

Financial Services Practice

Asset management 2025: The great convergence

Though the industry has found a rebound, structural challenges remain. Opportunities for growth exist, with one towering over the rest: the “great convergence” between traditional and alternative asset management.

*by Henri Torbey and Ju-Hon Kwek
with Farhan Banani and Victoria Nguyen*



September 2025

Contents

Introduction	1
Records, but not rapture: An uneven recovery.....	3
Margins under pressure: Assets up, profits stuck.....	9
From alpha to access: Who grew and why	11
Status quo disrupted: Three trends that could reshape the industry.....	13
Resilient growth on rewired platforms: An agenda for thriving in a new era.....	21

Introduction

Asset management got its long-anticipated rebound in 2024 and 2025, but it arrived with more grit than grace. After a choppy start, markets found their stride, pushing global assets under management (AUM) to a record \$147 trillion by the end of June 2025. Most managers, traditional and alternative alike, rode the rising tide, but fewer did so with a similar surge in profitability. Margins stayed tight as costs kept climbing. The bull market lifted asset values, but it did not lift operating leverage.

The challenges to the industry are structural. High-fee active equity mutual funds continue to leak assets, eroding revenue yields. The private markets are working through a bout of indigestion as exit volumes have failed to keep pace with investor demands for liquidity. Meanwhile, operating complexity—more products, more vehicles, more intensive client servicing, and a relentless technology build—has kept cost pressure stubbornly high. Markets may have found their groove; the industry's economics have not.

Yet some firms are pulling ahead, not merely by capturing market beta, but by pressing the full advantages of business model alpha. Those with competitive advantages grounded in proprietary access to distribution, scaled multi-asset alternative platforms, and credible whole portfolio solutions are capturing a disproportionate share of flows. These firms are innovating in how the industry grows and delivers against client needs. In the new world of asset management, scale is important, but strategy clearly matters.

One structural trend towers over the rest: the “great convergence” between traditional and alternative asset management. These two worlds are beginning to blend as public and private investing increasingly overlap, and as private capital managers penetrate deeper into wealth, defined contribution, and insurance channels. This convergence is showing up in dealmaking and partnerships across the public/private divide and through innovations such as semi-liquid products, evergreen funds, and public-private model portfolios.

Three companion trends are supplementing the shift in the industry away from familiar norms. First is a reassertion of home country bias as investors rotate from global to local exposures. Second is the rapid growth of active exchange-traded funds (ETFs). Our research suggests these three trends could together create between \$6 trillion and \$10.5 trillion of “money in motion” over the next five years,

as institutions and high-net-worth investors retool their portfolios in response to macro uncertainty, balance sheet transformations, and rapid product innovation. Lastly, AI is emerging as a transformative force: Some asset managers are starting to harness the technology to fuel the next wave of productivity, a trend that we have examined in depth [elsewhere](#).

This year's report delves into the following five themes:

- **Records, but not rapture: An uneven recovery.** We dissect recent AUM growth and flows by client segment, asset class, and region, spotlighting areas of opportunity and pockets of pressure.
- **Margins under pressure: Assets up, profits stuck.** We explain the widening gap between top-line recovery and bottom-line performance with a particular focus on the compounding costs of complexity.
- **From alpha to access: Who grew and why.** We profile the business models, capabilities, and strategic moves that separated outperformers from those losing ground.
- **Status quo disrupted: Three trends that could reshape the industry.** We examine three trends that could mark departures from industry norms of the past decade: the reassertion of home country bias, the structural shift toward active ETF adoption, and the convergence between traditional and alternative asset management. These collectively are catalysts for between \$6 trillion and \$10.5 trillion of money-in-motion.
- **Resilient growth on rewired platforms: An agenda for thriving in a new era.** We conclude with five strategic priorities for building durable, profitable growth engines in this rapidly evolving environment.

Our 2025 review shines a spotlight on an industry that is both converging and dispersing. Competition is intense, profitability is challenged, and the core market is mature. Yet beyond traditional boundaries lies fresh terrain—new clients, new products, new ways to package risk and return. Drawing on McKinsey's proprietary data assets, including the McKinsey Performance Lens Global Asset Management Survey, the McKinsey Performance Lens Global Growth Cube for granular market sizing, and a set of regular “voice of the client” surveys across both wealth and institutional segments, we map where value is being created and how industry leaders are capturing it.¹ The message is simple: The great convergence in asset management is a future about blending, scaling, and innovating, all at once.

¹ In addition to these proprietary data assets, sources used in this report also include Morningstar, Preqin, and Dealogic.

Records, but not rapture: An uneven recovery

By any measure, 2024 was a breakout year for the asset management industry. Global AUM hit \$135 trillion—up \$15 trillion, the largest single-year rise of the decade (Exhibit 1). Roughly 70 percent of the increase came from the markets, as equity valuations surged, particularly in the last few months of the year. The remaining 30 percent was net new money, reflecting renewed client demand across a variety of channels and strategies.

Organic growth rose to 3.7 percent, a sharp step up from 2.1 percent in 2023 and squarely at the top end of the industry's long-run 3–4 percent range. The industry's AUM trend line remained stubbornly upward: just two down years in the past decade, in 2018 and 2022.

Still, the rising tide did not lift all boats equally. Gains were clustered by region, asset class, and client type, setting the stage for a more competitive and segmented growth environment in 2025 and beyond.

Net flows surged across regions

Year-on-year net flows for 2024 climbed for every region—2.4 percent in the Americas, 2.5 percent in Europe, the Middle East, and Africa (EMEA), and a standout 8.4 percent in Asia-Pacific (Exhibit 2). Trajectories of growth varied as well, with real acceleration coming from Europe and Asia: Europe's net flows were nearly three times 2023 levels; Asia's nearly doubled.

