

NEVER WINTER

7 steps framework for digital asset adoption

A guide for institutional investors

This guide is intended for professional investors only.

7 steps framework for digital asset adoption

Cryptocurrency investment is now mainstream.

Only a few years ago digital assets were seen as a fringe experiment, but today they are being embraced by many of the world's most prominent investors.

Every day, a new headline appears about how the asset class has become more institutional.

Endowments like Harvard¹, Brown University² and Yale³ all now have significant crypto exposures via a mix of ETFs and actively managed funds, while BlackRock, Fidelity and other finance giants have each developed their own crypto products. Certain US state pensions now allow investment into digital assets⁴, and even sovereign wealth funds are participating⁵.

On the flip side of the digital coin, regulation is making it easier for crypto-native platforms to get exposure to institutional capital. In early 2026 for instance, Kraken Financial, the banking arm of the Kraken crypto exchange, was granted a U.S. Federal Reserve master account, making it the first-ever digital asset bank to gain direct access to the U.S. central bank's payment infrastructure.

Crypto was designed to create a decentralized, peer-to-peer digital currency that enables frictionless transactions without reliance on central authorities like banks or governments.

Regardless of whether investors believe in the underlying ethos behind the technology, the opportunity from an investment perspective has never been more evident.

While the trend is clear, many traditional allocators are still struggling to understand how to approach the opportunity. This guide is designed to help frame the decision making process around how to get started with an institutional allocation to digital assets.

1. Rationalise the allocation
2. Define the investable universe
3. Active vs passive
4. Decide on a structure
5. Sizing
6. Rebalancing
7. Stay the path

¹ [Harvard's total crypto ETF exposure reaches \\$352.6 million](#)

² [Brown University Bought And Owns \\$4.9 million of BlackRock's Bitcoin ETF](#)

³ [Yale, the university-turned-hedge-fund, bet some of its \\$29B endowment on crypto](#)

⁴ [Indiana Mandates Access to Crypto Investments for Participants in Certain State Retirement Plans, Chief Investment Office](#)

⁵ [Abu Dhabi wealth funds bitcoin ETF holdings topped \\$1 billion at end of 2025](#)

Step 1: Rationalise the allocation

A growing number of institutional funds and investors are moving into the crypto space.

But why are these groups now comfortable allocating to cryptocurrencies, when just a few years ago the asset class was considered nothing more than speculation?

Beyond supporting the belief in crypto's *raison d'être* of a peer-to-peer cash alternative, not reliant on banks and governments, the main investment rationales include:

Portfolio diversification: Bitcoin's historically low correlation with stocks, bonds, and other assets reduces overall portfolio risk and improves risk-adjusted returns.

Store of value and inflation hedge: Often viewed as "digital gold" to preserve purchasing power amid traditional currency debasement and economic uncertainty.

High return potential: Historical outperformance and future growth prospects. Despite high volatility, returns per unit of risk have historically surpassed all other major asset classes.

Increasing regulatory clarity and accessibility: crypto is becoming more regulated and easier to access. Highly regulated professional funds, spot ETFs and global pro-crypto policies have lowered barriers to entry.

Institutional Validation and Social Proof: The entry of blue-chip allocators like BlackRock, Fidelity, and Harvard lends the asset class significant legitimacy. This 'social proof' reduces the reputational risk for new investors, as they are now operating alongside some of the world's most respected financial entities.

For an institutional investor, step one includes articulating the opportunity digital assets present and recognizing that a disciplined allocation can enhance risk-adjusted returns.

