FEBRUARY 2025

RISING TIDE

INSTITUTIONAL IMPACT:
ANALYSIS OF DIGITAL ASSET FUND MANAGER SENTIMENT

EXECUTIVE SUMMARY

The digital assets fund industry has entered 2025 with cautious optimism, as a complex interplay of market dynamics, regulatory developments, and evolving investor sentiment shapes the landscape. This report, supported by Hedgeweek's research survey and expert insights from industry leaders, delves into the key trends, opportunities, and challenges that define the sector's trajectory.

Part I of the report examines the institutional transformation of digital assets, marked by watershed moments such as the approval of spot Bitcoin ETFs and the development of sophisticated structured products. Contributions from Anthony Scaramucci of SkyBridge Capital and Richard Swain of Bentley Reid highlight the critical role of regulatory clarity in driving institutional adoption, while Paul Howard of Wincent sheds light on the uneven evolution of market infrastructure.

Part II explores the divergent paths of digital asset adoption in Europe and North America, shaped by their unique regulatory landscapes. The report reveals a striking contrast, with 58% of North American funds increasing their allocations compared to just 22% of European funds. Experts anticipate a growing convergence as regulatory frameworks mature and institutional liquidity increases.

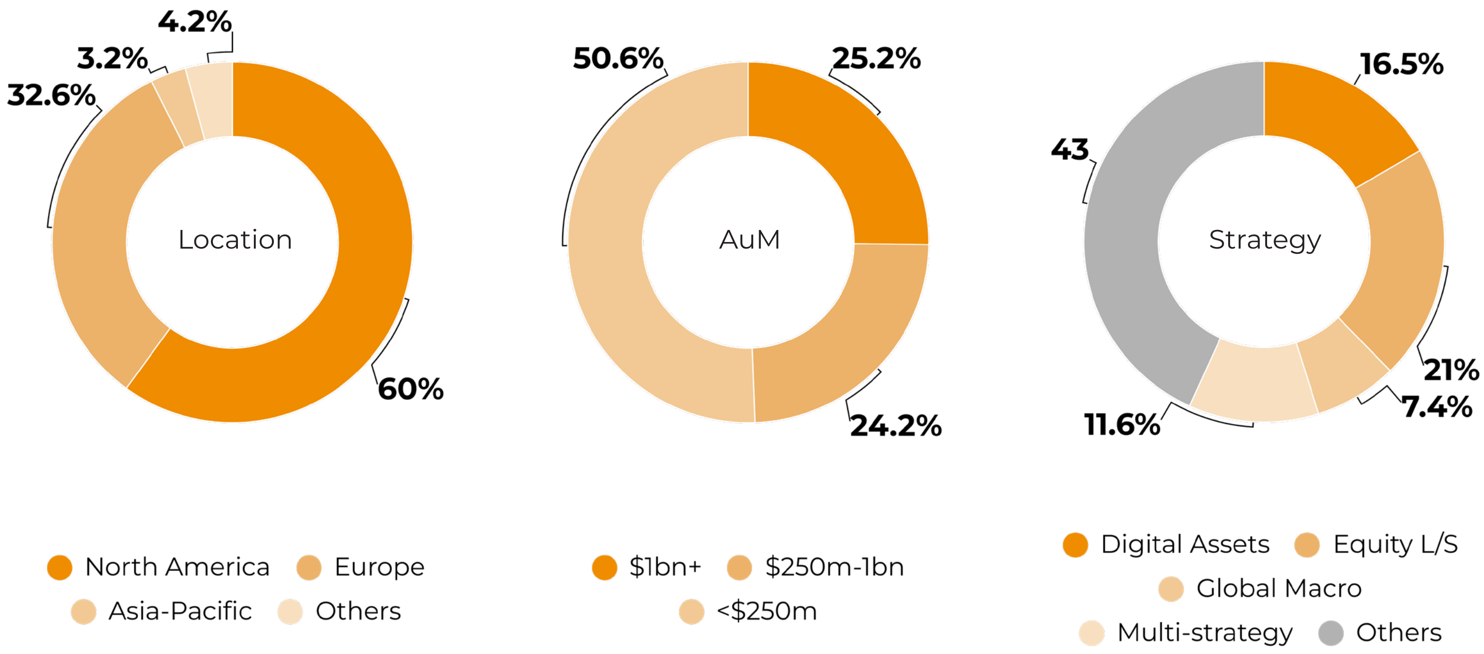
Despite the optimism, the report also uncovers the persistent concerns of institutional investors, with client demand, regulatory clarity, and infrastructure security emerging as key prerequisites for deeper engagement. The survey data underscores the industry's cautious positioning, as funds grapple with the challenges of liquidity concentration, custody risk, and market volatility.

As the digital asset space continues to evolve, navigating the path ahead will require a keen understanding of the macro factors at play. Part III of the report explores the potential catalysts for institutional entry, the evolving risk landscape, and the long-term drivers of investor adoption. With contributions from industry thought leaders and data-driven insights, this report offers a comprehensive view of an industry on the cusp of transformation.

MANAS PRATAP SINGH
HEAD OF HEDGE FUND RESEARCH

CONTENTS

Breakdown of respondents to Hedgeweek's Q1 Hedge Fund Manager Survey by firm location, size, and approach



METHODOLOGY

A key source of data in this report is the results of Hedgeweek's Q1 Hedge Fund Manager Survey conducted in January 2025. Of the 98 hedge fund firms that participated in the survey, just over one quarter labelled their primary hedge fund investment strategy as focused on digital assets. Further insights in this report were gathered during interviews in January and February 2025 with named and unnamed hedge fund sources and additional third-party research and intel.