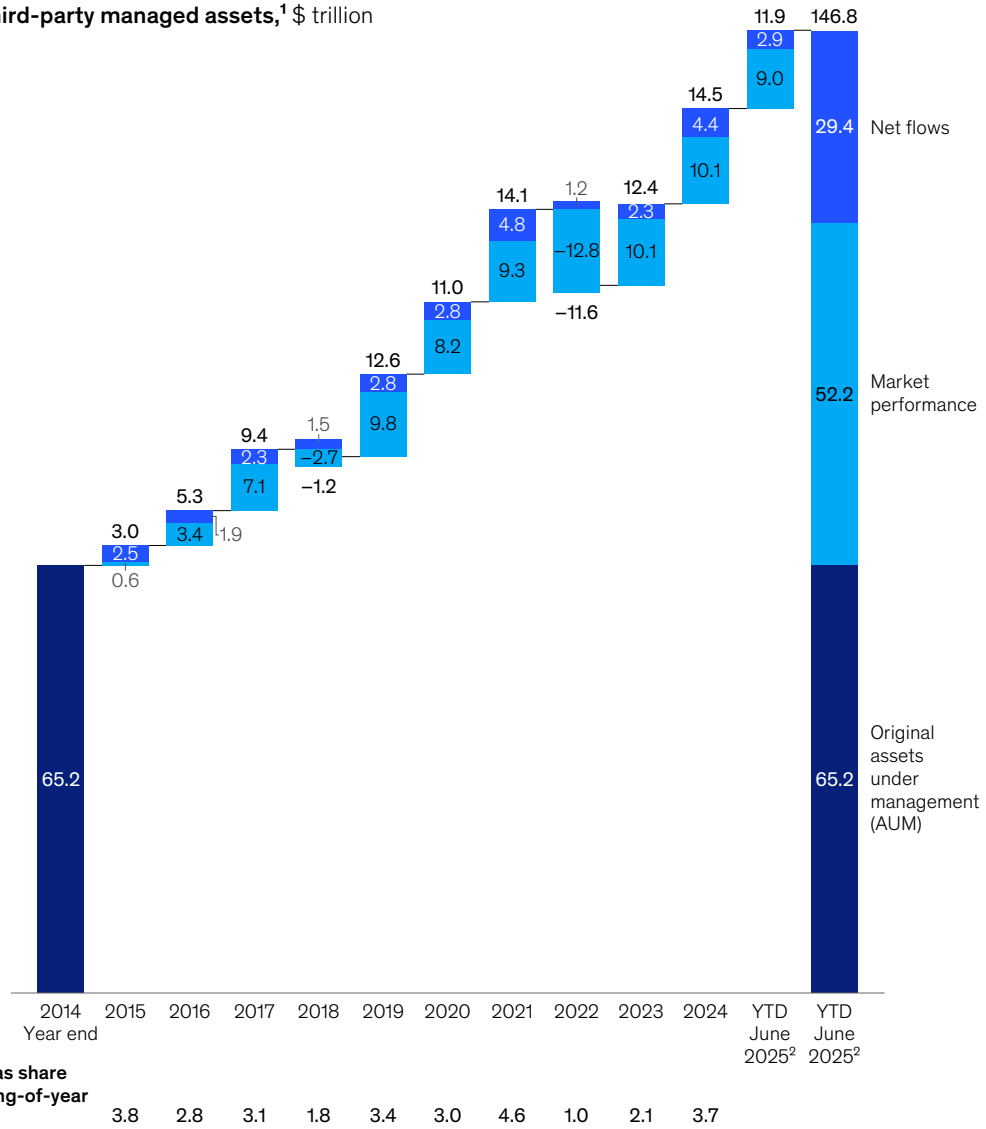
Europe's resurgence followed two years of softness and was fueled by stronger-than-expected macroeconomic data, lower interest rates, and a recovery in retail and advisory-led flows. Germany, France, and the Nordics led the way.

In Asia, China was the primary engine of growth, with sustained demand for fixed-income products and a surge in ETF adoption across institutional and retail investors. This was driven in part by government-led initiatives aimed at stabilizing and deepening domestic capital markets. Japan followed: Retail investors continued reallocating from savings into mutual funds and ETFs under supportive policies and a steadier macroeconomic backdrop. India, although smaller in scale, remained one of the fastest-growing regions, buoyed by local investor demand and a brisk pace of new fund launches.

Exhibit 1

Global assets under management reached an all-time high of \$135 trillion in 2024 and are on track to break the record in 2025.

Global third-party managed assets,¹ \$ trillion



Note: Figures may not sum, because of rounding.

¹Includes 42 countries from Asia-Pacific, Europe, Latin America, North America, the Middle East, and Africa.

²Year to date June 2025 estimate based on mutual fund and exchange-traded fund data from Morningstar.

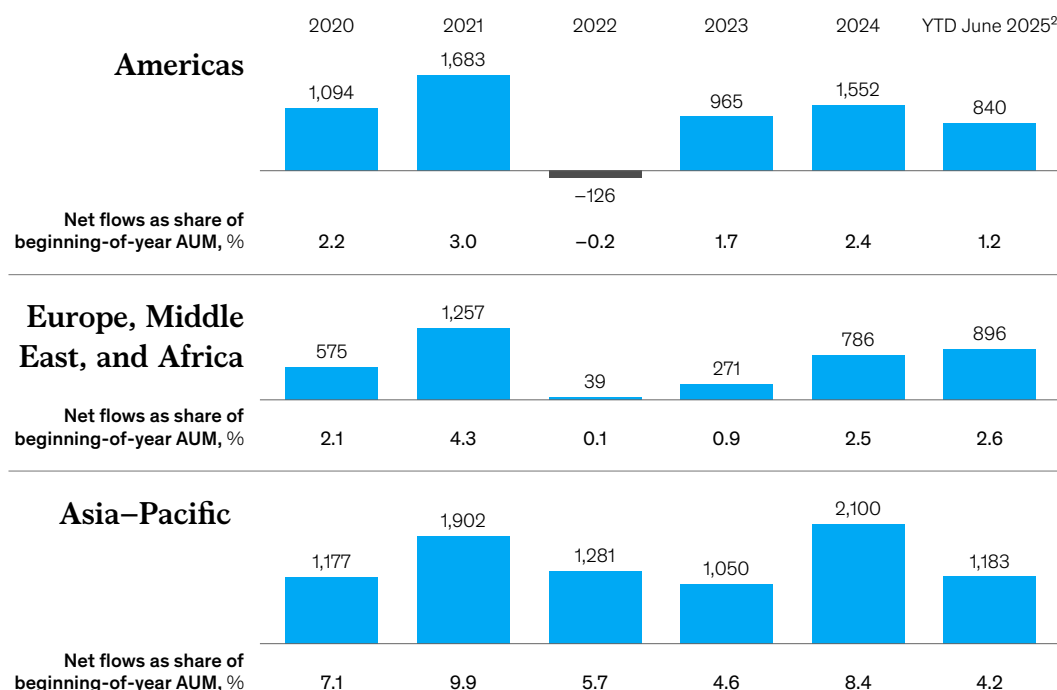
Source: Morningstar; McKinsey Performance Lens Global Growth Cube

McKinsey & Company

Exhibit 2

All regions have seen net flow recovery.

Net flows by region,¹ \$ billion



¹Includes 42 countries from Asia-Pacific, Europe, Latin America, North America, the Middle East, and Africa.

²Year to date June 2025 estimate based on mutual fund and exchange-traded fund data from Morningstar.

Source: Morningstar; McKinsey Performance Lens Global Growth Cube

McKinsey & Company

Households do the heavy lifting

Individual investors were the rainmakers of 2024. Wealth, defined contribution (DC), and insurance clients accounted for more than 80 percent of total global net flows in 2024—a familiar trend that is clearly quickening.

Within the wealth segment, rising asset values, strong wage growth, and low unemployment kept new money flowing. High-net-worth investors reallocated across public and private markets, showing growing appetite for custom portfolio solutions such as separately managed accounts (SMAs), ETFs, and hybrid vehicles. DC flows benefited from the long, secular shift away from defined benefit. Insurance added heft on the back of record annuity sales and more outsourcing of general account assets.

Traditional institutional segments—particularly defined benefit pensions, endowments, and foundations—were more muted. Corporate treasury flows normalized as the money market bonanza of 2022 and 2023 faded.

The barbell, redesigned

The asset management industry has long been described as having a barbell dynamic: that is, with growth flowing to both passive strategies and alternatives, while the middle ground shrinks. But 2024 was defined by a new barbell: passive equity and active fixed income (Exhibit 3).

In equities, the divide between passive and active strategies deepened. 2024 flows into passive equity accelerated sharply, fueled by demand for low-cost beta exposure, integration into model portfolios, and continued allocation from wealth platforms. Active equity continues to bleed, particularly in mutual funds, where fee pressure, tax inefficiency, and benchmark underperformance weighed down the category. For open-ended funds, active equity saw \$471 billion in net outflows in 2024, while passive equity experienced \$349 billion in net inflows during the same year.

