

THE  
INVESTMENT  
ASSOCIATION

# INVESTMENT MANAGEMENT IN THE UK 2019-2020

The Investment Association Annual Survey

September 2020



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# ABOUT THE SURVEY

THE SURVEY CAPTURES INVESTMENT MANAGEMENT UNDERTAKEN BY MEMBERS OF THE INVESTMENT ASSOCIATION (IA) ON BEHALF OF DOMESTIC AND OVERSEAS CLIENTS. UNLESS OTHERWISE SPECIFIED, ALL REFERENCES TO 'UK ASSETS UNDER MANAGEMENT' REFER TO ASSETS, WHEREVER DOMICILED, WHERE THE DAY-TO-DAY MANAGEMENT IS UNDERTAKEN BY INDIVIDUALS BASED IN THE UK. THE ASSET VALUE IS STATED AS AT DECEMBER 2019.

## THE FINDINGS ARE BASED ON:

- Questionnaire responses from 72 IA member firms, who between them manage £8.5 trillion in the UK (84% of total UK assets under management by the entire IA membership base).
- Other data provided to the IA by member firms.
- Data provided by third party organisations where specified.
- Publicly available information from external sources where relevant.
- Interviews and roundtable discussions with senior personnel from 15 IA member firms.

**THE IA WOULD LIKE TO EXPRESS ITS GRATITUDE TO MEMBER FIRMS WHO PROVIDED DETAILED QUESTIONNAIRE INFORMATION AND TO THOSE WHO TOOK PART IN THE INTERVIEWS AND ROUNDTABLES.**

## THE SURVEY IS IN SIX CHAPTERS:

1. UK Investment Management Industry: A Global Centre
2. Lessons From 2020 and Challenges Ahead
3. Trends in Client Assets and Allocation
4. UK Institutional Client Market
5. UK Retail Funds Market
6. Operational and Structural Issues

## THERE ARE ALSO SEVEN APPENDICES:

1. Summary of assets under management in the UK
2. Summary of data from the UK institutional market
3. IA sector classification scheme
4. Notable M&A deals in the UK investment management sector (2009-July 2020)
5. Definitions
6. Survey respondents
7. Interview and roundtable participants

## A NUMBER OF GENERAL POINTS SHOULD BE NOTED:

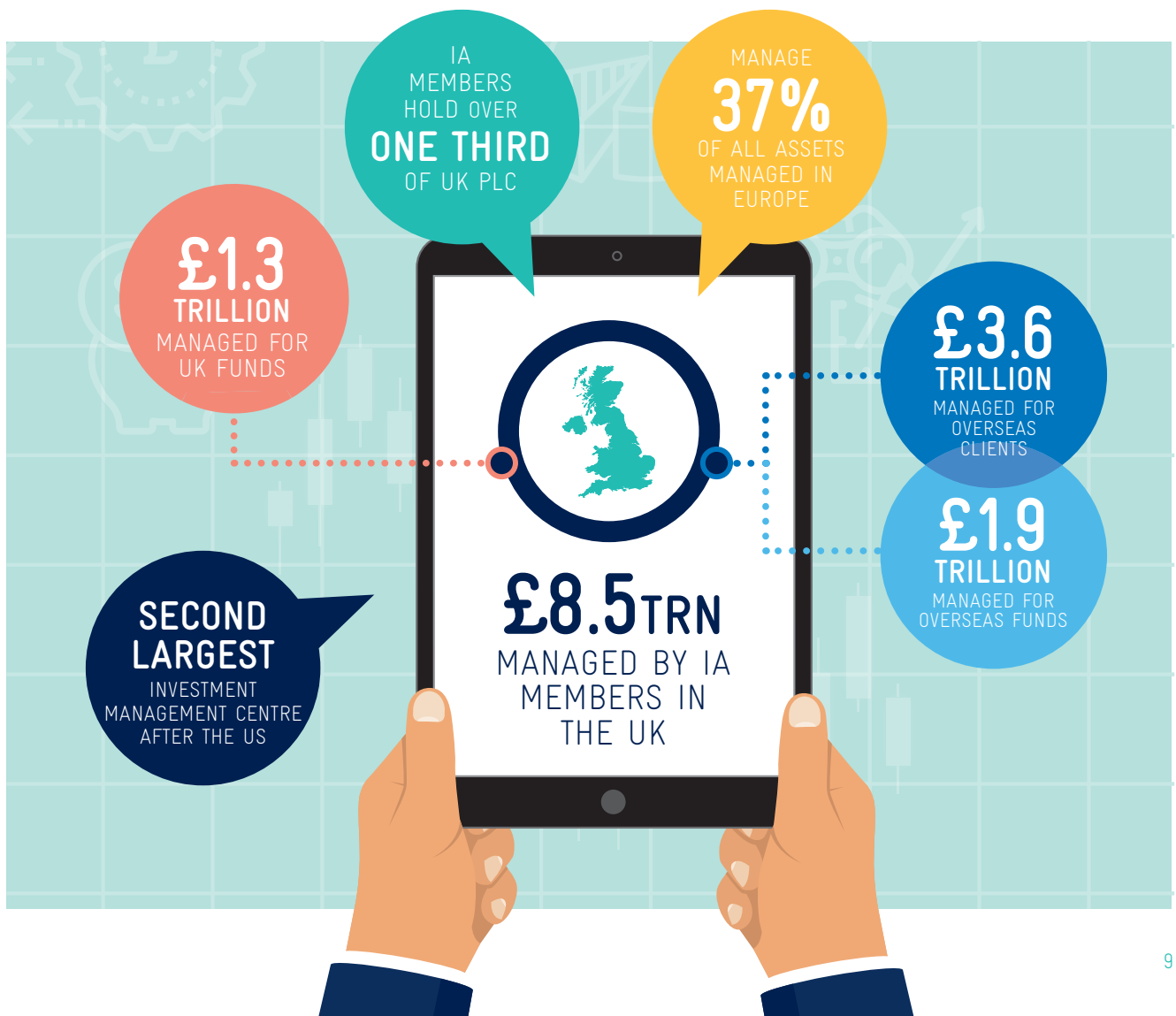
- Not all respondents were able to provide a response to all questions and therefore the response rate differs across questions.
- The Survey has been designed with comparability to previous years in mind. However, even where firms replied in both years, some may have responded to a question in one year but not in the other or vice versa. Where meaningful comparisons were possible, they have been made.
- Numbers in the charts and tables are presented in the clearest possible manner for the reader. At times this may mean that numbers do not add to 100%, or do not sum to the total presented, due to rounding.



**FIGURE 1: WHO ARE THE IA'S MEMBERS?**

Full members of the IA can be broken down into five broad groups.

- 1 Large investment management firms** (both UK and overseas-headquartered), which may be independent or part of wider financial services groups such as banks or insurance companies. They undertake a wide range of investment management activities across both retail and institutional markets and manage substantial amounts for overseas clients in the UK. Such firms will typically be managing >£100 billion from the UK, but a number of international firms have a smaller UK footprint.
- 2 Small and medium-sized investment management firms**, primarily focused on UK and/or European clients, which undertake a diverse range of activities, of which investment management is a constituent part.
- 3 Fund managers**, whose business is based primarily on authorised investment funds
- 4 Specialist boutiques and private client managers** with a smaller asset and client base and, typically, a specific investment or client focus.
- 5 Specialist pension scheme managers** both Occupational (OPS) scheme managers running in-house investment management services for a large scheme, and Local Government Pension Scheme (LGPS) pools, supporting the LGPS investment process.



# SURVEY FOREWORD



THIS YEAR'S INVESTMENT MANAGEMENT SURVEY SHOWS A RESILIENT AND HIGHLY INTERNATIONAL INDUSTRY AS IA MEMBERS MANAGED A RECORD £8.5 TRILLION FOR UK AND OVESEAS CLIENTS AT THE END OF 2019. DESPITE THE UNPRECEDENTED EVENTS OF 2020, THE UK INDUSTRY HAS CONTINUED TO SERVE ITS CLIENTS WELL AMIDST THE CHALLENGE OF A CONTINUING GLOBAL PANDEMIC.

At the time of writing, the UK is still attempting to return to a more normal way of life - children are going back to school, students are returning to their universities and workers are slowly coming back to offices. But things are certainly not where they were before the Covid-19 pandemic began. Locking down populations has stemmed the spread of infections but has had a severe impact on economic output globally, causing a record GDP contraction in the US of almost a third during the second quarter of 2020. In the UK, GDP contracted by a fifth over the same period, another record. To put this in context, during the Global Financial Crisis, GDP in the UK shrunk by no more than 2.1% in a quarter.

The pandemic has acted as a significant brake on globalisation in many sectors, although technology and communication services have been notable exceptions. The logistics of managing cross-border supply chains have become more complex as a result of efforts to contain the virus that now include sporadic implementation of localised lockdowns. The outlook for recovery and growth after Covid-19 is still highly uncertain.

Our industry faced exceptional operational challenges when the UK went into lockdown in March and it rose to them. Investment management firms shifted extremely quickly to remote working, a change which may well have positive ramifications for the shape of the workforce for years to come. As more flexible ways of working become the norm, they have the potential for our industry to attract a much more diverse workforce than we have at the moment. Despite a growing industry focus on diversity, events in 2020 and the rise in support for the Black Lives Matter movement have reminded us how much further we need to go. The Diversity and Inclusion agenda is more important now than ever.

Looking ahead to the rest of this year and into 2021, we are also focused heavily on efforts to recapitalise the UK economy, helping companies to raise money and contributing to the over £14 billion already provided to FTSE companies through equity fund-raising since March. We will see further support in the months and years ahead through more direct investment in UK equities as well as corporate bonds, commercial

property and infrastructure, one of the Government's key manifesto priorities. We are particularly exploring how to help smaller, privately-owned companies which may not have been able to access capital markets in the past.

