

Digital assets:

The new frontier for private equity investment strategies

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Every decade or so, a new asset class emerges that reshapes the strategies of alternative investment managers. Private debt and infrastructure were once considered niche; today they are core components of institutional portfolios. The next frontier is digital assets.



Historically dismissed as assets for retail traders and crypto enthusiasts, digital assets are undergoing a structural redefinition. The ecosystem has matured, institutional-grade infrastructure exists, and regulators are closing the gap. What is emerging is not simply new technology, but a distinct asset class with its own risk and return profile, adoption curve, and role in diversified portfolios. For private equity managers, the strategic question is no longer whether digital assets will become relevant, but how and when to engage.

Why digital assets matter

Independent research from asset managers such as Franklin Templeton¹⁾ indicates that even a limited allocation to digital assets can significantly enhance the performance of a traditional portfolio. A modest allocation in the range of 2-3% has been shown to increase overall returns while only modestly impacting volatility. The case is clear: although the market capitalization of digital assets remains a fraction of global equities and bonds, its growth trajectory has been exponential. Adoption curves mirror the early days of internet: crypto users have now surpassed 400 million worldwide, yet overall penetration remains far below the levels the internet had reached at a comparable stage. Today, digital assets account for less than 2% of global equity market capitalization, highlighting their significant growth potential.

For institutional investors, this is not about speculation but rather about capturing an asymmetric growth opportunity and adding a component to the portfolio that offers diversification benefits and a compelling risk and return profile.

Beyond portfolio construction, digital assets are also the building blocks of a new digital economy. They span a broad spectrum, from crypto assets that act like digital commodities to stablecoins serving as on-chain cash equivalents, to decentralized finance protocols that generate governance rights and transaction-based revenues, and to Web3 infrastructure providers offering custody, payments and compliance services.

For private equity managers, this universe provides multiple entry points, including equity stakes in infrastructure firms, hybrid structures combining tokens and equity, and even direct exposure to digital assets.

Investor demand is increasingly driving managers toward digital assets. Family offices have led the way, seeing them as a natural fit for their more opportunistic mandates. Sovereign wealth funds are exploring selective exposure—both directly and through specialist funds—reflecting a long-term strategic view of the blockchain's role in the financial system. Pension funds and insurers, historically cautious, are beginning to study the asset class in depth, recognizing that ignoring digital assets entirely could become a performance disadvantage. At the same time, high-net-worth and next-generation investors expect portfolios to reflect the digital economy they inhabit daily.

For asset managers, the question is no longer whether demand exists, but on providing institutional-grade access to meet it.

Are private equity players moving already?

Pure buyout firms have yet to launch flagship digital-asset funds, but leading players are already taking action. A global buyout house recently led one of the largest funding rounds for a regulated digital asset custodian and later allowed qualified investors to access one of its flagship growth funds through a tokenized feeder²⁾. A leading US alternatives manager has appointed a regulated custodian to safeguard its first digital asset holdings, signaling a careful but deliberate balance-sheet entry into the market³⁾.

A transatlantic growth equity firm invested in a digital asset trading and prime brokerage platform valued at over one billion dollars⁴⁾. Another top-tier private equity group launched a specialist fund of more than half a billion dollars dedicated to Web3, structured to invest across both equity and tokens⁵⁾. Meanwhile, a global venture and growth investor established a liquid token sleeve to provide exposure to governance tokens much like a new form of equity⁶⁾.

The pattern is familiar. First come equity investments in infrastructure—custody, trading, and data—where governance and revenues are most clearly defined. Next, dedicated digital assets vehicles provide controlled exposure to tokens where liquidity and compliance frameworks are sufficiently robust. Broader mandates will follow as valuation standards, accounting treatment, and liquidity further develop.

For senior leaders in private equity, this is no longer experimentation; it represents the early institutionalization phase of a new asset class.