KEY FINDINGS

1

Momentum builds

A third of all fund managers surveyed by Hedgeweek ranked digital assets in their top three strategies to increase allocation to "most significantly" in 2025. Meanwhile, half of fund managers with digital asset products plan to increase their crypto allocation. Among managers without current exposure, one in seven is considering market entry – with half of those intending to invest within six months and the other half within 12 months.

2

Price is not king

Despite bitcoin's stellar 125% surge in 2024, fund managers' sentiment remains cautious. Four out of five hedge funds without digital asset exposure maintain their sceptical stance, suggesting price appreciation alone isn't driving institutional adoption.

3

Client push could drive adoption

Two in five firms with no digital asset exposure cite client demand as the primary catalyst for potential entry, with regulatory clarity at one-third and improved infrastructure at nearly a quarter. This suggests market dynamics could shift rapidly if institutional investors increase their appetite for crypto exposure.

4

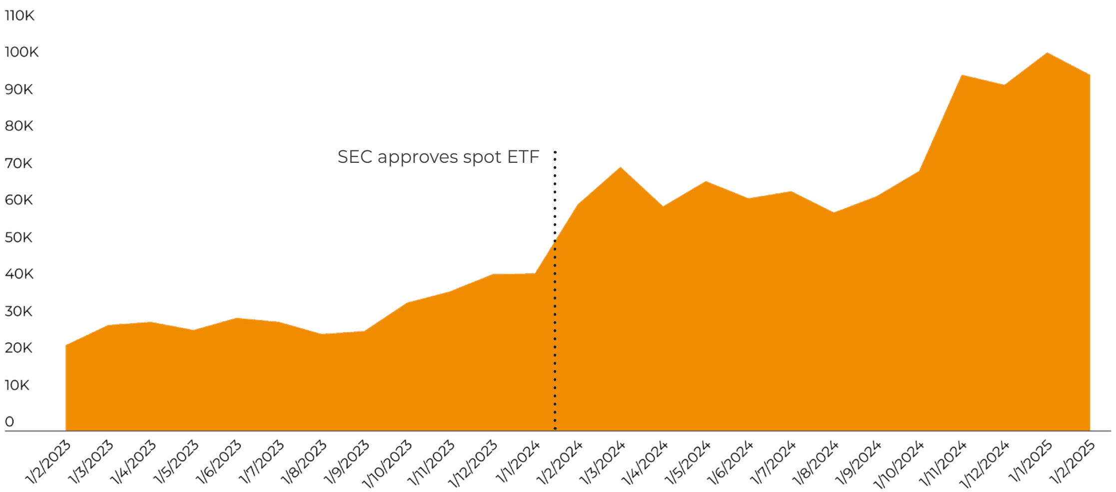
Fear liquidity, not volatility

Three in four managers cite global liquidity deterioration as their primary concern for 2025, while half worry about geopolitical shocks. Yet only one in eight fear market volatility – in fact, half of funds plan to increase volatility trading allocations, viewing it as an opportunity in uncertain markets.

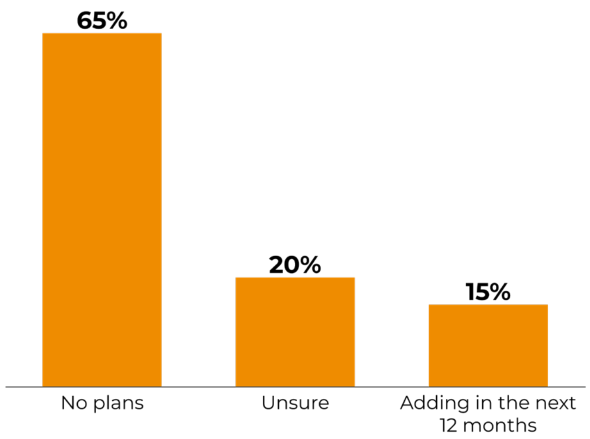
DIGITAL ASSETS:

Market evolution and perspectives

Monthly bitcoin price over 24 months to 1 February 2025



Plans to add digital asset exposure (non-digital asset managers)