We will need to negotiate this challenge alongside our duty to deliver value for customers in what will be a very difficult economic environment. But increasingly, we will be investing and delivering value differently, as recognition of the importance of responsible and sustainable investment continues to accelerate through the Covid-19 crisis. It is particularly striking that fund inflows into responsible and sustainable funds in the first half of 2020 were four times higher than in 2019, albeit from a low base. Even as markets plunged and investors redeemed holdings in March of this year, those inflows remained positive.

Amidst the onslaught of a global pandemic, the UK continues of course to prepare for the end of the Brexit transition period at the end of the year, with our industry most concerned about the longer-term outlook for the cross-border delegation that is at the heart of our worldwide operating model. Firms have been preparing for a range of scenarios, including a no deal Brexit, for a number of years. But the shortening negotiation timelines and increasing demands on government resources due to Covid-19 raise the stakes. The outcome of these negotiations could seriously threaten the UK's position, reinforced in this year's Survey, as Europe's biggest financial centre, second only globally to the US.

This year's report shows an industry operating in an era of extensive challenge, but one which remains world-class and has shown itself able to adapt to the most difficult of circumstances. I hope you find the Survey interesting and informative and I welcome any thoughts on aspects of the industry you would like us to explore in future editions.



**Chris Cummings**  
CEO



# EXECUTIVE SUMMARY

## UK INVESTMENT MANAGEMENT INDUSTRY: A GLOBAL CENTRE

- » Total UK managed assets under management by IA members increased 10% year on year to reach £8.5 trillion at the end of 2019. IA estimates suggest that at the end June 2020, despite the sharp falls in global markets throughout the year, industry AUM was approximately the same level recorded at the end of 2019.
- » This represents around 85% of the wider UK investment management industry, with total assets under management rising to an estimated £9.9 trillion in 2019, up from a revised £9.0 trillion.
- » The UK remains one of the largest centres of investment management in the world. It is second only to the US and is the largest centre in Europe, where it is responsible for 37% of total assets under management
- » Overseas clients account for 43% (£3.6 trillion) of total assets managed in the UK. Of this, European clients account for 58% (£2.1 trillion) of the total. 2019 has seen notable increases in assets managed on behalf of clients in North America and Asia.

## LESSONS FROM 2020 AND CHALLENGES AHEAD

- » In a year of pandemic and the end of the Brexit transition period, we set out initial lessons learned and the challenges ahead.
- » From an operational perspective, the financial instability of March in particular has reinforced the importance of risk management processes within firms. Liquidity management, already a theme of significant focus for industry and regulators, has been under a particular spotlight.
- » Technology has played a pivotal role in the industry's overall operational resilience, amid an unprecedented transition to working from home (WFH) as a result of global lockdowns. Continued investment in technology will be a critical component of firms' success.

- » Diversity and inclusion (D&I) was already a high priority for the industry, but rising further in importance as firms point to the importance of a workforce that better reflect their customers and wider society. Gender diversity has been high on the agenda for a number of years but there will be increasing focus on ethnic diversity.
- » Looking to broader challenges and opportunities, the industry is looking to ensure it can play a full role in the recapitalisation and economic recovery from Covid-19, while delivering value for its customers in a difficult investment and savings environment. In this context, and reflecting longer-term trends, responsible and sustainable investment emerges as the standout theme in 2020 across customer markets.
- » As we get closer to the end of the Brexit transition period, attention is keenly focused on the future of the UK as a European and international centre, with particular emphasis on the importance of delegation. Firms have identified strong city clusters and continued access to talent as key features of the UK investment management industry's attractiveness, but have cautioned that some aspects of UK regulation may affect its attractiveness to international firms.

## TRENDS IN CLIENT ASSETS AND ALLOCATION

- » Institutional clients remain the largest client group accounting for 79% of assets under management. Pension schemes (43% of total assets) continue to be the largest institutional client type.
- » Strong capital market performance through 2019 saw equities increase as a proportion of total assets from 36% to 38%, while bonds fell slightly to 32% (from 33%). Although slowing, the stand-out trend over the last decade remains a shift beyond mainstream asset classes, reflecting a range of drivers, including greater allocations to alternatives and the strong growth of LDI strategies.
- » Within equities, the UK allocation fell below 30% to 29% for the first time, down 18 percentage points from ten years ago. The allocation to overseas bonds in the fixed income space remained unchanged year on year at 50% of total fixed income allocation.

- » Some 30% of total assets under management is now managed based on indexing strategies. This four percentage point increase on 2018 is an acceleration of the very steady growth in indexing over the last decade.
- » Despite reduced allocations to UK assets as a proportion of total assets, IA members remain significantly invested in the UK economy holding £1.6 trillion in UK equities, corporate bonds, commercial property and, increasingly in recent years, in infrastructure. Total infrastructure investments reached £45 billion, a £10 billion increase since the end of 2018.
- » Allocations to UK equity funds have declined substantially as a proportion of total UK investor FUM in the last 15 years falling from 39% of FUM in 2005 to 14% by June 2020. Between January 2016 until June 2020 UK equity funds have seen heavy outflows of £12.7 billion, driven by economic uncertainty and weaker relative performance of the FTSE compared with other global indices.
- » The proportion of UK investor funds under management in indexing funds reached 18% in 2019, up from 8% in 2012. Sales in 2019 were strong and remained resilient in March 2020, with positive net sales of £467 million against an outflow of £10.1 billion from active funds.

## UK INSTITUTIONAL CLIENT MARKET

- » IA members manage £4.0 trillion for UK institutional clients, primarily from the UK but also in offices around the globe, unchanged from 2018.
- » Third party assets account for about 85% (£3.4 trillion) of the total, unchanged from 2018. Pension funds account for 72% of total third party assets.
- » Assets managed in liability-driven investment strategies reached an estimated £1.4 trillion in 2019, up from £1.3 trillion in 2018. Multi-asset mandates account for just under a quarter (24%) of mandates in total asset terms once LDI mandates are excluded.
- » Within specialist third party mandates, fixed income accounts for 40% of all mandates, overtaking equities last year in total asset terms.
- » FUM in responsible investment funds almost doubled between January 2019 to June 2020, reaching £33 billion in June 2020. Net retail sales were £7.0 billion in the 18 months up to June 2020 with sales in the first half of 2020 four times higher than during the same period in 2019. This includes March 2020 where net retail sales remained positive, albeit depressed, at £124 million.

## OPERATIONAL AND STRUCTURAL ISSUES

- » Total average industry revenue stood at £22.9 billion in 2019. This equates to 28bps of total assets. Operating costs were £15.8 billion in 2019 (20bps). IA data points to a decline in operating profitability over the last five years.
- » The UK investment management industry directly employed almost 40,000 people at the end of 2019, broadly unchanged on 2018. Around 113,000 jobs are supported by the UK investment management industry, either directly or indirectly.
- » The UK investment management industry remains relatively unconcentrated. Assets managed by the top five and the top ten firms stood at 43% and 58% of total assets respectively. Both were one percentage point higher than 2018.
- » The proportion of assets managed by independent investment managers now stands at 42%, ten percentage points higher than the level recorded a decade ago. This is in large part a reflection of high levels of M&A activity seen in the industry over that period.

## UK RETAIL FUNDS MARKET

- » By the end of 2019, UK investor funds under management (FUM) in UK and overseas domiciled funds had reached a record £1.31 trillion.
- » Initial reaction to market downturns in March 2020 were strong with record outflows of £9.7 billion from UK retail funds. These outflows were largely dominated (76%) by outflows from fixed income funds. Global markets and sales both rallied strongly in Q2 2020. Total sales for Q2 reached £11.2 billion and FUM had recovered to £1.28 trillion by June 2020 despite a 14% fall in March.

# 1 UK INVESTMENT MANAGEMENT INDUSTRY: A GLOBAL CENTRE

## KEY FINDINGS

### SIZE OF THE UK INDUSTRY

- » Global market performance in 2019 saw total UK managed assets under management rise to £8.5 trillion, a 10% increase year on year. Despite the high market volatility in 2020, we estimate that as of the end of June strong market recoveries have seen assets return to the same levels recorded at the end of 2019.
- » Based on the pool of firms with UK headquarters, one fifth of assets are managed by firms headquartered in Scotland. If we look more broadly at total UK managed assets, 7% of total assets (£590 billion) are managed in Scotland. This is unchanged in relative terms from 2018 but represents a £60 billion increase in nominal terms.
- » The wider investment management industry (including hedge funds, private equity, commercial property and discretionary wealth managers) is estimated to manage £9.9 trillion from the UK, up from a revised £9.0 trillion in 2018.

