

# Growing Pains

## Asset managers tackling industry consolidation with an Asia lens.

### Morningstar

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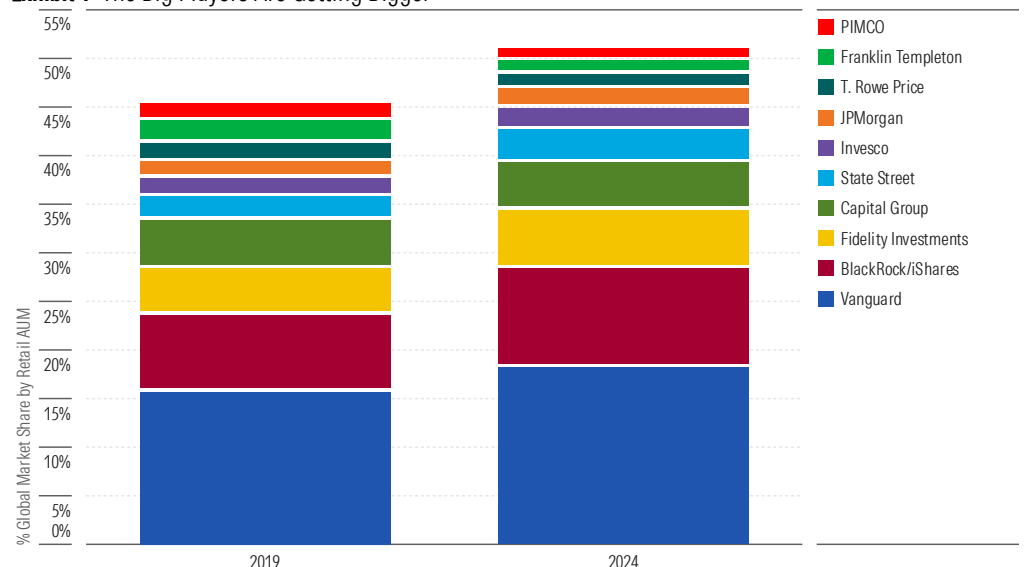
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### Introduction

The asset-management industry has become highly concentrated at the top, with the 10 largest global asset managers commanding more than half of the global retail fund market by assets under management. The rest of the market, however, remains highly fragmented, leaving room for further consolidation. As seen from Exhibit 1, the share of global retail fund assets of the largest 10 asset managers increased to 51% at the end of 2024 from 45% at the end of 2019. While the 10 largest players stayed the same as those from five years ago, their respective market shares have evolved. Vanguard, the largest asset manager in the world by far, grew its market share from 16% to 18%, thanks to its successful passives business. BlackRock, another primary beneficiary of the rise of passives via its iShares brand, grew its market share from 8% to 10%, though it remains firmly in second place. Other frontrunners such as Fidelity Investments, State Street, and Invesco also have large passive businesses. Conversely, traditional active asset managers such as Franklin Templeton lost market share against this backdrop, despite being an active acquirer, including the mega-merger with Legg Mason in 2020.

Many of these asset managers are highly regarded household names in Asia. That is not to say that they are not met with challenges when running a globally diversified business. Vanguard, a top-rated asset manager, thanks to its investor-friendly culture, famously exited China after around seven years in the market. In Asia, where fund distribution channels play a crucial role, these global players have had mixed success in making their products available to Asian retail investors. While local asset managers may have an edge in marketing their funds in Asia, they face their own set of challenges.

**Exhibit 1** The Big Players Are Getting Bigger



Source: Morningstar Direct. Data as of Dec. 31, 2024. Includes worldwide open-end funds and ETFs. Excludes money market funds, fund-of-funds, and feeder funds.

This paper explores some of the prevailing forces that could spur further industry consolidation, potential challenges that asset managers face, and how they are coping against this backdrop. Underpinned by the Parent Pillar rating within the Morningstar Medalist Rating framework, we leverage our global research footprint and on-the-ground expertise to share our research insights on both global and local asset managers alike.

