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The Future of Finance:
Tokenization in Asset
Management

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Executive Summary

- Digitalization is rapidly evolving in finance through blockchain to render assets more accessible, secure and tradeable.
- Blockchain powers innovations like tokenization by offering transparency, trust, and speed—without relying on traditional intermediaries.
- Tokenization allows real-world assets like real estate, gold, and stocks to be converted into digital tokens that can be easily and securely traded giving access to a broader group of investors and giving investors access to a bigger pool of funds. This lowers investment barriers, boosts liquidity, and opens access to global markets.
- Platforms like BlackRock, Securitize, Binance, and eToro are leading the way in offering users access to a wide range of assets, both digital and traditional, through integrated platforms.
- The MENA region is quickly catching up with international trends to tokenize assets and create the regulatory environment necessary to boost tokenization of tangible asset classes, giving investors and fund managers access to larger pools of assets at a lower cost.
- Assets available to tokenize include real estate, commodities, energy and construction assets with more assets open to being tokenized as demographic developments show an affinity to invest in smaller size, more accessible assets.

Blockchain Overview

What is Blockchain?

- Blockchain technology is a decentralized, distributed ledger that records transactions and tracks assets in a business network. It is designed to be immutable, meaning that once data is recorded, it cannot be altered or deleted. This technology is the backbone of cryptocurrencies like Bitcoin, but its applications extend far beyond digital currencies.
- Blockchain is a database shared across a network of participants (nodes), where up to date information is available to all participants at the same time. Anything of value can be traded and tracked on a block chain network.
- With blockchain enabling faster transactions, reduced operational and administrative frictions, transparency, and automation this raises the possibility of using blockchain to improve how financial and real-world assets are managed. The potential benefits include greater efficiency, cost savings, and easier access to private or alternative markets for retail investors.

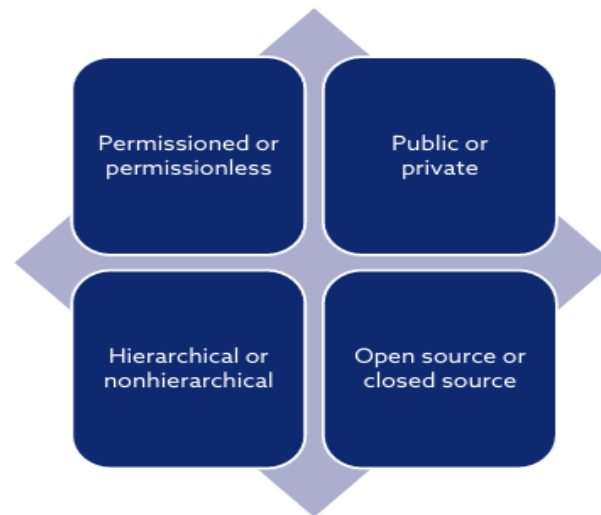
Key Features of a Blockchain

Feature	Description
Decentralized	No single authority controls the network; multiple nodes maintain the system.
Transparent	Transactions are visible to all participants in the network.
Immutable	Once transactions are recorded, they can not be modified or deleted.
Secure	Uses cryptographic encryption to protect data from fraud and hacks.
Smart contracts	Self executing code that automatically carries out an action when a specific condition is met (no intermediaries).
Consensus mechanism	Transactions are verified by multiple participants (nodes) before being added to the block chain.

Blockchain Overview

- A popular use of distributed ledger technology (DLT) has been to record transactions and ownership of crypto assets. The ledger serves as a digital database, without any central authority approving transactions. Instead, transactions and updates to the ledger are made through the consensus mechanism that characterizes the cryptography process underpinning digital finance.
- A confirmed transaction on the ledger is permanently recorded, with records being time stamped and displayed in a sequence to parties involved in the network. There are different types of distributed ledgers.
- Features in the Exhibit below are not always mutually exclusive. For example, private blockchains tend to operate within existing systems of an enterprise. Such networks thus prioritize providing privacy for their participants and are created to be permissioned. Similarly, private blockchains are also generally found to be closed source and hierarchical.
- In contrast, a public ledger would need participation from various individuals and entities for its consensus mechanism and development, hence the preference in this case for open-source, permissionless, and nonhierarchical models.

