

OPINION

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Digital Platforms of Global Asset Management Companies: Strategies and Implications

Digital platforms operated by global asset management giants provide comprehensive asset management services, including brokerage functions for financial investment products. These platforms have expanded into areas traditionally dominated by specialized financial solution providers, integrating key operations—such as portfolio management, risk management, and other back-office services—into a single system. Today, platforms run by major companies like Fidelity and BlackRock have broadened their client bases to include large financial services firms. In contrast, Korean asset managers' online platforms remain in their infancy. Given their smaller size, it may be challenging to establish large-scale digital platforms comparable to those of their global counterparts. However, for Korea's leading asset managers, it is an opportune time to consider developing fully open sales platforms and broader asset management platforms to promote fund sales and drive business growth.

As the end of January 2024, the net asset value (NAV) of publicly offered and privately placed funds held by Korean asset management companies (AMCs) exceeded KRW 1,000 trillion for the first time on a month-end basis, reaching over KRW 1,080 trillion by the end of this September. If discretionary mandates are combined, assets under management (AUM) held by AMCs in Korea totaled KRW 1,779 trillion as of the end of September 2024.¹⁾ Despite this top-line growth, the industry has reached its limit: growth has largely stemmed from passive funds and discretionary mandates, which offer relatively lower fees, leading to diminished overall profitability. Amid fierce competition not only among AMCs but also from banks and securities firms, AMCs in Korea still prioritize their core competencies in product

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1) See the Korea Financial Investment Association's On-Click fund information system.

design and portfolio management. A similar trend has been observed in advanced asset management markets, particularly in the US. In response, leading global AMCs are expanding their digital platform businesses for various purposes, such as broadening customer reach, diversifying service offerings, and enhancing efficiency to lower costs. Small and medium-sized AMCs are also leveraging platforms operated by major AMCs to gain greater efficiency. Against this backdrop, this article explores the digital platforms operated by leading global AMCs and examines the implications for Korea's asset management industry.

Definition and types of digital asset management platforms

It is difficult to succinctly define a digital asset management platform or an online asset management platform. Narrowly defined, it serves as an online sales channel for funds, while more broadly, it refers to an online platform that encompasses fund sales and management and related back-office operations. Back-office functions include custodial services for fund assets, administrative services such as management report preparation and reference fund price calculation, and clearing and settlement operations. Platforms that support back-office operations either connect their users to third-party service providers or directly offer most back-office services.²⁾ In terms of operational efficiency, it is almost impossible for digital platforms run by AMCs to cover all back-office functions. In this context, AMCs' digital platforms can be defined as one that provides fund sales and management services—core functions of the asset management ecosystem. However, this definition does not fully apply to the US financial service industry. In the US, financial sector boundaries are less strictly established and AMCs are typically large-scale entities. As a result, major US AMCs operate online platforms that encompass fund sales and management and back-office services.

AMCs' digital platforms can generally be divided into two categories: those focused on product sales and those primarily aimed at enhancing investment and risk management efficiency. The simplest form of sales-focused platform is an online platform that sells only AMCs' own funds. This form is typical among Korean AMCs, which, however, is inconvenient for investors to compare and purchase various funds from different companies, limiting these platforms' appeal. For this reason, major global AMCs seek to build brokerage platforms.

2) Examples of platforms providing back-office services for funds include FundNet by Korea Securities Depository, FundsPlace by Belgium's Euroclear, and Vestima by Germany's Clearstream.

Companies like Fidelity Investments, Vanguard, and T. Rowe Price offer platforms, where investors can purchase not only their own and third-party funds, but also a range of financial investment products other than funds, while using comprehensive asset management services. Digital platforms focused on investment and risk management efficiency are primarily geared toward institutional investors. For instance, Blackrock's platform, Aladdin (Asset, Liability, Debt and Derivative Investment Network) offers a set of services for major global institutional investors and even competing asset managers. The following sections present an overview of these two types of platforms and examine their current state in the market.