Luxembourg: A platform for institutional digital asset strategies

Luxembourg will not determine the global trajectory of digital assets, but it offers a notably pragmatic regulatory framework for managers seeking to explore this market. Unlike many jurisdictions, Luxembourg allows alternative investment funds to pursue

a fully digital-asset-focused strategy under regulatory supervision. Recent updated guidelines from the Commission de Surveillance du Secteur Financier (CSSF) go even further and, for instance, allow UCITS to invest indirectly into crypto assets for a maximum of up to 10% of their net asset value (NAV) and allow alternative investment funds opened to retail investors other than well-informed investors to invest in crypto assets for a maximum of up to 10% of their NAV. This clarity is distinctive in Europe and positions Luxembourg as one of the few markets where institutional managers can structure pure digital asset funds.

This approach builds on the country's broader structuring toolkit. Vehicles such as the reserved alternative investment fund (RAIF), the specialized investment fund (SIF), and the European long-term investment fund (ELTIF 2.0) provide a tax-neutral environment as well as the flexibility to host strategies across the spectrum—from infrastructure equity to direct asset holdings—while enabling EU-wide distribution under the Alternative Investment Fund Managers Directive (AIFMD). Combined with a growing ecosystem of custodians, administrators, and advisers investing in digital expertise, Luxembourg is consolidating its role as the cross-border hub for institutional digital asset strategies in Europe.

Strategic considerations for asset managers

Engaging with digital assets requires careful strategic reflection. The opportunity set is broad. At one end of the spectrum, managers can invest in the infrastructure of the ecosystem—custody providers, trading venues, and compliance platforms—where business models resemble those of financial technology firms and are readily understood by private equity.

In the middle ground, hybrid models combine equity and token exposure, providing both financial returns and governance rights in decentralized protocols. At the other end of the spectrum lies direct exposure to digital assets themselves—cryptocurrencies, stablecoins, and DeFi tokens—which introduce unique volatility and custody challenges, but also offer significant growth potential.

Operational considerations are equally important. Valuation methodologies must adapt to account for both liquid and illiquid tokens, sometimes within the same portfolio. Custody arrangements are critical, with regulators increasingly scrutinizing safekeeping and requiring managers to work with regulated digital custodians. Reporting and risk management frameworks must evolve, particularly around liquidity, counterparty risk, and market transparency.

Strategically, senior asset manager executives need to determine how their firms will position themselves. A first-mover approach allows managers to shape standards and capture early investor flows, but it also requires comfort with higher execution risk. A fast-follower strategy may mitigate some of these risks, yet it

can leave firms trailing competitors that are already articulating a clear digital asset roadmap to their limited partners. Effective communication with investors is critical. Managers must be able to explain not only the risks, but also the structural reasons why digital assets deserve a place in a diversified portfolio.

In summary, digital assets are not a single bet. They represent a continuum of opportunities—from backing the infrastructure rails to allocating directly to the assets themselves, each carrying distinct implications for governance, operations, and returns.

Conclusion: The time to engage

Digital assets are no longer a curiosity. They represent the emergence of a new asset class, with the potential to stand alongside private equity, private debt, and infrastructure in institutional portfolios. For asset managers in alternative investment, the question is not whether to transform their business overnight, but whether to start building the knowledge, collaborations, and pilot allocations that will position their firms for the future.

As the grandfathering period for MiCA (Markets in Crypto-Assets) licensing rapidly approaches its hard deadline on 1 July 2026, the European digital asset landscape is facing a pivotal moment that creates a prime buying window for alternative asset managers. Data from regulators signals a massive compliance gap; in France alone, the *Autorité des marchés financiers* (AMF) recently identified over 90 registered crypto firms (PSANs) operating without the necessary MiCA authorization, with estimates suggesting nearly 40% of these legacy players have no viable path to licensure or intend to cease operations.

This regulatory pressure is mirrored across the EU, forcing a wave of distressed sales where valuable intellectual property, client bases, and technological infrastructure will come to market at depressed valuations. For private equity asset managers, this fragmentation offers a textbook "buy-and-build" opportunity by acquiring non-compliant but fundamentally sound entities to integrate them into fully licensed, institutional-grade platforms.

Luxembourg offers the appropriate framework (regulatory and tax among other things) to support such strategies, including the ability to structure funds dedicated entirely to digital assets under regulatory supervision. While this is a key differentiator in Europe, the opportunity itself is global, and the time to address digital assets has arrived. The managers who move early could not only capture outsized returns but will also help define how this new frontier of investment takes shape.