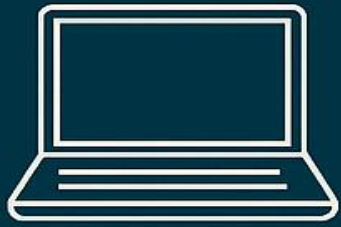
A Spectrum of Key Characteristics That Define the Nature of a Distributed Ledger



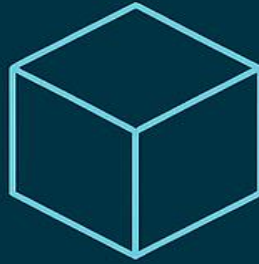
Types of Blockchain

Feature	Public Blockchain	Private Blockchain
Access	Open to anyone, no permission needed	Only approved users can access and participate
Decentralization	No one controls it, decisions are made by the whole network	Controlled by an organization or a group
Transparency	All transactions are visible to everyone	Data is private and only visible to selected participants
Consensus mechanism	Many users validate transactions	Few trusted parties approve transactions
Speed and scalability	Slower and harder to scale due to many validators	Faster and more scalable due to fewer participants
Security	Very secure; harder to hack due to large network	Secure but relies on internal control
Immutability	Data cannot be changed once recorded	Data can be changed by authorized users if needed
Cost	More expensive(mining)	Lower cost; no need energy heavy validation
Use cases	Cryptocurrencies, Defi, etc...	Supply chain, banking, healthcare , internal systems

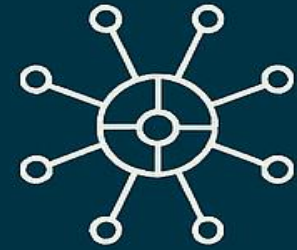
How transactions are added into a blockchain:



A new transaction is entered (e.g, tokenized asset transfer)



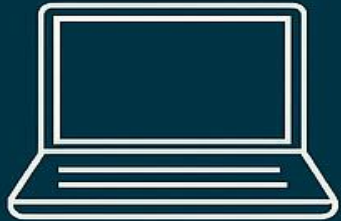
A block representing this data is created



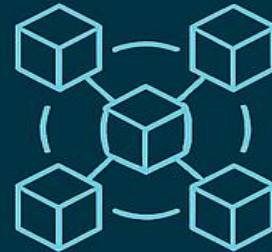
The block is broadcast to all the nodes in the blockchain network



Each node validates the transaction; whether to accept or deny



The transaction is complete



Once approved the new block is chained to the existing block



Digital Assets

- A digital asset is generally anything created and stored digitally, is identifiable and discoverable, and has or provides value.
- Digital assets have become more popular and valuable as technological advances integrate into our personal and professional lives. Data, images, video, written content, and more have long been considered digital assets with ownership rights.
- Most digital items, like a company's brand, can be assigned a value, monetary or intangible. Some digital items might only be valuable to the creator or one person, such as a family picture on your phone taken at a gathering. Others could be valuable to a much wider audience.
- Digital assets were redefined when blockchain was introduced in 2009. Anything in digital form became something that could be used to create value via tokenization on a blockchain.
- Digital assets can make money if there is a demand for what they represent or what they are.
- Two popular examples of digital assets are non-fungible tokens (NFTs) and digitally rendered images. Each is digital and has the potential to create value.
- Digital assets have become significant enough that digital asset management (DAM) service providers have emerged. DAMs provide digital security for businesses, allowing them to securely store, organize, and quickly access their digital assets.

