MARSH

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Tokenization - what do you need to know?

A primer for investors

Executive Summary

- Tokenization digitizes ownership or economic rights on distributed ledgers, with potential benefits including faster settlement, greater divisibility, improved traceability, and programmability.
- Stablecoins are currently the dominant real-world use case, acting mainly as payment and settlement rails rather than return-generating investments (especially post-GENIUS Act[1]).
- Tokenization of private markets may improve access, transferability and administration, but investors should be conservative about secondary-liquidity assumptions and focus diligence on legal title, custody, and redemption mechanics.
- Tokenized listed securities and tokenized money-market funds are emerging as modernized wrappers for familiar exposures, but broad adoption depends on regulatory clarity, interoperability, and demonstrated liquidity.
- As an investment theme, tokenization is best viewed as a sub-theme within “future of finance,” with return narratives best separated from headline-driven IPO outcomes and market cycles.

Introduction

Tokenization is the process of representing rights or value in digital form on a distributed ledger or other digital registry, often, though not exclusively, on blockchains. A “token”[2] can represent ownership (equity, debt), a claim on an asset (for example a share in a real estate property), a unit of value (a stablecoin), or a utility right (access, voting). Tokenization promises benefits that include greater divisibility, faster settlement, improved traceability, programmable features (smart contracts), and new ways to package and distribute economic exposure. But tokenization is not a single technology or product, rather it is a set of techniques and business models that sit at the intersection of capital markets, custody, regulation, payments, and asset management.

Tokenization in general may represent an upgrading to the plumbing of the global financial system, although the initial momentum behind it is mainly to connect the world of digital assets with the traditional finance world.

The purpose of this article is to introduce the area and map out the associated investment trends.

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[1] More information on the relevance of the GENIUS Act included in Mercer’s paper, [Stablecoins – A closer look at recent developments](), 2025.

[2] Not to be confused with an AI token. AI tokens are units of data in a Large Language Model used to determine billing.

Breaking it down

Investors explore tokenization for a range of reasons: curiosity driven by high-profile deals either relating to firms innovating the technology, and / or using the technology to fund the deals; operational opportunities in custody, settlement, and new fund structures (tokenized money market funds are a frequent query); and interest in tokenization as a disruptor within the financial sector. Below we break down the various areas of interest:

1. Stablecoins (tokenized currency)

- Stablecoins aim to function as digital money with price stability, tokenization technology adds additional functionality such as programmability. They are used as trading rails, for cross-border payments and as reserve currency within the wider cryptocurrency ecosystem. Stablecoins also have potential to be used more broadly for settlement, programmable payouts, and cross-border flows. The vast majority of stablecoins are denominated in US dollars and physically backed by US dollars or dollar equivalents (T-bills are a mainstay of reserves).
- We produced a topical paper on stablecoins last year – *Stablecoins – A closer look at recent developments* – which highlighted three major use cases, decentralized finance, remittances and retail payments.
- Critical issues related to stablecoins to keep abreast of include reserve transparency, issuer credit and operational risk, and sanctions/compliance risk.

Bottom line: Investors should note that stablecoins largely exist for operational purposes. Post-GENIUS Act stablecoin providers are not allowed to issue interest for holdings and therefore do not offer investment returns. We look separately at investment in stablecoin issuers and implications for the traditional financial sector below.

2. IPOs (Initial Public Offerings) of stablecoin issuers

- Highly publicized events such as the IPOs of crypto-centred firms (often termed “digital natives”), or token providers generate considerable interest. The Circle IPO and other high-profile exits can generate headlines suggesting easy, outsized returns.
- Stablecoin providers essentially profit from the yield on their T-bill reserves, without needing to pay out interest to token holders. Whilst this has been profitable for many it should be noted that these providers are less supervised than traditional financial institutions such as banks and do have some sensitivity to rate cycles.

Bottom line: Headline returns often reflect liquidity events, market exuberance, or speculative flows rather than intrinsic structural beta. We must separate hype from investable, risk-managed opportunities. High-profile IPO windfalls can be headline drivers of attention but are typically not representative of expected, repeatable returns in regulated institutional portfolios.

