Wilshire Unveils Digital Assets Classification Tool

The new taxonomy aims to help institutional investors make sense of the digital assets landscape.

By Justin Mitchell | April 7, 2022

Wilshire has released a taxonomy for digital assets, which classifies the top 1,000 digital assets by market capitalization, the firm announced last week.

The effort aims to help institutional investors and investment teams understand the nascent digital asset landscape as curiosity about the asset class grows.

“Investors are looking beyond just Bitcoin, and they’re also beginning to look beyond just cryptocurrencies,” said Mark Makepeace, Wilshire’s CEO. “For them, [the goal is] understanding the rest of the market. They understand parts of it, and [they are] trying to work out where the opportunities are.”

The Digital Assets Taxonomy System, or DATS, was created as part of Wilshire's new Digital Assets Group, which it created last year. The system splits digital assets into three categories: computational platforms, financial instruments and digital currencies. The platforms take up the largest portion of the measured assets, accounting for 45.2%, followed by financial instruments, which account for 36%. Digital currencies account for only 18.8% of the universe, according to a press release.
The system also groups digital assets in the universe by theme, with two currently available: one focused on environmental issues and another on decentralized finance, also referred to as Defi.

The goal of the taxonomy system is to help investors put assets into context quickly, said Doug Schwenk, CEO of Digital Assets Research, a specialist provider of crypto data and research, which has developed the system in collaboration with Wilshire.

“If you’re an investor trying to make sense of this market, you need all the tools you can get to help,” he said. “I’d like to see people using these classifications to quickly understand what a project is and whether it may be a good fit for them.”

Clients expressing early interest in DATS include firms constructing indexes for passive products, Schwenk said, as well as the “risk management and portfolio reporting” community.

While some university endowments have had success investing in digital assets, institutional investors seem to still be skeptical of them, especially cryptocurrencies, due to their volatility and opacity, as reported.

At an event last month, outsourced chief investment officer Commonfund asked 150 institutional investors which asset classes they expected to provide the best risk-adjusted returns going forward. Only 10% of respondents identified cryptocurrencies as the best possible source of returns, far behind alternative asset classes like private equity, venture capital and private credit, which investors appear to have more faith in, for now.
Most institutional investors, including most of Wilshire’s investment consulting clients, are not ready to get too actively involved in the digital assets space, and are mostly still in an educational phase, Makepeace said.

“It’s too early for those large institutional investors, and we would not feel comfortable recommending it at this stage to those investors,” he said. “It’s important to be educated because we do think digital assets will play a very important role and certainly the underlying technologies will play a very important role in the future.”

The types of clients most interested in digital assets right now include venture capital investors and family offices, he said.

Platforms like this are very important if institutional investors are going to participate in the digital assets ecosystem, said Mezar Ozair, a blockchain specialist and fintech professor at Rutgers Business School.

These investors “need a lot of due diligence and research, and they have a lot of fiduciary responsibilities and regulations and compliance to account for,” she said.
Ozair, who is developing her own analysis and assessment tools for digital assets, said the asset class was fundamentally unique and any such system would have to approach it in a different way.

“It's a completely different concept altogether, and this is why you need new tools [and] new models altogether to evaluate them,” she said.

Last June, Wilshire rebranded its flagship benchmark and rolled out an expanded suite of U.S. equity indexes in partnership with the Financial Times. FundFire along with Financial Times is part of FT Group.