- Familiar digital assets:

Photos	Documents	Videos	Books	Audio/Music	Animations	Illustration
Manuscripts	Emails/email accounts	Logos		Metadata Content	Social media accounts	Gaming
accounts						

- Newer digital assets are based on blockchain or similar technologies:

Nonfungible tokens	Cryptocurrency	Tokens	Crypto Assets	Tokenized Assets	Security Tokens
Central Bank Digital Currencies					

Digital Assets

- Comprising seven varied types of financial instruments, these digital assets are revolutionizing traditional finance through their creation and settlement via distributed ledger technologies (DLT) like blockchain. The essence of DLT lies in its intricate cryptographic computations, assuring instantaneous, irreversible transactions, and consequently eliminating settlement risks that linger in conventional financial practices.
- Global financial institutions have focused on two other types of digital assets, digitally native securities and tokenized assets, which includes tokenized bank deposits, as well as physical assets such as real estate or commodities.
- The Dubai Virtual Assets Regulatory Authority (VARA) has a well-defined framework for regulating such digital assets, and several international firms are exploring issuing bonds backed by tokenized assets under these regulations. Banks across MENA are also exploring Shariah-compliant Islamic finance versions of tokenized assets and securities.
- Digital assets represent a USD1.3 trillion market globally. According to the World Economic Forum, tokenization can add USD230 billion annually to the MENA GDP.

Figure 1: Seven different types of digital assets

Cryptocurrencies	Stablecoins	CBDC	Tokenized assets	Digital native securities	Non-fungible tokens (NFT)	Other blockchain
Native	Fiat-backed	Retail CBDC	Tokenized deposits	Digital native securities	NFT art	KYC/digital IDV
Bitcoin Ethereum	USD Coin (USDC)	eNaira	Onyx	Allied Irish Banks	First 5000 days	
Governance	Crypto-backed	Wholesale CBDC	Tokenized securities		Metaverse	Treasury, cash management
Maker (MKR)	Dai	E-CNY	Blockchain Capital		Decentraland	
Utility	Commodities-backed		Tokenized real world assets		Loyalty and branding	Insurance claims, fraud
Basic Attention Token	Tether Gold		RealT		Nike Cryptokicks	
	Algo-backed		Examples of global banks dealing with tokenized assets			
	Ampleforth (AMPL)		J.P. Morgan UBS HSBC Citibank Goldman Sachs Societe Generale			

Opportunities for MENA financial institutions

Tokenization

- Tokenization is the act of creating a digital representation of various assets using distributed ledger technology. It is the process of converting real world assets into digital tokens that has value and can be traded on a blockchain.
- Each token represents ownership and can be stored, transferred, and digitally traded on a blockchain.
- Blockchain technology brings unprecedented transparency to asset ownership and transactions. All token transfers are recorded on an immutable ledger, creating a verifiable history of ownership and valuation. This transparency helps reduce fraud and increases investor confidence—critical factors for mainstream adoption.
- The value proposition of tokenization revolves around three key areas where tokenization purports to improve upon existing processes: clearing and settlement, transparency and compliance, and fractionalization and market access.
- Tokenization has a variety of hybrid models depending on the processes and parts of an asset’s value chain that are tokenized. These range from an asset that is completely off-chain, such as stocks listed on a regulated exchange, to a digital asset such as bitcoin, which resides entirely on a digital ledger. Hybrid models include certain types of investment funds, which are accessible through digital tokens yet are themselves invested in traditional assets not represented on a blockchain.
- Limitations and challenges include cybersecurity risks, regulatory uncertainties, and a still-fledgling market infrastructure.

