

Tokenised UCITS

Achieving ETF-like benefits
through market makers

INSIGHT REPORT

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Tokenised UCITS

Executive Summary

UCITS funds are a global success story. Their regulated daily liquidity has made them the foundation of European investment distribution. Yet in a world dominated by ETFs, daily dealing at NAV is no longer enough. Investors increasingly expect the ability to trade throughout the day, with visible prices and tight spreads.

For managers, the ETF solution is obvious but costly. Launching and maintaining an ETF requires listing, authorised participants, and a full market-making ecosystem — infrastructure that many managers are unwilling or unable to build. The result is a widening gap: UCITS remain the backbone of portfolios, but ETFs capture the growth in flows.

Tokenisation offers a new path. By recording UCITS units on chain and enabling market makers to quote two-sided prices around NAV, managers can deliver ETF-like tradability without converting into an ETF. Investors gain intraday access, transparent pricing, and fractionalised units; managers retain the UCITS wrapper, distribution relationships, and control.

Crucially, the market-making function can be flexible. Liquidity can be provided directly by the asset manager itself, or by licensed third-party firms, just as in the ETF model. Tokenisation makes both approaches more efficient by synchronising settlement, embedding compliance, and providing real-time register transparency.

This paper explores the UCITS liquidity gap, explains how tokenisation enables ETF-like benefits, examines the role of market makers, and outlines the roadmap for implementation. The conclusion is clear: tokenised UCITS with market-maker support offer managers a distribution edge in a world where investors increasingly demand ETF-style access.

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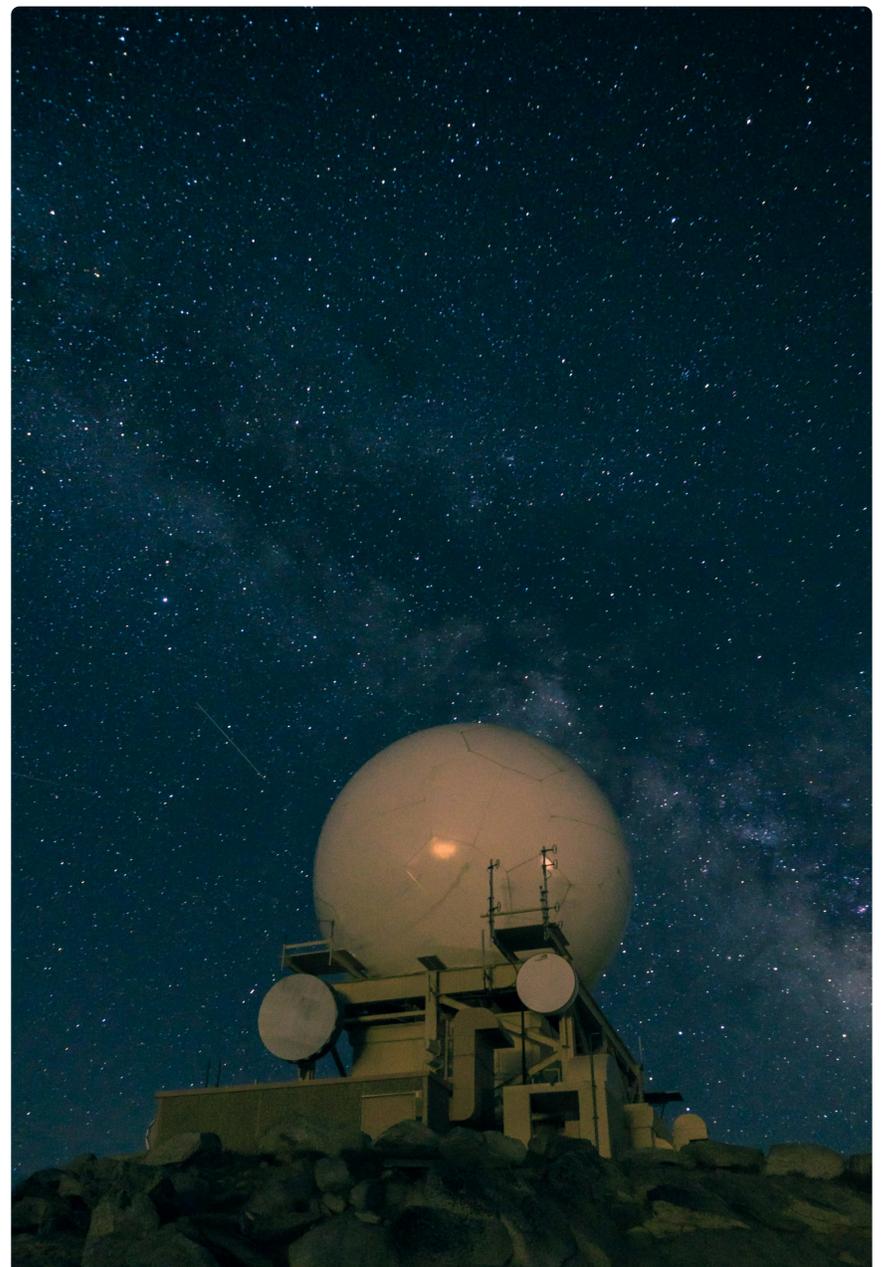
1. The UCITS Liquidity Gap

