Understanding tokenised money market funds and digital assets

Federated Hermes Limited

Why tokenise money market funds?

In an increasingly digital financial landscape, tokenisation offers a way to modernise traditional investment vehicles like money market funds (MMFs). By representing fund shares as digital tokens on blockchain infrastructure, asset managers can unlock new efficiencies, improve investor access, and enhance liquidity. These innovations are particularly relevant for investors seeking faster settlement, real-time reporting, and streamlined compliance.

What is tokenisation?

Tokenisation refers to the process of converting ownership rights or entitlements into digital tokens recorded on a blockchain. These tokens can represent a wide range of assets, from fund shares to real estate, and are distinct from cryptocurrencies, which are native digital assets like Bitcoin or Ethereum.

Key concepts

- **Blockchain:** A decentralised digital ledger that securely records transactions across a network. Each "block" contains transaction data and links to the previous block, forming a transparent and tamper-resistant chain.
- **Token:** A digital representation of an asset or entitlement. Tokens can be used to signify ownership, access rights, or voting power.
- **Stablecoin:** A blockchain-based token designed to maintain a stable value relative to fiat currencies or other assets. Used for payments and settlements.
- **Cryptocurrency:** A native digital asset maintained by blockchain protocols. Typically not backed by physical assets and known for volatility.

Models of tokenised MMFs

Asset managers can approach tokenisation in two primary ways:

1. **Digitally Native Issuance:** Fund shares are issued as tokens directly on blockchain infrastructure with the record of who owns those shares being maintained on the blockchain itself.
2. **Beneficial Ownership Tokenisation:** Traditional fund shares are held in nominee accounts with the record of who owns those shares held on a traditional investor register. Tokens representing the beneficial ownership of those shares are created on the blockchain and can be held and transferred directly between investors on-chain.

While both models offer similar investor experiences, they differ in terms of administration, recordkeeping, and regulatory oversight.

Potential benefits for investors

- Enhanced liquidity and transferability
- Faster settlement cycles
- Automated compliance and reporting
- Lower operational costs
- Real-time dividend allocation
- Peer-to-peer transaction capabilities

A brief timeline of digital asset evolution

- **2008–2009** Emergence of digital assets and launch of Bitcoin
- **2013** Ethereum introduces programmable blockchain infrastructure
- **2014** Launch of USDT (Tether), a widely adopted stablecoin
- **2021** Tokenised MMFs introduced in regulated markets
- **2025+** Regulatory frameworks evolving across the EU, UK, and APAC

Industry innovation and strategy

Federated Hermes is actively collaborating with financial institutions and technology providers to explore blockchain-based distribution channels. These efforts aim to improve flexibility and accessibility without changing the underlying structure of MMFs.

In the UK, Federated Hermes has partnered with Archax, a FCA-regulated digital securities exchange, to offer tokenised access to two UCITS MMFs[1]:

- Federated Hermes Short-Term Sterling Prime Fund
- Federated Hermes Short-Term U.S. Prime Fund

These funds are available via beneficial ownership tokens across multiple blockchain networks, allowing investors to keep assets on-chain while benefiting from the stability and yield of MMFs.

Learn more about our liquidity solutions:
www.hermes-investment.com/liquidity

[1] Sterling Prime is registered for sale in the UK, Isle of Man and Singapore. U.S. Prime is registered for sale in UK, France, Germany, Ireland, Italy, Japan (private placement), Luxembourg, Singapore, Spain and Switzerland. (As at November 2025)

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Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns and, where possible, to contribute to positive outcomes that benefit the wider world.

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- **Private markets:** private equity, private credit, real estate and infrastructure
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