Fidelity's online digital platform

Fidelity, best known for its Magellan Fund, is a dominant player in fixed-income fund management. With the AUM of \$4.9 trillion as of the end of 2023, Fidelity ranks as the third-largest asset manager globally after BlackRock and Vanguard.³⁾ It is a leading global AMC regarded as one of the top brokerage service providers in the US. Fidelity's brokerage services including online offerings are rated among the best by various media outlets and rating agencies.⁴⁾ As of the end of 2023, Fidelity's assets under administration (AUA) reached \$12.6 trillion, with 38.7 million individual accounts and 43.2 million retirement accounts.⁵⁾ Fidelity's online platform enables users to trade mutual funds and ETFs, stocks, and bonds and to open retirement accounts such as IRAs and 401(k) plans.

Fidelity's online platform is characterized by the following features.⁶⁾ First, it is structured as an open platform, offering substantial fund diversity. The Fidelity platform offers over 10,000 funds for sale, managed by Fidelity and other AMCs. One of its notable sub-platforms, FundsNetwork, allows external asset managers to freely list their funds for sale. This approach can be seen as enhancing fund diversity compared to the selection process of traditional brokerage firms, while mitigating potential agency issues.

3) See Fidelity, 2024, *Annual Report 2023*; Pensions & Investments, 2023, *World 500 Largest Asset Managers*.

4) Fidelity has been rated as the top online brokerage firm by various media outlets, including Nerdwallet, Forbes, and Barron's (see Fidelity, 2024, *Annual Report 2023*).

5) The \$12.6 trillion in assets registered in Fidelity brokerage accounts includes assets directly managed by Fidelity and discretionary mandates (AUM), individual customer assets, and assets registered by external financial services firms and institutional investors.

6) Other major AMCs, such as Vanguard and T. Rowe Price, also operate online asset management platforms with a focus on brokerage functions, though they are primarily sales-oriented.

Second, Fidelity maximizes its business expansion by providing tools that enable efficient asset management for small and mid-sized AMC and advisors, pension funds, and other institutional investors. Its open online platform, Wealhscape, provides external institutional investors with a set of comprehensive asset management services, including asset allocation, product selection, trade execution, risk and performance assessment, and back-office operations (custodial and administrative services). Wealhscape integrates Fidelity's systems with those of external institutional clients and third-party data and service providers. Sub-solutions within this open platform include Integration Xchange and FMAX (Fidelity Managed Account Xchange).⁷⁾ Through Wealhscape, Fidelity aims to increase sales of its mutual funds, ETFs, and discretionary mandates, expand assets registered under its brokerage accounts, and accumulate data to generate multifaceted synergies.⁸⁾ External institutional investors using Fidelity's platform seek to enhance operational efficiency and reduce costs by integrating their systems into this Fidelity platform.

Third, Fidelity's platform has integrated AI-driven services, including robo-advisors and direct indexing, to offer advisory-focused asset management services for retail investors. This approach allows retail investors to manage the full asset management cycle—from account opening (including retirement accounts) to asset allocation, product selection and trading, risk and performance management, and rebalancing—on the Fidelity online platform.

BlackRock's online digital platform, Aladdin

BlackRock, the world's largest AMC, operates Aladdin, often referred to as the "Amazon of financial markets" for investment and risk management.⁹⁾ Initially developed and used as a risk management system for BlackRock's assets since the company's foundation in 1988, Aladdin first gained attention in 1994 when it was used to analyze the risk of a mortgage portfolio held by Kidder, Peabody & Co., a former investment banking subsidiary of General Electric. Since then, Aladdin has evolved into a global platform for investment and risk management. Its core client base is primarily comprised of institutional investors, such as major financial institutions

7) This offers functions similar to BlackRock's Aladdin platform (see below).

8) As of the end of 2023, Fidelity has 8.7 million accounts registered for asset custody and various administrative services (see Fidelity, 2024, *Annual Report 2023*).