Tokenization

Assets that can be tokenized:

1. Real estate:

- Residential and commercial property
- Land

2. Commodities:

- Gold, silver, and precious metals
- Renewable energy credits

3. Financial assets:

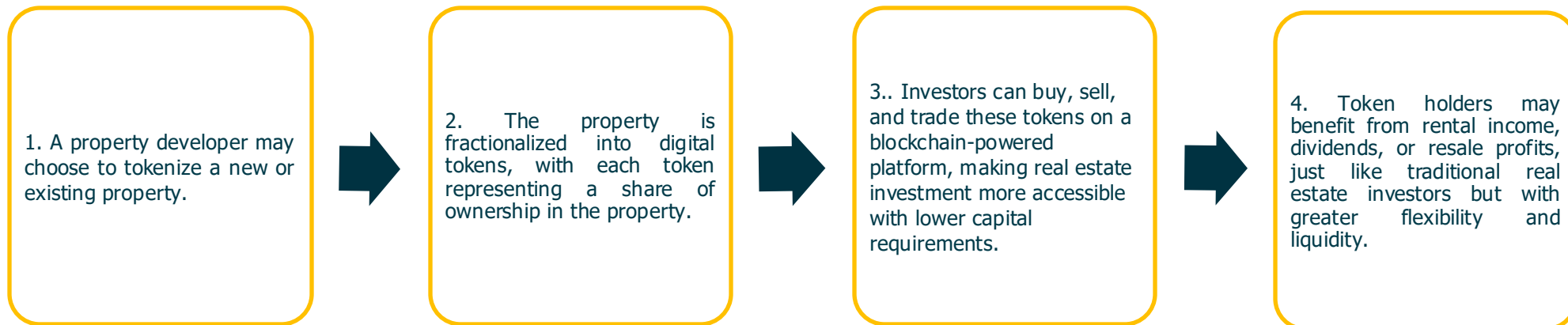
- Stocks & bonds
- Mutual funds & ETFs
- Private equity & venture capital shares

4. Collectibles & luxury assets

- Artwork and antiques
- Classic cars
- Rare coins

The Tokenization Process: From Assets to Digital

Real estate provides a great example



What Problems Does Tokenization Solve?

1. Secondary trading solutions:

- Real estate is traditionally illiquid, requiring full asset sales to exit investments.
- Tokenization enables trading of fractional shares improving liquidity and eliminating the secondary market problem. By enabling fractional ownership and creating secondary markets for token trading, assets like real estate or fine art become more easily tradable. This enhanced liquidity benefits both asset owners and investors seeking portfolio diversification.

2. High barriers for investing:

Many individuals are unable to invest in assets such as art, real estate, and luxury goods due to the high initial capital requirements. Tokenization democratizes access to premium investment opportunities. Tokens can represent small portions of an asset, making it possible for multiple investors to own parts of high-value assets. This fractional ownership model reduces minimum investment thresholds, allowing smaller investors to participate in markets previously dominated by institutions and high-net-worth individuals.

3. Raising capital for new projects

Platforms like tZERO provide companies with a regulated avenue to raise capital by issuing security tokens for their projects. These tokens represent fractional ownership in the company and can be freely traded on secondary markets after a one-year lock-up period, making them accessible to both retail and accredited investors.

4. Limited access to global investments:

- Many domestic investors face problems in investing in international markets.
- Tokenization allows domestic investors to own fractions from global assets through multi trading platforms.

Tokenomics

- Tokenomics is the study of the economics of cryptocurrencies and tokens. It encompasses the creation, distribution, and management of tokens, as well as the incentives and mechanisms that drive their value and utility. Understanding tokenomics is crucial for investors, developers, and users alike, as it provides insights into the long-term sustainability and potential of a project.
- Tokenomics is the study of how cryptocurrencies work within the broader ecosystem. It is an analysis of the supply and demand characteristics of cryptocurrencies, which are often encapsulated into units called tokens. While “coins” and “tokens” might seem interchangeable, they have distinct roles. Coins, like Bitcoin or Ethereum, operate on their own blockchain and primarily serve as digital money. Tokens, on the other hand, are built on existing blockchains and can represent anything from a stake in a project (governance tokens) to access to a specific service (utility tokens).
- Macrotokenomics – explores the connection and relations of tokens with blockchain networks, third-party organizations, exchanges .etc
Microtokenomics – studies the traits, profitability & sustainability of a single token.