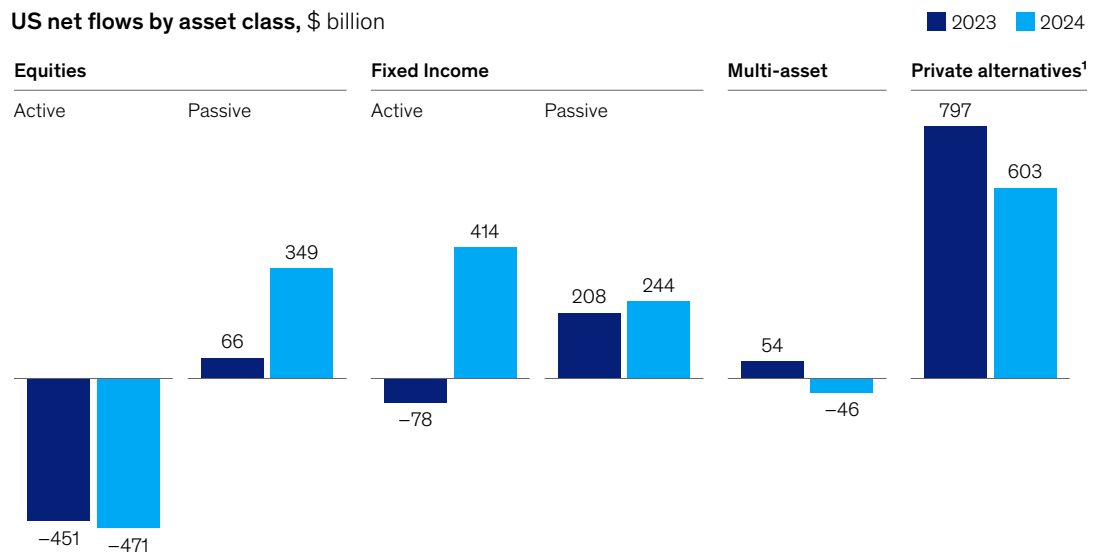
Active bond strategies were the year's standouts; multisector, ultrashort, and intermediate in particular were rewarded as interest rate expectations steadied and flexibility in managing credit and duration risk were rewarded. Bonds were the rare asset classes where both active and passive grew in tandem: active for tactical flexibility and alpha potential, and passive for cost efficiency and liquidity.

Flow behavior across active strategies mirrored performance. The share of active equity funds outperforming their benchmarks declined. For example, according to Morningstar, 38 percent of US open-end equity fund AUM outperformed the stated benchmark in 2024, down from 48 percent in 2023. In contrast, the share of outperforming active fixed-income strategies grew, from 74 percent in 2023 to 90 percent in 2024. One notable exception within equity was large-cap growth. This segment, a consistent underperformer in 2021 and 2022, showed signs of life, as managers increasingly leaned into AI-linked investment theses.

Exhibit 3

The barbell is evolving, with flows concentrated in active fixed income and passive equity.

US net flows by asset class, \$ billion



¹Private alternatives annual fundraising for North America.
Source: Preqin; McKinsey Performance Lens Global Growth Cube

McKinsey & Company

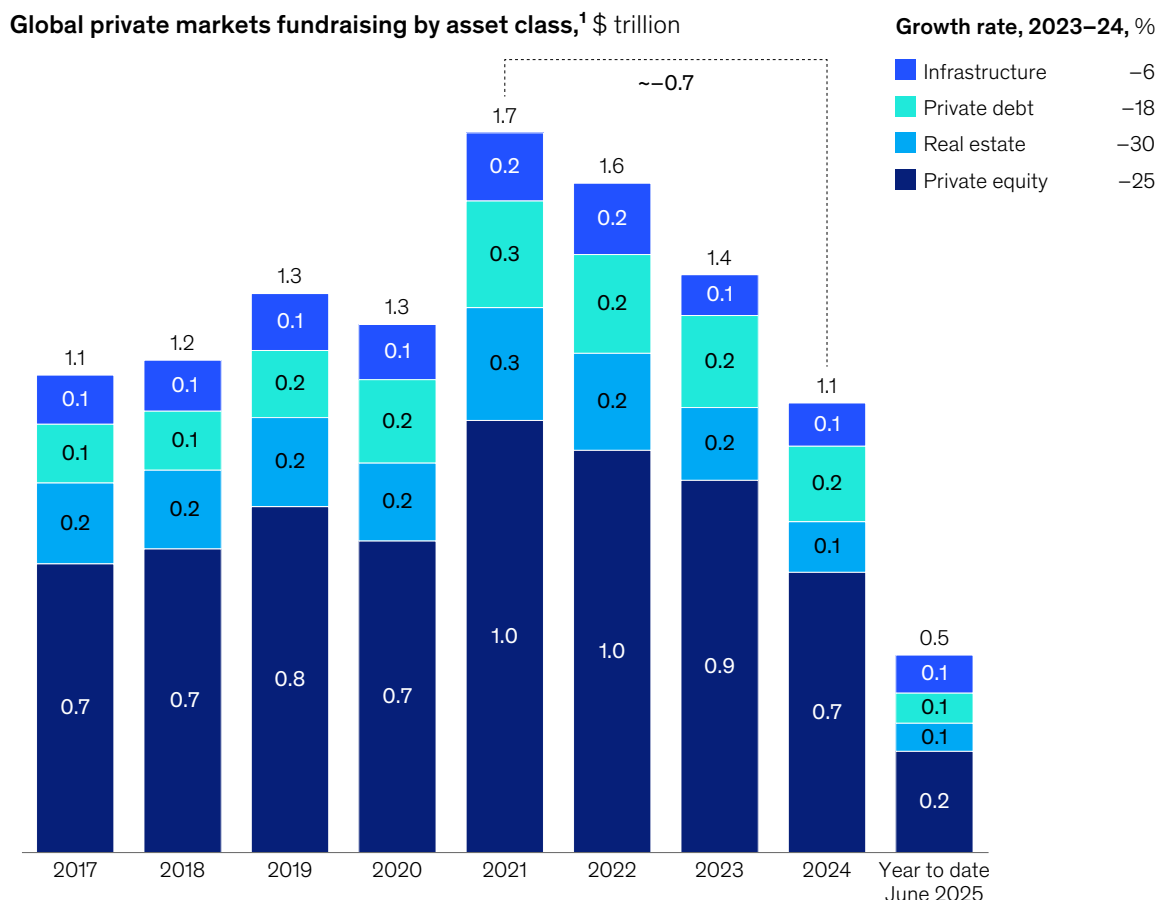
Private markets in a period of indigestion

After peaking at nearly \$1.7 trillion in 2021, global private markets' fundraising slid to roughly \$1.1 trillion in 2024—a \$700 billion drop from its peak and a return to 2017 levels (Exhibit 4). The slowdown was broad, but most pronounced in private equity and real estate where exits stayed muted and the high valuations on older vintages jammed the recycling of capital.

Not all was gloom. Private credit and infrastructure decelerated far less than private equity and real estate. Credit continues to benefit from the refinancing of sponsor portfolios as well as new areas of demand such as asset-backed finance and infrastructure lending. Infrastructure offers both inflation-protected, long-dated yields and exposure to a broadening range of “new economy” assets, such as data centers.

Exhibit 4

Within private markets, closed-end fundraising is below 2017 levels, down about \$700 billion from 2021 peaks.