9) As of the end of 2023, BlackRock holds \$10 trillion in AUM (see BlackRock, 2024, *2023 Annual Report*).

and pension funds.¹⁰⁾ As of 2020, assets managed through the Aladdin platform amounted to a whopping \$21.6 trillion.¹¹⁾ Aladdin is recognized as a world-class platform for investment and risk management, competing with platforms from specialized solution providers, including Dimension from Denmark's SimCorp and Bloomberg's AIM. In 2023, BlackRock's revenue from Aladdin reached \$1.5 billion, accounting for approximately 8.4% of the company's total revenue of \$17.9 billion.¹²⁾

The growth of BlackRock's Aladdin into a top-tier asset management online platform can be attributed to several factors.¹³⁾ First, the platform leverages data derived from BlackRock's AUM of \$10 trillion. The Aladdin platform originally focused on risk management for bond portfolios by employing mathematical and quantitative modeling. BlackRock's AUM as well as AUM of external institutional investors began to accumulate on the platform, providing vast amounts of real-time data for modeling. This abundant data, combined with AI-driven technologies, have enhanced the forward scenario analysis based on Monte Carlo simulations—Aladdin's core risk analysis function. This platform's huge data are also utilized to analyze transaction efficiency, thereby significantly reducing direct and indirect transaction costs for its clients.

Second, the scope of asset classes managed by BlackRock broadens, leading to the increased reach of the Aladdin platform and more sophisticated analysis. Initially tailored for traditional assets like stocks and bonds, BlackRock's portfolio now includes a wider range of asset classes, such as alternative investments, private equity, ESG, and digital assets. To accommodate portfolio diversification, BlackRock has continuously expanded the Aladdin platform, thus enabling external clients to manage a broad spectrum of asset classes.¹⁴⁾ The platform's large asset base, which spans nearly every asset class including multiple currencies, has contributed to the optimization and refinement of its risk analysis modeling.

10) Major clients using Aladdin's platform for investment and risk management include CalPERS (California Public Employees' Retirement System), Deutsche Bank, Prudential Plc, UBS, and Morgan Stanley, covering almost all financial sectors. The client base also includes BlackRock's rivals such as Vanguard and Schroders (Institutional Investor, 2018, Can anyone bury BlackRock?).

11) See Business Insider, December 30, 2020, Here are 9 fascinating facts to know about BlackRock, the world's largest asset manager popping up in the Biden administration.

12) See BlackRock, 2024, *2023 Annual Report*.

13) It is difficult to systematically gather information on the characteristics of Aladdin, but limited information can be found in 'Froot, K.A., Waggoner, S., 2011, BlackRock Solutions, Harvard Business School; BlackRock, 2016, *Aladdin Overview*'.

14) BlackRock acquired eFront for alternative investments and Preqin for private equity, integrating them into the Aladdin platform. In addition, it has also acquired multiple companies to secure AI technologies for robo-advisors and direct indexing.

Third, asset management solutions have been integrated into Aladdin, thereby broadening its client base to include small asset managers and advisory firms. This expansion indicates that Aladdin's system is similarly structured to Fidelity's platform. With the participation of relatively smaller companies, Aladdin is anticipated to gradually expand its back-office operations and brokerage services.

Finally, it is worth noting the integration potential of the Aladdin platform. Asset management, and wealth management more broadly, involves a highly complex operational system. The scope of asset markets has increasingly expanded. Traditionally, investment companies including AMCs relied on a complex set of solutions separated by business stage, asset class, and investment region. Investment companies and pension funds struggled to integrate various solutions into their own systems and incurred high administrative costs. The competitive advantage of platforms like Aladdin lies in their ability to seamlessly integrate complex and diverse solutions, data, and services into institutional investors' systems through an open platform model. This integration capacity explains why major global financial services firms and institutional investors are willing to pay for Aladdin's services.¹⁵⁾