Core Principles Of Tokenomics

Understanding tokenomics means looking at the underlying principles that govern the economics of a token:

Supply And Demand

- The first principle is as old as trade itself: supply and demand. Cryptocurrencies like Kujira have a fixed supply, meaning only a certain number of coins will ever exist. This scarcity can drive demand. Other cryptocurrencies have an inflationary model, where new tokens are constantly created.

Distribution Mechanisms

- How tokens are distributed plays a crucial role in a project’s success. Some projects opt for a fair launch, allowing anyone to mine or purchase tokens from the start. Others may allocate a significant portion to the project’s founders and early backers, which can impact the token’s decentralization and perceived fairness.

Tokenomics

Utility And Its Impact On Token Value And Ecosystem

- Utility refers to the practical use and purpose of a token within its ecosystem. Beyond mere trading, tokens offer various functionalities such as access to services (utility tokens), voting rights (governance tokens), a stable exchange medium (stablecoins), and representation of unique digital assets (NFTs).
- A token's utility directly influences its demand. For instance, a utility token that offers substantial discounts on services or exclusive access to features can, as a result, become highly sought after, consequently increasing its value. Conversely, a token with limited or no practical use may see less demand and potentially lower value.
- The utility of a token also plays a pivotal role in the development and sustainability of its underlying ecosystem. Tokens designed with robust utility models can encourage platform engagement, foster community growth, and promote a virtuous cycle of participation and value creation.

Governance

- Governance refers to how decisions are made within the project. In many decentralized projects, token holders can vote on key decisions, influencing the project's direction. Effective governance models can encourage investor confidence by demonstrating a commitment to decentralization and community involvement.

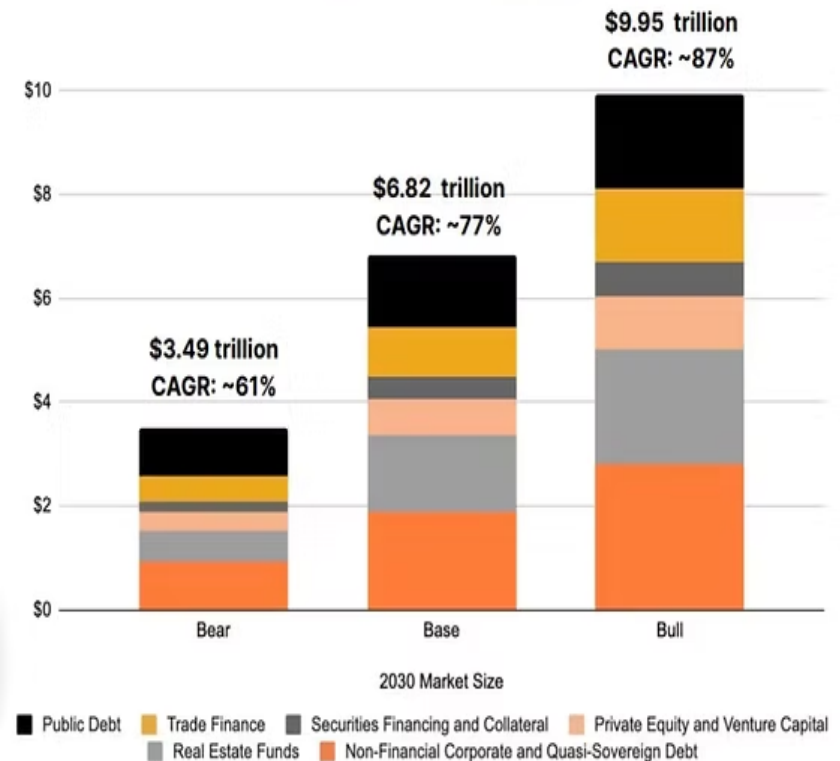
Designing Tokenomics: A Delicate Balance

- Creating a token with lasting value requires careful planning. Successful projects often have a clear use case for their token, a fair distribution model, and a scalable, secure network.