Source: Hedgeweek 2025 Investor Survey

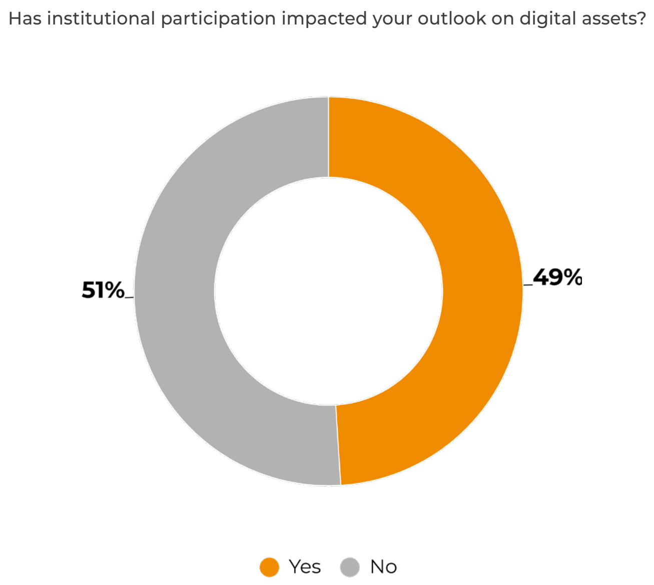
THE INSTITUTIONAL TRANSFORMATION

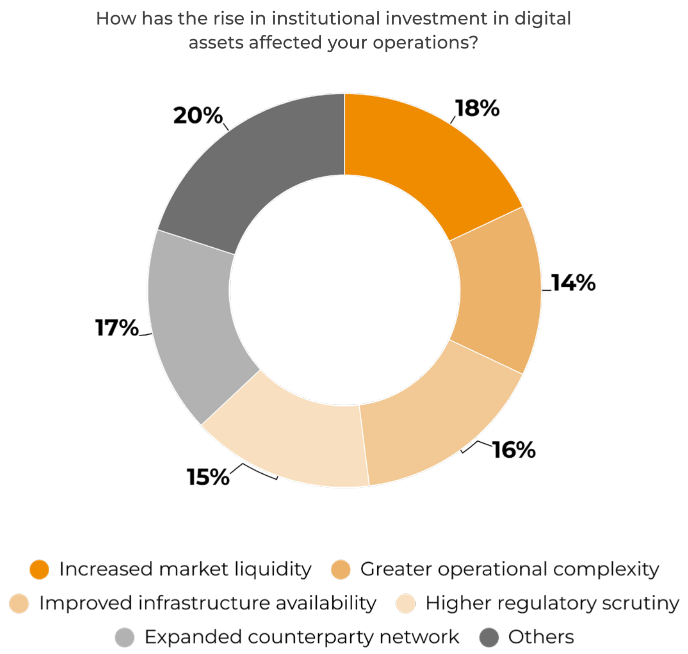
The institutional digital asset landscape has undergone a remarkable transformation, evolving from a predominantly retail-driven speculation vehicle to an increasingly sophisticated institutional investment class. This evolution mirrors the historical trajectory of commodities' institutionalisation in the early 2000s, as noted by Fidelity Digital Assets in their 2024 research.

WATERSHED MOMENT: THE ETF CATALYST

The approval of spot bitcoin ETFs has fundamentally altered the institutional conversation around digital assets. As Founder and Managing Partner at SkyBridge Capital Anthony Scaramucci observes, institutional discussions have shifted dramatically from theoretical exploration to practical implementation. Pre-approval, conversations centred on custody concerns, regulatory uncertainties, and volatility assessments. Post-approval, institutions now focus on execution strategies and portfolio integration, primarily as macro hedges.

This watershed moment has effectively validated digital assets for many institutional investors previously watching from the sidelines. According to Scaramucci, this approval has catalysed the development of new structured products tailored to institutional needs and ushered in actively managed crypto strategies, signalling digital assets' transition from niche allocation to recognised asset class.





THE REGULATORY FRAMEWORK IMPERATIVE

Richard Swain of Bentley Reid, which allocates as a fund of funds, identifies regulatory clarity as the critical barrier to widespread institutional adoption. The landscape is evolving favourably, with recent US administration initiatives establishing dedicated crypto working groups aimed at developing coherent policy frameworks. This represents a significant shift from previous regulatory scepticism. Swain notes that new SEC leadership appears more receptive to digital asset innovation, contrasting sharply with previous regulatory resistance.

INFRASTRUCTURE EVOLUTION

The market infrastructure supporting institutional participation has developed unevenly, according to Paul Howard of Wincent. This irregular evolution stems from regulatory uncertainty, resulting in a fragmented ecosystem of institutional exchanges across multiple jurisdictions. While creating operational challenges, this fragmentation has generated unique arbitrage and high-frequency trading opportunities.

Howard’s assessment highlights how regulatory disparities have shaped market structure development, creating both inefficiencies and strategic openings for institutional players with the capabilities to navigate this complex landscape.

WHAT DO INSTITUTIONAL CLIENTS WANT?

Despite the crypto rally, half of digital asset funds maintained static allocations last year. Here's why.

Almost half of hedge fund managers in the digital asset space remain hesitant to increase their crypto allocations as institutional adoption hurdles persist. Recent survey data reveals that while half of the digital assets funds maintained static allocations over the past year, only 15% significantly increased exposure, with a third reporting moderate increase.

This cautious positioning reflects several critical prerequisites for deeper institutional