Drivers of digital platform expansion in asset management

Global AMCs have diverse motivations for expanding their digital platform businesses. As previously noted, the asset management market has shifted towards passive funds, resulting in lower revenue per unit of AUM. Furthermore, a myriad of asset managers and advisors have entered the global market, driven by low regulatory barriers. In a broad sense, the asset management market lacks clear boundaries between financial sectors, further intensifying competition. AMCs are strongly incentivized to expand the investor base for core products like funds, ETFs, and discretionary mandates through brokerage platforms with a wide range of offerings. In addition to management fees—their primary revenue source—AMCs need to diversify revenue streams by providing advisory services and back-office functions that support the full spectrum of asset management activities. Revenue from the operation of large-scale platforms could serve as an important driver for platform business expansion.

15) BlackRock was the only global AMC offering the investment and risk management platform and a wide array of solutions. Recently, other AMCs have joined the digital platform race, intensifying competition. Major global asset manager State Street launched the Alpha platform following its acquisition of IT company Charles River in 2018, and Amundi has also begun operating its own platform, Alto (see Financial Times, 2022, Asset Managers Pour Money into Tech Platforms to Take on BlackRock).

Other financial institutions and AMCs and smaller advisors also have various motivations to join large-scale online asset management platforms. If vast amounts of data accumulate within major platform operators, companies without the resources to operate their own platforms risk losing competitiveness in areas such as investment strategy, risk management, sales, and cost control. As a result, these smaller companies are compelled to participate in platforms operated by major AMCs. Institutional investors, such as pension funds, utilize these platforms to reduce costs and enhance efficiency. Large-scale platforms maximize transaction efficiency through AI-driven data analysis, significantly lowering transaction costs for participating institutional investors.

Another significant driver is the rapid increase in retirement accounts in the market. Unlike ordinary savings or investment accounts, retirement accounts typically feature a longer investment horizon and hold substantial accumulated assets. This suggests that even individuals need tailored asset management services for their retirement portfolios. Consequently, small asset managers or advisors managing individual retirement assets are incentivized to join major AMCs' online platforms.

Technical advancements, including the spread of cloud computing and AI, and dramatic improvements in computing power, have also played a critical role in the growth of asset management platforms. As mentioned earlier, online platforms for asset management are designed as open systems, enabling external financial institutions or institutional investors to effectively integrate solutions from platform providers and third-party service providers into their own systems. Users can also freely add their products to these platforms. This level of integration is facilitated by rapid advancements in cloud systems, allowing smaller financial services firms to achieve economies of scale. The commercialization of AI technologies and supercomputers has enhanced the accuracy of analyzing massive data, thereby enabling financial services firms and institutional investors using these platforms to better detect risks and identify investment opportunities.

Implications

The drivers behind the expansion of online platforms in the global asset management market largely apply to Korea as well. However, AMCs in Korea have struggled to keep pace with their global counterparts, due to their smaller scale and regulatory barriers. For now, it

is difficult for Korean AMCs to establish large platforms like the ones operated by global asset management giants, which underscores the need for a phased approach. Initially, it is crucial to encourage Korean AMCs to operate their open sales platforms. This requires a regulatory shift towards expanding the scope of financial investment brokerage businesses to allow asset managers to sell third-party funds. AMCs should also change their mindset to embrace the sale of third-party funds via online platforms. By creating open sales platforms that enable other AMCs to list quality products, AMCs could mitigate agency issues and improve investor trust. However, online platforms solely dedicated to fund sales have limitations. Nowadays, even small investors demand comprehensive asset management services that include asset allocation, selection of various financial investment products like funds and ETFs, risk management, portfolio rebalancing, the opening of tax-advantaged accounts like retirement plans, pension savings, and ISAs, and advisory services. In line with this trend, AMCs should prepare for long-term competition in the asset management market. Major AMCs need to establish advanced AI-driven infrastructure to provide cost-effective asset management services to small investors. As seen in the US, if large companies build leading online asset management platforms, smaller companies will have the opportunity to leverage these platforms. In this respect, it is time for asset managers and policy authorities to take an open-minded approach.