### Key Takeaways

- ▶ The asset-management industry is becoming increasingly top-heavy, with the two biggest players—Vanguard and BlackRock—taking commanding market shares over peers, thanks in large part to their passive-funds businesses. The industry is fragmented beyond the largest players, which makes it ripe for further consolidation.
- ▶ The large asset managers can spread their costs over their larger asset bases and have more room to lower expense ratios for investors, giving them a leg up against the fierce and persistent fee pressure in the industry.
- ▶ Fee pressure is particularly strong in markets where passive funds are more prevalent, such as the US, where the average expense ratio paid by fund investors halved over the past two decades. Indeed, some asset managers like Invesco have tried to achieve scale through mergers and acquisitions.
- ▶ Asset managers can also readily gain access to existing investment capabilities or distribution channels through M&A, both of which can bring a new client base. This is particularly advantageous when it comes to specialized areas, where it may be more time-consuming and difficult to build a new in-house capability. Franklin Templeton and BlackRock have both been on buying sprees to grow their alternatives businesses.
- ▶ Foreign asset managers have been expanding their footprint in China through creating joint ventures with local partners. A notable few, namely Manulife, JPMorgan, and Morgan Stanley, even bought out their joint-venture partners and took full control of their onshore entities.
- ▶ M&A activities can also be motivated by the seller, as seen from Value Partners and PineBridge in Asia. Ownership changes often bring about shifts to a firm's strategic direction and impact the firms' existing business priorities, leadership, investment team, and product lineup. Value Partners has had a tumultuous start under the new majority shareholder, while PineBridge's transaction is pending regulatory approval.
- ▶ While the objectives and potential benefits for asset managers to engage in M&A are clear, achieving them is often easier said than done. There could be various integration challenges, especially pertaining to investment culture and talent retention, given the people-centric nature of asset management.
- ▶ Asset managers who put investors' best interests at heart deliver good investor outcomes. Morningstar evaluates the quality of an asset manager through the Parent Pillar rating, which encapsulates our view on a firm's strengths and weaknesses in areas such as investment culture and attitude toward creating investor value.
- ▶ A good asset manager can maintain or even grow their competitive edge over time by playing into long-term trends. Today, that means thinking about diversifying from traditional active fund management into nascent areas with structural growth potential, such as active exchange-traded funds and private markets.