Tokenization Market

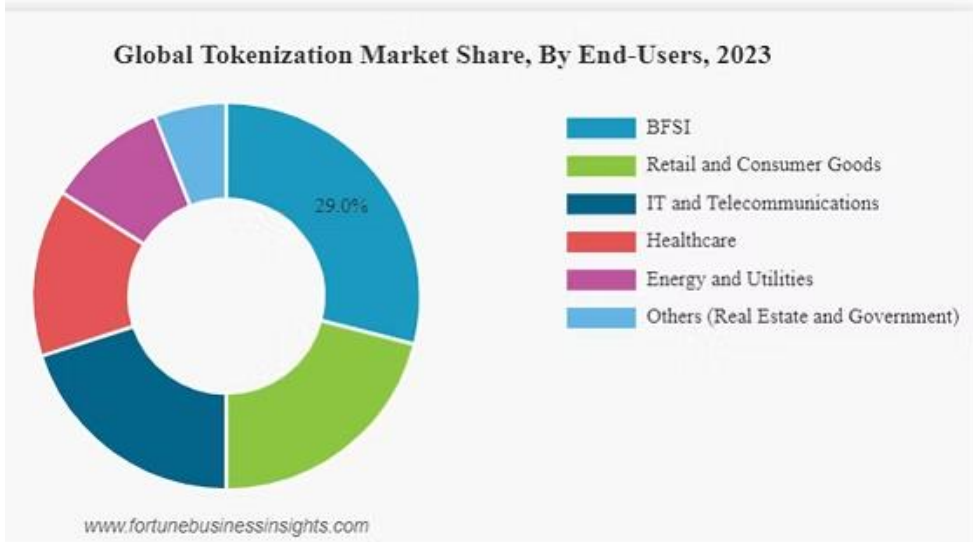
- The tokenization market is experiencing rapid growth as businesses prioritize data security. Valued at USD2.8 billion in 2023, estimates project that the value of tokenized real-world assets could reach USD5 trillion by 2030, with more optimistic forecasts suggesting figures as high as USD14 trillion. This surge, with an impressive annual growth rate of 18.8%, underscores the increasing need for fractional ownership solutions.
- The adoption of tokenization for real-world assets is expected to soar, with a compound annual growth rate (CAGR) projected at a staggering 46% over the next ten years. This rapid expansion reflects the increasing interest and confidence in tokenization as a transformative force in finance.
- By tokenizing real-world assets, value that was previously illiquid can now be unlocked and made accessible to a broader range of investors.
- This benefits asset owners by increasing liquidity and potentially raising asset prices and also stimulates economic activity by facilitating capital flow into previously untapped markets.
- Tokenization reduces administrative overhead and intermediaries, leading to cost savings and increased efficiency in asset management and transfer.
- The trend of tokenizing real-world assets is not limited to specific regions but is gaining traction globally. Significant growth is expected in emerging markets, where tokenization offers a pathway to financial inclusion and empowerment.

Figure 15: Tokenization Market Sizing



Tokenization Market

- **Banking, Financial Services and Insurance:** Tokenization is digitizing traditional asset ownership into blockchain tokens, led by the Financial Services and Insurance sector.
- **Healthcare:** Tokenization safeguards patient records and can be applied to equipment and hospitals for efficient management and maintenance, ensuring transparency and compliance with regulations.
- **Retail:** Secure customer payment information enhances trust in online sales, while proof of authentication enhances authenticity. Integration of phygital products optimizes the shopping experience.
- **Government:** Tokenization protects citizen data, enabling government agencies to uphold privacy and security standards. It can also be used in government bonds and national projects for transparent financing.
- **Agriculture:** Tokenization facilitates efficient trading of agricultural commodities, ensuring fair pricing and market transparency.
- **Real Estate:** Tokenization enables fractional ownership of properties, increasing investment opportunities and liquidity in the real estate market.