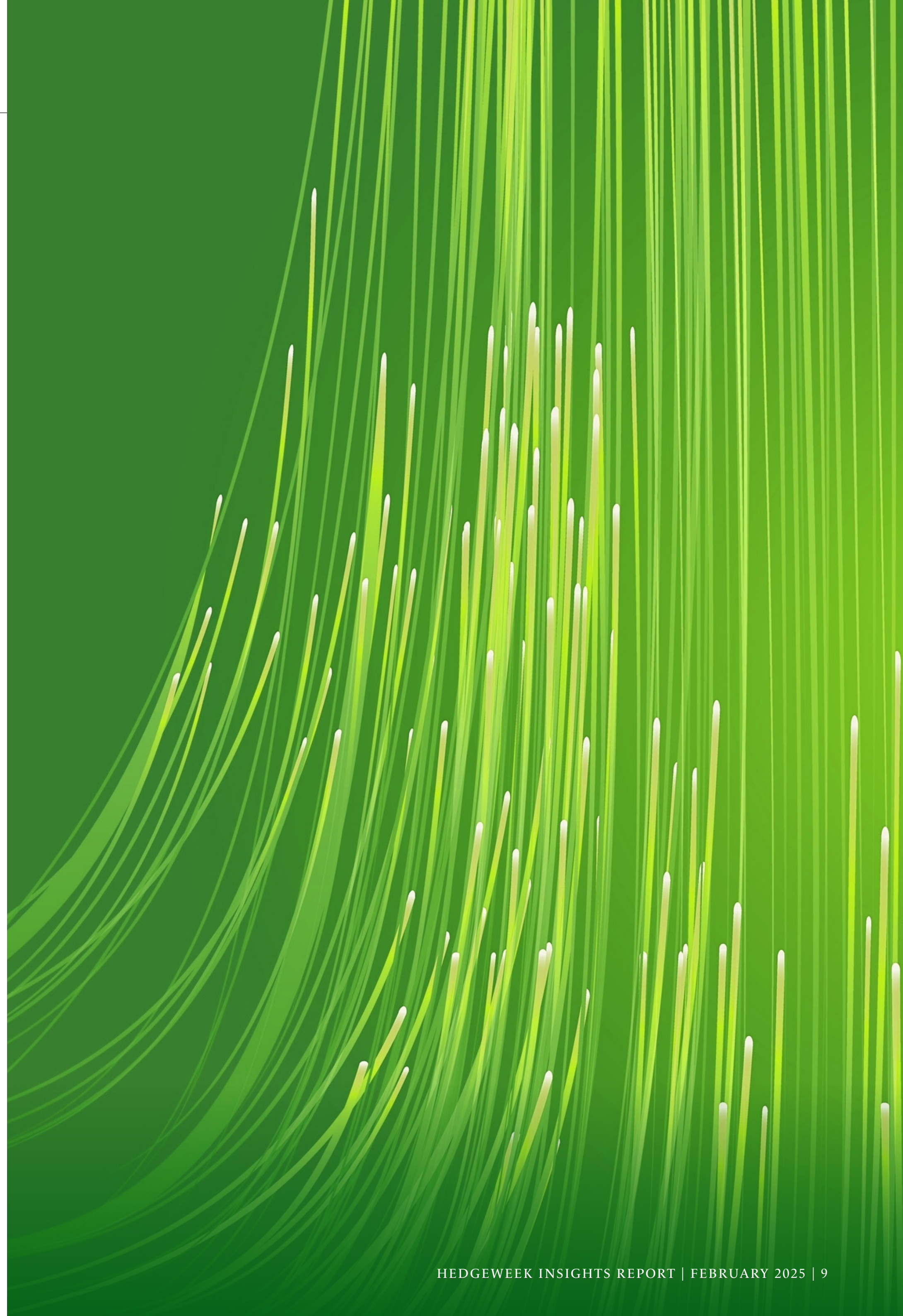
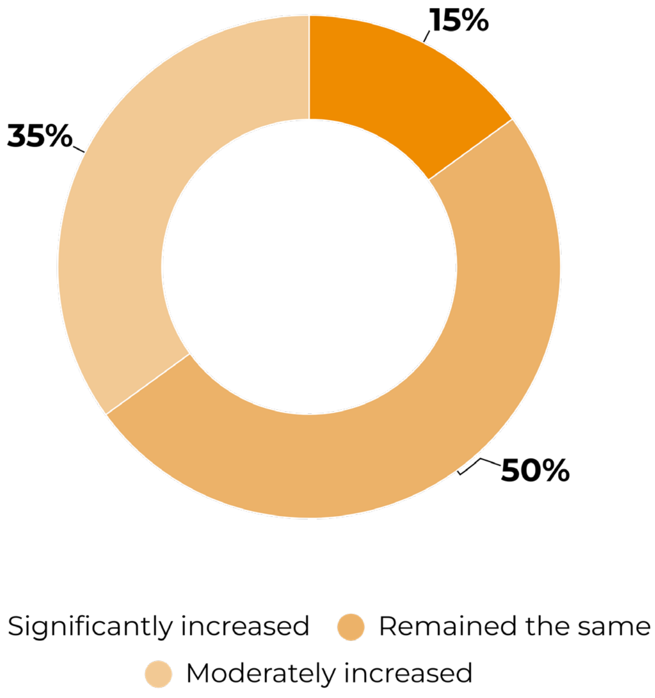


Fig. 1.1 How has your digital asset allocation changed in the past 12 months?



Source: Hedgeweek 2025 Investor Survey

engagement. Anthony Scaramucci emphasises that "for institutions to adopt digital assets, it is essential to ensure security, compliance, and smooth integration with traditional financial systems."

Beyond these baseline needs, "liquidity and market depth are still concerns," notes Scaramucci, as "large investors expect efficient execution and reduced counterparty risk." While ETF growth has enhanced accessibility, further advancements remain necessary to meet institutional standards.

Education has proven "vital" in accelerating adoption. Scaramucci observes that "as institutions deepen their understanding of bitcoin's role as a macro hedge, ethereum's infrastructure potential, and the efficiency of tokenised assets," allocations are evolving from "speculative trades to more strategic" portfolio components. This educational journey is gradually transforming institutional perception, though allocation data suggests the transformation remains incomplete.

LIQUIDITY CONCENTRATION CHALLENGES

The current liquidity landscape "is not at an institutional era," according to Wincent's analysis. Many "so-called market makers are not delivering the quotes, spreads, and sizes they have committed to," creating a reliability gap that undermines institutional confidence.

Market structure concerns extend to concentration risk, with Wincent noting

“

Safe custody is improving, but it needs to improve further for most institutional investors to be comfortable.

Richard Swain
Head of Funds Research, Bentley Reid

"a concentration of liquidity on single platforms" across spot and derivatives markets, "followed by hundreds of tails." This imbalance creates potential stability concerns and execution challenges for large institutional participants.

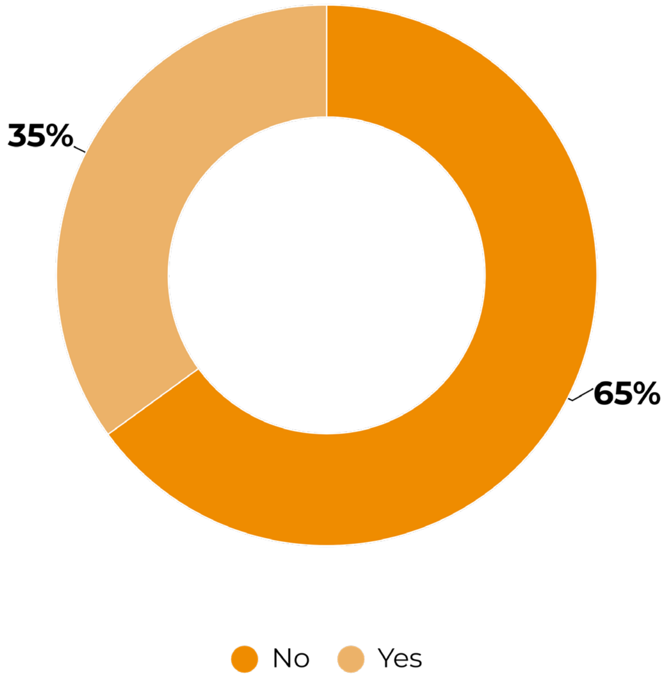
Wincent advocates for "a healthier ecosystem of 5-10 large players" with "more evenly balanced liquidity." This evolution will likely emerge through "regulatory changes" and "Real World Assets (RWA) coming on-chain to grow the pie rather than just changing the size of the portions." These developments promise "greater depth and provision of liquidity with better derivatives" that satisfy institutional requirements.

