

Digital Assets: How democratisation is opening doors to new investors

- 1. Research suggests that 10% of global GDP will be delivered using tokenisation by 2030.**
 - 2. How private markets are being democratised through tokenisation, with a growing investor base.**
 - 3. What individual investors need to do to access private funds.**
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Aztec innovation and fintech experts [Tom Bennett](#) and [Simon Ware](#) discuss what steps are being taken to provide diversified capital sourcing in a tough fundraising environment, and progress to facilitate happier, more involved individual investors.

Imagine a world where private market funds are accessible to a wider range of previously excluded investors, where the power of alternative capital sources is harnessed to create greater opportunities. This is the world of democratisation of private markets, and it's happening right now.

The World Economic Forum has forecast that **10% of global GDP will be delivered using tokenisation by 2030, with the charge initially being led by private equity assets and funds.** With administrative efficiency gains of 60-70% being frequently touted, it's hard to imagine such adoption stopping there.

A brief scan of private fund investor registers quickly reveals a common pattern: few investors (sometimes as few as two or three) making multi-million Pound / Euro / Dollar investments over long periods of time. This has been the playground of the institutional investor, until now.

Read deeper into existing fund documentation and you'll uncover a rarely seen, frequently overlooked investor - the individual 'accredited' or 'sophisticated' investor, referred to in different terms depending on jurisdiction.

At first glance, such investors may seem insignificant relative to larger institutions, but what if we harness the power of the collective?

Welcome to the evolving world of democratisation in private markets. It's creating equal opportunity for eligible, yet historically underserved investors, representing a formidable new source of capital for investment managers.

Read more about the retailisation of private markets [here](#).

Why has democratisation become so important now?

Innovation is driven by market forces and new technologies. The difficult [fundraising](#) environment that has prevailed and the arrival of technologies such as blockchain-based tokenisation and digital onboarding tools has made it possible to solve problems that were previously considered too challenging.

Having matured beyond the initial hype, practical use cases are now reaching the market - with the recent rollout of funds with lower ticket sizes, higher investor numbers, digital portals and preparations for future liquidity. This means technology is lowering the barriers to entry for more individual investors in private markets.

Read why digital assets are a fund manager's best friend [here](#).

What do we mean by the Individual Investor?

The term individual investor refers to those who can effectively manage their own risk. Though there is some jurisdictional variation, it broadly refers to those:

- With significant available capital, which excludes the value of assets likely to have a detrimental effect if lost, such as their home.
- Able to meet a minimum ticket size (typically around £125k) to enter a

fund.

- With a level of professional experience (i.e. working in the financial services industry).

Given the significant number of individuals now managing their own investments and pensions, we anticipate a sizeable number of investors falling into at least one of these categories.

There's clearly huge capital potential in this category, but also challenges that have been keeping this as a relatively untapped opportunity until now. For one, effort. Given the choice of pitching to a low number of big potential investors versus a high number of small investors, GPs understandably invest their time into larger anticipated payoffs. The second is cost. Even if 1,000 investors, each with £30k could be sourced, the onboarding costs and processing would currently be prohibitive.

What challenges must still be overcome?

It's essential to have clear regulatory frameworks when launching these new platforms in different jurisdictions, as demonstrated by the significant progress made by early regulatory movers such as Luxembourg, becoming a hub for tokenisation projects. Recently the UK's Financial Conduct Authority, Treasury Department and Investment Association all expressed their support for such new technology, which although lagging Luxembourg's Commission de Surveillance du Secteur Financier (CSSF), is likely to encourage more traction.

Read more about how Aztec Group is supporting tokenisation [here](#).

A key point here is the legal structure under which tokenised funds are issued; this is to avoid being classified as securities. In addition, being able to cater for individual investors more easily must in no way circumvent any existing distribution rules that regulated products must follow. Be ready to show authorities that all investors were properly informed and qualified.

Building a market-ready product with new technology also takes time, testing and requires specialist skills to deliver, which directly influences hiring needs and workforce training. This means that early adopters may face some initial challenges in the race to market.

What is of paramount importance is establishing trusted partnerships, which can

facilitate access to the best technologies and developments available. While these require specialist skills to source and evaluate, it's important to build a strong partner network.

What are the steps being taken to capitalise on this opportunity?

Meaningful changes are being implemented to welcome and engage with this new group of investors in a way that is manageable and cost-effective for GPs at scale. Key areas of focus for this include:

1. Proving identity

Current methods for onboarding LPs are not suitable for the higher volume of investors we expect to see in the future. New generation KYC solutions offer an efficient and faster process with a better experience. Consider, for example, your experience registering with apps like AirBnB and Uber for instance, these are transferable solutions.

2. Participating in funds

Fortunately, a range of new solutions are providing not only a fully digital and user-friendly investor portal, but also complete digital subscription documents for filling out and signing, allowing the LP to manage their investments conveniently and swiftly in one place, including addressing their questions.

3. Efficient fund operations

Tokenisation is the representation and transactional administration of fund shares made possible using blockchain technology. Read more [here](#). Automated by design, such transactions are significantly more time and cost efficient, enabling real time transactions at sizes previously considered not economically viable. This revolutionary change complements the adoption of additional tools such as digital KYC and subscription mentioned above. The future potential to integrate digital payments, no matter how small, will also relegate multi-day settlement and payment reconciliations to the past.

4. Potential for liquidity

Tokenisation is an automated tool to represent and process fund shares, aiding increased administrative efficiencies with the potential to also enable liquidity via marketplaces, helping investors to find buyers or sellers and adjust their holdings on the secondary market, including at fractional amounts. This is another way to help products fit the changing needs of different investors.

How individual investors will be able to access private funds - what to expect?

The Aztec innovation team are eagerly testing this now - Imagine an online platform where you can effortlessly find various funds from one or potentially more fund managers. An investor's experience might go something like this:

As an investor I easily signup, verifying my eligibility, and exploring product information. I'm interested in fund A, so I access key information that helps me in my decision-making process and I chose to start my investment with £20k.

By simply uploading my passport and other essential documents from my phone, KYC completes in the background as I'm filling out the digital subscription form. Via my dashboard I'm instantly able to see my application, subject to GP approval via their equivalent dashboard.

Future actions such as capital calls are received and completed via my dashboard, as well as other tasks including fund reporting. Should I choose to invest in further funds, information such as my KYC status is repurposed, saving time and effort for both GP, fund administrator and myself.

What does the future look like for fund democratisation?

Increasingly the focus of client conversations over the last 18 months, it's clear that the democratisation of private markets has a bright and promising future to offer both large and small investors a best-in-class experience.

As key players continue to upskill, modernise and launch new investment products, we also anticipate a surge in investor education to assist individual investors in making suitable decisions, as well as a broadening of distribution channels as tokens can be more easily integrated into other platforms.

With the administrative efficiency gains of 60-70% being frequently touted, it's

hard to imagine such adoption stopping there. To aid adoption, we expect to see a combination of increasing certainty provided by regulatory frameworks and greater standardisation of technical standards (incorporating that of the ERC3643 Foundation, of which Aztec is a founding member).

In later iterations, we anticipate an even wider range of tools and services to be incorporated, such as the ability to incorporate digital currency payments to drive yet further efficiencies in the investment lifecycle.

In this dynamic and rapidly evolving field, Aztec's innovation team are eagerly working on a product for late 2024.

If you would like to discuss practical steps toward fund democratisation, please contact [Tom Bennett](#) or [Simon Ware](#).