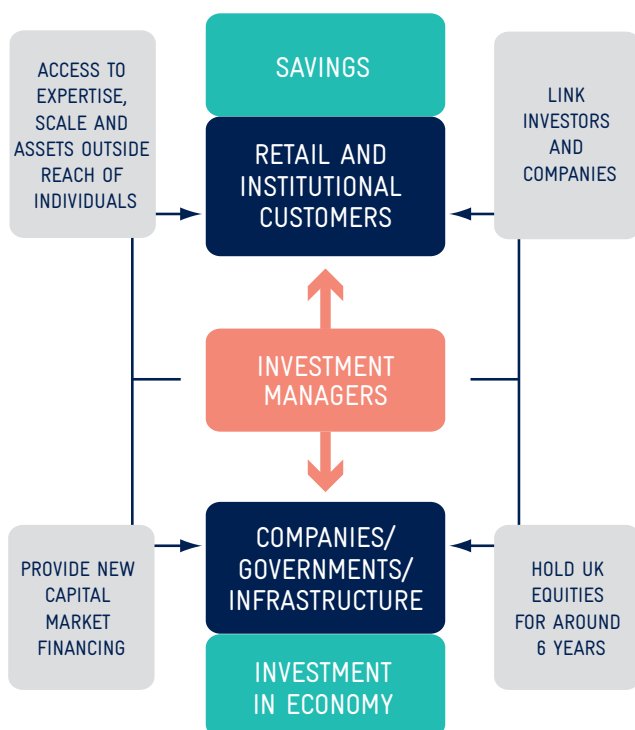
### UK INVESTMENT MANAGEMENT IN THE GLOBAL CONTEXT

- » The UK is the second largest investment management centre in the world after the US, which has a significantly larger domestic market. With a European market share of 37%, it is larger than the next three European centres combined.
- » The investment management industry in the UK continues to serve a very global client base. There have been strong year on year increases in assets managed on behalf of clients from non-EEA European clients, North America and Asia. Total overseas client assets have increased three percentage points year on year to 43% in 2019.
- » £1.9 trillion is managed in the UK for overseas funds (up from £1.8 trillion at the end of 2018). This represents 59% of UK managed funds, a figure which has remained fairly stable over the last three years. Three quarters of assets in overseas domiciled funds are managed for funds domiciled in Ireland and Luxembourg.



This Chapter looks at the growth of the UK as a pre-eminent global investment management centre and considers the importance of the industry, both to the UK economy and to investors around the globe.

**FIGURE 2: THE ROLE OF INVESTMENT MANAGERS IN CHANNELLING SAVINGS TO INVESTMENTS**



## ROLE OF INVESTMENT MANAGEMENT

The investment management industry has a central role in the economy channelling savings into investments and it is these two sides that define the industry's purpose – see Figure 2.

The primary purpose of investment managers is to deliver good outcomes to their clients, whether these are individual savers or institutions such as pension schemes. This includes providing wider expertise in areas such as risk management, achieving economies of scale, and giving access to a wide range of assets that would normally be out of reach for individual investors. The ultimate goal is to provide customers with a basket of shares, bonds and other assets such as property, which can deliver returns over many years without exposing them to undue risk.

The second side of the industry's role reflects the actual investment, ensuring that capital markets work effectively for this investment to take place. In doing so, investment manager activity contributes to efficient markets which price information correctly and allow buyers and sellers to transact. This facilitates both primary issuance when companies or governments are trying to raise money, and secondary trading of different instruments. Without efficient markets, market economies cannot grow effectively or may even destabilise. Investment managers thus contribute to sustainable growth in the economy, benefiting both clients and wider society.

Investment managers are not unique in this as other financial institutions and individuals contribute to capital market efficiency but the industry has historically been at the heart of long-term capital allocation, whether through shares, bonds or other assets. As long term holders of investments, UK investment managers hold UK equities for approximately six years.<sup>1</sup> The industry therefore also has an important responsibility to undertake stewardship activity over the companies they invest in to protect the value for their clients. As we discuss in Chapter Two, this increasingly extends to broader issues such as environmental sustainability and executive remuneration.

<sup>1</sup> The contribution of asset management to the UK economy, July 2016, Oxera

## SIZE OF UK INDUSTRY

At the end of 2019, IA members managed £8.5 trillion of client money in the UK, an increase of 10% on the previous year (see Chart 1). Despite the relative volatility in assets under management (AUM) over the last five years, total assets as of 2019 were broadly in line with the long term growth rate over the last ten years.

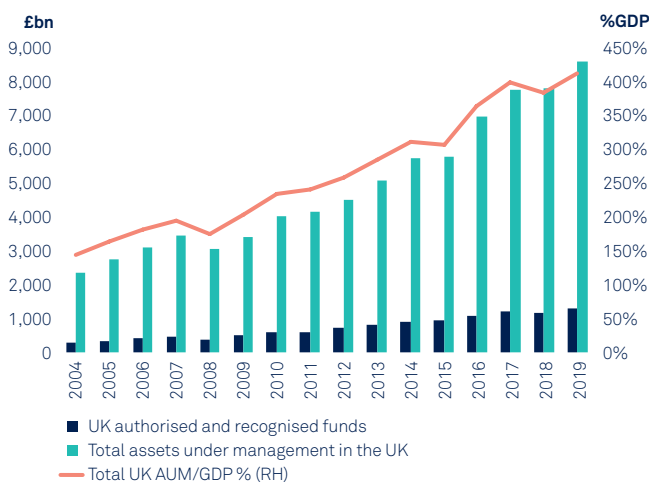
Asset valuations remain a key driver of growth in industry AUM and are heavily affected by market movements. Between 2017 and 2018, total assets remained unchanged at £7.7 trillion due to the high level of volatility in global markets in the last quarter of 2018. Since then, equity markets in particular have rebounded strongly (See *Review of global markets 2019 overleaf*).

The growth in industry assets is positive news against the backdrop of political instability and the UK's departure from the European Union on 31 January 2020. In the aftermath of the 2016 Brexit referendum, industry assets saw a significant 20% increase. This was largely a result of the depreciation in sterling versus all major currencies at the time and the high allocation to overseas assets. Currency depreciation was not a major driver in the 2019 growth in assets.

Total assets in the UK funds market by UK investors<sup>2</sup> have increased 12% year on year to £1.3 trillion following a 5% fall at the end of 2018. Compound annual growth rates in the UK funds market have kept pace with total UK managed funds with both increasing 10% year on year over the last decade. We cover the UK fund market in more detail in Chapter Five.

The impact of the coronavirus pandemic on global markets was extreme with global markets recording the sharpest falls since the Global Financial Crisis in 2008. However, the impact was short lived and markets have rebounded so strongly that at mid-year IA estimates put total AUM back to the level recorded at the end of 2019 despite the market volatility. By the end of Q2 2020, total assets in the UK funds market were close to, though slightly lower than, pre-coronavirus levels. However, the industry is facing a highly uncertain economic outlook as we continue to navigate through the fallout from the crisis. At time of writing data from the ONS show that in April and June 2020, the UK economy entered the deepest recession since records began.

**CHART 1: TOTAL ASSETS UNDER MANAGEMENT IN THE UK AND IN UK FUNDS (2004-2019)**



Source: IA, ONS

By the end of 2019, the size of the industry relative to GDP had increased to over four times the size of the UK's economy. This is characterised by the right hand side of Chart 1. By comparison, the latest data available for Europe excluding the UK indicated that outside of the UK the average size of an investment management industry is just over the size of local GDP. This means that investment management is considerably more important to the UK economy than it is to the economies of other European countries.<sup>3</sup>

ONS data for Q2 2020 shows that UK GDP contracted 20% over the second quarter of the year, the largest contraction on record by a substantial margin. If the IA estimate of broadly unchanged AUM as of June 2020 is correct, then the industry has demonstrated remarkable resilience during a period of significant economic turmoil.

<sup>2</sup> Total UK investor funds under management (FUM) comprises retail and institutional FUM for UK investors in UK domiciled and overseas domiciled funds. Prior to 2012, the data reported by the IA represented all investors in UK domiciled funds.

<sup>3</sup> IA analysis of EFAMA data.



## REVIEW OF GLOBAL MARKETS IN 2019

After a difficult fourth quarter in 2018, a number of risks loomed over markets at the start of 2019 including a global economic slowdown and a potential trade war between the US and China.

Table 1 shows the annual total return of select indices. In spite of the economic and political uncertainty, overall global stock markets bounced back after the steep decline in Q4 2018: the annual total return of global stocks was 22% [1] in Sterling terms in 2019. Whilst annual performance across equity markets in 2019 was far superior to 2018, the rally in the main equity markets was partly due to a recovery in Q1 from the slump experienced at the end of 2018 rather than a significant shift in the outlook for global economic growth. Markets were boosted globally in Q4 2019 by the apparent easing of Sino-US trade tensions as President Trump looked set to sign a Phase One trade deal with China in early 2020.

US equities led the way in 2019 and the S&P 500, the main US index, delivered returns of 26% despite ongoing trade tensions with China. The Federal Reserve cut interest rates three times to counteract the impact of slowing global growth and Trump's impending trade war. This shift in approach from 2018's interest rate rises helped to bolster US market performance.

The UK stock market underperformed its US and European counterparts in 2019 but still ended the year up by 19%, compared with a return of -9.5% in 2018. Returns rallied in the last quarter of the year as the Conservative party won a significant parliamentary majority in the December general election. This victory helped to ease political uncertainty and quell concerns over a protracted Brexit timetable, benefitting smaller companies and the more domestically focused industry sectors in the FTSE.

The US Federal Reserve was not the only central bank to lower rates during 2019 and central bank intervention, as in 2020, played an important role in propping up positive market performance. The European Central Bank cut rates further into negative territory to a low of -0.5% in September in order to stimulate economic growth in the Eurozone, which had been relatively weak. This monetary policy move helped European equity market returns to reach 20% over 2019.

In Japan inflation remained muted and corporate earnings declined in 2019, in a similar situation to Europe. Japanese equities returned 17% over the year, market performance in Japan was also influenced by the twists and turns of the US-China dispute.

Non-gilts (primarily made up of corporate bonds) outperformed government bonds in the UK during 2019. UK gilts returned 7% over the year but non-gilts fared slightly better, returning 9%. Generally corporate bonds offer higher yields than gilts (the yield is the coupon paid by the bond divided by the price of the bond, effectively the return that the investor makes) but government backed gilts are perceived as safer assets making them attractive to risk averse investors.