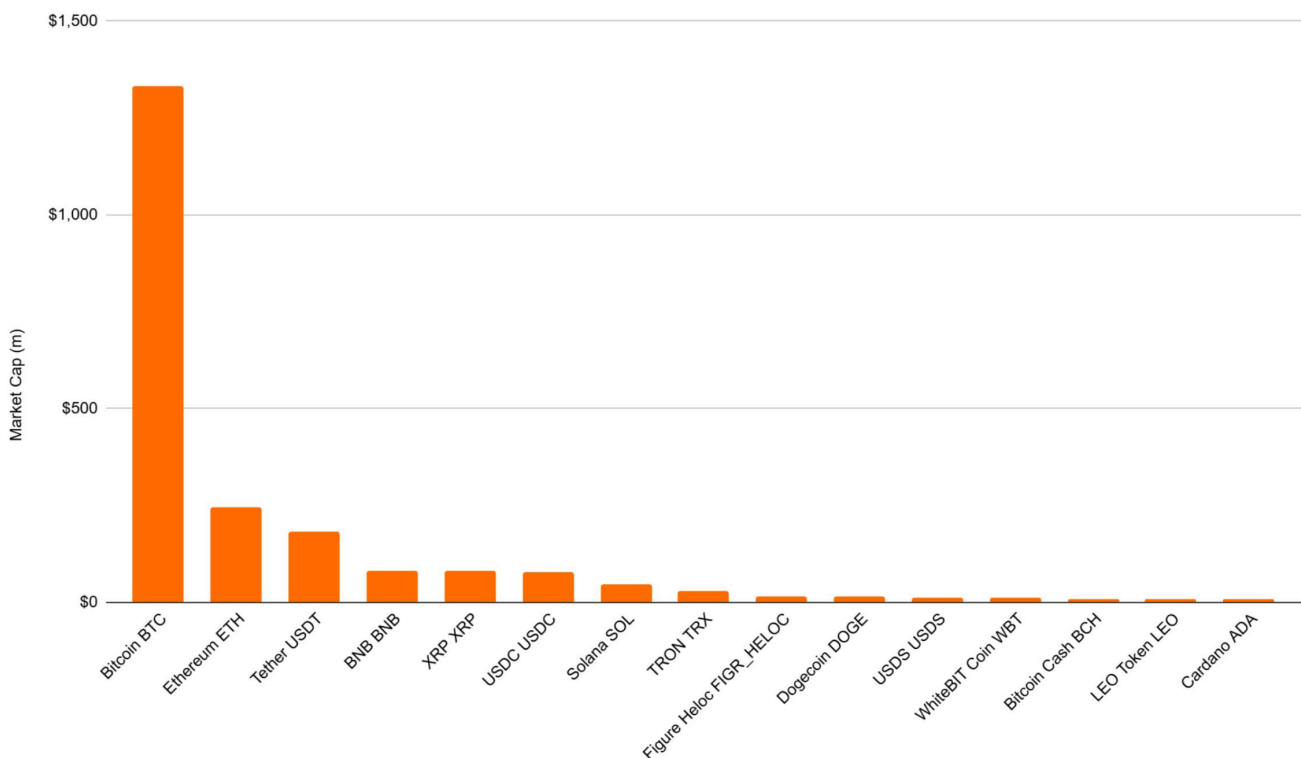


Step 2: Define the investable universe

Not all crypto currencies are created equal, with 99% of coins lacking the liquidity and market depth required to establish a significant position.

Step 2 is about establishing a strict eligibility criteria which defines your investable universe. This will prevent exposure to altcoins and low-liquidity traps⁴. For most traditional allocators on their first foray into digital assets, this typically means a 'Bitcoin only' mandate in order to avoid the long-tail of speculative altcoins. However some secondary, liquid coins may also qualify.

Top 15 crypto currencies by market cap



Source: [Coingecko](#), Neverwinter

While the potential upside from the so-called 'shitcoin' universe can be significant, the potential return per unit of risk makes this category less palatable for most non-specialised investors.

There are also significant additional risks apparent in these lower liquidity coins that don't exist in the Tier 1 coins including smart contract vulnerabilities, higher centralization risk, greater exposure to market manipulation due to shallow order books, and increased regulatory uncertainty. Avoiding these assets reduces these risks.

Step 3: Active or Passive

Once the rationale is established and the universe is defined, the allocator must determine the investment approach most appropriate for their mandate.

This decision mirrors the classic "active vs. passive" debate found in traditional equities, but with a twist.