CUSTODY AND INFRASTRUCTURE SECURITY

As a third of surveyed funds expand their trading infrastructure, custody security emerges as the paramount consideration. Richard Swain of Bentley Reid emphasises that "custody risk is the single most important factor in our operational due diligence process."

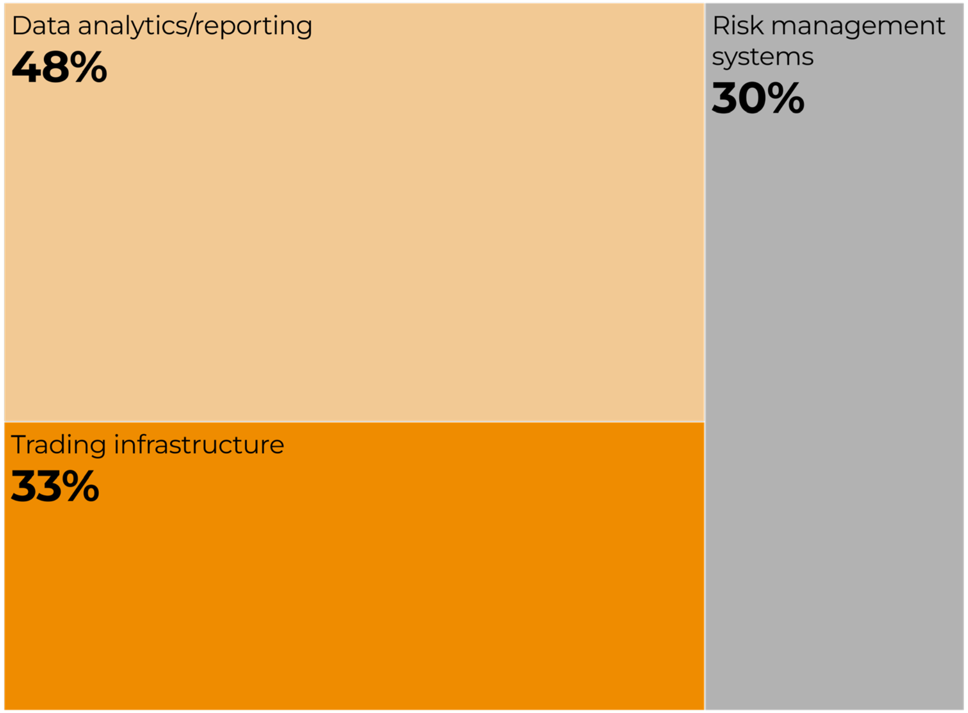
Bentley Reid's investment approach specifically targets "long only thesis-driven managers who keep their assets off exchange in cold storage," a strategy that substantially mitigates "the critical threats of theft and fraud." This focus on custody security reflects hard-learned industry lessons.

Fig. 1.2 Has the rise in institutional investment in digital assets increased market liquidity?