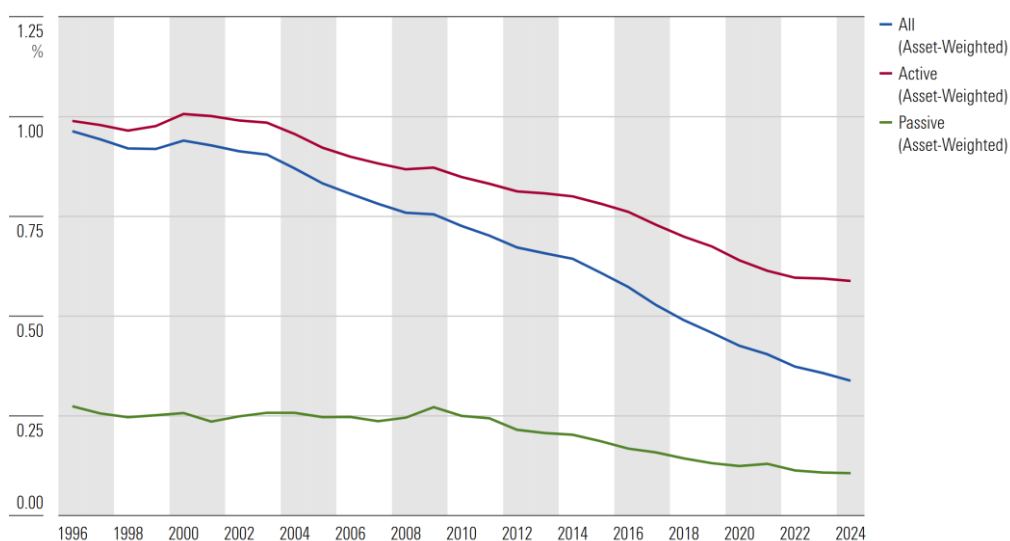
## Relentless Fee Pressure

Fee pressure has been an ongoing headwind in the asset-management industry. Perhaps the most important cause has been the move toward low-cost index funds and passively managed products. As many active managers struggled to beat their benchmark indexes, investors questioned the higher fees and flocked toward index funds. The decades-long move toward a fee-based rather than commission-driven financial advice model—a prominent trend in the US and Europe—has also made funds without embedded trailing commissions more prevalent. Investors placing greater emphasis on cost: According to the Morningstar 2024 US Fund Fee Study,<sup>1</sup> the average expense ratio paid by US fund investors was less than half of what it was two decades ago. Indeed, in 2024, the asset-weighted average fee for active US equity funds was 0.60%, while for passive US equity funds, 0.08%. Morningstar research shows time and time again that fees are the best predictor of future results, and this holds true across the global fund markets. More expensive funds are more likely to be liquidated or merged, and those in the cheapest fee quintile delivered higher average total return than those in the most expensive quintile.

Economies of scale is key when it comes to traditional passive management: The larger the asset base, the more a firm can spread its costs, allowing more room to lower expense ratios for investors. Passive managers Vanguard and BlackRock through its iShares brand know this all too well. Fee pressure shows no sign of abating. Already known for its low costs, Vanguard announced its broadest fee cut ever in its 50-year history across almost 90 funds in February 2025, ranging from 0.01% to 0.06%. While this is a win for investors, it's a tough situation for asset managers, particularly those who cannot improve their cost base or offer higher-value, differentiated products.

Mergers and acquisitions are one way that asset managers can, and have, responded to these fee pressures. Invesco, which has also engaged in M&As as a scale play, has embraced the passive business through its 2006 purchase of PowerShares.

### Exhibit 2 US Fund Fees Are the Lowest They Have Ever Been



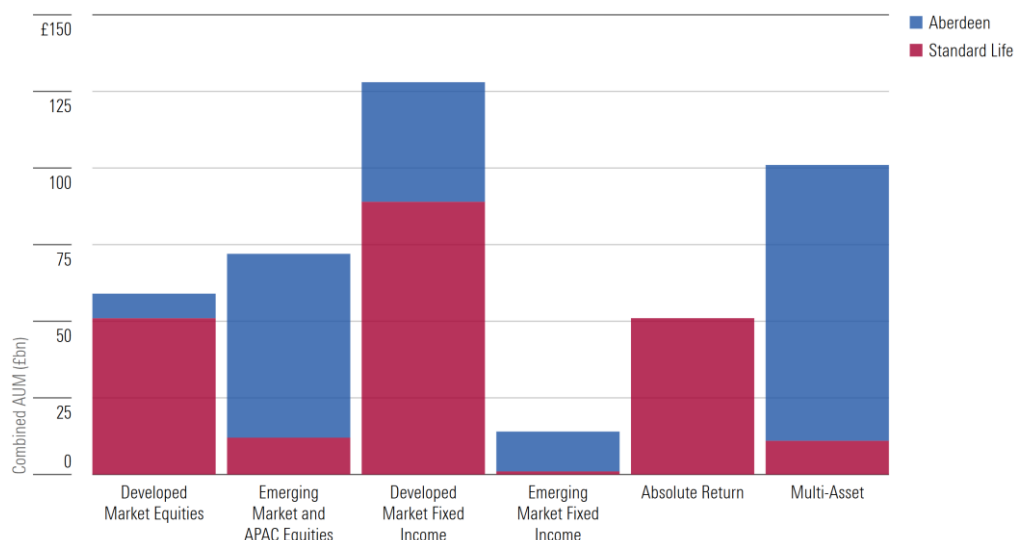
Source: Morningstar Direct. Data as of Dec. 31, 2024.

<sup>1</sup> <https://www.morningstar.com/business/insights/research/annual-us-fund-fee-study>.