McKinsey & Company

Private wealth channels and secondaries have proved to be a bright spot in the industry. In private wealth, evergreen vehicles and semi-liquid fund structures have gained substantial traction among high-net-worth and affluent investors. In the United States, these vehicles grew to \$348 billion in AUM and attracted \$64 billion in inflows in 2024. Secondaries are now a critical release valve, with global AUM above \$700 billion and roughly \$130 billion raised in 2024. They meet limited partners' (LPs) need for liquidity and provide general partners with an opportunity to create liquidity in the face of an exit-starved environment. Together, flows from private wealth and secondaries are now injecting meaningful new capital into the ecosystem, backfilling an estimated 15 to 20 percent of the annual fundraising shortfall compared to 2021, according to our analysis.

How long will it take to work through the overhang of unsold portfolio companies? Our latest LP soundings stay constructive, with institutional investors signaling plans to grow allocations in the medium term. Assuming a gradual recovery in distributions, deployment activity, and average allocation increases, we estimate that it may take close to three years to fully digest the capital backlog and return to more "normal" fundraising cycles.

2025 has been steady but not spectacular

The current year has been softer, though solid. By June 2025, global AUM reached \$147 trillion, with an organic growth rate of 2.2 percent over the same period.

Flows have moderated across regions. The Americas stood at 1.2 percent organic growth rate through June 2025 compared with a year ago; Asia–Pacific was at 4.2 percent. EMEA appears on track for a banner year, with a 2.6 percent organic growth rate, edging past the region's 2024 mark of 2.5 percent.

In the United States, long-term open-ended fund flows through June 2025 were down approximately 22 percent relative to the same period in 2024. However, if April 2025—a month of market mayhem—is excluded, the gap halves, with flows tracking closer to 11 percent below the prior year, pointing to broadly similar momentum once short-term disruptions are accounted for. April's downdraft owed much to policy uncertainty, several wobbly bond auctions, shifting inflation expectations, and global rate jitters, which triggered heavy fixed-income outflows.

Through this bump, passive equity proved resilient. Retail investors bought the dip in April and kept favoring passive vehicles. Equity flows through the first half of 2025 were steady overall—continued outflows from active, continued inflows into passive. The redesigned barbell doesn't seem to be going away.

Margins under pressure: Assets up, profits stuck

With the rise of markets in 2024, industry revenues sprinted, but margins jogged. For the second year running, double-digit top-line growth failed to produce meaningful operating leverage. Revenues rose by double-digit percentages, but margins inched up by roughly one percentage point, half the lift seen in past years with comparable gains in AUM and revenue (Exhibit 5).

Costs continue to climb

The industry's total cost base rose to \$167 billion in 2024, marking a \$12 billion increase versus 2023—a 7 percent jump versus the 5 percent average annual rise since 2020. Every cost category grew, but the largest increases came from technology (+9 percent), investment management (+8 percent), and distribution (+8 percent).

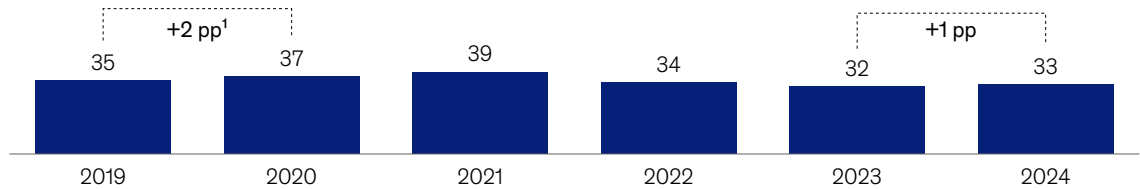
Growth in technology spending was driven less by innovation than by archeology: Technical debt, the proliferation of applications, and voracious market data needs were the fastest-growing categories of spending. Many asset managers continue to operate on aging infrastructure that is expensive to maintain, and the absence of well-integrated systems has made supporting core operations costlier and stymied innovation with newer technologies like generative AI.

In both investment management and distribution, variable compensation drove the majority of the year-on-year cost increase (83 percent). This was unsurprising amid market appreciation and better net flows. While variable compensation grew meaningfully in 2024, it remains well below its peak in 2021. The story of costs ratcheting up is not simply one of accelerating incentive payouts—the industry faces a deeper issue of platform complexity.

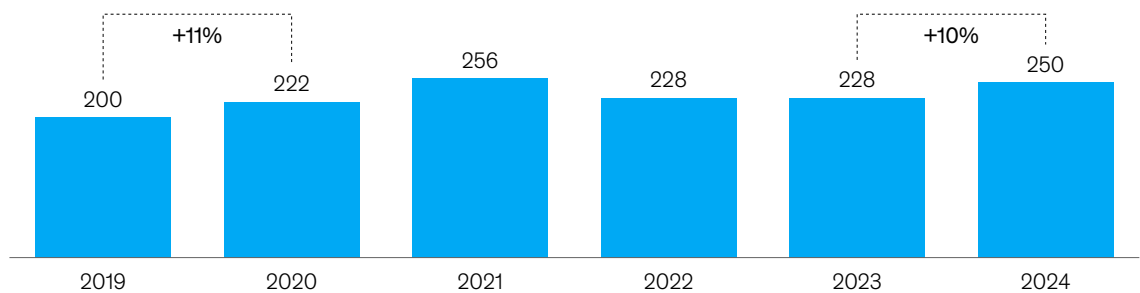
Exhibit 5

Despite better top-line industry performance, profitability has improved only slightly.

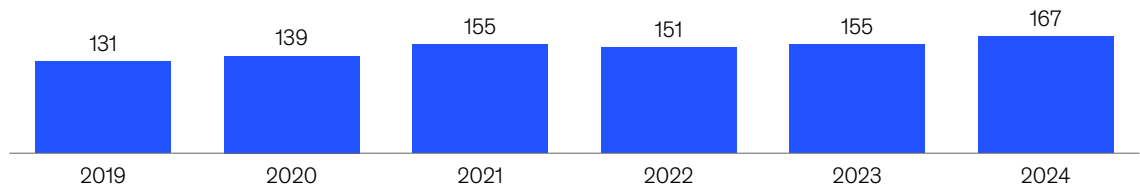
Pretax operating profit margin, % of net revenue



Revenue pools, \$ billion



Cost, \$ billion



¹Percentage point.

Source: Public filings; McKinsey Performance Lens Global Asset Management Survey

McKinsey & Company

Sprawl eats scale

The expanding operating model sprawl within many asset managers' organizations has compounded cost increases. As firms expand across asset classes, wrappers, channels, and jurisdictions, many have chosen to add headcount rather than to clean-sheet processes. The result: From 2020 to 2024, headcount grew sharply in roles created by new levels of complexity. For example, product specialists increased 60 percent, operations professionals 30 percent, and business management roles 16 percent.

A notable increase in fixed compensation across the industry compounded the expansion in this specialized headcount. Our proprietary data shows that, indexed to 2020, fixed compensation per FTE has risen by more than 25 percent. Many firms have yet to achieve the operating model simplification needed to bend the cost curve with increased productivity.

From alpha to access: Who grew and why

We analyzed the financial and operating results of about 50 of the largest traditional and alternative asset managers (measured by AUM) to identify the characteristics of firms that consistently generated the most substantial net flows and revenue growth. We found that organizations that achieved above-average results in both dimensions fell into three broad archetypes:

- **Firms with access to proprietary distribution:** Their structural access to client channels and end-client relationships provided resilience against market volatility and enabled superior pricing and servicing economics. These firms were also the prime beneficiaries of growth in the wealth channel, where embedded access and direct platform integration translated into consistent inflows.
- **Firms with scaled manufacturing platforms:** Those that were able to offer a full breadth of portfolio building blocks (often a mix of both active and passive) at highly competitive fee levels. This was often combined with an ability to deliver solutions at the level of the whole portfolio. These firms also benefited strongly from the secular trend toward ETFs.
- **Large multi-asset-class alternative managers:** These firms continued to gain traction with their ability to serve multiple portfolio sleeves within institutional and high-net-worth client portfolios.² They also benefited from early investments in building permanent access to insurance platforms, as well as private wealth distribution capabilities.