3. Tokenized ETFs, stocks and bonds

- Tokenization may hold promise for on-chaining listed securities including exchanged traded funds ("ETFs"), allowing for instantaneous settlement, reliable record-keeping, easier collateral access and improved efficiency.
- There are currently four tokenized ETFs with over US$100 million market cap, a T-bill fund (US$571.17 million), an S&P 500 ETF (US$160.4 million), a Nasdaq ETF (US$148.2 million) and a gold ETF (US$102.3 million).[3] This level of assets is still very small compared to the wider market (the US Federal Reserve reports US$13.6 trillion of financial assets in ETFs).[4]
- Tokenization in this area is nascent; here are milestones to look out for should the technology gain widespread acceptance:
  - Regional and then global legal acceptance of token ownership and legal equivalence with traditional financial counterpart securities.
  - Cross-chain interoperability: breaking down ledger-specific walled gardens so that tokens can move efficiently across organizational and network boundaries. Currently there is a large amount of financial infrastructure risk where investors assume tokens can be moved wherever they desire.
  - Integration: The establishment of direct, automated interfaces between distributed ledgers and traditional core banking systems.

Bottom line: There are some large players in the asset management which believe that tokenization is the future of trading. Whilst still early days, we believe in keeping an eye on the progress of regulation in this area, and to monitor how liquidity works in practice. Tokenized listed securities are an exciting development in fintech.

4. Capital raising for venture, private equity, IPOs and STOs (Security Token Offerings)

- Tokenization enables new models of fundraising and governance, for example token-based fundraising for IPOs (where the stocks will then trade on regular centralized markets) and Security Token Offerings (where the stocks will then trade on decentralized markets). This potentially opens up less liquid markets to new investor.
- Blockchains have also enabled pre-IPO perpetual futures contracts for high profile IPOs this year (Cerebras and SpaceX, with more in the pipeline), enabling speculation before IPO launch. This trading was hosted on both decentralized exchanges (notably Hyperliquid) and also centralized platforms (for example Coinbase and Binance). This may have contributed to price discovery and volatility (leveraged trading was common). Whilst this can be seen as financial innovation, it is currently not allowed in many major jurisdictions (US, Canada, EEA, Australia, New Zealand etc).

Bottom line: For venture investors and incubators, tokenized fundraising can change capitalization, liquidity, and governance dynamics. But investor protections, token economics

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[3] Coinmarketcap, as at June 7, 2026.

[4] FRED, Exchange-Traded Funds; Total Financial Assets, Level, June 11, 2026

(or “tokenomics”), and exit pathways are often less predictable than in traditional VC structures.

5. Tokenized money-market funds (“TMMFs”)

- Tokenized money funds aim to combine traditional short-term assets (like U.S. T-bills or other cash-like investments) with blockchain distribution and settlement. The purpose here is modernization, allowing for 24/7 access to funds without trading cutoffs or T+ settlement issues. Tokenized money-market funds are not new asset classes, rather they are a new way to trade established investments. This is why the same provider will often have both a traditional money market fund and a tokenized version with the exact same investment strategy.
- TMMFs can help to improve liquidity management, enable programmable cash flows, or explore new repo/wholesale payment rails. Institutional treasuries and asset managers ask about yield, counterparty risk, settlement finality, and regulatory compliance. For multi-national corporations, regional operations can be pre-approved or “white-listed” users of funds, and thus tokenization may offer desirable operational flexibility.

Bottom line: For many investors, this modernization solves problems that they don’t really have. However, for investors needing operational efficiency in treasury, cross-border liquidity, or near-instant settlement tokenized, money-market funds are arguably an intriguing development. Important issues to keep an eye on include legal treatment of the “token” (is it a direct claim on the fund?), redemption mechanics, and regulatory status.

6. Market continuation in private credit, private equity and real assets

- Tokenization can fractionalize illiquid assets (real estate, infrastructure, private equity stakes) so investors can own smaller pieces, also enabling easier transfer via secondary markets. This can create liquidity for traditionally illiquid holdings and broaden investor bases, simplify ownership tracking, and potentially enabling automated distributions.
- “Smart” tokens can automate functions such as conditional payments, compliance checks, and revenue sharing, but can also escalate legal and operational complexity.
- Tokenization’s promise of continuous secondary markets depends on market makers, regulation, and investor demand. Tokenized fractional ownership may still face concentrated ownership and low trading depth. In our view, investors should be wary of assuming exit liquidity; tokenization is an infrastructure, not a promise.