### Access to Untapped Markets

There are other reasons to engage in M&A. Asset managers can use M&A to readily gain access to new investment capabilities or distribution channels, both of which can bring a new client base to the firm. This was purported to be one of the key benefits from the merger between Standard Life Investments, the asset-management arm of major Scotland-based insurer Standard Life, and Aberdeen Asset Management in 2017, which now collectively operate under the brand name of Aberdeen. As seen in Exhibit 3, Standard Life Investments had the bulk of its assets in developed-markets equities, developed-markets fixed income, and absolute-return products. Meanwhile, Aberdeen Asset Management's assets were mostly in emerging-markets and Asia-Pacific equities and multi-asset portfolios. Furthermore, Aberdeen Asset Management had a stronger retail presence, while Standard Life Investments focused more on the institutional space. This allowed the merged entity to become more diversified from both an asset class and client base perspective.

**Exhibit 3** Aberdeen and Standard Life Investments Had Different Areas of Focus Premerger



Source: Aberdeen. Data as of Dec. 31, 2016.

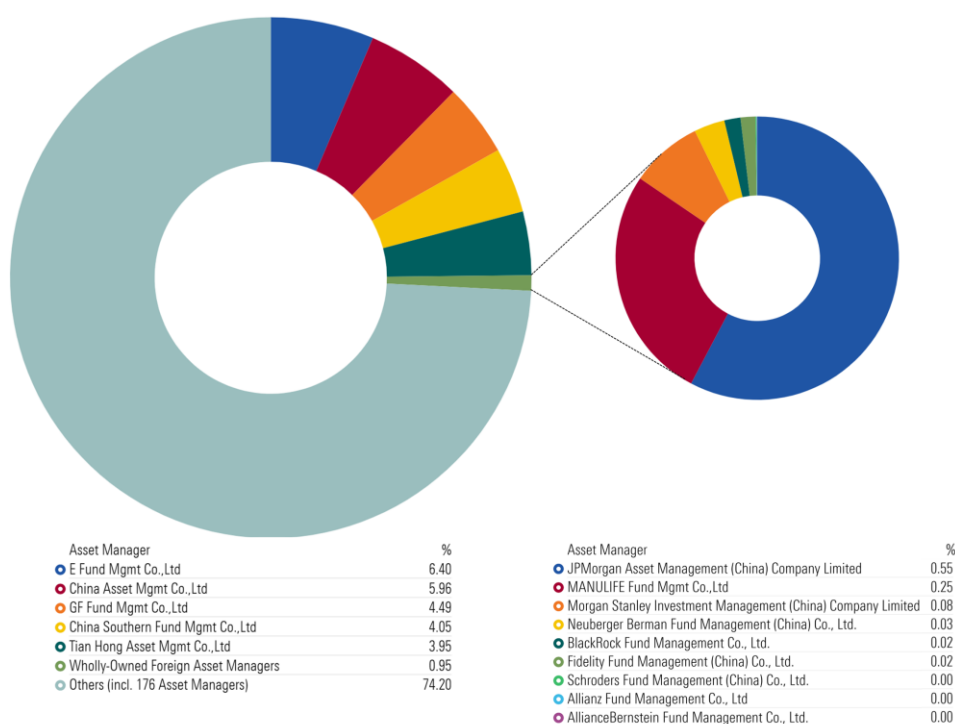
The two firms brought their investment cultures together following the merger. Even though the equity investment teams from both firms were fundamental research-driven, Aberdeen's had a longer-term focus, while Standard Life's had a relatively greater emphasis on investments with anticipated positive change in the nearer term. Standard Life's "focus on change" component was integrated into Aberdeen's investment process, and while we had some initial concerns regarding its efficacy, we gained comfort over time that the "focus on change" element could help improve the timing of buy-and-exit decisions while still setting sight on the long term. The union also brought Standard Life's sector-based research coverage to Aberdeen's previous generalist approach and contributed to the creation of portfolio construction groups that enhanced the accountability of investment team members.