UCITS funds were designed to be liquid. Their daily dealing cycle ensures that investors can redeem at NAV each day. For decades, this feature distinguished UCITS from illiquid alternatives and made them the dominant vehicle for retail and institutional portfolios.

But the market has moved. ETFs have set a new benchmark: intraday tradability, continuous pricing, and visible spreads. Investors can enter and exit throughout the trading day, with the reassurance of secondary market liquidity layered on top of the fund's primary creation and redemption process.

Managers face a dilemma. ETFs require costly infrastructure: listings, authorised participants, third-party market makers, and operational complexity. Many managers, particularly boutiques or those without scale, cannot justify the step. As a result, the UCITS universe risks ceding growth to ETFs even though the underlying investment strategies remain strong.

Tokenisation changes the calculus. By enabling continuous trading of UCITS units through digital rails, with spreads quoted by market makers around NAV, the benefits of ETF-like access can be achieved without the costs of ETF conversion.



2. Tokenisation as an Enabler

Tokenisation is the key innovation that allows UCITS funds to move beyond once-a-day dealing without converting into ETFs. By placing fund units on chain, tokenisation modernises the investor register, simplifies compliance, and enables near-instant settlement. Together, these features make continuous trading with market maker support both practical and credible.

On-chain registers

In a traditional UCITS, the investor register is maintained through transfer agents and custodians, updated once per dealing cycle. Tokenisation replaces this process with an on-chain register: a single, authoritative ledger that records ownership in real time.

Factionalism

Tokenisation also makes it straightforward to fractionalise UCITS units. Instead of fixed minimums that exclude many investors, positions can be divided into smaller denominations. This creates flexibility for wealth managers and distributors, and allows the eventual retailisation of UCITS strategies without altering the fund itself.

Wallet-based compliance

Secondary trading of fund units is often hampered by repetitive due diligence. Tokenisation addresses this by tying AML and KYC checks to investor wallets. Once a wallet is whitelisted, it can participate in trades without further friction. This not only reduces costs but also ensures that every transaction on the bulletin board is compliant by design.

Instant settlement

Perhaps most importantly, tokenisation synchronises settlement. In traditional systems, trades can fail due to mismatched timing of cash and register updates. On chain, transfers only occur when both conditions are met: the buyer has provided cash, and the seller has authorised the transfer. Smart contracts ensure delivery-versus-payment, reducing operational risk and giving market makers the confidence to quote tight spreads.

3. ETF-Like Benefits via Market Makers

Market makers are the bridge between tokenised UCITS and ETF-style access. By quoting continuous two-sided prices around NAV, they provide the visibility and tradability that investors have come to expect from ETFs — but without requiring the fund to actually become one.

Continuous pricing

In a traditional UCITS, investors only see one price: the end-of-day NAV. In an ETF, investors see live quotes throughout the day. Tokenised UCITS can replicate this dynamic. Market makers publish indicative bid and ask prices anchored to the fund's NAV, adjusting intraday as markets move. The result is continuous price discovery, giving investors a clear view of liquidity conditions at any moment.

Intraday tradability

With market makers standing ready to buy and sell, investors are no longer confined to once-a-day dealing. They can enter or exit positions at any point, subject to available liquidity. For retail investors, this makes tokenised UCITS behave like ETFs;

for institutional allocators, it provides flexibility to manage exposures without waiting for the next dealing cycle.

Transparency

Tokenisation adds a new layer of transparency. Because the investor register updates in real time, both managers and regulators retain full visibility of who holds units. Investors see visible quotes and spreads, just as in the ETF market, while managers avoid the opacity of over-the-counter secondary transactions.

Accessibility

Fractionalisation makes tokenised UCITS more accessible. Smaller denominations reduce minimum investment sizes, opening distribution channels to wealth managers and eventually to retail. Combined with continuous trading, this transforms the UCITS experience into one much closer to ETFs, but without changing the fund's underlying structure.

4. The Role of Market Makers

Market makers are the operational core of ETF-like liquidity. Their task is straightforward but critical: stand ready to buy from sellers and sell to buyers, quoting prices around NAV. In tokenised UCITS, they make continuous tradability possible while keeping the fund's structure intact.