Tokenization in the Middle East

- Following the 2021 World Economic Forum held in Davos where discussions were held on how digital tokens can be used transparently and efficiently by investors and small and medium-sized enterprises (SMEs) in the Middle East and North Africa (MENA) to boost the economy of the region, the World Economic Forum's Regional Action Group on the MENA developed a guiding framework that estimated tokenization could add USD230 billion per year to the regional GDP.
- In September 2023, ADDX, a Singapore-based regulated tokenization platform, secured USD140 million in venture capital from major Asian financial institutions, including the Singapore Exchange (SGX) and Stock Exchange of Thailand (SET). ADDX announced its plans to extend services to the MENA, assisting pre-IPO companies in utilizing blockchain for fundraising
- HSBC Bank Middle East has partnered with the Abu Dhabi Securities Exchange (ADX) to explore fixed-income securities, including tokenized bonds. The partnership aims to use HSBC Orion, the bank's digital asset platform, to issue digital bonds and list them on ADX.
- The Middle East is a region that has a lot of potential for tokenization, as it has a large and diverse market of real-world assets, such as oil, gas, gold, and real estate. Moreover, the region has a growing interest in and adoption of blockchain and digital assets, as evidenced by the initiatives and regulations of various governments, central banks, and private sector players.
- One of the ways that the Middle East is supporting fintech innovation is by creating regulatory sandboxes, which are testing environments where entrepreneurs and innovators can experiment with their solutions in a controlled space.
- Regulatory sandboxes allow regulators to engage with fintechs more quickly and at a lower compliance cost, in a controlled setting. They also enable fintechs to test their products and services in a real market scenario, without facing the full burden of regulation. As per reports, there are 11 fintech regulatory sandboxes in the Middle East and North Africa (MENA) region as of November 2022, up from four regulatory sandboxes in 2019.

Tokenization in the Middle East

- Some of the leading examples for sandboxes are:

Abu Dhabi Global Market (ADGM) RegLab, the first regulatory sandbox in the MENA region, launched in November 2016.

Dubai Financial Services Authority (DFSA) Innovation Testing Licence, launched in May 2017.

Central Bank of Bahrain (CBB) Regulatory Sandbox, launched in June 2017.

Saudi Central Bank (SAMA) Regulatory Sandbox, launched in February 2018.

Central Bank of Kuwait (CBK) Regulatory Sandbox Framework, launched in June 2018.

- There are already several examples of tokenization of real estate in the Middle East, such as SmartCrowd (<https://smartcrowd.ae/>), a UAE-based platform that allows investors to buy fractional shares of properties, or 10 Leaves (<https://10leaves.ae/>), a consultancy firm that helps clients to tokenize their real estate assets in the UAE.
- The Middle East region has already seen some examples of tokenization of commodities, such as DMCC, a Dubai-based free zone that launched a gold-backed token. This has led to a projected Compound Annual Growth Rate (CAGR) of 16.8% through 2029 for the tokenization market in the MENA region.
- Global financial institutions have focused on two other types of digital assets — digitally native securities and tokenized assets, which includes tokenized bank deposits, as well as physical assets such as real estate or commodities. The Dubai Virtual Assets Regulatory Authority (VARA) has a well-defined framework for regulating such digital assets, and several international firms are exploring issuing bonds backed by tokenized assets under these regulations. Banks across MENA are also exploring Shariah-compliant Islamic finance versions of tokenized assets and securities.

Multi Trading Platforms Overview

• What are Multi Trading Platforms?

- They are digital platforms that facilitate the trading of multiple financial assets within a single integrated system.
- These platforms integrate different asset classes like stocks, crypto currencies, commodities, forex, and tokenized assets.

Benefits of Multi Trading Platforms:

- Access to multiple asset classes
- Diversification and risk management
- Increased liquidity and trading
- Integration with blockchain and tokenized assets

Examples of multi trading platforms:

tZERO

tZERO

A regulated platform for trading tokenized securities



Binance

The world's largest crypto exchange by volume.