Source: Hedgeweek 2025 Investor Survey

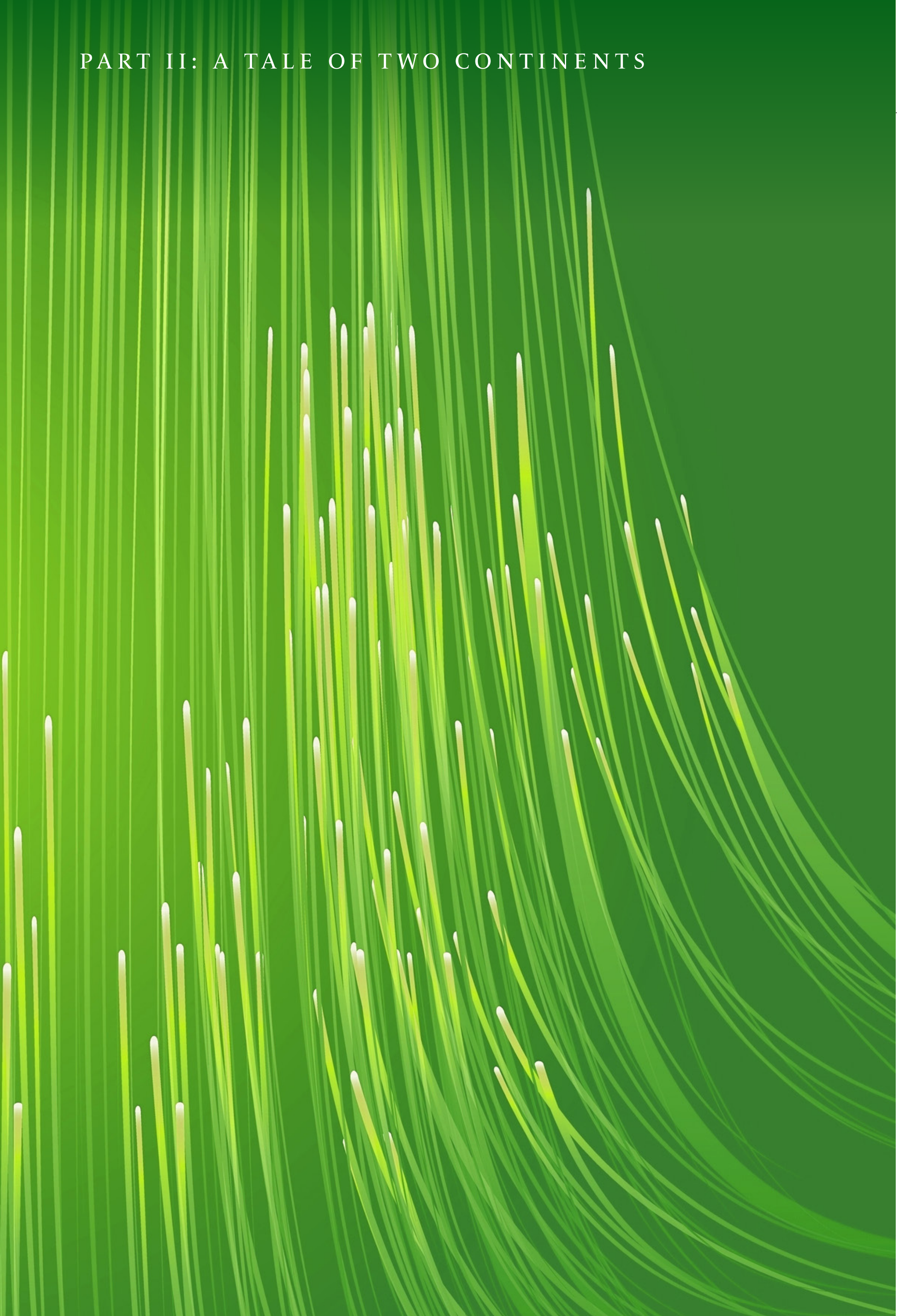
Fig. 1.3 In which areas are you planning to increase investment over the next 12 months? (Ranking)



Source: Hedgeweek 2025 Investor Survey

Swain highlights the severe consequences of inadequate custody arrangements, noting that “roughly, one third of crypto funds went bust during the FTX implosion, which shows how important a factor this is for investors.” This sobering statistic underscores why institutional investors place custody security at the centre of their due diligence frameworks, particularly as trading infrastructure expands across the sector.

The emphasis on secure custody arrangements demonstrates how operational considerations often supersede performance metrics in institutional decision-making, especially in emerging asset classes where infrastructure vulnerabilities can lead to catastrophic capital impairment.



A TALE OF TWO CONTINENTS:

Divergent paths in digital asset adoption

The digital asset divide is widening. Here's how regulatory contrasts are creating opportunity.

Recent survey data reveals a striking contrast in the evolving strategies of European and North American funds towards digital assets. While a mere 22% of European funds report increasing their allocation, a more substantial 58% of North American funds are following suit. This divergence, experts suggest, is largely attributable to the differing regulatory landscapes on each continent.

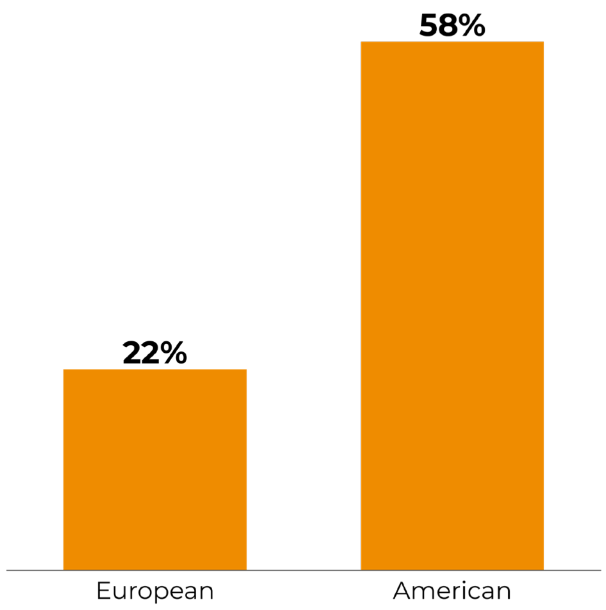
"The approval of spot bitcoin ETFs in the US has significantly boosted mainstream and institutional adoption," notes Anthony Scaramucci, adding that the deeper capital markets structure in the US is likely to spur expanding interest not just in bitcoin, but also in other tokenised and digital assets over the next year.

In contrast, the EU's Markets in Crypto-Assets Regulation (MiCA) framework has "established clearer regulatory guidelines, enabling European institutions to explore on-chain financial infrastructure more rapidly than those in North America," Scaramucci explains. Despite these regional disparities, he anticipates a growing convergence, with "US institutions adopting more sophisticated digital asset regulatory frameworks and European markets gaining from increased institutional liquidity as global adoption speeds up."

The situation in the UK, however, is more complex. As Richard of Bentley Reid points out, "UK regulation still lags other jurisdictions such as the US or Europe." He cites the FCA's ban on crypto derivatives and Exchange Traded Notes for retail investors as a significant hurdle, noting that "only institutional investors can seriously consider allocating to bitcoin and other digital assets" until regulatory changes occur.