Quoting two-sided prices

A market maker continuously publishes both a bid and an ask. These quotes are anchored to the UCITS fund's NAV, typically within a defined spread. For example, if the daily NAV is €100, a market maker may quote €99.80–100.20 throughout the day. This spread compensates them for risk, while giving investors visible pricing and confidence they can transact at known levels.

Issuance and redemption

In ETFs, authorised participants and market makers rebalance their inventory by creating or redeeming shares with the fund. The same logic applies in tokenised UCITS. If demand outstrips supply, the market maker can subscribe for new units.

If supply exceeds demand, they can redeem excess units. Tokenisation makes this process faster and less costly, enabling tighter spreads.

4.1 Who provides the liquidity?

Market-making does not have to follow a single model.

- **The asset manager as market maker**
Some managers may choose to provide liquidity directly. This ensures full alignment with the fund's strategy and signals strength to investors. The trade-off is that it requires balance sheet commitment and risk management.
- **Third-party professional firms**
Just as in the ETF ecosystem, independent trading firms can act as market makers. These firms already hold MiFID II licenses for dealing on own account and market making. They bring infrastructure, expertise, and capital, allowing managers to outsource the function.

- **Hybrid models**

Over time, managers may combine approaches: supporting liquidity themselves while also allowing third-party firms to compete. This creates redundancy and resilience, preventing dependence on a single provider.

4.2 Reserves and payment rails

Market makers require reserves of both the asset they trade and the means of settlement.

- **UCITS reserves**

To sell units, market makers must hold a buffer of UCITS tokens. They obtain these through subscription or secondary purchase, ensuring they can meet investor demand without delay.

- **Settlement reserves**

To buy units back, they need a store of settlement assets. In the tokenised environment, this could take the form of a regulated stablecoin, a tokenised money market fund, or another on-chain cash equivalent. The exact choice depends on jurisdictional rules and investor acceptance.

- **Delivery-versus-payment**

Tokenisation ensures that UCITS tokens and settlement assets move simultaneously, eliminating counterparty risk. This makes market making less capital-intensive, allowing tighter spreads and more reliable liquidity.

The efficiency of tokenisation

Traditional market making in UCITS would be operationally prohibitive. Settlement delays, manual register updates, and fragmented compliance checks would make tight spreads impossible. Tokenisation removes these barriers. With instant register updates, embedded AML/KYC, and synchronised settlement, market makers can operate efficiently, and investors can enjoy ETF-like access to UCITS without structural change to the fund.

5. Use Cases: Investor Journeys

The true test of tokenised UCITS is not the mechanics but the experience it delivers to different types of investors. By looking at practical scenarios, we can see how market-maker supported UCITS replicate ETF-like access while preserving the UCITS structure.

USE CASE 1

The retail investor seeking flexibility

Anna is a young professional building her first portfolio. Through her bank's digital platform, she buys a tokenised UCITS global equity fund. In the past, her order would have been cut off at 2 p.m. and priced at end-of-day NAV. Now, she sees live quotes on her screen: €99.80–100.20. She buys immediately at €100.10, confident she is close to NAV. A month later, she decides to sell half her position. Again, she sees a live bid price and executes instantly. For Anna, tokenised UCITS feel like ETFs: accessible, transparent, and flexible.

USE CASE 2

The wealth manager serving clients

David manages portfolios for high-net-worth clients. Historically, when clients wanted UCITS exposure with intraday flexibility, David turned to ETFs. But not every strategy is available in ETF format. Now, with tokenised UCITS, David can access the same strategies his firm already uses, but trade them intraday with visible spreads. He positions tokenised UCITS as “ETF-like UCITS,” reassuring clients that they retain daily liquidity at NAV but also benefit from optional access throughout the day.

USE CASE 3

The institutional allocator managing cash flows

Sofia runs the portfolio of a pension fund. She uses UCITS bond funds to manage core exposures but often needs to adjust positions quickly in response to liability shifts. Traditionally, she was bound by daily dealing cut-offs. With tokenised UCITS, Sofia can adjust exposure intraday: selling €20 million in one bond UCITS at 11 a.m. and reallocating the proceeds into another fund by 1 p.m. The pension fund's liquidity profile is transformed, without moving into ETFs or more complex instruments.

Pricing discipline across use cases

In each of these journeys, the role of the market maker is critical. Quotes are always anchored around NAV, ensuring fairness. Spreads compensate the market maker but remain transparent. For Anna, the retail investor, spreads are small enough to make trading painless. For David, the wealth manager, spreads give him confidence to offer UCITS as ETF substitutes. For Sofia, the institutional allocator, intraday access makes UCITS funds fit more smoothly into her broader portfolio management.