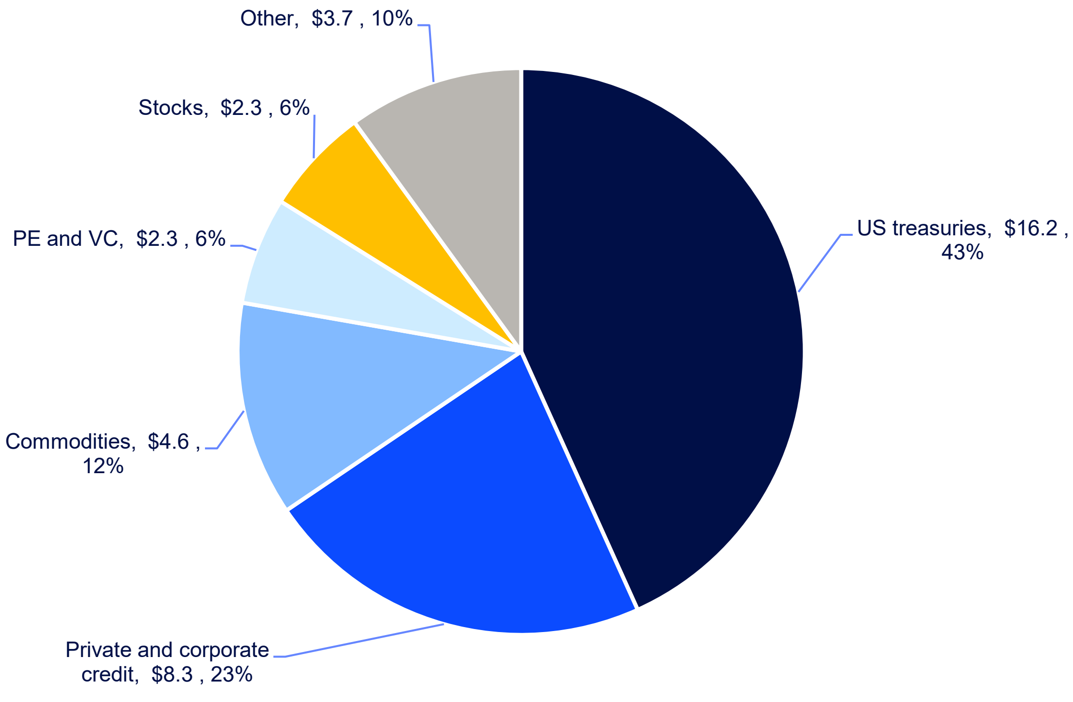
Bottom line: Potentially highly relevant for defined benefit pension scheme sponsors, wealth managers, and owners of large illiquid pools. Key considerations include the legal robustness of the tokenized ownership, for example, does the token represent direct legal title or a contractual claim?, investor suitability and KYC/AML, tax and transfer rules, governance, and the custody and reconciliation model bridging tokens and underlying asset registries.

Market sizing and current traction

Stablecoins have been making waves post-GENIUS Act, with current assets under management (AUM) around US$300 billion[5], with one bank estimating the market cap to reach US$2 trillion by the end of 2028[6]. By comparison US M2 money supply is around US$23.2 trillion[7]. Stablecoin's growing presence as a demand sector for treasuries has the potential to re-shape issuance and should not be under-estimated.

At US$34.5 billion[8], other tokenized real-world assets are a much smaller part of tokenization AUM currently, but are growing significantly, with year-on-year growth to the end of April 2026 at 214%. In Figure 1 we break down the share that various asset classes have of the token market (excluding stablecoins).

Figure 1: Tokenized Real World Assets ex Stablecoins – share of value by asset class (AUM US$ billions)