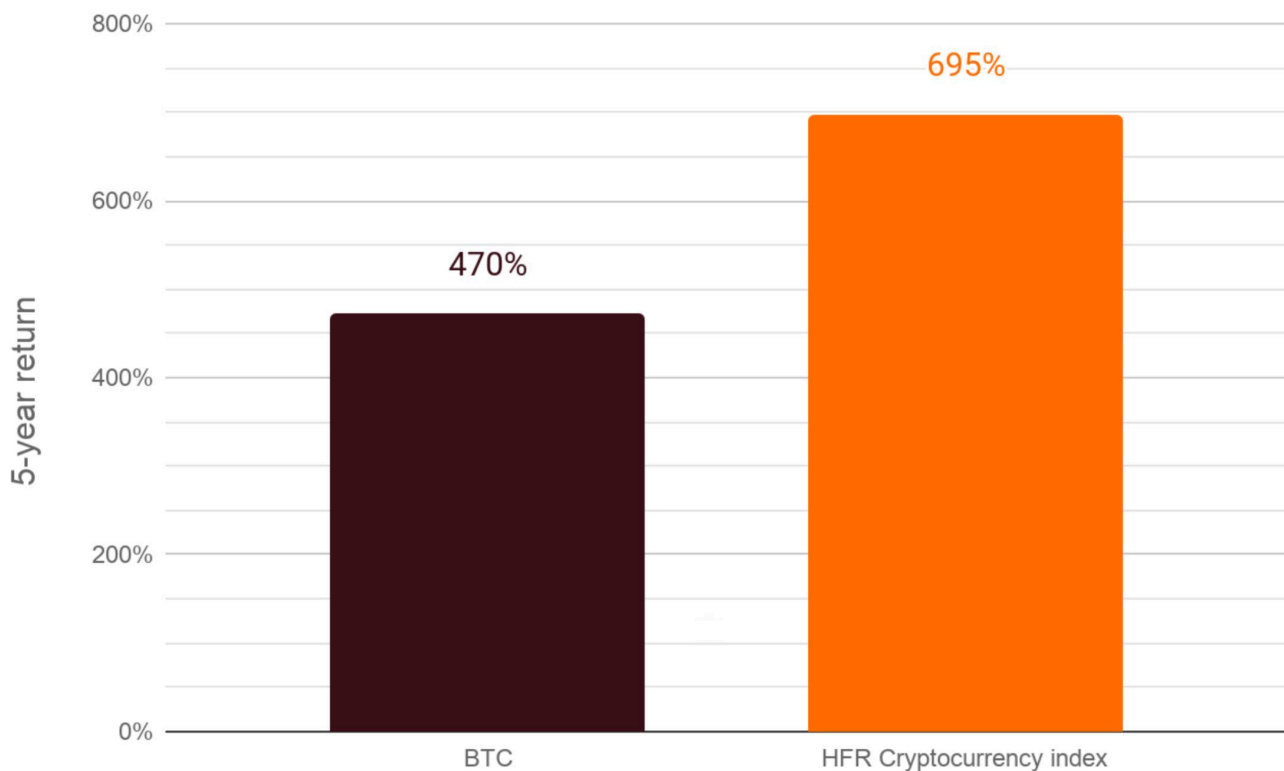
Unlike traditional markets where passive indexing has historically outperformed most active stock-pickers, active managers in the digital asset space may have the edge. The crypto market appears to be one of the few asset classes where active management has been able to outperform, according to some data.

Research by hedge fund analysis firm Hedge Fund Research (HFR)⁶ found that over the five-year period ending in February 2025, the HFR Cryptocurrency Index (a composite of actively managed crypto hedge funds) produced a cumulative return of 694.6%, or 51.4% annualized.

During the same window, a passive holding of Bitcoin increased by approximately 470% (approximately 45% annualized). This means that, on average, active strategies in the index outperformed the passive benchmark by more than 6% per annum after fees.

Passive BTC holding vs active management

5-years to February 2025



Source: Hedge Fund Research, Neverwinter

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⁶ Cryptocurrency Hedge Fund Strategies Evolve In Sophistication, Complexity, Hedge Fund Research

Step 4: Decide on a structure

The choice of structure boils down to a simple trade-off: direct custody versus administrative simplicity.

Direct, cold custody provides the investor full control and direct ownership of the asset. However, this comes with serious tradeoffs: it requires specialized expertise and infrastructure for managing the cold storage, which increases internal operational risk. There is also a significant risk of permanent capital loss, with estimates suggesting 15-20% of BTC supply being lost or dormant, much of it due to misplaced recovery data and forgotten passwords⁷.