At the same time, our research also identified three distinct profiles of firms that underperformed, falling behind on both revenue and organic growth metrics:

- **Firms dependent on active equity—especially in mutual fund vehicles:** These firms continued to experience structural outflows as clients rotated toward lower-cost passive strategies and newer, more tax-efficient wrappers like ETFs and SMAs. Persistent underperformance in key segments such as US large-cap equity further eroded their position. The mutual fund format, once the default vehicle for retail and intermediary channels, is now increasingly viewed as outdated—especially by platforms and advisors that are modernizing their product shelves.

² A sleeve is a virtual sub-account, a portion of a portfolio that can be traded separately.

- **Fixed-income specialists lacking differentiated capabilities:** Although fixed income saw renewed investor interest in 2024 and early 2025, firms without distinct strategies—such as those in private credit, securitized assets, or dynamic duration—struggled to capture flows. Their inability to offer innovative or flexible approaches limited their appeal despite favorable macro-conditions for bonds.
- **Firms concentrated in slow-growth institutional channels—especially defined benefit pensions:** Managers focused heavily on the DB pension market face structural stagnation. As plans mature and de-risk, net new inflows have become scarce. Firms that failed to expand meaningfully into faster-growing areas like defined contribution, wealth management, or insurance found themselves increasingly marginalized.

Status quo disrupted: Three trends that could reshape the industry

The asset management industry in 2025 is benefiting from the supportive updraft of the markets, but the old engines of advantage—distinctive investment performance and broad distribution access—are no longer guarantees of market leadership. Conventional growth is still there for those who are diligent; outsized growth, though, will come only from stepping beyond the usual borders, marrying portfolio construction shifts with product innovation and new ways of meeting client demands.

As we stand at the midpoint of 2025, three trends in particular have the potential to put significant money in motion across the industry over the next five years driven respectively by shifts in geo-economics, product structures, and industry structure:

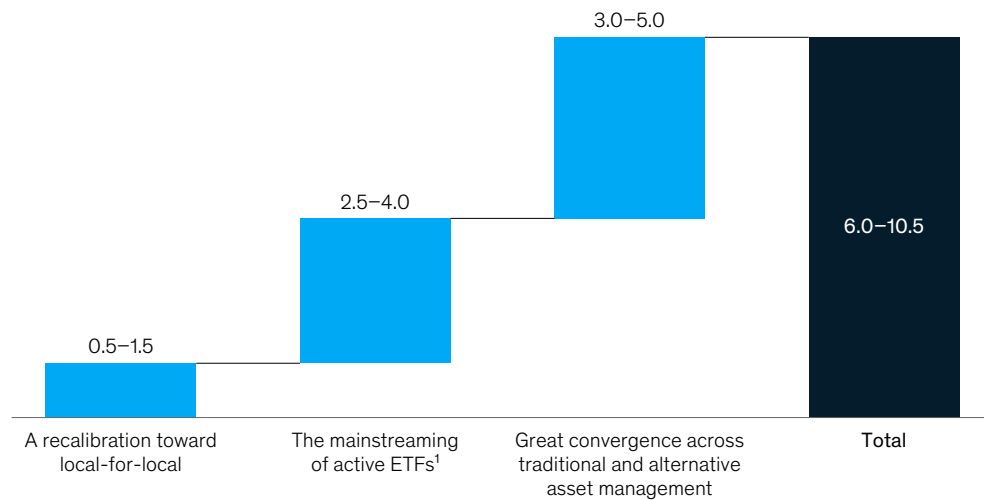
- **A recalibration toward local-for-local investing**, as a new desire for geographical diversification and onshore strategies potentially slows a decade-long drift toward US-based assets and global manager positioning.
- **The mainstreaming of active ETFs**, which are redefining how active management is accessed, distributed, and scaled.
- **The convergence of traditional and alternative asset management**, as clients seek unified portfolio solutions across public and private markets, and the democratization of alternatives forges new partnerships.

Our research suggests that these three trends have the potential to unleash between \$6 trillion and \$10.5 trillion of money in motion over the next five years, as investors refit portfolios to new realities (Exhibit 6).

Exhibit 6

Three trends may represent up to \$10.5 trillion in addressable money in motion.

Potential addressable money in motion opportunity over the next 5 years, \$ trillion



¹Exchange-traded funds.
Source: McKinsey Performance Lens Global Growth Cube; McKinsey analysis

McKinsey & Company

Home cooking makes a comeback

The United States has long played an outsized role in global investors' portfolios because of its importance in global capital markets: As of 2024, the United States accounted for roughly 70 percent of global equity market capitalization and 30 percent of global fixed-income markets. This scale has helped US asset managers consistently attract more capital—both domestically and internationally—especially into US-based strategies. With few exceptions in EMEA and Asia-Pacific, US firms have outpaced local players, in part by capturing flows into US-based strategies.

There are early signals that the drumbeat may be changing. Some allocators have recently signaled an intent to reduce US exposure across public and private markets, citing policy uncertainty, macro divergence, and currency risk. For example, recent data from the Bank of America Global Fund Manager Survey (June 2025) shows US equity overweight positions at multi-year lows. McKinsey's May 2025 LP Survey also shows more institutional investors eyeing private equity and real estate outside the United States (Exhibit 7). A weaker dollar has further dented returns for non-dollar investors.

Just how much have these intentions translated into action? Our analysis of open-ended fund flows for both US and European investors from 2024 through the second quarter of 2025 paints a nuanced picture. European investors did pull back sharply from US strategies in the second quarter of 2025. However, US investors largely held their domestic stance, with only marginal equity outflows.

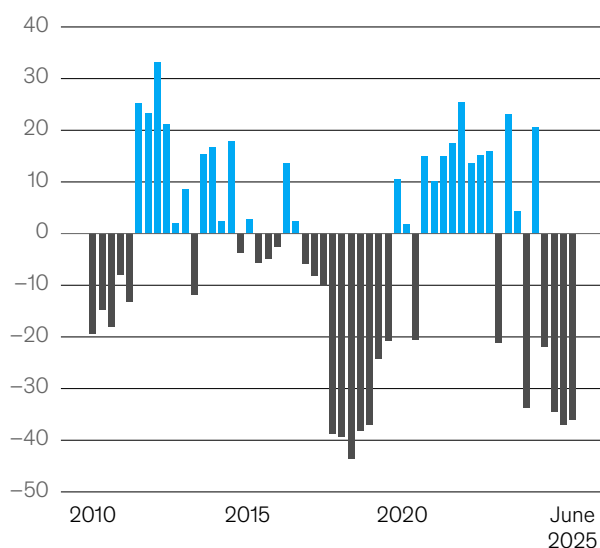
A longer 18-month view shows that the quantum of outflows in the second quarter of 2025 more or less matched the spike of inflows for both US- and European-based investors in the third and fourth quarters of 2024—a pattern likely driven in part by bullish sentiment that followed the November 2024 US elections.