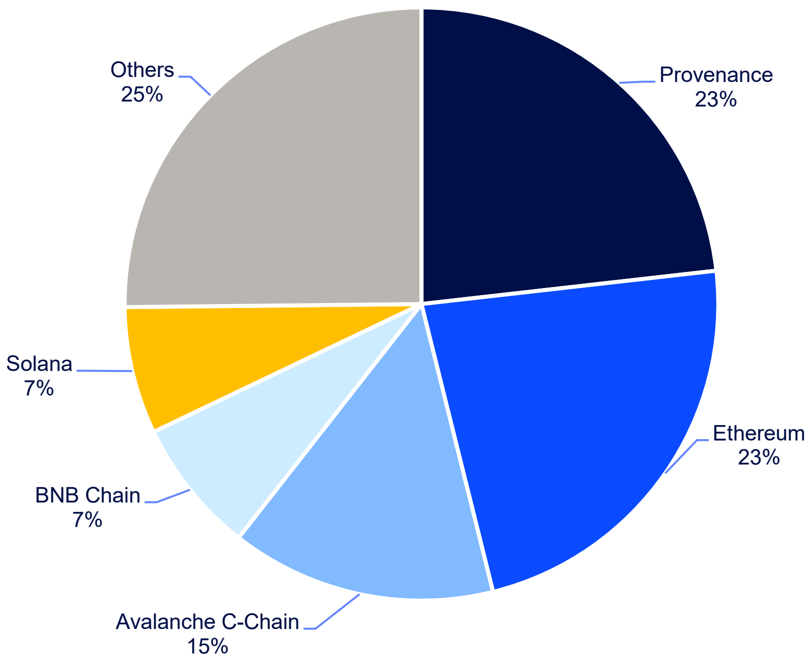
Source: rwa.xyz, as at August 5, 2026

The race to onboard real-world assets onto various blockchains is highly competitive. Currently three blockchains account for over half of tokenized assets under management[9], these are Provenance, Ethereum and Avalanche C-Chain (see Figure 2). These blockchains operate with associated fees, payable in HASH, ETH, and AVAX; significant long-term

[5] Defi Llama as at 1 May 2026
[6] Standard Chartered via Bloomberg as at April 2025
[7] Federal Reserve (FRED) as at June 30, 2026
[8] rwa.xyz, as at August 2, 2026
[9] rwa.xyz, as at August 2, 2026

market share by any of these blockchains is likely to be highly positive to these cryptocurrencies.

Figure 2: Tokenized Real World Assets ex Stablecoins – share of assets by blockchain



Source: rwa.xyz as at August 2, 2026

Investment implications

Tokenization can be best understood as a financial infrastructure modernization theme rather than a standalone new asset class. For most institutional portfolios, the near-term opportunity set is therefore less about “owning tokenized assets” for return enhancement and more about:

- identifying where tokenization improves market functioning,
- separating operational utility from investable risk premia, and
- if wished, gaining exposure in ways that are compatible with governance, regulation, and liquidity requirements.

Motivating interest is crucial, those with operational challenges to meet (corporate global treasuries may be amongst the first to be interested) may be attracted by better settlement, round-the-clock liquidity, and enhanced cross-border cash management.

From a thematic perspective, market infrastructure providers and certain fintech firms may be relevant within a broader “future of finance” theme.

Conclusion

Tokenization is arguably a versatile technology with opportunity: improved liquidity for illiquid assets, faster settlement for cash-like instruments, greater transparency, disintermediation and programmable financial contracts. For investors, material questions remain over legal title, custody, liquidity profile, accounting treatment, counterparty and issuer risk, and regulatory treatment – all as expected for a novel delivery solution. Effective implementation of tokenization at scale will necessitate enhanced cross-jurisdictional regulatory cooperation, as digital finance operates globally and lower frictions are likely to increase cross-border transaction frequency[10].

Stablecoins are the major ongoing use case for tokenization and are rapidly becoming an established part of the global financial system plumbing. The value proposition of tokenization is clear, and significant moment is already underway. As such, tokenization, is a key sub-theme of an overall “future of finance” type investment thematic.

However, it is important to remain conservative on return narratives. High-profile IPO windfalls by stablecoin issuers are headline drivers of attention but are typically not representative of expected, repeatable returns in regulated institutional portfolios. Cryptocurrencies used to pay “gas fees”[11] on networks associated with tokenization may benefit but can be highly volatile. We do not include cryptocurrencies in our investor reference portfolios and continue to caution against strategic position in cryptocurrencies.

The financial system is gradually being re-plumbed. This is likely to create opportunities for disintermediation and enhanced functionality. The major benefits of a well-governed transition include greater transparency, near-simultaneous settlement, and the potential deepening of liquidity (particularly in secondary markets and through improved collateral mobility). However, tokenization will only translate into durable operational gains if it improves meaningfully on legacy rails, while meeting regulatory expectations, ensuring legal finality, and enabling interoperability across market infrastructures.

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[10] See BIS Annual Economic Report 2026 – Anchoring trust in money: innovation beyond stablecoins.

[11] These are fees paid to the validators (operators) of decentralized networks and usually denominated in the native token of the blockchain, for example ETH on Ethereum.

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