Tokenised private market funds: **An allocator's due diligence lens**

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Introduction

Tokenisation is increasingly being explored by fund managers as an evolution in the way investment products are structured, distributed, and accessed by allocators.

In the same way that tokenisation has been deployed in money market funds, government bonds, and other traditional financial assets, it is now being introduced into the private markets space in the hope of improving access, enhancing operational efficiency, and introducing additional avenues for secondary liquidity.

For investment allocators, the key issue is how tokenisation changes both investment outcomes and the operational framework through which private markets are delivered.

Apex Investment Advisory can support assessing where tokenisation adds real value, drawing on practical experience across private markets structures, operating models, and manager selection, while acting as a resource to help navigate and understand this rapidly evolving technology.

Assessing tokenisation benefits

Although it is still early days, tokenised structures may offer genuine potential benefits to allocators that are directionally positive. We think a few key claims need to be high on a due diligence checklist.

1. Broader access and secondary distribution Tokenisation is often positioned as a way to expand access to assets with high capital requirements, particularly for wealth allocators through fractionalisation. Allocators should assess whether platforms and distribution channels can support these structures in practice, and whether this translates into scalable sources of asset exposure.

2. Optionality on liquidity Secondary transfer of otherwise illiquid assets may provide liquidity. Due diligence should assess whether this represents usable liquidity or a highly conditional optionality that may be dependent on shallow and inconsistent secondary demand (although likely to grow).

3. Cost and operational efficiency
Tokenisation is intended to reduce administrative and servicing costs over time. Allocators should focus on whether the full operating model across custody, technology, and fund administration results in a lower total cost of ownership.

4. Transparency and ownership clarity
Digital records can improve visibility of ownership and auditability, particularly in asset-backed strategies where underlying positions and cashflows can be harder to track. For allocators, the focus should be on ensuring this translates into clearer legal ownership, enforceability of claims, and stronger governance in practice.

Tokenisation is an evolution of existing processes

On the face of it, tokenisation represents a new and unfamiliar concept; a complete revolution in the way private market investments are structured, administered, and transferred. The reality is less dramatic

Allocators should, for instance, notice the major areas of overlap between tokenisation and existing infrastructure, identifying how it often improves established processes rather than redefining them entirely.

Despite the narrative of disintermediation, most tokenised structures still rely on:

- Custodians
- Transfer agents
- Technology platforms
- Legal wrappers

From a due diligence perspective, this creates a multi-party operating model, often with diffuse accountability. This is not ideal. There are vendors with overlapping responsibilities and roles, with limited historical precedent under stress, which needs to be clearly defined and triaged.

Against this backdrop, we have developed a due diligence framework to assess whether tokenisation enhances or weakens the overall investment structure from an allocator perspective.

Core due diligence subjects

New technologies have a proven track record of improving efficiency, data aggregation, and auditability, and tokenisation could be the next step within middle and back-office operations. The key enabler is interoperability. In practice, interoperability should allow tokenised funds or share classes to plug into existing distribution, custody, and trading infrastructure, enabling them to scale without creating parallel systems or operational duplication.

This may be the core benefit, which is accessible today. Liquidity, lower costs, and better data are evolving but remain limited at present as activity remains fragmented across disconnected platforms. Allocators need to understand whether the introduction of this technology meaningfully enhances the investment proposition. Equally, managers developing tokenised products should consider these questions early in the design process. In many cases, the success of a tokenised structure may depend less on the technology itself and more on whether it addresses the practical concerns of institutional investors. Early engagement with key service providers ensures considerations are addressed at the design stage.

The other main focus is to ensure that any changes and new processes and risks are understood, governable, and appropriately managed.

In practice, tokenised structures will introduce new dependencies across legal frameworks, technology, custody, and operating models that sit alongside existing risks and processes, which may be acceptable if properly understood. This should form a core part of due diligence.

1. Legal structure and investor rights

Fundamentally, tokenised investors must have the same economic exposure and enforceable rights as traditional fund investors in practice, not just in principle. This is crucial – investors should not accept a dilution of existing rights. There are three key areas to assess:

- Alignment with the Limited Partnership Agreement or shareholder agreement
- Enforceability of rights across jurisdictions
- Treatment in stress scenarios (defaults, disputes, insolvency)

Risk: The major risk here is that a divergence between token structure and underlying fund rights creates a two-tier investor base that may only become visible under pressure.

2. Valuation and pricing

Valuations in private markets are already infrequent and can lack observable market metrics. Tokens introduce the possibility of continuous, observable pricing.

This creates various tensions:

- Secondary trades may occur at discounts to NAV
- Price discovery may conflict with GP-reported NAVs
- Dislocated market pricing may influence investor perception, regardless of fundamentals

Risk: The emergence of a tokenised share class price can be a concern if it deviates from a manager's reported NAV, potentially impacting both fundraising and investor confidence. The assumption of increased frequency automatically equating to accuracy should be interrogated.

3. Liquidity

One of the most attractive potential benefits is that tokenisation may improve transferability and therefore enhance liquidity. From a due diligence perspective, it's worth asking:

- Are there regulated, functioning secondary venues?
- Is there consistent buyer/seller flow? Are there different economic motivations amongst asset owners?
- What mechanisms prevent distressed selling?

Risk: Without depth, liquidity becomes episodic, limited, and potentially stale.

4. Technology and operational dependency

Most allocators see new technology as offering benefits, but its implementation can diverge from the status quo and introduce downsides. The balance of improvement versus downside and vendor risk needs to be carefully assessed within due diligence.

Good due diligence should allow for assessment of:

- Blockchain infrastructure
- Smart contract integrity
- Custody model
- Third-party technology providers

Risk: Allocation to tokenised assets means that technology becomes an embedded layer of manager risk. Failure or weakness in any component introduces operational risk not typically present in traditional funds.

5. Custody, security, and recovery

Traditionally, custody of assets and security was a well-travelled path, with established custody providers being trusted by allocators to provide straightforward services.

The benefits and flexibility of the interoperability of digital asset infrastructure do, however, introduce new failure modes, which require an update to thinking and skills in areas such as:

- Institutional-grade tokenisation custody solutions
- Legal clarity on asset ownership under custody
- Processes for loss or compromise

Risk: The main issue is that, unlike traditional registers, loss of access can equate to loss of ownership if recovery frameworks are not robust. This represents a different paradigm.

Conclusion

The good news is that, in our opinion, assessing a tokenised fund will likely come down to a manageable number of core questions:

- Are investor rights fully aligned with traditional LP exposure?
- What happens when token price diverges from NAV?
- Is liquidity structural or conditional?
- How does the technology layer alter operational risk?
- Who ultimately bears responsibility if something fails?

A good due diligence process will seek to identify and implement access structures that can quantifiably improve aspects where technology has clear benefits, such as efficiency, cost reduction or data clarity, and eliminate those that add complexity without changing outcomes.

While many of these considerations are presented as due diligence questions, they can equally be viewed as design principles for managers seeking to develop scalable tokenised investment solutions. The most successful structures are likely to be those that solve allocator concerns upfront, rather than relying on investors to become comfortable with additional complexity after launch.

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