Two conclusions can be reached from this. First, the evidence to date points to a tactical reset, not a structural rotation. Second, regional divergences in investor behavior hint at an opening of a window of opportunity for “local-for-local” asset gathering, particularly in Europe. Whether this shift is sustained over the long term depends on a host of factors including the long-term economic outlook of the United States relative to other economies, US fiscal and trade policies, currency movements, and the availability of comparable investment alternatives in other markets. Even so, a 1 percent shift away from US assets implies \$1 trillion on the move. US managers cannot afford to take their historical momentum in international markets for granted and will need to consider partnerships, joint ventures, and localized build-outs to stay competitive abroad. For some, that future is already unfolding: Cross-border M&A and local-for-local joint ventures are increasingly at the center of global expansion strategies.

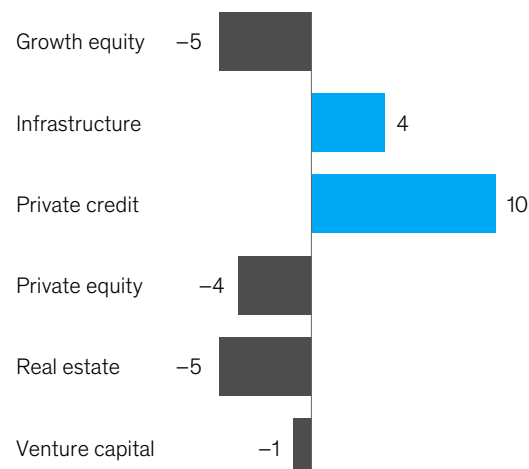
Exhibit 7

In 2025, clients have signaled some hesitation toward US investment strategies.

Share of fund managers that are overweight US equities, % of managers



Projected net change to US private markets allocation over next 6 months, by asset class, 2025, net % of respondents



Source: BofA Global Fund Manager Survey; McKinsey limited partner (LP) private markets survey

McKinsey & Company

From share class to shelf space: Active ETFs go mainstream

2025 marks the coming of age for active ETFs. In the past five years, more than 1,400 launched, outpacing both passive ETFs and mutual funds. According to Morningstar data, there are now roughly 1,700 active equity and fixed-income ETFs—about par with passive ETFs. Active ETFs represent only 7 percent of overall ETF AUM in 2024, yet they captured 37 percent of ETF flows and nearly 24 percent of ETF-driven revenues in 2024. Active ETFs are reshaping how active management is accessed and distributed.

Several forces are driving the rapid adoption of active ETFs. On the demand side, the rise of registered investment advisors with strong ETF preferences, ETF-only investment platforms, and increased penetration of model portfolios have expanded the playing field. On the supply side, regulatory shifts allowing dual-share class structures are increasing accessibility, and rapid product innovation filled the shelves with differentiated strategies packaged in ETF wrappers.

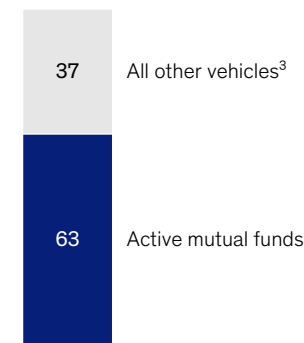
Will the success of the active ETFs be the salvation for the challenged active franchises? Will it stem the secular trend of active to passive substitution? Our short answer: partly. We estimate about 50 percent of active ETF flows are simply a substitution from legacy vehicles (principally mutual funds); the other 50 percent taps new pools of demand for actively managed strategies (sometimes as substitutes for passive).

Two clear data points support this (Exhibit 8). First, McKinsey's 2025 Survey of Financial Advisors suggests roughly 60 percent of active ETF allocations comes from active mutual funds, with the rest sourced from passive equity, individual securities, cash, and new allocations. Second, among the top 100 active ETFs, about 60 percent of inflows go to conversions or strategies that currently exist in a mutual fund—essentially clones. The other 40 percent are new strategies or targeted exposures. This is encouraging news for active managers.

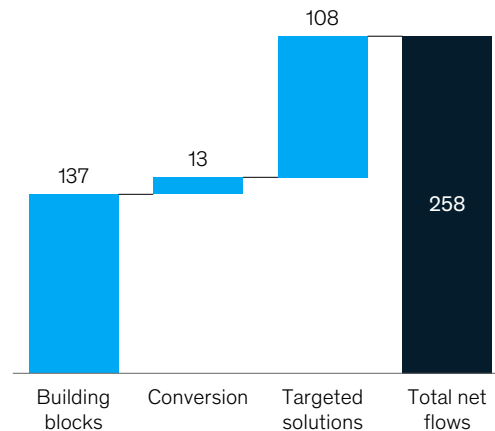
Exhibit 8

A significant portion of active exchange-traded fund flows represents net new money into active allocation.

What active ETFs¹ typically replace in client portfolios, % of financial advisors using active ETFs



Active ETF flows by product type, top 100 ETFs,² July 2024–June 2025 cumulative flows, \$ billion



¹Exchange-traded funds.

²Top 100 active ETFs by July 2024–June 2025 net flows. Total accounts for \$258 billion out of \$373 billion in overall net flows for active ETFs during the same period.

³Passive ETFs, individual securities, cash, others.

Source: Morningstar; McKinsey Survey of Financial Advisors, June 2025 (n = ~3,000)

McKinsey & Company

The competitive dynamics of active ETFs appears refreshingly democratic, certainly compared to the “winner takes all” dynamics at work in passive ETFs. 83 percent of active ETFs (by count) are in net inflows versus 62 percent for passive ETFs. Moreover, the top 10 active ETFs account for just 20 percent of inflows compared with 40 percent in passive ETFs. Leaders in active ETFs are not always the same as in passive ETFs, opening the door for both growth and share gains for managers who execute well.

But winning requires more than just a filing. Leading managers have made growth in active ETF platforms a strategic priority. Their strategies are designed to target both core and unmet client needs, they have invested in ETF-focused sales specialists who can navigate both financial advisor and model portfolio placement, and they have forged deep platform partnerships that enable product co-creation and smooth onboarding. Economic partnerships matter, too. Active ETFs are typically priced about 15 basis points lower than their corresponding active mutual funds—most of that gap is forgone platform fees—equating to roughly \$20 billion in revenue share. Expect platforms to revisit commercial terms. Managers who show up as strategic partners, not just product providers, will find doors opening.

The great convergence of traditional and alternative

The border separating traditional and alternative asset management is dissolving. What began as two distinct tribes—benchmark-oriented, public market-focused houses on one side; and illiquid, alpha-hunting private markets shops on the other—is fast becoming a single competitive arena. In the old order of the two, traditional managers manufactured active and passive open-ended funds for individual investors while alternative managers sought out sophisticated institutions to bankroll drawdown funds. That tidy bifurcation has ended (Exhibit 9).

Clients are driving the convergence. They want integrated solutions that blend public and private exposures in a coherent package. Insurers, for instance, are pushing deeper into private markets; and high-net-worth investors want access to private assets that once were the sole preserve of large institutions. Regulation frameworks and product vehicles have evolved to ease the convergence. Pursuing these new opportunities requires a blended set of capabilities that many managers have found challenging to build on their own: Alpha generation in illiquid asset classes exists within alternative managers, while the product and pipes for broad-based distribution sits with traditional managers. Few have managed to build the other missing half organically. Hence the rush to partner, buy, or be bought—as the operating logic of the great convergence across traditional and alternative business models takes shape.