Global bonds performed strongly in the first eight months of 2019 but bond returns started declining sharply after September to finish the year up just 2.7%. An environment of interest rate cuts from the Fed and the ECB translated to rising bond prices, which ultimately pushed bond yields lower. There is an inverse relationship between bond prices and bond yields: bond coupons or interest payments are fixed so if the bond price rises, the investor has to pay more for the same return.

**TABLE 1: SELECTED BOND AND EQUITY MARKET RETURNS IN 2019 (£ TERMS)**

Global equity	22%
UK equity	19%
Europe ex UK equity	20%
Emerging Market equity	16%
Japan equity	17%
US equity	26%
Global bonds	3%
UK Gilts	7%
UK Non-Gilts	9%

Source: Morningstar

## SCOTLAND AS A MAJOR CENTRE

Although the City of London remains the leading centre of investment management activity in the UK, Scotland, and particularly Edinburgh, plays a key role nationally.

At the end of 2019 total assets managed in Scotland by IA members stood at 7%, equivalent to £590 billion. This proportion is unchanged year on year but represents a £60 billion increase in nominal terms compared with 2018.

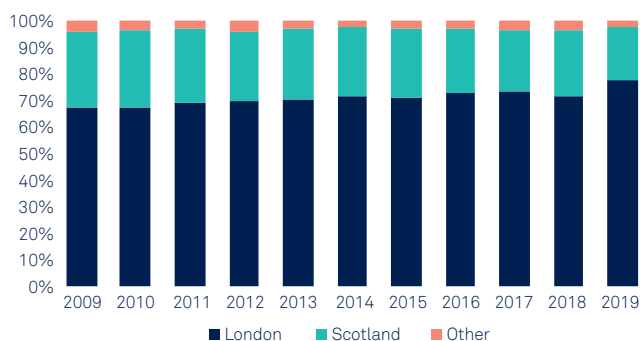
Among UK-headquartered investment managers, one fifth (20%) of assets are managed by firms with headquarters in Scotland. Chart 2 shows how the regional split has evolved over the last 10 years. UK managed assets have become increasingly dominated by firms headquartered in London, a trend that has accelerated in 2019 due to M&A activity in Scotland.

Many IA members headquartered in Scotland undertake investment management activity in other regions, primarily London, which is why there is an imbalance between Scottish managed assets and location of firm headquarters.

This is consistent with the data collected on staffing levels, which clearly shows that London is more likely to be a location for portfolio manager jobs than other areas of the UK (see p 99 – staffing table).

In our interviews with members this year some senior figures have suggested that we might see an increase in regional offices outside of the city clusters as a consequence of the operational changes caused by the pandemic. The shift to working from home through the crisis has called into question the need for and use of office spaces. It remains to be seen whether there will be long term consequences of the decentralisation of work spaces in 2020.

**CHART 2: UK-MANAGED ASSETS BY UK REGIONAL HEADQUARTERS (JUNE 2009-2019)**



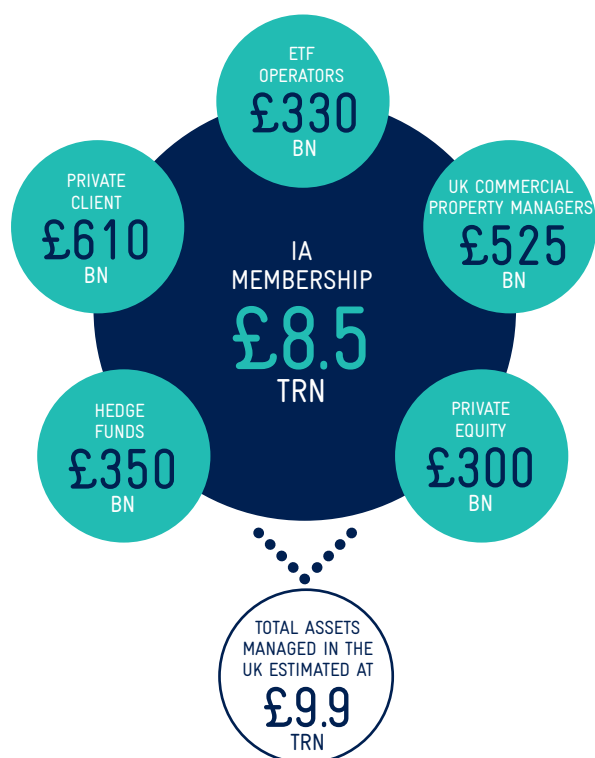
## SCALE OF WIDER INDUSTRY

IA members represent the majority of the UK investment management industry in asset terms (85%). Firms not covered in detail in this report can be broadly split into the following categories:

- Hedge funds
- Private equity funds
- Commercial property management
- Discretionary private client management
- A small number of dedicated ETF operators
- Firms who are not members of the IA for reasons not noted above<sup>4</sup>

Figure 3 provides estimates to show how these wider parts of the industry contribute to total assets under management in the UK. Many IA members are also active players in some of the more niche areas of investment management outlined in the list above. There is therefore some overlap in the figures presented in Figure 3 below. As of 2019 we estimate the size of the wider industry at £9.9 trillion up from a revised £9.0 trillion in 2018.

<sup>4</sup> This last group is more difficult to size as there is no consistent third party data available.

**FIGURE 3: WIDER INVESTMENT MANAGEMENT INDUSTRY**


Source: ComPeer, Morningstar, Preqin, Investment Property forum, IA estimates

## UK INVESTMENT MANAGEMENT IN EUROPEAN AND GLOBAL CONTEXT

The UK is the largest investment management centre in Europe with a market share of 37% in 2018. This proportion has remained fairly stable since 2011.

Looking at the market shares of the other major investment management centres across Europe, the UK remains larger than then next three jurisdictions combined.

**FIGURE 4: ASSETS UNDER MANAGEMENT IN EUROPEAN COUNTRIES (DECEMBER 2018)**


Country	Net assets (€bn)	Market share
1. UK	8,609	37%
2. France	4,072	18%
3. Germany	2,190	10%
4. Switzerland	1,912	8%
5. Italy	1,315	6%
6. Netherlands	1,207	5%
7. Denmark	387	2%
8. Spain	369	2%
9. Belgium	287	1%
10. Austria	131	1%
Other	2,617	11%
<b>TOTAL</b>	<b>23,096</b>	

Source: EFAMA<sup>5</sup>

<sup>5</sup> Provisional data from Asset Management in Europe, 12th Annual Review, EFAMA, 2020

When we look more globally the UK is the second largest investment management centre behind the United States, which accounts for just under half of global assets under management and has higher total assets than all European nations combined (Table 2). The U.S. asset management industry serves a more domestic market. Outside of Europe and the U.S., Japan is a notable investment management centre with total assets of about £4.4 trillion.

**TABLE 2: GLOBAL ASSETS UNDER MANAGEMENT**

	<b>Assets under management (local currency)</b>	<b>Assets under management (£ equivalent)</b>
US	\$38 trillion <sup>6</sup>	£31.9 trillion
Europe	€23 trillion <sup>5</sup>	£27.3 trillion
Japan	¥642 trillion <sup>7</sup>	£4.4 trillion

## OVERSEAS CLIENT MARKET

From the perspective of total assets under management for overseas investors, the UK’s departure from the European Union on 31 January 2020 has not impacted its position as a preeminent centre of excellence for investment management. At the end of 2019 assets managed in the UK on behalf of overseas clients increased by £550 billion to £3.6 trillion, equivalent to 43% of total assets. This proportion has fluctuated around 40% for a number of years, though the three percentage point increase year on year does represent a new high. It remains to be seen what the impact will be once we reach the end of the transition period at the end of 2020.

Figure 5 shows that the largest overseas client base in 2019 was still the EEA, for which the UK industry manages approximately £1.9 trillion. A further £190 billion is managed for clients in other parts of Europe, predominantly Switzerland which accounts for over three quarters of this figure. Although starting from a substantially lower base, this represents a 44% increase on the 2018 figure. This takes the total European share of overseas assets to 58%, down one percentage point from 2018 given the higher relative increase of assets from clients in other regions.

Outside of Europe, North American client assets are the next largest reaching over £700 billion, almost a quarter higher than in 2018. The other region which has seen notable growth in 2019 has been Asian client assets which increased £120 billion to £520 billion. Assets managed on behalf of clients in Latin America and Africa remained unchanged in 2019.

**FIGURE 5: ASSETS MANAGED FOR OVERSEAS CLIENTS**



<sup>6</sup> Estimate based on North America Data. Global Asset Management 2020: Protect, Adapt and Innovate, BCG, 2020

<sup>7</sup> Financial Services in Japan 2019/2020, NRI

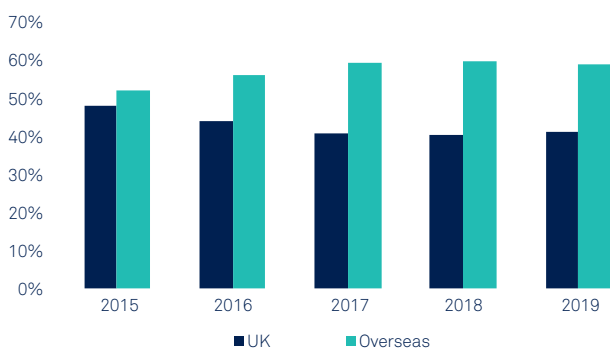


## SERVICES TO OVERSEAS FUNDS

As we saw from the European data in Figure 4, the UK is a dominant player in portfolio management but it is not as dominant as a fund domicile. IA members manage assets for funds domiciled across all continents from their UK offices. These overseas domiciled funds allow UK investment management expertise to be accessed from around the world.