However, the merger could not help the firm become stronger. Aberdeen has seen a series of CEO changes since the merger, as each of them struggled to revive the asset manager. Stephen Bird, who joined as the CEO in 2020 and unsuccessfully rebranded the firm's name from "Standard Life Aberdeen"

to “abrdn,” left in 2024 after a relatively short stint. The hot seat was passed to Jason Windsor, who joined in 2023 as the CFO. Soon after his CEO appointment, Windsor rebranded the firm back to Aberdeen. The firm has suffered persistent outflows, which has led to a significant shrinkage in assets under management, to USD 463 billion at the end of 2024 from a combined AUM of USD 726 billion in December 2016 before the merger. Aberdeen's flagship emerging-markets equity strategy—historically one of the firm's strong suits—dropped to around USD 15 billion in AUM as of the end of 2024 from as much as USD 40 billion in 2017. Amid the turmoil, the historically stable, 50-strong emerging-markets equity team saw significant upheaval, with 26 departures during the five years ended December 2024.

Some foreign asset managers have used acquisitions to expand their presence in China. China's asset-management industry has seen explosive growth over the past two decades or so, driven by an increase in domestic income and a growing appetite for fund products from local investors. Meanwhile, the local regulator has been gradually opening its capital markets to foreign investors, including allowing foreign asset managers to participate in the local fund industry.

**Exhibit 4** Foreign Managers Represent Only a Sliver of the Asset-Management Industry in China



Source: Morningstar Direct. Data as of March 31, 2025.

There have been a few ways for foreign asset managers to enter the China market: Some create joint ventures with local players as minority shareholders, such as Invesco Great Wall Fund Management and HSBC JinTrust Fund Management. Others, including BlackRock, Neuberger Berman, and Fidelity International, chose to grow organically in China through establishing wholly owned onshore mutual fund businesses. A notable few, namely Manulife, JPMorgan, and Morgan Stanley, bought out their joint-venture partners and took full control of their onshore entities. This approach comes with clear

advantages: The foreign asset manager can readily access preestablished fund distribution networks to market their products to onshore investors and acquire the often-sizeable and on-the-ground investment teams, as well as other preexisting operational infrastructures.

However, integration can be difficult. Local investment teams often invest with a momentum-driven and shorter-term mindset, as seen from the average portfolio turnover of 400% for domestic China funds, and it could be challenging for them to adopt the foreign asset managers' typically more fundamentally driven, longer-term investment approaches. Cultural differences, language barriers, and, at times, regulatory obstacles could hinder the offshore units from tapping into the research expertise of the onshore investment teams. Furthermore, China has a highly fragmented asset-management industry, with immense competition coming from well-established local brands. Morningstar data shows that wholly foreign-owned asset managers accounted for less than 1% of retail fund assets in China, with JPMorgan taking the largest share, at around 0.5%. It clearly takes time to establish a product range, strong track records, and credibility among local investors who are already spoilt with choices.

### **Building Investment Capability**

Another impetus for an asset manager to acquire a firm is to obtain new or additional investment capabilities. Today, this is particularly relevant in specialized areas, such as direct lending, private equity, or alternatives investment, where it may take much time and effort to build an in-house capability organically.

Franklin Templeton, for example, has been on a buying spree to add alternative capabilities to its multiboutique roster. It has bought four alternatives managers since its acquisition of US-based alternative credit manager Benefit Street Partners in 2019; its most recent purchase is Europe-based private credit firm Apera in June 2025. Its 2020 acquisition of Legg Mason, which itself operated a multiboutique model, also gave it access to Legg Mason's several alternative asset managers: RARE Infrastructure, an Australian infrastructure specialist; Clarion Partners, a leading US-based real estate investment firm; and QS Investors, a US quant shop. Thanks largely to these acquisitions, the share of alternative assets has more than doubled to 15% of Franklin Templeton's total AUM at the end of 2024, from 7% at the end of 2019. Altogether, its alternatives book of USD 249 billion in AUM as of year-end 2024 stood as one of the largest among diversified asset-management firms.

The acquisition of Legg Mason also brought Western Asset Management, a major fixed-income house, under Franklin's umbrella. This not only significantly expanded Franklin's fixed-income business but also helped it diversify away from the global fixed-income strategies led by Michael Hasenstab, which accounted for a large part of Franklin's fixed-income book before the merger.

