



In Focus: Onyx by J.P. Morgan

Overview

Onyx by J.P. Morgan, Apollo Global, and WisdomTree collaborated under the Monetary Authority of Singapore's (MAS) Project Guardian, showcasing a proof-of-concept (PoC) that marked a pivotal step toward revolutionizing the asset and wealth management industry. The PoC demonstrated the possibility of including tokenized alternative investments (“alts”) alongside liquid assets in discretionary client portfolios and leveraged a variety of protocols and infrastructure partners, including an Avalanche Evergreen Subnet.

Challenge

Over the years, the alts market—i.e., private equity, private credit, real estate, and infrastructure—has experienced tremendous growth. Investments in alts can offer attractive risk-adjusted returns as well as portfolio diversification benefits. As a result, institutional investors generally allocate a significant portion of their assets to alts.

Meanwhile, demand among individual investors for alts continues to grow, but wider spread adoption via investment has lagged that of more traditional, public investments. Among the challenges precluding broader participation are lack of investor and advisor education, as well as limited access and liquidity of underlying assets. Historically, because of their private nature, alts are generally less standardized and transparent from a reporting perspective and, as such, have been more cumbersome and operationally intensive to trade and administer.

While building and managing discretionary portfolios for individual investors has become a \$5.5 trillion business, wealth management firms’ ability to create innovative solutions, offer new and novel products, and achieve efficiencies on today's legacy infrastructure remains limited. This includes offering ongoing alts exposure to individual investors and incorporating them in discretionary portfolios.

Opportunity

Because portfolio creation and management with alts involves manual, time-intensive processes requiring various systems, multi-party reconciliation, and cash allocation maintenance by portfolio managers, including these types of investments at scale for individual investors has historically proven infeasible.

Blockchain technology, tokenization and smart contracts could open a broader design space on which firms can build the next generation of managed solutions, including broader, systematic access to alts. By tokenizing funds, representing discretionary portfolios as smart contracts, and leveraging settlement rails with comparable underlying standards, the PoC could show how tens of thousands of portfolios could be programmatically linked to representative models and automatically rebalanced en-masse when changes to those models occurred—even when these models included alternative investments. This simplified investment and portfolio rebalancing process could ultimately lead to expanded business and revenue opportunities for wealth management platforms and ultimately better outcomes for clients.

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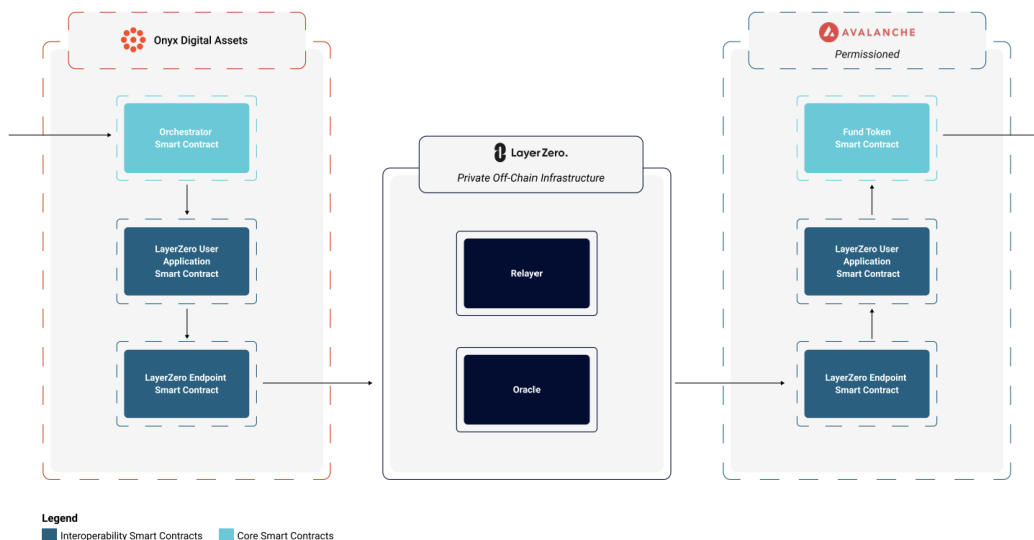

Notable Stats

- Onyx's solution demonstrated how a wealth management firm with 100,000 client portfolios could automate its monthly rebalancing process from 3,000+ operational steps to a few clicks.
- Utilizing blockchain's ability to enable near-instant settlement, clients could remain fully invested, thereby limiting cash drag, resulting in a savings of ~24bps per annum.
- On the investor side, eliminating cash drag through programmatic rebalancing and near-instant settlement could reduce costs by almost 20%.
- Tokenizing private alternative funds represents a \$400 billion annual revenue opportunity for fund managers and distributors.

Let's Get Technical

For the Avalanche deployment, the Onyx by J.P. Morgan team used LayerZero to connect their Quorum-based system to an Avalanche Evergreen Subnet. The Evergreen Subnet are blockchains customized for institutional applications, specifically designed to account for company-specific and industry-wide considerations and requirements. Built-in and further customizable features include EVM compatibility, permissioning at the validation, smart contract deployment, and transaction levels, as well as network privacy and custom gas features. Overall, the Evergreen Subnet reap the benefits of public network development, innovation, and native integrations while enabling embedded, blockchain-level features only possible in enterprise blockchains.

The Subnet—built and managed by AvaCloud—is a permissioned testnet, allowing Onyx to track fund unit ownership, facilitate subscriptions and redemptions, and facilitate the fund lifecycle. EVM compatibility enables interoperability with other protocols, so wealth managers can access funds tokenized on various blockchain platforms without moving the underlying assets from their base ledger of record.



The process flow of the LayerZero interoperability solution including on-chain smart contracts and off-chain infrastructure facilitating message transfer between ODA and Avalanche.

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Why Avalanche

Through the Subnet deployment, Onyx can create and own its end-to-end execution environment, which means that the economics of the Subnet are not dependent on any crypto token; transaction costs, gas fees, and network load are also independent of the activity on the Avalanche C-Chain and other Subnets. This maintains that transaction fees and throughput for Onyx participants are unaffected by fluctuations in activity and transaction fees across the broader Avalanche ecosystem.

In addition, Onyx used Biconomy's ERC-4337 infrastructure for gas-free interactions on the Subnet. Smart contract wallets enabled the deployment of funds as smart contracts, facilitating subscriptions and redemptions through mint and burn transactions, removing the complexity of fund managers needing gas tokens to cover transaction fees.

"Our work under Project Guardian demonstrates a significant opportunity for the asset and wealth management industry," said Tyrone Lobban, Head of Onyx Digital Assets. "By leveraging the power of blockchain technology we have shown how the construction and management of discretionary portfolios could be revolutionized." The full PoC report from Onyx by J.P Morgan and Apollo Global can be found [here](#). Click here for the Proof of Concept [video demo](#).



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TYRONE LOBBAN, HEAD OF ONYX DIGITAL ASSETS

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