At the end of 2019, £1.9 trillion was managed in the UK for overseas funds representing 59% of total UK managed funds (see Chart 3). Three quarters of these assets were in funds domiciled in Ireland and Luxembourg. Although the proportion of assets in overseas domiciled funds has increased from 52% in 2015 it has remained broadly unchanged for the last three years. This is likely to reflect the fact that in their preparations for Brexit some firms transferred European client assets to overseas domiciled funds to ensure that these clients continue to be serviced regardless of the outcomes of negotiations. This shift was largely completed by the end of 2017, since then the split has remained relatively stable.

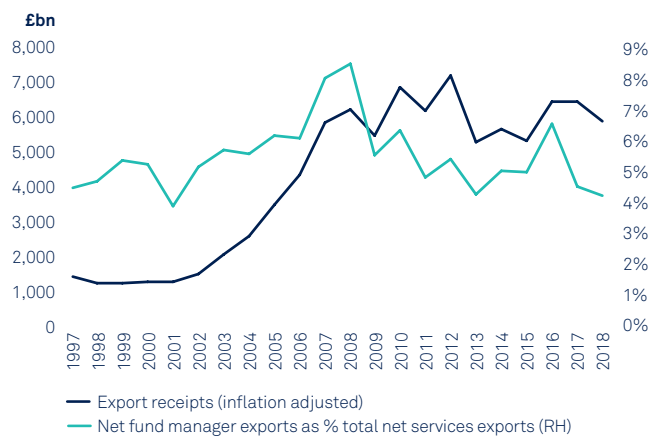
**CHART 3: PROPORTION OF ASSETS MANAGED FOR UK AND OVERSEAS FUNDS (2015-2019)**



## IMPORTANCE TO UK SERVICE EXPORTS

Overseas client assets account for 43% of total UK-managed investments, a 12% increase over the last decade. Given the size of its overseas client base, the investment management industry makes a significant contribution to the UK's service exports through overseas earnings. The last 20 years have seen this contribution increase from £820 million in 1997 to £5.8 billion in 2018 (Chart 4). The right hand side of Chart 4 indicates that export earnings represented an average of 5% of total net exports over the past ten years though this figure has been quite volatile and has declined in the aftermath of the global financial crisis in 2008 from a high of 8.4% to a low of 4.2% in 2018.<sup>8</sup>

**CHART 4: EXPORT EARNINGS OF FUND MANAGERS AND CONTRIBUTION TO SERVICES EXPORTS (1997-2018)**



Source: ONS

<sup>8</sup> The data in Chart 4 captures earnings by independent asset managers but is likely to understate earnings from asset managers that are part of a wider financial services group such as an investment bank or insurer. As such, this estimate is conservative and the actual contribution of investment management overall to service exports is likely to be higher.

# 2 LESSONS FROM 2020 AND CHALLENGES AHEAD

## KEY FINDINGS

### OPERATIONAL LESSONS FROM 2020

#### 1. The fundamental importance of risk management

- » Firms' increasing focus on risk management since the Global Financial Crisis (GFC) in 2008 has played an important role in helping them navigate the most recent crisis.
- » Liquidity management is particularly under the spotlight, with industry and regulators in the UK already considering the issue in the context of a number of concerns, including previous suspensions of commercial real estate (CRE) funds.

#### 2. Resilience and the necessity of investing further in technology

- » The coronavirus pandemic has meant that firms have needed to shift to a working from home (WFH) operating environment at unprecedented speed and scale. The transition has been relatively smooth and is a reflection of both a committed workforce and investment in technology.
- » Firms stressed the importance of continued investment in technology as it is likely that the workforce will be split between the office and working from home for the foreseeable future.

#### 3. The growing significance of the D&I agenda

- » Improved diversity and inclusion (D&I) are high priority themes for the industry, give further impetus by events during 2020. In addition to the operational benefits that D&I brings to company performance, it is increasingly important that the industry better reflects its customers and wider society.
- » There has been increasing focus on gender diversity over the last few years but recent events in the US have brought more focus on ethnic diversity within the industry.
- » A more holistic approach to diversity is needed with many firms beginning to look at the interconnectedness between different aspects of identity.

### WIDER CHALLENGES AND OPPORTUNITIES

#### 1. Defining a clear role for industry in the economic recovery

- » As the UK continues to navigate through the social and economic impacts of the coronavirus, there is an expectation that the financial services industry needs to make a strong contribution to the UK's economic recovery. This includes the investment management industry's role in recapitalising listed UK companies.

#### 2. Delivering value for customers in a difficult economic environment

- » Regulatory changes in recent years have centred on delivery of customer value through greater price competition, alignment of interest and transparency. The debate on value is also now focusing on product development, including how to give investors access to investment opportunities in less liquid asset classes, particularly given the pressure on income.

#### 3. Setting the agenda for responsible and sustainable investment

- » Covid-19 has focused the minds of investors on the importance of responsible investment with interest in social impact investments in particular increasing. IA data point to exceptionally strong inflows of new retail investment, while fund performance has also been extremely strong.
- » The data collected in the Survey this year is based on the IA's framework published in late 2019. We found that 38% of total AUM applied ESG integration and 19% applying exclusion policies.

#### 4. Enhancing UK international standing in the context of Brexit

- » Firms have been preparing for a range of scenarios in the Brexit negotiation process for the last few years, however there remains concern around delegation rights.
- » Looking ahead at how the UK can maintain its global competitive advantage over the long term firms identified city clusters and access to talent as key features of the UK investment management industry. However there is some concern that in the last few years certain regulation has made the UK increasingly unattractive for international firms.

In recent years, the industry has been going through a period of accelerating change, driven by a range of factors, notably:

- Policymaker and regulatory expectations
- The evolution both of customer needs and the wider economy
- Industry innovation and product development.

As we set out in Figure 6 the operating environment is now also characterised by very significant uncertainty given the challenge through 2020 of a global pandemic. While most firms have made the necessary preparations, the impending end of the Brexit transition period also presents its own set of challenges.

In our discussions and interviews with firms, we asked particularly about initial lessons learned from the pandemic and challenges ahead in the context of the wider changes already affecting the industry, its customers and the economy. What they told us falls into seven broad themes, three particularly focused on operational lessons, and four broader sets of challenges and opportunities:

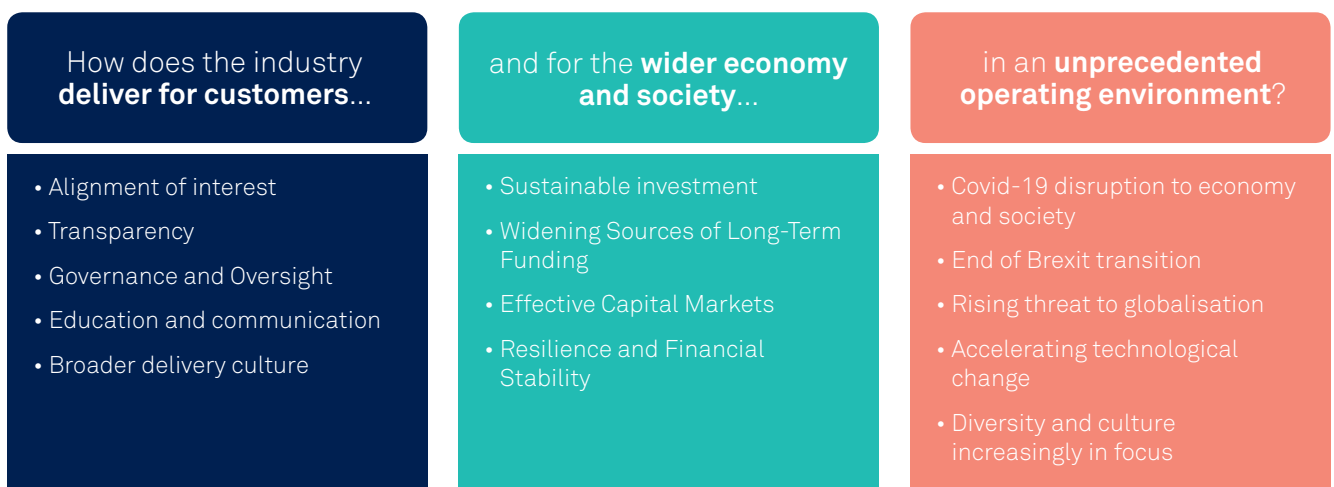
### Operational lessons

1. The fundamental importance of risk management
2. Resilience and the necessity of investing further in technology
3. The growing significance of the Diversity and Inclusion (D&I) agenda

### Wider challenges and opportunities

1. Defining a clear role for industry in the economic recovery
2. Delivering value for customers in a difficult economic environment
3. Setting the agenda for responsible and sustainable investment
4. Enhancing UK international standing in the context of Brexit

**FIGURE 6: A THREE-PART SET OF POLICY AND REGULATORY THEMES**



## 1: THE FUNDAMENTAL IMPORTANCE OF RISK MANAGEMENT

While the Global Financial Crisis (GFC) of 2008 was heavily linked to activities in the banking sector, it highlighted the importance of risk management across financial services. In the decade that has followed, this theme has since become even more firmly embedded in firms’ governance processes, not least in response to market and broader economic conditions that continue to be characterised by ongoing record low interest rates and unconventional monetary policy.

IA members have stated that this increased focus on risk management has played an important role in helping them navigate the most recent crisis. From investment in risk management technology to war-gaming exercises to map out the impact of tail risk events, all contribute to firms’ preparedness and resilience through crises.