6. Roadmap for Implementation

Tokenised UCITS with market-maker support are not a distant vision. The infrastructure already exists, and the path to implementation can be broken into clear, manageable stages.

Stage 1: Tokenise the UCITS register

The next stage is outward-facing. The board is opened to qualified investors who were not part of the original commitment base but who meet eligibility requirements. This expands the pool of potential buyers, increasing the chance of matching interests while retaining strict investor protections. For managers, it is an efficient way to welcome new capital into a closed fund; for investors, it creates visibility

Stage 2: Engage market makers

Once the register is tokenised, one or more market makers can begin quoting prices around NAV. They obtain an initial reserve of UCITS units and settlement assets, then stand ready to buy and sell intraday. Quotes are anchored to NAV, with spreads set to reflect market conditions. At this stage, investors gain ETF-like benefits: visible pricing, intraday access, and confidence in settlement.

Stage 3: Expand distribution

The next stage is outward-facing. The board is opened to qualified investors who were not part of the original commitment base but who meet eligibility requirements. This expands the pool of potential buyers, increasing the chance of matching interests while retaining strict investor protections. For managers, it is an efficient way to welcome new capital into a closed fund; for investors, it creates visibility

The longer-term horizon

As adoption grows, tokenised UCITS can support a full ecosystem: multiple market makers, fractionalisation for smaller-ticket investors, and interoperability with tokenised money market funds or stablecoins as settlement assets. The trajectory mirrors the development of the ETF market — from early single-provider liquidity to competitive, resilient ecosystems.

7. Risks and Considerations

Tokenised UCITS with market-maker support offer clear benefits, but they also raise new questions. Managers must recognise the risks and ensure that safeguards are in place to protect investors, comply with regulation, and preserve confidence.

Spread management

Spreads are the cost of liquidity. If they are too wide, investors may feel disadvantaged; if they are too tight, market makers may withdraw. The challenge is to strike a balance that ensures investor fairness while keeping market making economically viable. Transparency is essential: investors should always see the spread, and managers should monitor to ensure it reflects underlying market conditions rather than opportunism.

Regulatory classification

Tokenised UCITS must avoid blurring into ETF territory unintentionally. Regulators may ask whether continuous trading with market makers creates an exchange-like environment. The safeguard is clear framing: tokenised UCITS remain UCITS, priced daily at NAV, with intraday trading as an overlay.

Clear disclosures will be critical to avoid misinterpretation by both regulators and investors.

Market maker incentives

Market makers require capital and carry risk. Their incentives must align with the fund's objectives. If spreads widen excessively, or if liquidity disappears in volatile markets, confidence may erode. Managers must ensure that market-making arrangements — whether provided internally or by third parties — are robust, transparent, and designed for continuity.

Settlement assets and payment rails

The choice of settlement asset introduces its own considerations. A regulated stablecoin or tokenised money market fund reduces counterparty risk but requires regulatory acceptance and operational readiness. Managers must be comfortable that settlement rails are secure, resilient, and appropriate for the investor base.

Reputational risk

Finally, managers must guard against overpromising. Tokenised UCITS offer ETF-like features, but they are not ETFs. If investors expect continuous deep liquidity and are disappointed, reputational damage could follow. Careful communication is required: the value lies in optionality and transparency, not in mimicking every aspect of ETFs.



Conclusion

UCITS funds are one of Europe's greatest financial innovations, but the market around them has moved. ETFs have set a new benchmark for liquidity and access, and investors increasingly expect the ability to trade throughout the day with visible pricing. Managers who cannot provide ETF-like features risk losing distribution ground, even when their underlying strategies remain compelling.

Tokenisation changes the equation. By putting UCITS units on chain and enabling market makers to quote prices around NAV, managers can deliver intraday tradability, transparency, and fractionalisation — without converting their funds into ETFs. The model combines the familiarity and regulatory strength of UCITS with the modern access investors demand.

Importantly, managers retain flexibility. Liquidity can be provided internally, signalling commitment, or by licensed third-party firms, leveraging established expertise. Tokenisation makes both routes more efficient by ensuring real-time registers, embedded compliance, and delivery-versus-payment settlement.

The result is UCITS that behave like ETFs in practice but remain UCITS in structure. Investors gain confidence, distributors gain a new story to tell, and managers gain a competitive edge in distribution.

The message is clear: tokenised UCITS with market-maker support are not a theoretical future — they are a practical next step. They preserve the strengths of UCITS while bringing them into the ETF era, positioning managers to meet shifting investor expectations and capture the flows of tomorrow.

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