Furthermore, it can be hard to fit direct cryptocurrency holdings into established reporting frameworks. Because there is no global 'Bitcoin price' if your assets are held off-chain, deciding on a valuation methodology can become more complicated than one may anticipate. Which venues or exchanges will you use to trade and value your assets?

For many allocators, the commitment required for an in-house custody solution makes delegated management structures the preferred path.

Delegated structures like online brokers, active funds, and ETFs simplify the adoption process but introduce counterparty risk.

Both funds and ETFs are popular as they use a familiar, simple structure that easily integrates with existing administrative and reporting requirements. While these options reduce the operational burden, they come with the cost of management fees.

Online brokers offer greater flexibility and are easier to manage than direct custody, but they still require active management by the institution and carry counterparty risk related to the exchange itself.

Ultimately, the ideal structure depends on the institution's capacity for operational risk and their existing administrative capabilities.

Option	Pro	Con
Direct, cold custody	- Most secure - Most control - Own the asset directly	- Requires expertise and structure for managing cold storage. - Increased operational risk. - Risk of permanent loss due to theft, misplaced details, lost device etc. - Requires active management
SMA	- Own the asset directly - Choice of investment strategy - Potential outperformance	- Management fees - Potential underperformance
Via online broker(s)	- More flexible - Easier to manage	- Counterparty risk - Exchange fees - Requires active management
Via fund(s)	- Simple to access - Familiar structure - Works with existing admin/reporting requirements - Choice of investment strategy - Potential outperformance	- Less control - Counterparty risk - Management fees - Potential underperformance
ETF	- Simple to access - Familiar structure - Works with existing admin/reporting requirements - Lower risk of loss due to theft and hacking	- Less control - Counterparty risk - Management fees

⁷ Source: [The New York Times](#), [SQ Magazine](#)

Step 5: Position sizing

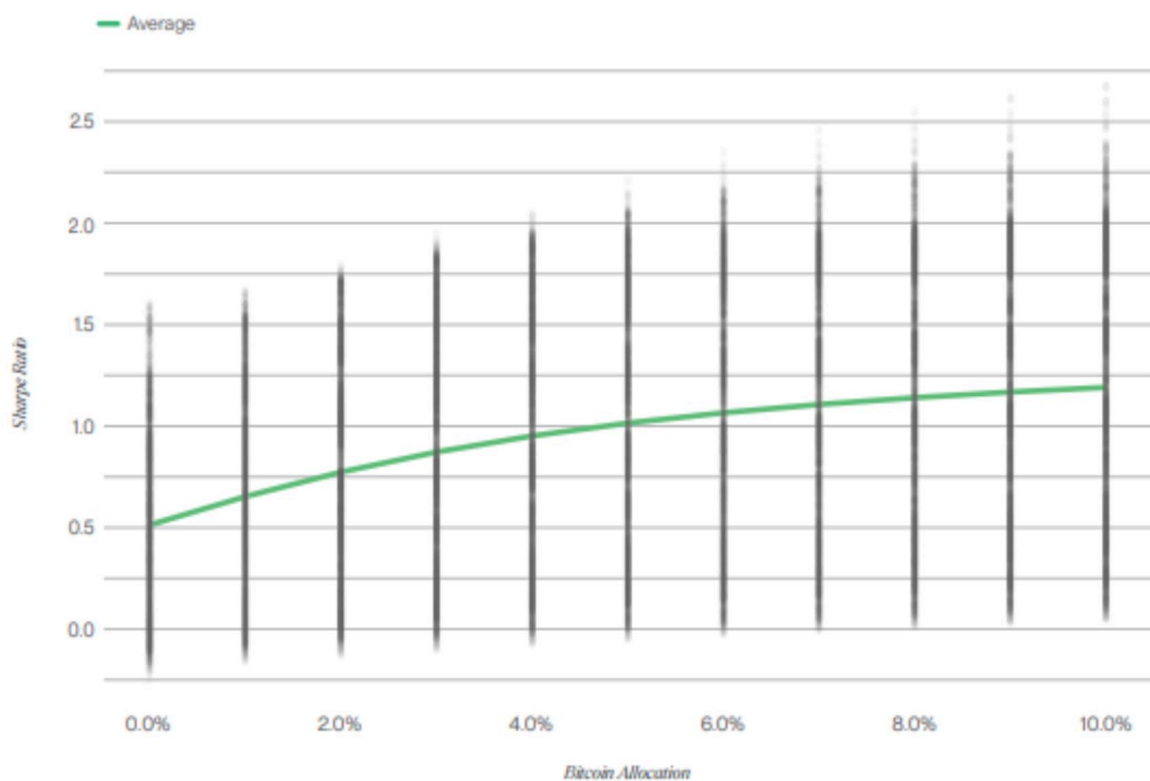
Once a decision to initiate a position in digital assets is established, the next logical question is: what is an appropriate position size?

