, is also experimenting with tokenisation through its proposed Digital Securities Sandbox, which will facilitate the testing and adoption of digital securities across financial markets.

As tokenisation and digital assets become more widely adopted, a brand-new investment opportunity is emerging. The size of the market is set to grow to around $4-5 trillion by 2030, according to investment bank Citigroup. As such, they will likely play an increasingly important role in portfolios in the years to come.

How many have heard of them?

Encouragingly, almost all (98%) respondents have already heard of digital assets and tokenisation. However, respondents are at different stages of preparedness for how they tackle this burgeoning asset class.

Under half of respondents (42.3%) have a strategy in place to incorporate or utilise digital assets and tokenisation within their portfolios (Fig.1). And a further 30.4% of respondents are informed about digital assets and tokenisation but do not yet have a strategy in place.

UK respondents seem to be the most prepared, with 56% having a tokenisation and digital assets strategy in place, followed by 53% of German respondents

FIG 2: What discussions have you had on the topic in the last 12 months? (select all that apply)

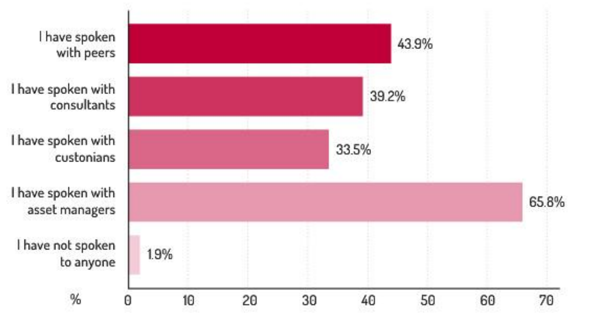
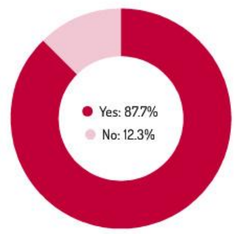


FIG 3: Are you satisfied with the information you are receiving from partners about these themes?



and 40.5% of Dutch respondents. At the other end of the spectrum, just 21.3% of Swiss and 39.6% of French respondents have a strategy in place.

While many asset owners and investors still need to develop an approach or strategy for digital assets and tokenisation, there are some encouraging signs that they are starting to have more informed discussions.

Token discussions

There is certainly a buzz growing around this sector, with 43.9% of respondents admitting to having discussed digital assets and tokenisation with their peers over the past 12 months (Fig. 2). There are also some signs that their approaches and strategies are starting to evolve.

Many of our respondents have taken it a step further, with almost two-thirds (65.8%) having discussed tokenisation with asset managers, and 39.2% with consultants, suggesting that they are becoming more open about investment in digital assets. Some asset managers have already started to launch tokenised funds.

Furthermore, one-third of respondents (33.5%) have spoken with custodians, suggesting they are already looking at ways to incorporate digital assets into their portfolios.

"That 42.3% of respondents have a clear strategy on tokenisation and digital assets is incredibly high," said Arnaud Misset, chief digital officer at CACEIS. "But it is quite surprising that so few asset owners and investors are talking to custodians because they are a key link in the value chain.

"If you don't talk to custodians, you may not know how to handle digital assets because they require a brand-new way of doing things. It is a completely different way of safekeeping and settlement."

"We believe traditional custodians are the best option for asset owners and investors when it comes to digital assets as they can provide clients with a high degree of confidence and security – it's what custodians already do with traditional assets."

"SEVERAL RESPONDENTS SAID SOME OF THE INFORMATION SHARED WAS 'ENTIRELY SUPERFICIAL.'"

Arnaud Misset

Just over half (52.3%) of French respondents have already spoken with custodians, and just under half (46%) of German respondents have done likewise. Dutch and Swiss asset owners and institutional investors are more likely to have spoken with asset managers, with 85.7% and 76.6% having discussed the topic over the past 12 months.

Level of information

Respondents were generally satisfied with the level of information they are receiving from their partners - 87.7% satisfied vs. 12.3% dissatisfied (Fig.3).

As investors' understanding of the benefits of tokenisation and digital assets evolves, many want more detail to help them have more sophisticated conversations.

Several respondents said some of the information shared was "entirely superficial" or did not give "a conclusive answer for what I should invest in". Other respondents said their partners were not as informed.

"Those with a strategy or a digital assets team in place will likely already have access to the research and details

> **"TOKENISATION WILL MAKE ILLIQUID ASSETS MORE LIQUID AND PERMIT THE FRACTIONALISING OF OTHER ASSETS."**
>
> Arnaud Misset

that they need to make investment decisions," noted CACEIS' Misset.

Nevertheless, the information that respondents have received has informed how they view the potential impact of digital assets and tokenisation on their portfolios.