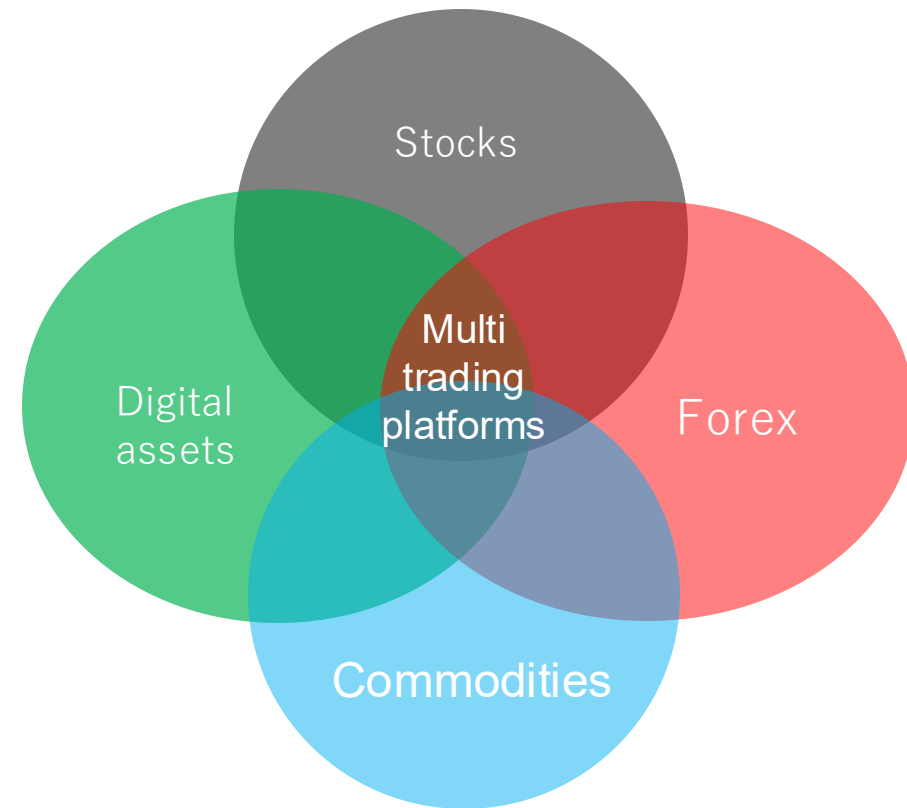
eToro

A social trading platform for stocks, crypto, and ETFs



Kraken

A cryptocurrency exchange focused on security and fiat on/off ramps.



BlackRock and Securitize: Driving Blockchain Adoption in Finance



Recent developments from BlackRock and Securitize:

1. Tokenization of Traditional Assets

- BlackRock, the world's largest asset manager, aims to tokenize USD10 trillion of its assets in partnership with Securitize.
- Securitize, a leader in tokenizing real-world assets will serve as the tokenization provider.

2. The BUIDL Tokenized Fund

- In 2024, BlackRock launched the BlackRock USD Institutional Digital Liquidity Fund (BUIDL); a tokenized money market fund.
- BUIDL seeks to offer a stable value of USD1 per token, investing 100% of its assets in cash, U.S. Treasury bills, and repurchase agreements.
- The fund pays daily accrued dividends directly to investors' wallets in the form of digital tokens each month.
- Investors can transfer their tokens 24/7 to other pre-approved investors.
- The structure allows investors to earn yield while holding their investment on the blockchain.

3. The iShares Bitcoin Trust ETF (IBIT)

- In January 2024, BlackRock also launched a bitcoin fund called the iShares Bitcoin Trust ETF (IBIT).
- IBIT aims to mirror the performance of Bitcoin's price, giving investors exposure to the cryptocurrency without the complexities of managing wallets or custody.
- As an exchange-traded product, IBIT lets investors buy and sell shares via traditional brokerage accounts, providing a convenient, regulated pathway into Bitcoin investing.

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