*“The lesson is that the next crisis never looks like the last one. The fallout from this is very different – it’s more like a natural disaster in many respects. It’s a reminder that the funds we manage for clients have to be prepared for all eventualities. It has reinforced our view that risk management and having really robust analysis and technology is a necessity not a luxury. We have the ability to pull apart our portfolios because of our risk management technology and to truly understand everything about them.”*

*“The biggest lesson is around consideration of severe tail risk events. We had done an executive roundtable exercise on cyber-crime scenarios a few months before the lockdown which was helpful. The time you spend on resilience of extreme events and mapping those through is the biggest lesson for our business. We are fortunate in being a globally distributed business and we were able to learn lessons from China which allowed us to develop those scenarios very quickly. That ability to share learning and adapt accordingly has been fantastic.”*

One particularly significant element here is liquidity management, which was already high on the industry and regulatory agenda in 2019. A combination of concerns, including the experience of commercial real estate (CRE) funds following the Brexit referendum result in June 2016, led the Bank of England Financial Policy Committee (FPC) to initiate a workstream with the FCA to look at how to address potential liquidity mismatch within investment funds. The duration of this work has now been extended to take into account market experiences in March 2020 during the early stages of the coronavirus pandemic. For its part, the industry is also doing extensive work on liquidity management frameworks, including measurement and disclosure. Some of the wider implications for access to illiquid asset classes are covered in later sections of this chapter (see p.33-34).



A broader aspect of risk management is the perceived importance among many larger firms of a diversified business model. For some, that message has been reinforced by the experience during Covid-19, but it is not a new theme, nor is it clear yet whether the consequences of Covid-19 will further drive consolidation in an industry that has long been characterised by comparatively low barriers to entry and successful specialist firms.

*“Our business has stood up extremely well. There is a lesson around diversification, you don’t want all of your eggs in one basket in terms of both client type and investment strategy. Our business is very robust because it is diversified.”*



As we set out in Figure 6 the operating environment is now also characterised by very significant uncertainty given the challenge through 2020 of a global pandemic. While most firms have made the necessary preparations, the impending end of the Brexit transition period also presents its own set of challenges.

*“One challenge is continued fee pressure and a focus on value for money, particularly in a low interest rate environment. The increased regulatory burden combined with continued fee pressure will trigger further consolidation in our industry. Scale matters more than ever both in terms of trying to capture efficiencies and price accordingly but also because you need resources to be able to respond to the demand for sustainability and operating in complex markets.”*



## 2: RESILIENCE AND THE NECESSITY OF INVESTING FURTHER IN TECHNOLOGY

After a period in which senior industry figures have been significantly emphasising the importance of investment in technology, it is clear that Covid-19 has seen some of that investment substantially pay off. While not complacent, the general view within the investment management industry is that the unprecedented speed and scale of the shift to remote working during the pandemic has resulted in a highly effective operating environment. This is seen as a reflection of a combination of a strong and committed workforce and the quality of the technological infrastructure.

*“I’m enormously proud of the people I work with. Everyone has demonstrated such strength and resilience, continuing to serve clients in a first-class way, whilst adapting to new and often challenging circumstances on the home front. The quality of our people has manifestly been a contributing factor to our success.”*



*“Technology has been instrumental in enabling us to work remotely, keeping the error count low and driving incredible efficiencies across our operating platforms.”*



At the same time, firms are in different places along the spectrum of technological change, and this is increasingly seen as a source of competitive advantage or, conversely, disadvantage.

*“Technology will be the single biggest differentiator between companies that understand it and do well and those that don’t. There have been significant advances in use of technology for risk management in terms of data aggregation and concentration risks- things that have occurred through Covid-19. Fund managers, risk managers, operations and marketing teams who harness technology can do a better job as it enables better insights. In an industry that is continually compressing fees, tech is your only answer in remaining relevant and able to compete.”*



Firms stressed the importance of continued investment in technology and the crisis is also accelerating industry thinking about future approaches to client communication and distribution: for example, the importance of shifting away from paper-based disclosures towards more innovative digital disclosure which should lead to greater innovation and customisation in the space.

*“We have been investing in technology for 15 years and it’s times like this you realise the wisdom of that investment. It allows you to continue to serve clients seamlessly. Our performance has held up extremely well. We’ve been able to work almost completely remotely and operational errors have been mostly very low.”*



In terms of the wider implications of remote working, a debate has already started on the future world of work. This is likely to take some time to work through. There are clearly significant advantages of more remote working, with some employees benefiting from greater time flexibility and reporting increased productivity. Certain activities, including sales, may even be accelerated with the ability of using video presentations to achieve greater reach and scale. IA members are looking at how the working from home (WFH) period could be leveraged to accommodate a more balanced lifestyle for their employees.

At the same time, some firms made a number of observations about the limitations of remote working, notably challenges for team-based work and the dependence on strong local communication and data infrastructure, which is not universally the case in the UK. During the pandemic there has been a growing focus on mental health as employees adjusted to isolated living and working conditions. IA members have introduced employee assistance programmes (EAPs) with many organising mental health awareness staff groups.

*“Because everyone is working from home the real challenge as corporates is we don’t own the last mile. A lot of this hinges on peoples’ individual broadband connections. For this to continue, this will need to be very consistent across the UK and other parts of the world. If it’s not consistent that is potentially creating risk for your business but it is not a risk we can control.”*



It is likely that for the foreseeable future the workforce will be split between the office and working from home. This has an impact on culture in particular as more people move back to working in the office there is a risk that those who continue to work from home could feel less included. This brings challenges for leaders who will need to manage effectively across both populations.

*“There are lots of people returning to work. There are certain things you can do very well from home, but team based work is hard. It’s hard to brainstorm virtually. Practically, if some form of social distancing has to be applied for longer, it may mean more office space rather than less because we can only fit in a quarter of staff based on current rules.”*



### 3: THE GROWING SIGNIFICANCE OF THE D&I AGENDA

The issues around diversity and inclusion (D&I), and lack thereof, have tended to come to the fore during recent crises, albeit for different reasons. Since the GFC, a growing body of academic research has highlighted the role that groupthink played in destabilising the financial system. D&I is a key indicator of culture and diverse workforces allow firms to have access to a broader range of views that can open up necessary challenges and discussions to ensure better outcomes.

*“The science is irrefutable on this point – there is sound academic research explaining why you make better decisions with a diverse workforce with different points of view. To have a good culture, you need a diverse workforce.”*



However, this operational set of considerations is overshadowed by the growing imperative to ensure that the investment management industry is better reflective of the customers and wider societies it serves. This development is seen at multiple levels, focusing initially on gender diversity but increasingly on ethnic diversity.

*“Diversity has been a key topic for this industry for a long time because if you want to be relevant in today’s society you need to reflect the customers that you’re acting on behalf of as a fiduciary. The industry needs to do a better job.”*



## GENDER DIVERSITY

Gender diversity has taken centre stage in recent years with a number of initiatives in place to tackle the issue within the industry. The mandating of Gender Pay Gap (GPG) reporting has meant that firms with over 250 employees have very publicly had to declare their GPG positions and as such have been forced to focus on the drivers of the high gender pay gap. By and large, many firms highlighted the underrepresentation of women in senior risk taking roles as the primary driver.

Although the gender pay gap reporting deadline for 2020 was suspended due to the coronavirus pandemic, gender equality and closing the gender pay gap remains high on the investment management industry’s priorities. In May 2020 the IA launched the ‘Addressing the Gender Pay Gap: Industry Initiatives’ report, which looks across the IA membership and showcases innovative initiatives focused on recruitment and attraction as well as retention and advancement.

Many firms have come a long way on gender balance in graduate recruitment which will take some time to work its way up the pipeline into senior management roles.

*“We make sure that the list that executive search firms come up with are more diverse and interview panels are more diverse. The more diversity you create in hiring processes the more likely you change who you hire. From a gender perspective, we have hired 50/50 in the last 12 months but a lot of that came from how we’re sourcing and who we’re putting on the interview panel.”*



*“What we’ve done with women is fixing the bottom level intake but that takes years to flow through into senior leadership positions. We set up a returners programme for the mid-level roles with good talented women who have taken career breaks.”*



A diverse workforce is not enough. Firm are also conscious of the need to foster inclusive environments to empower diverse groups, who in many cases are in the minority, to challenge the majority view. This is where culture can play a crucial role. The view of those that we spoke to was that the Covid-19 move to flexible working, particularly working from home (WFH), may help mitigate some of the retention issues among women and also help in attracting a wider pool of candidates. At the same time, there is also an awareness in the industry that WFH carries the possibility that women will be disproportionately affected by caring and family responsibilities, with a potentially detrimental not positive impact on work.

*“The one wonderful thing that WFH does is level the playing field from an inclusion perspective because it is forcing us to be more flexible with time. There has always been a stigma around flexible working and WFH. That whole debate is going away. The opportunities for offering people flexible working arrangements are greater and will help us tap into a more diverse pool of people who would not otherwise have applied.”*



## ETHNIC DIVERSITY

In the midst of the coronavirus pandemic, the world witnessed the tragic death of George Floyd and the subsequent political movement in defence of black lives garnered support across the world. The events provoked conversations around race with a number of firms publicly acknowledging that as an industry we have a real issue with black representation. The IA's 'Closing the Gap' report highlighted the importance of measuring and monitoring key metrics in order to assess progress. One of the issues around black representation is that historically the industry has looked at data on Black, Asian and Minority Ethnic (BAME) as a collective, which has masked the underrepresentation amongst the black community. This focus is starting to change. The IA published in 2019 a seminal report, Black Voices, on the issue and firms also stress the need to do more, particularly starting with good data to clearly target the problem.