This step focuses on finding the sweet spot where digital assets maximize return contribution without overwhelming your risk mandate.

Research by Bitwise⁸, which looked into the effect of BTC holdings on a typical 60/40 portfolio over various time periods, found that the impact of sizing to a portfolio's risk/return profile is non-linear.

Any long-term holding of BTC increased returns, volatility and sharpe ratios. But interestingly, the increase in sharpe ratio tapered off after around a 5% allocation. Beyond this threshold, investors were no longer rewarded as aggressively for each additional unit of risk, suggesting that 5% could represent an optimal ceiling for many mandates.

Three-year Rolling Sharpe Ratio by Bitcoin Allocation



Once a target allocation is set, because of crypto's history of outsized returns, it can have the tendency to 'outgrow' its intended weighting in a portfolio. This brings us to our next step.

⁸ [Bitcoin's Role in a Traditional Portfolio, Bitwise](#)

Step 6: Rebalancing

The next crucial decision is how frequently the position should be rebalanced.

Because of the potential outsized returns and inherent volatility of digital assets, a modest allocation can quickly swell to a significant overweight during a bull cycle (and vice versa). A 2.5% position can quickly swell to a 5 or 10% position, fundamentally altering the risk profile of the portfolio.

As such, digital assets in institutional portfolios require a rebalancing process which may differ from the typical rebalancing rules.

The decision of how often to rebalance will directly affect returns and volatility. Research from Bitwise highlighted a clear divergence in outcomes based on rebalancing frequency:

Impact of Different Rebalancing Strategies on a
Traditional 60/40 Portfolio With a 2.5% Bitcoin Allocation



Source: Bitwise Asset Management with data from Bloomberg. Data from January 1, 2014 to December 31, 2025.

Source: Bitwise

Investors who choose a "buy and hold" approach without rebalancing have historically seen the highest cumulative returns, but at the cost of significantly higher volatility and deeper drawdowns. Without rebalancing, the portfolio becomes increasingly dominated by crypto, leading to a lower Sharpe Ratio compared with portfolios which undertook regular rebalancing.

Systematic rebalancing can act as a "volatility harvesting" mechanism. By selling into strength and buying during drawdowns to return to a target weight, investors essentially force a "buy low, sell high" methodology.

The Bitwise data confirms that for a traditional 60/40 portfolio, a 2.5% Bitcoin allocation with quarterly rebalancing resulted in a superior Sharpe Ratio compared to both a portfolio with no Bitcoin and a Bitcoin-inclusive portfolio with no rebalancing.

This systematic approach ensures that crypto remains a productive diversifier rather than a source of unmanaged risk.

Step 7: Stay the path

The final step when investing in crypto is the commitment to a long-term investment horizon.