Franklin Templeton has long adopted a largely hands-off approach, although it seems to be exerting more influence over its subsidiaries more recently. For example, it has folded the Martin Currie brand and operations into its ClearBridge and Franklin equity teams. It is in the process of migrating the risk management and trading system of all its public-markets teams to Aladdin, which helps streamline internal operations and reduce long-term costs. Owning a sprawling group of asset managers has not been all smooth sailing, though. It is still grappling with the as-yet unsettled regulatory issues surrounding former Western Asset Co-Chief Investment Officer and portfolio manager Ken Leech, as

well as ensuing outflows from flagship products Western Asset Core Bond and Western Asset Core Plus Bond.

### Exit Strategy

M&A activities can also be motivated by the seller. Such has been the case for Value Partners. Value Partners is the first and only Hong Kong-listed asset manager, co-founded by Cheah Cheng Hye and Yeh V-Nee in 1993. It went public on the Hong Kong Stock Exchange in 2007 and has its roots in Greater China equity investing. Although public, Cheah had remained Value Partners' largest shareholder until 2024, and he had played a crucial role in shaping the firm's strategic directions.

It was widely reported that the co-founders had attempted to sell their stake to Chinese financial and property conglomerate HNA Group in 2017, although Value Partners announced that discussions were terminated in early 2018. The co-founders eventually managed to offload a combined stake of 20% in Value Partners to GF Holdings in January 2024, making GF the largest shareholder of the firm. While Cheah maintained a 13.2% stake, he has taken a backseat from the firm following the transaction, relinquishing his co-chairman and co-chief investment officer roles to become honorary chairman and nonexecutive director in January 2025.

Value Partners has shared that the tie-up can help them expand into the China market leveraging GF's established distribution network, while GF can further capture opportunities arising from onshore investors' demand to invest overseas. Nonetheless, the change in major shareholder has brought heightened instability and uncertainty for the firm's future. There has been a slew of senior leadership changes, with all five executive directors on the board gradually replaced after the transaction, two out of the current three executive directors hailing from GF. Value Partners' lifer Louis So, who was co-chairman, co-chief investment officer, and Cheah's longtime second-in-command, retired. One of the new board members is Lin Xiaohong, former CEO and current vice chairman of GF Holdings, who joined Value Partners as the co-chairman in August 2024, and became the chairman in January 2025. She brought in Ron Jiang from GF Securities in April 2025 as the firm's new COO, with cost cutting being a key priority. The firm has been downsizing its environmental, social, and governance and investment team in recent years, which could dampen the quality of existing products.

PineBridge is another asset manager in the midst of changing hands. PineBridge originated as the investment arm of insurer AIG. When AIG was bailed out during the great financial crisis, its investment arm was spun off as PineBridge, and it was later acquired in 2010 by Pacific Century Group, or PCG, the private investment group owned by Hong Kong businessman Richard Li. PineBridge has a significant presence in Asia, with more than half of its USD 190 billion in AUM as of March 2025 sourced from Asia, although nearly half of the firm's total assets resided with its minority-owned China joint venture with Huatai.

PineBridge has mostly been loss-making since it was spun off from AIG. The company turned profitable in 2021 for the first time since its spin-off, although it went back into the red in 2022 before recovering again in 2023. As the management team brought the firm back to profitability, PineBridge announced in December 2024 that PCG would sell PineBridge's ex-China business to MetLife Investment Management. PCG will retain PineBridge's private equity business and the Huatai-PineBridge joint



venture. The transaction is expected to be complete by the end of 2025, pending regulatory approval. MetLife Investment Management, which specializes in public fixed income, private capital, and real estate, can benefit from PineBridge's expertise in Asian fixed income and equity, as well as global multi-asset. However, ownership changes often bring about shifts to a firm's strategic direction, and the impact of MetLife's acquisition on PineBridge's existing business priorities, leadership, investment team, and product lineup remains to be seen.