*“We’ve looked at data comparing the investment management industry to the population across various areas of diversity. We’re not underrepresented in LGBT and Asian staff but we have a big problem with women in senior risk taking roles and black talent. The BLM movement has focused our minds and highlighted that we haven’t put the same energy into that problem. We’ve dealt with diversity very broadly but we haven’t really challenged ourselves on black representation.”*

*“Data is the challenging one - particularly with ethnicity. One of the challenges across the industry is the notion of self-identification. It has been much harder to move that issue forward because we don’t have very clear data. If you have a dataset that is saying you’re not doing a very good job, that will incentivise action.”*



Many firms are also now approaching diversity within their organisations more holistically and some are beginning to look at the significance of intersectionality (i.e. the extent to which aspects of a person’s identity, such as gender, race, sexuality, class, might combine to create unique modes of discrimination and privilege) and are taking steps to create an inclusive working environment that will address diversity across the board.

*“We are trying to get our heads around how you create an all-encompassing view of D&I. We need to focus on the end objectives and outcomes as opposed to initiatives focused on singular issues. That is the only way you can objectively monitor and measure and hence achieve the right outcomes.”*



*“It’s about trying to get a holistic picture of diversity. Investment managers do fundamental bottom up research, we should be able to throw the proper intellectual analysis at this in a disciplined way.”*



## WIDER CHALLENGES AND OPPORTUNITIES

Alongside these lessons from the direct experience of operating through the Covid-19 pandemic to date, firms also identify four key challenges looking ahead to 2021-2022

### 1: DEFINING A CLEAR ROLE FOR INDUSTRY IN THE ECONOMIC RECOVERY

As the UK economy starts to take the first steps to recovery after the violent contraction of the first half of 2020, different parts of the financial services sector are examining how best they can provide support. Senior figures we interviewed are acutely aware of the expectations of financial services, including investment managers, and recognise the need to play a pro-active and visible part in the recapitalisation process and the path back to recovery.

*“This is an opportunity for the industry broadly to reinforce its purpose. Whether it’s serving pensioners and savers with income at a time when income is scarce or providing long term capital for companies in this country and abroad. Demonstrating the value of having a large and successful investment management industry that invests for the long term and helps people meet their savings and retirement goals is an extraordinary opportunity.”*



*“We must make sure we give back in this environment. It’s really important that we don’t just hunker down and we are aware and stay connected with our stakeholder base. We’re very fortunate, we can WFH. We don’t have place based work, we’re not teachers in schools and we’re not pilots. We own restaurants, we don’t run them. We should consider ourselves very fortunate.”*



For the investment management industry, the most visible source of that support is through the recapitalisation of listed UK companies. At the time of publication, UK companies had raised over £14 billion, primarily in private placements, since early March. This process is expected to continue, and likely accelerate through the rest of 2020 into 2021. Investment managers, alongside other institutional and retail investors, play a critical part, and also exercise significant corporate governance oversight.

*“Our industry is a source of long term capital. There is a whole range of economic activity that can be funded by the judicious and intelligent use of very large pools of capital, ranging from SMEs to large, dividend-paying FTSE100 companies. When put to good use, that should benefit the economy and provide jobs and investment. That is the most important thing we can do as an industry.”*



At the same time, the investment management industry is constrained ultimately by the fact that it is primarily investing the money of its customers, to whom it owes a fiduciary responsibility. Managers are acutely conscious of the need to balance that responsibility with the wider role they are expected to play in supporting investment and long-term economic growth.

*“We will have to demonstrate that we are playing an active part in the UK economic recovery while being fiduciaries to our clients. I don’t think those two things are contradictory and in fact they support each other. There are going to be terrific investment opportunities for clients that also support the recovery.”*

*“Investment managers have to balance delivering outcomes and fiduciary responsibilities to investors with supporting growth in companies in the economy. The tension between those two things in the next few years is going to be many multiples of what it has been in the last few years because of the enormous amount of recapitalisation, the enormous demand for income in a zero interest rate environment and the demand for solving pensions gaps all over the world in a time when retail customers cash flows are likely to be constrained. The question in all those things is why do we need the industry? It’s to do all those things and to deliver those outcomes. This kind of environment shows how hard that is to do and the criticality of getting that right as an industry going forward.”*



## INCOME AND THE ROLE OF THE DIVIDEND

In the context of weak economic growth, the challenge of whether to maintain or cut dividends has been a particularly significant and sensitive issue for companies and investors. As countries began declaring national lockdowns, companies were facing huge hits to their revenue streams. At time of writing 390 UK companies have taken the decision to cancel, defer or reduce dividend payments in the short term (approx. £32 billion in value) in order to retain cash needed to protect their businesses for the long term. Payout forecasts for FTSE 100 companies have been adjusted down from £91 billion at the start of the year to £62 billion by the end of Q2 as a result.<sup>9</sup>

The decision regarding dividend payments is a delicate one. As well as a significant component of total return, dividends are an important source of income for both retail savers and institutional investors, including pension funds and charities. The IA letter to FTSE 350 chairs expressed the industry's view that companies should take a prudent approach to current and future dividend payments, understanding the company's ability to withstand financial stress and ensuring that employees and suppliers can be paid, while not unnecessarily reducing or rebasing the dividend level.

For those reliant on dividend income to meet their liabilities it is likely they will need alternative sources of income as interest rates are likely to remain suppressed and bond yields remain low. However, opportunities are limited, which raises significant questions about the extent to which investors are prepared to take additional risk in areas such as credit, particularly in an environment where central bank interventions may be having a significant impact on current valuations. After over a decade of record low interest rates, the 'hunt for yield' has already been a central driver in the growth of private markets, as we explore further in Chapter 3.

*“Certainly, there is a need for income and not that many ways to get it. You’ve got equity dividends, property rental and credit. Property and equities both have problems and credit will have problems once we open up and companies are standing on their own two feet and trying to generate cash flow. I don’t think there is a safe place at the minute.”*



*“There are companies being supported because they had viable businesses pre-coronavirus that may not have viable businesses after coronavirus, but their credit isn’t reflecting that because it is being bought by official channel buyers. The credit markets could therefore be quite dangerous unless you’ve got good credit analysis. Investors will need to be very careful not to buy indiscriminately.”*



<sup>9</sup> Dividend Dashboard Q2 2020, AJ Bell



## 2: DELIVERING VALUE FOR CUSTOMERS IN A DIFFICULT ECONOMIC ENVIRONMENT

The focus on good customer outcomes, whether in the retail or institutional markets, has never been greater, whether from an industry or regulatory perspective. The Covid-19 crisis and the economic challenges it brings comes amidst an unprecedented set of changes affecting industry delivery for UK customers.

Across the UK retail fund market, 2019-2020 has seen the final implementation of a range of measures put in place as part of the FCA Asset Management Market Study, whose final report was published in June 2017. Other components of the market, notably platforms, are subject to ongoing implementation measures arising from the Final Report of the FCA Platform Market Study. In the institutional market, remedies proposed by the CMA as part of the Investment Consultants Market Investigation Final Report in December 2018 are also being implemented.

A number of common themes emerged as part of these competition studies, particularly around alignment of interest and transparency. Significant changes for the industry included:

- Requirement for minimum levels of independent governance representation on authorised fund manager (AFM) boards.
- Value assessment reports, published annually, which set out the AFM's assessment of how funds have delivered for customers according to a number of specific criteria. The first generation of those reports has been appearing through the first half of 2020.
- Clearer communication in areas such as fund objectives, use of benchmarks and performance reporting
- A new institutional market cost reporting framework, being operated on a pan-stakeholder basis through the Cost Transparency Initiative (CTI)

A combination of these changes, combined with wider commercial trends already apparent in the UK and elsewhere, are driving an increasing focus on fees and wider value, which in turn is also driving consolidation. However, the debate on customer value is also turning increasingly to product development and how to ensure that in such a challenging economic and market environment, customers are able to access an appropriate product set, particularly in areas under

pressure such as income. Here, one increasing theme is the role of illiquid investments, particularly as private markets continue to become more important (see also p.46)

### LIQUIDITY AND WIDENING SOURCES OF RETURN

UK institutional investors have been investing in illiquids for many decades. For DB pension schemes, property historically played a significant role in portfolios through the 1970s and 1980s. In the last twenty years, alternative allocations have been more diversified, with much broader exposure including private equity, private debt and infrastructure. For DC pension schemes and retail investors, it has been less straightforward to access such markets, partly because of a lack of available fund structures, partly also because of other constraints related to a platform delivery infrastructure mainly built on an expectation of daily dealing and daily redemption.

Those we spoke to as part of the interview process emphasised the need for a broader range of fund vehicles for the DC and retail market to take full advantage of the investment opportunities available. A flagship industry proposal in this area is the LTAF (see p.34), designed to move away from the conventional model of daily redemptions in order to facilitate greater access to illiquid investments.

*“We’re in a low yield environment and dividends are going away. Solutions that provide income that might have less liquidity, such as infrastructure, might be coming more into the mainstream. Institutional investors have been buying infrastructure for a long time but my hope is that we come up with a solution that allows retail investors to do that because you’re not getting income elsewhere. While public market equities continue to shrink, alternatives, including private credit and private equity, continue to grow for both institutional and retail investors.”*



## TIME FOR A NEW FUND VEHICLE TO ACCESS ILLIQUIDS?

Events within the funds industry through 2019 also shone a light on some of these themes, as the high-profile suspension in June of the LF Woodford Equity Income (WEI) Fund gave rise both to questions about fund industry governance and the issue of access to private markets. An FCA investigation is still underway into the exact circumstances that led to what would eventually see the winding up of LF WEI.

Looking to the structural issues raised by the debate over illiquids and the role of investment funds (see Figure 7), the IA has proposed a new Long-Term Asset Fund (LTAF) which would move away from daily dealing and have wider investment powers than a NURS or UCITS. The LTAF could facilitate new routes for capital to support the economy, while providing investors with a significant source of diversification. In addition to this customer benefit, the LTAF could also help address some of the concerns expressed by central banks and regulators internationally about the potential for liquidity mismatch in investment funds.