1) Why Digital Assets | Alternatives by FT

2) Anchorage Digital Raises \$350 Million Series D Funding Led by KKR

3) Apollo Custodies First Digital Asset Holdings With Anchorage Digital

4) Talos extends Series B to \$150 million with Robinhood, Sony, BNY investments - Ledger Insights - blockchain for enterprise

5) Bain Capital Launches \$560m Crypto Fund - Private Equity Insights

6) A Block Step Forward | Sequoia Capital

Japan's equity renaissance: a structural opportunity for global investors

A market long considered a value trap

By Hiromi ISHIHARA, Head of Equity Japan, Amundi Japan

For decades, Japanese equities were viewed by global investors as a value trap. Despite the country's technological strength and industrial leadership, the equity market consistently traded at a valuation discount to its global peers. Low return on equity (ROE), excessive corporate cash balances and weak shareholder focus weighed on performance. Today, however, Japan appears to be at a structural turning point. A combination of corporate governance reforms, reflation and policy support is transforming the investment case for Japanese equities.

The origins of Japan's valuation discount lie in corporate behaviour that prioritised stability over efficiency. Many companies accumulated large cash reserves and maintained cross-shareholdings with business partners, which diluted capital discipline and reduced pressure on management to maximise shareholder value. As a result, Japanese



companies often generated lower ROE than their global counterparts, leading to persistent valuation gaps compared with US and European markets.

Corporate governance reforms reshape the market

Over the past decade, policymakers and regulators have worked to address these structural weaknesses. Under the reform agenda initiated during the Abe

administration and continued in subsequent years, Japan introduced a series of corporate governance measures designed to improve capital allocation and strengthen shareholder rights. The Tokyo Stock Exchange (TSE), regulators and institutional investors have played an active role in encouraging companies to enhance capital efficiency, increase transparency and focus on long-term value creation.

These reforms have already produced visible changes. Share buybacks have increased significantly, dividend payouts have become more stable and companies have begun divesting non-core assets and unwinding cross-shareholdings.

By reducing excess balance-sheet assets and returning capital to shareholders, firms are improving capital productivity and lifting earnings per share. This process supports a gradual increase in ROE and helps narrow Japan's long-standing valuation discount.

The return of inflation changes incentives

At the same time, the macroeconomic environment in Japan is shifting in ways that further strengthen the equity outlook. After decades of deflation and stagnant wages, the Japanese economy is experiencing a period of reflation.

Inflation has averaged above 3% between 2023 and 2025, accompanied by wage growth and stronger nominal GDP expansion. This environment is fundamentally different from the deflationary regime that shaped corporate behaviour for more than twenty years.

Reflation changes incentives for both companies and investors. In a deflationary economy, holding large cash balances preserved value and discouraged risk-taking. With inflation returning and interest rates normalising, idle cash becomes less attractive. Corporations are therefore more likely to redeploy capital into productive investment, mergers and acquisitions, or shareholder returns. The result is a gradual reactivation of corporate investment and a renewed focus on profitability.

Policy support and investment momentum

Government policy is also contributing to this shift. Recent fiscal initiatives emphasise productivity-enhancing investment in strategic sectors such as infrastructure, advanced manufacturing and technology. These measures aim to strengthen Japan's role in global supply chains while supporting domestic economic growth. Combined with structural reforms and reflation, they create a supportive backdrop for corporate earn-

ings and equity performance. Importantly, the rally in Japanese equities in recent years has been driven largely by valuation expansion rather than earnings growth. Investors have been willing to pay higher multiples as confidence in the reform story increased.

The next phase of the market's evolution will depend on whether companies deliver tangible improvements in profitability and capital efficiency. Early signs suggest that this transition is already underway, as governance reforms begin translating into stronger earnings fundamentals.

A diversification opportunity for global investors

For global investors seeking diversification, Japan offers a compelling opportunity. International positioning in Japanese equities remains relatively light compared with the United States, where market concentration and valuation levels have raised concerns. As structural reforms continue and corporate behaviour evolves, Japan could increasingly be viewed not as a value trap but as a market undergoing a genuine transformation.

In that context, the country's equity renaissance may represent one of the most significant structural investment stories in developed markets today.