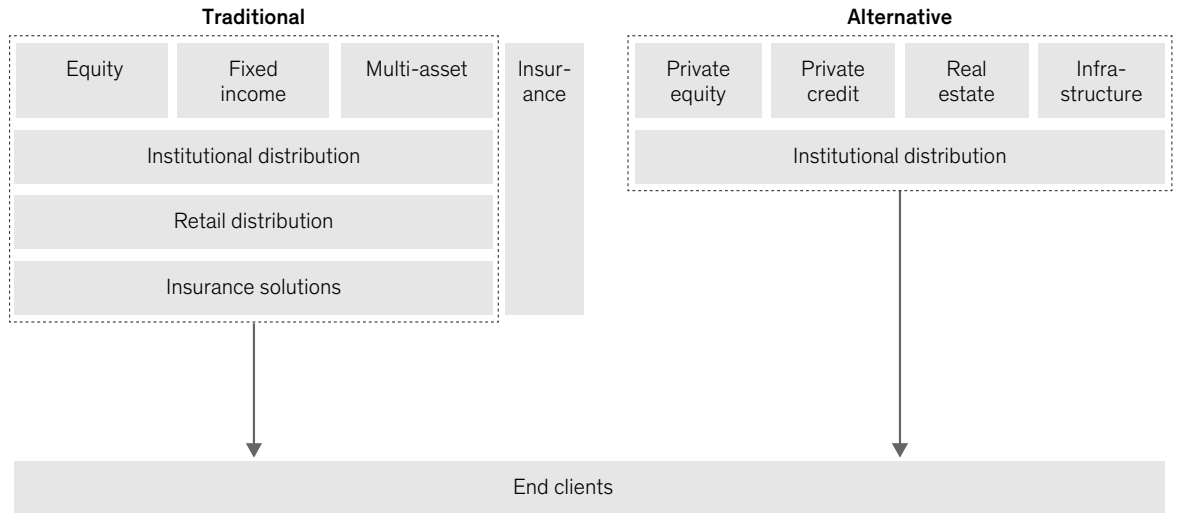
2024 and 2025 marked an inflection point in this trend of convergence. Product innovation sped up: public–private strategies, evergreen products, and public–private model portfolios proliferated, first in the United States and then elsewhere. With recent policy changes in the United States, DC plans are also in an early phase of experimentation—from in-plan annuities to new uses of target-date funds that incorporate private markets. M&A activity surged in both directions: traditional managers acquired alternative investment capabilities, while alternative managers acquired traditional asset managers for the distribution and product capabilities.

This is just the opening act of the great convergence. The industry's giants have led the charge in forming strategic partnerships and stitching together integrated offerings. There is still a long tail of smaller managers that lack the resources to compete at scale across both domains. These firms may benefit the most from this convergence, but they have yet to partner their way into meaningful capability sets. Scale is optional; access is not. Hence the industrial logic of convergence will continue to play out at pace.

Exhibit 9

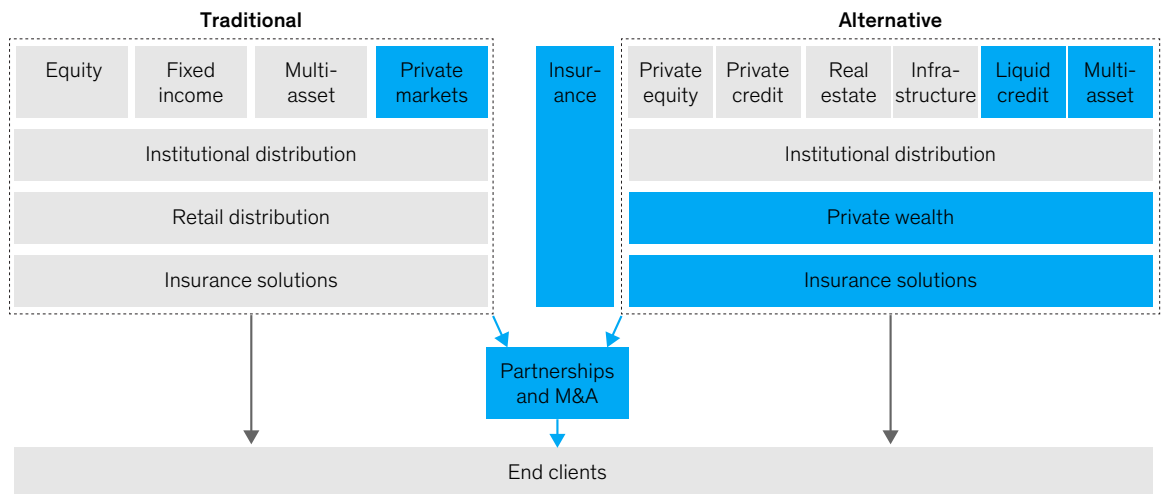
We are in the early stages of a great convergence.

Convergence between traditional and alternative asset management



Convergence between traditional and alternative asset management

■ Changes in participation from traditional models



McKinsey & Company

The size of the prize of the great convergence is significant. Leading private markets firms are not satisfied simply in winning the alternatives sleeve; they aim to replace slices of legacy public exposures. Consider a typical high-net-worth portfolio that allocates 55 percent to equities, 30 percent to fixed income, and 15 percent to alternatives. Some managers now advocate replacing mid-cap equity and high-yield fixed income with public-private products, lifting the addressable “private” share to as much as 45 percent. The alternatives sleeve is becoming larger and more mainstream.

The great convergence is playing out most prominently in the democratization of the private markets. Democratization has been cascading down the wealth ladder. It began with ultra- and high-net-worth clients through closed-end vehicles, feeder funds, and co-investments. It then expanded to accredited investors with the emergence of semi-liquid funds. Now, it is reaching the mass affluent through public–private products open to non-accredited investors, with defined contribution plans as a plausible next stop through innovations in target-date funds.

In the near term, we expect the largest and most immediate growth opportunity to reside in the high-net-worth and affluent segments because of their large asset pools and relatively low current allocations to alternatives (Exhibit 10). Mass affluent growth will depend on brokerage access, especially via direct and discount platforms. The DC channel offers long-term potential but is more complex and will likely be slower to scale. Regulation has begun to evolve, but multiple stakeholders (including recordkeepers, consultants, plan sponsors, and participants) will need to be convinced, and monthly contributions will take time to accumulate.

Exhibit 10

The convergence opportunity spans a broad set of client segments.

Opportunity by client segment

Segment	Americas AUM, ¹ \$ trillion	Current allocation to private markets, %	Potential increase in private markets allocation by 2030, percentage point	Addressable opportunity, by 2030, \$ trillion	Vehicles needed to unlock
Ultra-high net worth	9	~13	+2–5	0.3–0.7	<ul style="list-style-type: none"> • Co- or direct investments • Closed-end funds • Private placements • Delaware Statutory Trusts
High net worth	18	~5	+3–5	0.7–1.4	<ul style="list-style-type: none"> • Private real estate investment trusts • Private business development company • Interval funds • Private placement variable annuities
Affluent	5	0–2	+5–8	0.4–0.6	
Mass affluent	8	0–1	+2–3	0.2–0.4	<ul style="list-style-type: none"> • Public–private products • Exchange-traded funds • Mutual funds
Defined contribution	13	0–1	+1–5	0.4–0.6	<ul style="list-style-type: none"> • Target date funds • In-plan annuities
Total: 52.5				Total: ~2–4	

Note: Figures do not sum, because of rounding.

¹Assets under management.