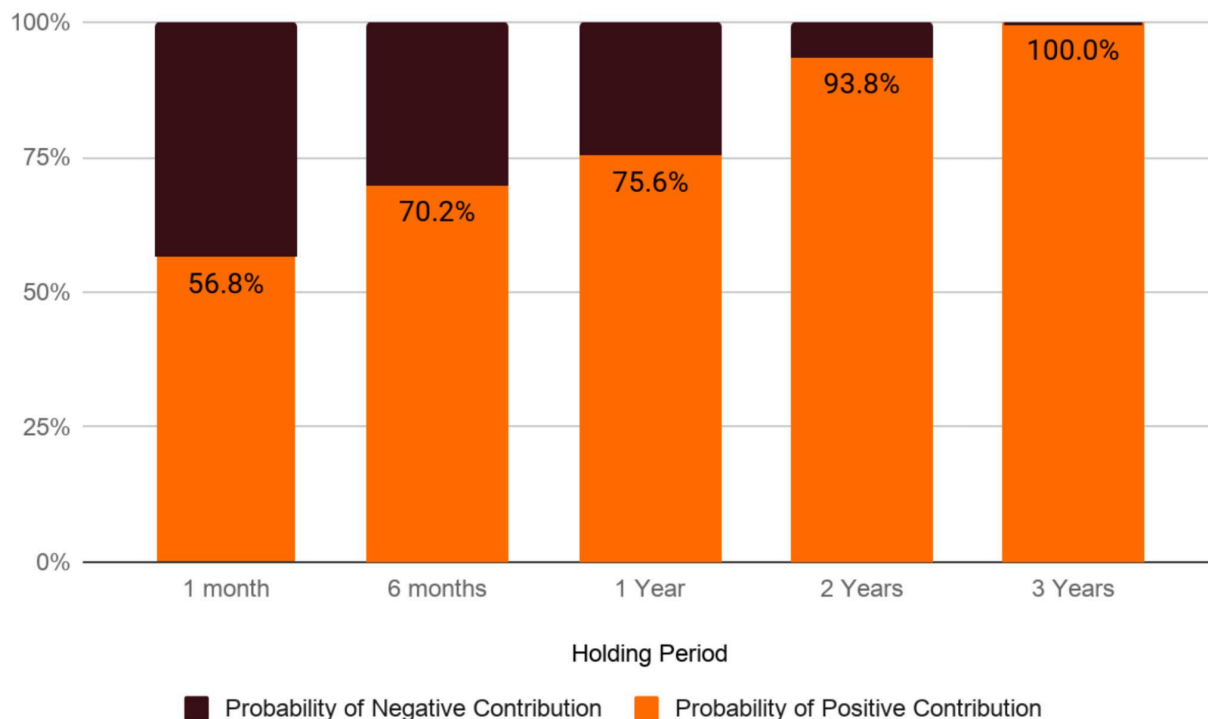
While digital assets offer immense returns potential, that value is never realized in a straight line. While entry price is important, success in this asset class relies more on an investor's ability to withstand the volatility of a full market cycle.

For the professional allocator, "staying the path" means treating a crypto allocation not as a trade, but as a long-term asset.

Historical data confirms that 'time in' the market is more important than 'timing' the market, with the risk of being underwater on a bitcoin position decreasing drastically as the holding period extends.

The historical loss rate for Bitcoin over any rolling three-year period is 0.00%. While past performance is never a guarantee of future results, this statistic illustrates that three years has historically been the threshold required to "ride out" even the most punishing drawdowns.

Historical BTC win/loss rate over various holding periods



Source: Neverwinter, Curvo

By committing to a three-year minimum horizon, you remove the "timing anxiety" that leads to emotional selling during mid-cycle corrections.

Conclusion

The transition of digital assets from a decentralized experiment to an institutional cornerstone is well and truly underway. As we have explored through this seven-step framework, the path to a successful allocation is about more than just "bullishness." It requires the same rigorous standards of risk management and fiduciary oversight that you apply to any other asset class in an institutional portfolio.

In 2026, the question about whether BTC has a place in an institutional portfolio has shifted. It is no longer: "Why should I own this?" The data around crypto's positive contribution in a traditional portfolio has largely answered that. The question now is: "How do I manage it?"

About Neverwinter

This guide was produced by Neverwinter Management, the manager of Neverwinter Fund I SLP, a professionally managed crypto fund focused on Bitcoin and digital asset trading. The fund is a Luxembourg-domiciled vehicle which uses a quantitative, AI-driven approach to exploit recurring inefficiencies across volatile digital asset markets. Designed for qualified investors seeking a structured and institutional approach to crypto markets.

This guide is designed for professional or well-informed investors only. It is for educational purposes only and is not a solicitation to invest in Neverwinter Fund I SLP.

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Tom Hickey has over a decade of experience in funds management distribution across traditional and alternative investments, including cryptocurrencies. Throughout his career, Tom has connected global allocators with exceptional, often under-the-radar investment opportunities spanning hedge funds, long-only equities, private equity and digital assets. He currently leads capital raising and distribution efforts for Neverwinter, working closely with sophisticated investors seeking institutional-grade, active exposure to digital assets.