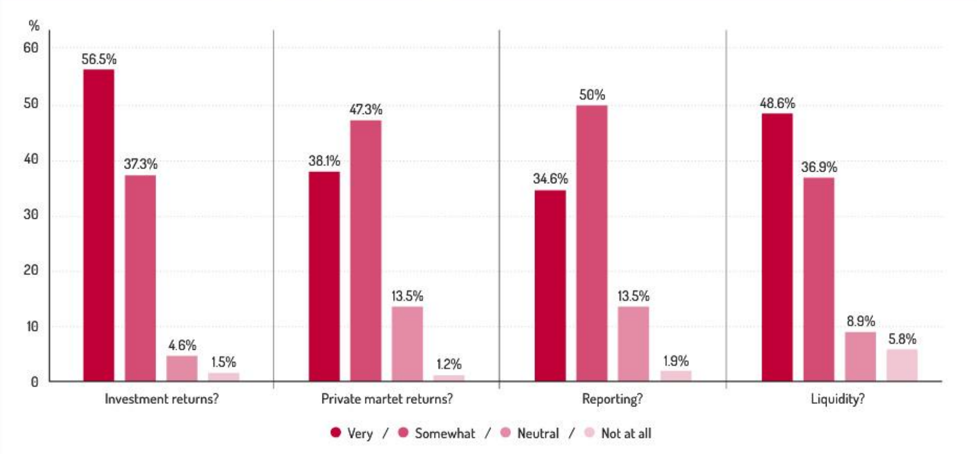
"Transformative impact"

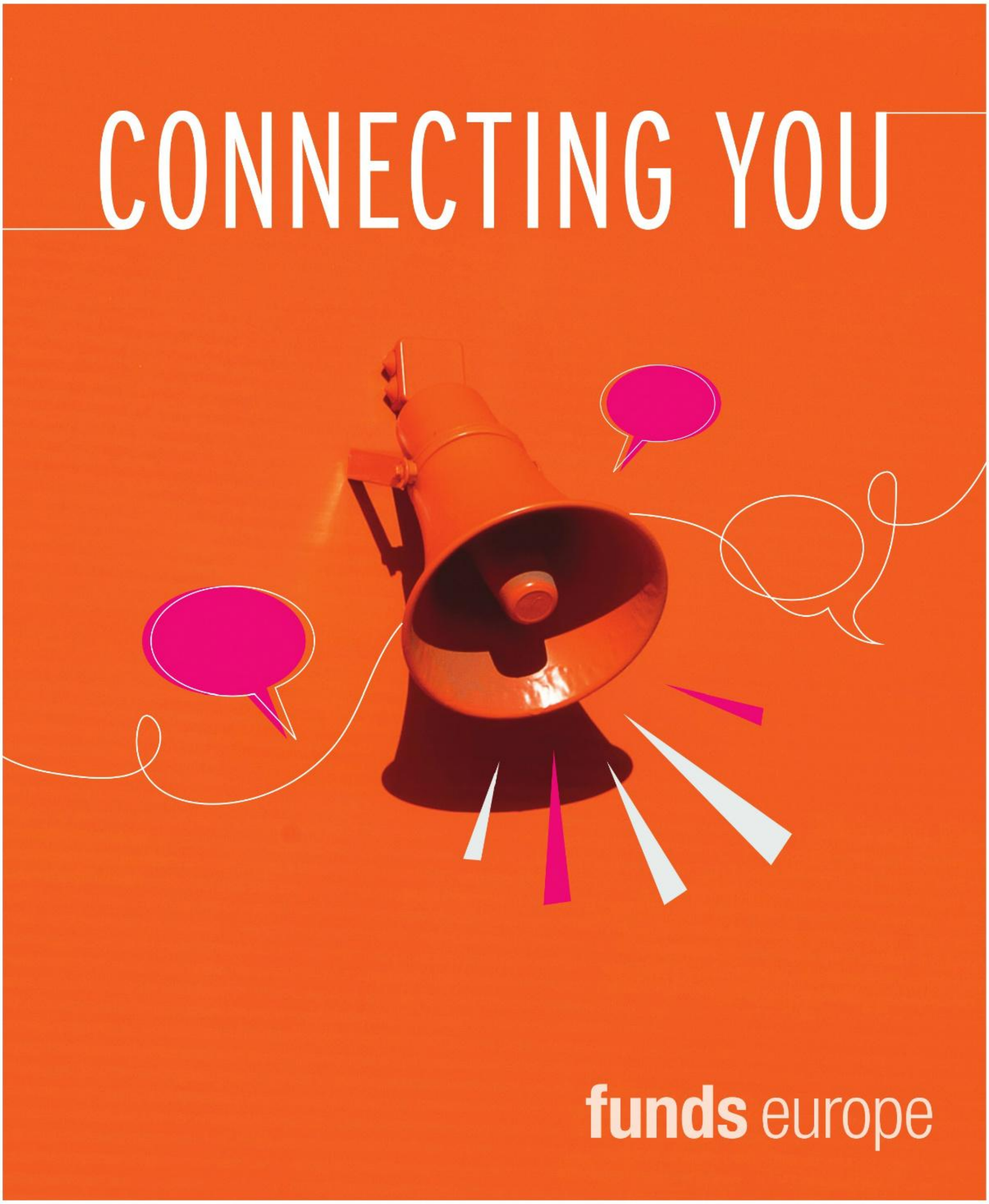
Respondents were most optimistic about the potential for investment returns, with 93.9% saying the digital assets sector would have a very or somewhat transformative impact (Fig 4). Respondents were also highly confident that the sector could have a transformative effect on providing liquidity in areas like private markets.

Operationally, tokenisation will also have a big impact on reporting for asset owners and other investors as the blockchain technology behind some digital assets makes record-keeping easier.

"Everyone seems to be convinced that not only will tokenisation impact the industry, but it will impact it strongly," said CACEIS' Misset. "What is interesting is how tokenisation will make illiquid assets more liquid and permit the fractionalising of other assets. Reporting will likely change significantly as everybody will have access to the same information at the same time. These are key benefits of the underlying blockchain technology." **fe**

FIG 4: How transformatitive to your portfolio do you think advances in this sector will be, considering:

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