Source: McKinsey Performance Lens Global Growth Cube; McKinsey analysis

McKinsey & Company

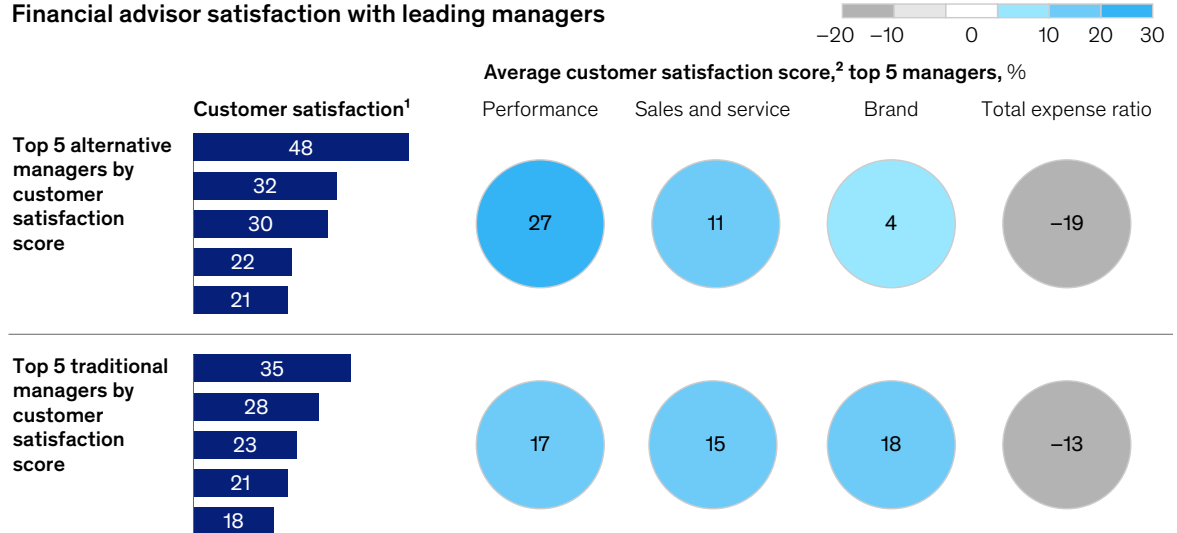
Over the past decade, traditional asset managers as a whole have lagged their alternative counterparts in the pursuit of the convergence opportunity, but that is starting to change. Blue-chip alternative managers have been first movers and have enjoyed an advantage of early momentum, but a number of traditional managers are catching up, often through strategic M&A. Despite heavy investments from alternative managers—in some cases deploying teams of 40 or more wholesalers, and more than 100 professionals across sales, product, servicing, and marketing—traditional managers are leaning in to their scaled distribution models and whole-portfolio support that financial advisors value.

Performance may open the door, but coverage and service are what keep managers in the room. Our research shows that the gap between traditional and alternative managers has started to close. The best alternative managers often win on perception of investment performance, but traditional firms stand out in sales execution, relationships, and perceived cost-efficiency (Exhibit 11). Advisors increasingly cite traditional managers' frequent and proactive outreach, their ability to act as portfolio construction partners, and the strength of their practice management platforms as reasons why they are credible partners for the private markets. With many advisors preferring to concentrate business with a small number of trusted providers, the very best traditional firms—deeply embedded and broadly capable—are well-positioned to win in the next phase of convergence.

Exhibit 11

Highly rated alternative managers tend to win on performance, while traditional managers leverage a broader set of strengths.

Financial advisor satisfaction with leading managers



¹Question: How likely are you to recommend [manager] to a colleague? Calculated as percent of 9–10 ratings minus percent of 0–6 ratings on a 0–10 scale.

²Question: How satisfied are you with [manager] on [attribute]? Calculated as percent of 7s minus percent of 1–4s on a 7-point scale.

Source: McKinsey Retail Private Markets Survey, June 2025 (n = 1,300)

McKinsey & Company

Resilient growth on rewired platforms: An agenda for thriving in a new era

Despite persistent challenges, the asset management industry is entering a new era of opportunity. With money-in-motion rising across client types and asset classes, firms need to think differently about growth. To thrive amid macroeconomic uncertainty and business model disruptions, managers can pursue a five-part agenda:

- **Smarter strategic partnerships:** As distribution channels fragment and client needs evolve, partnerships are becoming mission critical. Whether they involve retail distribution access to permanent capital vehicles, or access to asset origination and cross-border joint ventures, partnerships offer rapid scale, reach, and access to high-growth markets. The logic is strongest in private markets, where, for example, midsize managers will benefit from the ability to “rent” costly distribution required to access the wealth segment. US firms expanding abroad will also need local-for-local capabilities, whether built or borrowed.
- **Digital-enabled distribution:** Digital technologies can be powerful force multipliers to field sales models. The new playbook blends digital engagement, portfolio advisory, and mass personalization. AI-driven insights can target prospects, tailor proposals, and fundamentally reimagine how clients are engaged. These are vital for traditional firms carrying heavy fixed costs and for alternative managers just entering the distribution arms race.
- **Products as portfolio solutions:** As portfolios become more complex and investors look for outcome-oriented portfolios, product innovation is a must. Future product teams will need to build modular, vehicle-agnostic solutions that fit model portfolios, hybrid wrappers, and evergreen strategies. Active ETFs are a harbinger of what is possible: Rapid iteration of wrapper innovation can unseat incumbents and win shelf space faster than a thousand fact sheets.

- **Rewired investment engines:** A new wave of innovation is emerging across investment organizations, fueled by AI and agentic technologies that are changing how research is synthesized, portfolios are customized, and unstructured data is converted to insight. The best early wins often come from smaller and more agile managers, as well as asset owners that operate with unified investment platforms.
- **Scalable technology and operations platforms:** Operating leverage is the native superpower of industry leaders; too many firms have scaled costs instead. The fix: with mounting pressure on margins, firms must focus on building a unified, AI-enabled infrastructure that drives automation, lowers marginal costs, and provides real-time insights across the front, middle, and back office. This means ruthless simplification, standardization, and decommissioning. Cost curves don't just bend on their own.

After years of strain, the asset management industry has firmly rebounded and is on a clear trajectory for growth. Yet, challenges remain—most notably the loss of operating leverage and the widening gap between industry leaders and the rest. Growth through the money-in-motion opportunities discussed above are very real, but they depend on new capabilities that many individual managers will struggle to build on their own. Capturing the opportunities—particularly ones coming out of the great convergence—will require bold partnerships, decisive re-platforming, and a willingness to rewrite traditional playbooks.

Henri Torbey is a partner in McKinsey's New York office, where **Ju-Hon Kwek** is a senior partner. **Farhan Banani** and **Victoria Nguyen** are associate partners in the Chicago office.

The authors wish to thank the following colleagues for their contributions to this article: Alastair Rami, Andrew Reich, Benjamin Goldwater, Charlie Regan, Edgardo Bonilla, Isha Aggarwal, Jonathan Godsall, Jose Ramos, Josue Ulate, Manraj Singh Dhillon, Phil Beylison, Philipp Koch, Rahel Schneider, and Steven Chan.

Copyright © 2025 McKinsey & Company. All rights reserved.

Find more content like this on the
McKinsey Insights App



Scan • Download • Personalize



McKinsey Financial Services Practice


September 2025

Copyright © 2025 McKinsey & Company. All rights reserved.

Designed by Darby

www.mckinsey.com

 McKinsey & Company

 @McKinsey