### **What Asset Managers Are Doing to Stay Competitive**

Asset management is a competitive business, and a continuous delivery of investment excellence is essential. The parent organization plays an important role in the evaluation of the quality of an investment. Key considerations here include the firm's ability to attract, develop, and retain investment talent; its ability to add value for investors; and its approach toward risk management, capacity management, and product development. We prefer asset managers that have a culture of stewardship and put investor interests first, compared with those that are more focused on salesmanship. The former tends to operate within their circle of competence, do a good job of aligning managers' interests with those of investors in their funds, charge reasonable fees, communicate well with fund investors, and treat investors' capital as if it were their own. Conversely, firms that prioritize salesmanship tend to offer faddish products—at times outside of their investment expertise—in an attempt to gather assets, have poor capacity management, and charge higher fees.

The above considerations are encapsulated in the Parent Pillar rating in the Morningstar Medalist Rating framework, which ranges from best to worst in the order of High, Above Average, Average, Below Average, and Low. The Parent Pillar, along with the People and Process Pillars, are key inputs of the Morningstar Medalist Rating, which runs from Gold, Silver, Bronze, to Neutral and Negative, based on an active fund's expected ability to generate alpha on a net-of-fee basis over the long term, or a passive fund's ability to deliver net alpha that exceeds the lesser of zero or the Morningstar Category median net alpha.

Vanguard has long stood out as a stalwart for investors and earns a Parent Pillar rating of High. It charges extraordinarily low fees on its products, and its mutual ownership structure—where the firm is owned by the funds it manages, and thus ultimately its fund investors—fosters an investor-centered ethos. Thanks to these investor-friendly traits, Vanguard has attracted a large following over the years and has steadily gained market share to become the largest asset manager in the world.

Fund companies that earn Parent Pillar ratings of Average have a balance of strengths of weaknesses, as are the cases with Franklin Templeton and PineBridge. Despite the aforementioned challenges, both firms have areas of investment excellence.

Franklin Templeton houses a collection of boutiques, some of which have exceptionally strong investment teams such as Brandywine Global. Brandywine Global's high-yield team, led by the impressive John McClain and Bill Zox, is a bright spot, with BrandywineGLOBAL High Yield and BrandywineGLOBAL Corporate Credit being two well-regarded strategies in the high-yield space. Both strategies earn a rating of Gold on their cheapest rated share class, with both People and Process Pillar ratings at High, thanks to their excellent portfolio managers and their distinct, reliably executed value-



focused investment approach. Franklin Templeton has also reduced fees modestly over time, with a decline in the average representative cost across its mutual fund and ETF lineup declining to 0.92% from 0.98% over the five years ending May 2025.

PineBridge generally sports a good research-driven investment culture, where portfolio managers and analysts work closely together in a team-based environment with a flat hierarchy. The firm's Asian fixed-income capability stands out as its key strength. Notably, the PineBridge Asia Pacific Investment Grade Bond strategy earns a rating of Silver on its cheapest rated share class, supported by People and Process Pillar ratings both at Above Average, as it benefits from a capable manager in Omar Slim and draws support from a well-resourced team of 10 Asian bond portfolio managers and credit analysts.

A Parent Pillar rating of Below Average indicates notable challenges or deficiencies, as in the case of Value Partners. The firm has a history of rapidly shifting its business strategies and expanding into asset classes beyond its core competencies, raising concerns about its commitment and ability to generate long-term value for investors. Its acquisition by GF has driven significant leadership changes, and new management has yet to execute on its strategic priorities.

Asset managers who put investors' best interests at heart deliver good investor outcomes and can maintain or even grow their competitive edge over time. One way to do so is to adapt to sustained trends. Today, that means thinking about diversifying from traditional active fund management in open-end mutual funds into nascent areas with long-term structural growth potential.

Active ETFs, which are actively managed mutual funds but traded on a stock exchange, have been creating a big buzz in the US. In 2024, more than 500 active ETFs were launched in the US, accounting for close to 80% of all ETF launches and far exceeding passive ETF launches. On the supply side, the "ETF Rule" adopted by the Securities and Exchange Commission in 2019 streamlined the ETF listing process and gave active managers more flexibility to tap into ETFs' tax efficiency. On the demand side, investors have been attracted by the cost advantages, daily liquidity, and greater transparency of active ETFs.