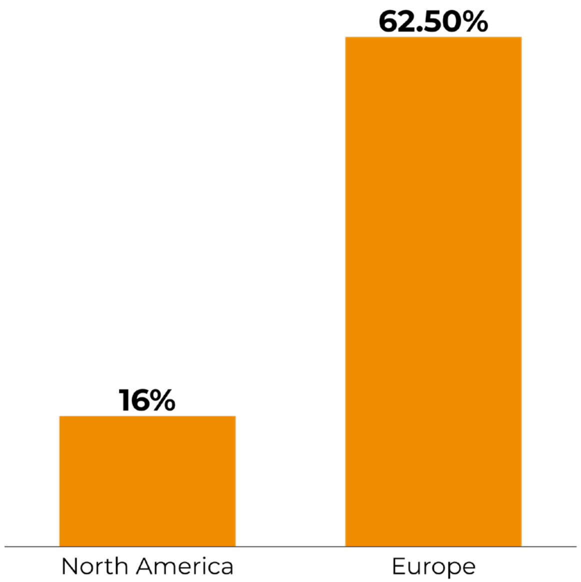
So, what regulatory developments would most strengthen institutional confidence in the asset class? "A clear regulatory framework," asserts Richard, highlighting President Trump's order to create a crypto working group as an encouraging step. He also notes the likely more open-minded approach of incoming SEC

Fig. 2.1 Increasing allocations



Source: Hedgeweek 2025 Investor Survey

Fig. 2.2 Percentage of funds saying regulatory scrutiny is rising with institutional interest

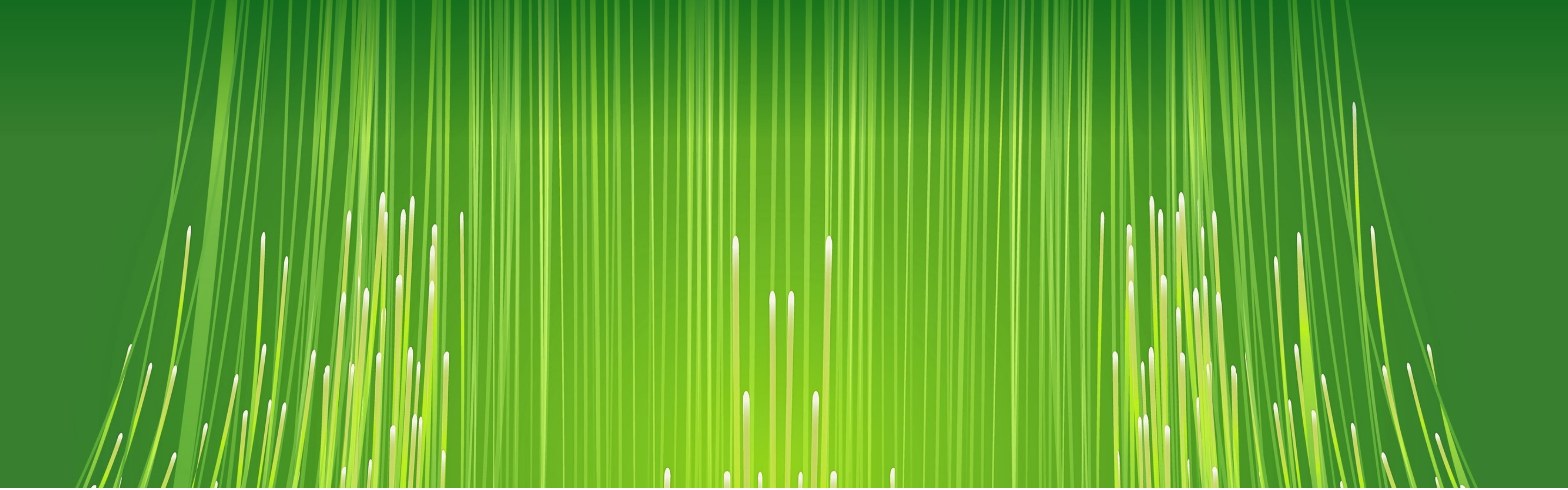


Source: Hedgeweek 2025 Investor Survey

Chair Paul Atkins compared to his predecessor, Gary Gensler, "who was a vocal critic of all things crypto."

Paul Howard of Wincent sees the regional differences as a significant opportunity, likening the actions post-Trump election to "waking a sleeping giant." While Europe has seen "slow and gradual adoption," Howard expects "a rapid expansion now in North America." He believes that "those who have earned their stripes the last five years in European markets now have a big opportunity in the US markets such as through liquidity provision for ETFs and battle-tested exchange technology."

As the digital asset landscape continues to evolve, it's clear that the tale of these two continents is far from over. The divergent paths of Europe and North America, shaped by their unique regulatory environments and market dynamics, are set to converge in the coming years, presenting both challenges and opportunities for institutional investors.



THE WAY AHEAD:

A bumpy but gentle slope

Despite institutional hesitation, digital asset infrastructure continues to mature.

As the digital asset space continues to mature, non-digital asset managers are eyeing the horizon, weighing the factors that could trigger their entry into this rapidly evolving market. According to Hedgeweek's survey, a clearer regulatory framework and client demand top the list of priorities for these firms, followed by better institutional infrastructure.

However, client demand remains a complex issue, as many institutional investors are still cautious about cryptocurrency trading. A recent survey by JPMorgan shows that 71% of investors plan to avoid crypto entirely in 2025, despite slight growth in crypto involvement this year. The overall sentiment remains skeptical, mainly due to concerns about market volatility and unclear regulations.

The JPMorgan survey found that 16% of institutional traders plan to trade in crypto this year, up from 13% in 2024. Additionally, 13% of respondents are already trading in crypto, a slight increase from the previous year. While these numbers indicate some interest in digital assets, most institutional investors still perceive crypto as a niche market.