Asset managers in Asia have also begun to tap into this trend, with some global asset managers bringing existing active ETF products to Asia. JPMorgan—a big active ETF player in the US—registered three income-oriented active UCITS ETFs for sale in Singapore in April 2025, to cater to local investors' demand for high-income products. The three active ETFs are all based on existing products in the US and have established track records. One of them mirrors JPMorgan US Equity Premium, which uses a covered-call approach that has delivered a high annual yield of 8%-12% since its inception and is among the firm's largest active ETFs in the US. The strategy's US-listed vehicle is Bronze-rated, with both People and Process Pillar ratings at Above Average. Other asset managers, like Global X, have created new active ETF products in Hong Kong, such as the Global X Hang Seng TECH Components Covered Call Active ETF and the Global X HSCEI Components Covered Call Active ETF. These two active ETFs invest in the constituents of the Hong Kong and China-focused Hang Seng TECH Index and the Hang Seng China Enterprises Index, respectively, while selling call options on the corresponding index to generate income. Korea was one of the first movers in the region allowing the launch of active ETFs,

with the first active ETF launched in 2017. As of May 2025, active ETFs account for around one third of the country's ETF market by assets.

That said, active ETFs are not a “sure win” for asset managers or investors. The once-popular ARK Innovation ETF—which invests in companies engaged in disruptive innovation—bled over USD 3 billion in outflows in 2024 on the wake of poor performance, and asset managers have been liquidating active ETF products that have failed to garner investor interest or perform well. Conversely, those that have been attracting strong inflows could become too big and result in deviations from an established and proven investment process, and ultimately affect fund performance; while mutual funds can be closed to new investors to protect capacity, ETFs cannot. The daily trading of ETFs can also be a double-edged sword for investors, as such flexibility also inadvertently provides more opportunities for investors to make poorly timed buy-sell decisions, especially when it comes to the kinds of volatile thematic products that are often used as trading ideas by investors.

Private assets represent a new frontier for asset managers. Private markets, including private equity, private credit, and real assets, have grown tremendously over the past two decades, partly as companies are now staying private for longer. Also, tighter lending restrictions since the great financial crisis have made it harder for banks to make loans to small and medium-sized companies, and private credit firms have filled in the gap by addressing the financial needs of these smaller businesses. This asset class has historically been mainly offered to institutional investors and high-net-worth individuals, although it is becoming increasingly accessible to retail investors, such as through interval funds and funds that combine public and private assets in the US. In Asia, semiliquid, open-end funds that invest in private assets are also becoming more available, notably via private banking channels.

Asset managers have been racing to the asset class, given its long-term growth potential and interest from investors, and private markets investing also helps them cope with the industry's fee pressure, as private market funds typically charge higher fees, given the greater complexity. BlackRock's recent wave of acquisitions in the private market space underscores its strategic ambitions in this space. It acquired Global Infrastructure Partners, a major infrastructure investment manager, and HPS, a leading private credit shop, in 2024, which significantly boosted BlackRock's presence in the private market space. BlackRock also completed the purchase of private markets data provider Preqin in March 2025, to complement its existing Aladdin platform and extend its suite of technology offerings. Through these acquisitions, BlackRock aims to round out its solutions across public and private assets and to compete with the top incumbents in the fast-growing private market space, such as Blackstone and Apollo.

## Conclusion

The rising concentration in the asset-management industry is likely here to stay. Several factors are at play, including the continued shift from active toward passive funds and the relentless fee pressure faced by asset managers. These have led some asset managers to join forces in the hope of achieving cost savings, while others have used acquisitions to expand their business or build new investment capabilities. While the objectives and potential benefits for asset managers to engage in M&A are clear, achieving them is easier said than done. With more than 100 analysts around the world, the Morningstar manager research team is well-positioned to provide insights on an asset manager's ability to deliver long-term value and how this may be affected by organizational or ownership changes. **MM**

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