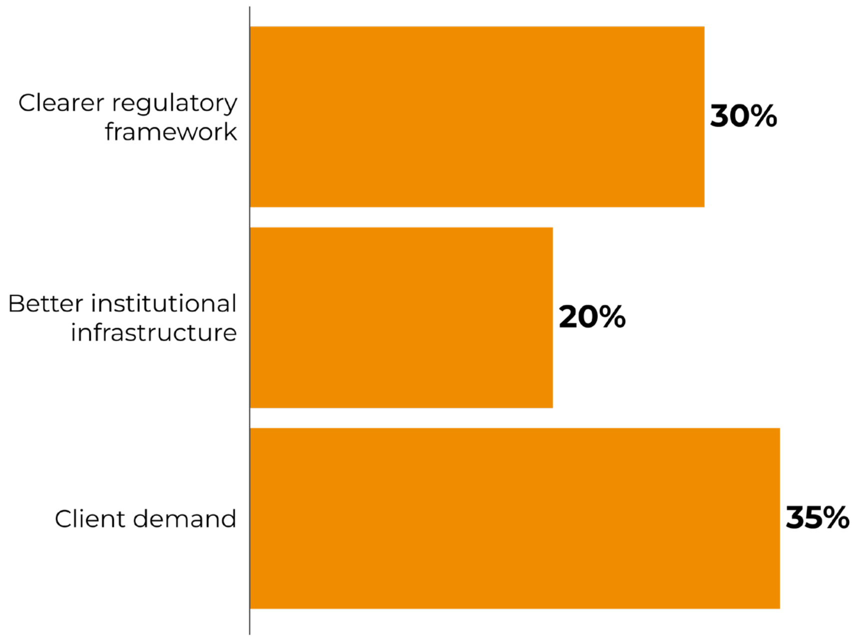
This hesitancy among clients poses a challenge for non-digital asset managers considering entering the space. On one hand, client demand is a key driver for their decision to explore digital assets. On the other hand, the prevailing skepticism and fear of volatility among institutional investors may hinder the growth of this demand.

Anthony Scaramucci believes that 2025 will be a pivotal year for institutional adoption. With spot ETFs now available as a regulated entry point, the next growth phase is expected to be fuelled by structured products, tokenised assets, and staking-based investment opportunities. SkyBridge is actively enhancing its product lineup to capitalise on these developments, anticipating significant market expansion driven by institutional-focused chains, like Avalanche, starting to pave the way for tokenised assets and custom Layer 1s to scale more broadly.

Paul Howard of Wincent sees developments happening at two speeds. The first is a slow adoption post-SAB 121 repeal, where "banks make operational and risk-managed changes to adopt digital assets in everything from stablecoins, RWA, smart contracts, ETFs, and spot/derivatives."

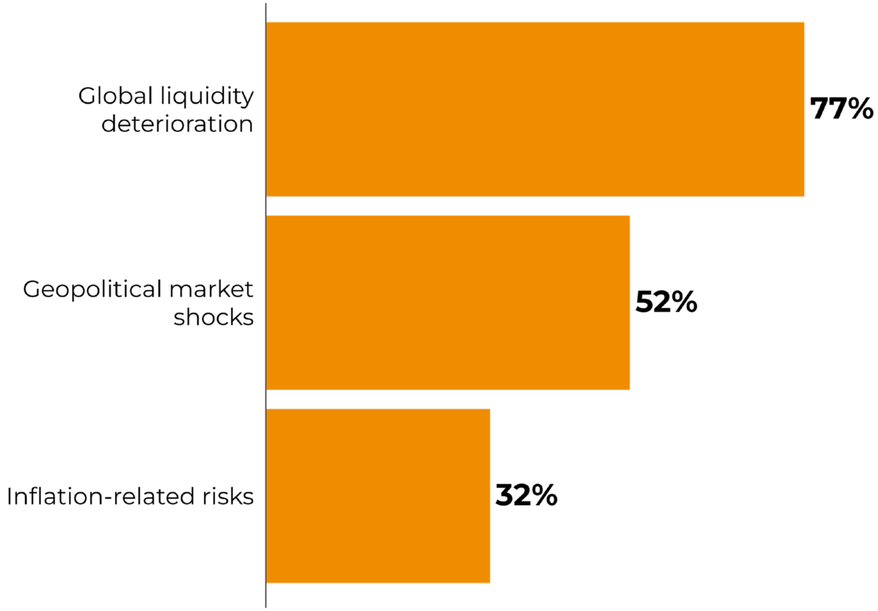
The second speed, Howard notes, is the rapid developments expected in 2025, led by the US. "We need to be very nimble keeping a flexible technology stack and pools of working capital to seize moments that may be difficult to predict, such as the launch of a new presidential meme coin," he explains.

Fig. 3.1 What would trigger your firm to enter the digital asset space?



Source: Hedgeweek 2025 Investor Survey

Fig. 3.2 Which market risks are you most concerned about for 2025?



Source: Hedgeweek 2025 Investor Survey

Despite the cautious optimism surrounding digital assets, hedge funds across the board are concerned about potential market risks in 2025. Global liquidity deterioration tops the list, with 77% of respondents citing it as a major concern. Geopolitical market shocks follow closely behind at 52%, while inflation-related risks worry 32% of those surveyed.

These concerns highlight the vulnerability of markets to liquidity deterioration, especially when combined with other factors like loss of market confidence, external shocks, or policy mistakes. Meanwhile, Richard Swain of Bentley Reid adds two other factors which could continue to impact the digital asset space.

“The debt super-cycle and the rampant debasement of fiat currencies are behind the rise of bitcoin and other digital assets,” he argues. “Governments have eroded the purchasing power of paper money by printing ever more money to cover exploding debt piles. US national debt stands at over $36tn today.”

As the digital asset space continues to evolve, navigating the challenges and opportunities that lie ahead will require a keen understanding of the macro factors at play. Yet, as Swain notes, “whilst other macro factors may play a role in short term noise, the more fundamental long-term driver of widespread investor adoption still has much runway for growth. The reality is that most institutional money is only beginning seriously to consider digital assets now.”

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