There is also strong recognition in the industry of the need to ensure that customers, particularly individual savers, understand the characteristics of illiquid assets. This will mean that great care will be needed regarding the terms of access.

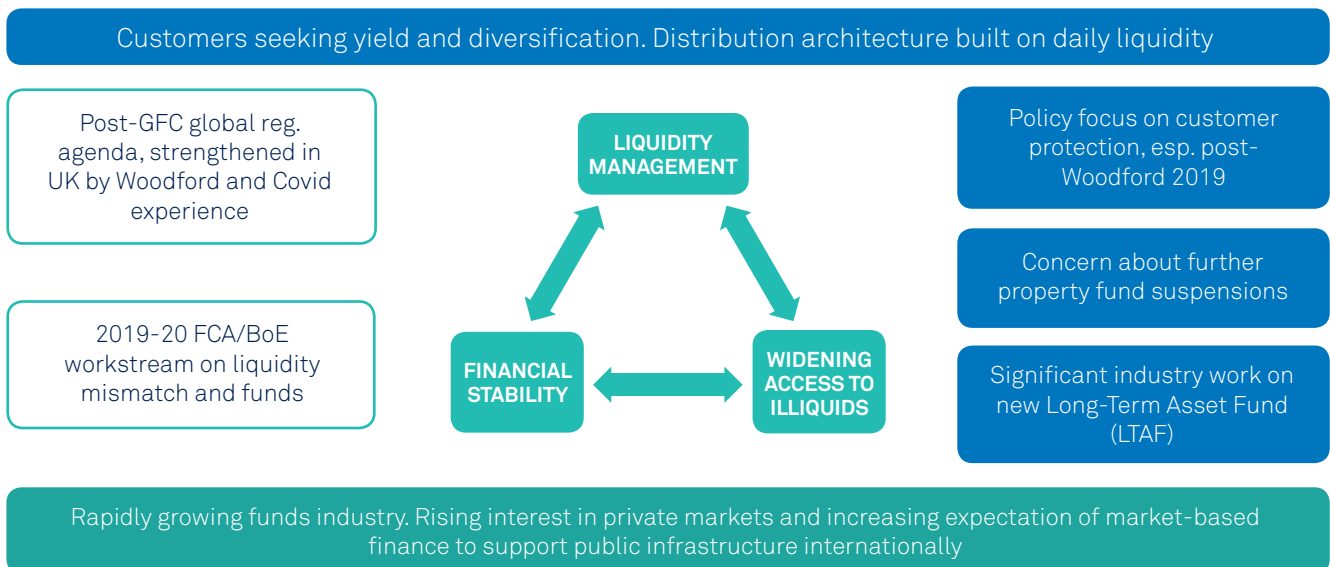
*“If retail consumers prioritise immediate consumption and stretch cash flows we will have an even more sizeable pensions gap. How do you get returns within those pensions? You have to invest in long term, illiquid assets.”*



*“The whole debate is particularly acute in SME investing. We need a fund structure that is long term in nature, that digests that liquidity and doesn’t offer you daily liquidity and you make sure clients understand what they are buying. There is a solution out there.”*



**FIGURE 7: FUND LIQUIDITY: A COMPLEX LANDSCAPE**



### 3: SETTING THE AGENDA FOR RESPONSIBLE AND SUSTAINABLE INVESTMENT

In light of the pandemic, some market commentators expected responsible investment (RI) and sustainability commitments to take a backseat, as savers and investors as well as Government and other institutions grappled with the immediate implications of the economic dislocation. This expectation is not borne out either in initial data on customer behaviour, or in what investment management firms are highlighting as critical priorities through the crisis. As Chapter 5 shows in more detail, sales to RI funds through the crisis have accelerated, albeit still from comparatively low levels.

Looking across the E, S and G of Environmental, Social and Governance (ESG) criteria that sit at the heart of responsible investment processes, a number of observations were made in senior industry interviews this year:

- Environment:** The pandemic has illustrated different levels of inter-connection, both across the globe between multiple nations, and between the human and natural world. This appears to be reinforcing the broader concern for the environment that saw millions around the world taking to the streets in 2019 to join the 'Global Climate Strike'. The UK will be hosting the next UN Climate Change Conference (COP26) in November 2021 after it was postponed due to the pandemic. The conference is intended to accelerate international efforts to reach the goals of the Paris Agreement. In a speech to COP26 Business Leaders in June, Business Secretary, Alok Sharma, addressed investment managers directly seeking a commitment to "build a greener more resilient financial system" through initiatives such as the Coalition for Climate Resilient Investment and the Task Force on Climate-related Financial Disclosures.

*“There are initiatives to get the FTSE 100 to sign up to a number of commitments on carbon net zero. As an industry we are going to be under the spotlight. There is going to be real focus on us and the responsibility we have managing assets on behalf of individuals and pension funds to hold these companies to account on these commitments.”*



*“The world has come together fairly quickly to combat the coronavirus, the question is can we come together to tackle climate change more aggressively and can we work together with companies as an industry to do so. Governments will need to start incentivising certain companies to change their behaviour. We will see continued demand for sustainable investing quite strongly.”*



- **Social:** The economic consequences from global lockdowns are going to be felt for some time. With government deficits at record highs, there is a growing level of expectation around the role that investment managers can play in helping the UK's economic recovery. Historically, the 'social' component of the ESG prism has been notably smaller compared to engagement with companies around good governance. However, the pandemic and latterly public discourse on racial and wider income inequality has shone a spotlight on social matters, reinforcing the importance of these considerations and galvanizing efforts for investment managers to focus on social as well as environmental and governance considerations.

Social impact investing, where investment managers aim to generate specific and often measurable social benefits as well as financial returns, is attracting growing interest. Most notably in the potential role of private finance in supporting positive social impact projects such as social housing. This is likely to remain a challenging area as both investment managers, and institutions such as pension schemes, seek to square off fiduciary responsibilities with wider responsibility in the area of social impact. However, there is growing appetite to explore this in practice and a number of IA member firms have noted an uptick in interest from clients around social impact investments.

*“There is a sense that the Covid-19 crisis has impacted everyone, we've all been stuck in our homes. But, on the other hand it hasn't impacted people equally. The crisis has shown that society is not uniformly resilient. Companies being held to account on issues such as how they treat workers and BLM has brought ethnic diversity to the fore. The social side is going to be incredibly important. We will probably see fair society funds launched to tackle the “S” side.”*

*“On the social side we can do more in the real asset area, building socially inclusive communities. Where we go in to build in city centre locations, we can make sure that we are building social housing into those communities. It might be easier to deal with the social side in the built environment rather than make a big deal of it in the stock market.”*



- **Governance.** There is an ever increasing spotlight on institutional investors and by proxy, investment managers to utilise their 'stakeholder voice' to ensure that companies move beyond traditional metrics associated with shareholder value maximisation. Issues under scrutiny include executive remuneration, diversity on boards and long term economic sustainability. Through the early stages of the coronavirus pandemic, investment managers acted to support companies in their corporate governance processes in a number of ways, including on financial reporting, dividend payments, virtual AGMs and executive remuneration.<sup>10</sup>



<sup>10</sup> [https://www.theia.org/sites/default/files/2020-04/Letter%20to%20FTSE%20Chairs%20-%20April%202020\\_0.pdf](https://www.theia.org/sites/default/files/2020-04/Letter%20to%20FTSE%20Chairs%20-%20April%202020_0.pdf)

## RESPONSIBLE INVESTMENT DELIVERY

Questions have been raised around whether responsible investment (RI) strategies can compete with non-responsible investment strategies on delivery. Looking at performance, the economic impacts of Covid-19 have affected the non-RI offerings of firms we spoke to harder than their RI offerings. Part of this outperformance stems from the overweighting of sectors such as healthcare and technology that have fared well through the crisis and the underweighting of energy companies that were hit hard through the economic shutdown. A range of analysis has also pointed to the governance piece, and the importance of investing in well run companies with strong corporate cultures.

*“I can remember years ago there was this perceived trade-off that if you invested responsibly there was a cost of doing so, you would have to give something up. There is a growing body of evidence that not only are you not giving something up, but sustainable products are outperforming their non-sustainable peers.”*

*“Our own proprietary engagement model covers the vast majority of companies we engage with and shows that those rated A and B have outperformed those with lower ratings.”*

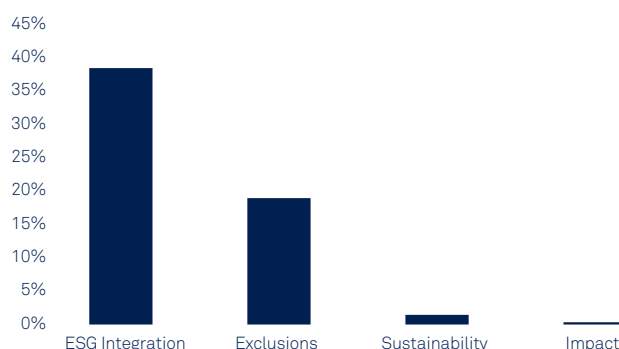
*“Our sustainable funds have outperformed regular equity funds. This is partly because of some of the sectors these are not invested in and partly because companies that are managed in a sustainable manner deliver better results. That will fuel the demand. There will be a push for profit with purpose and stakeholder capitalism.”*

## SIZING THE MARKET FOR RESPONSIBLE INVESTMENT

Over the last few years, our data collection exercise has reflected the evolving conversation around what it means to invest responsibly. In the last few iterations of this Survey we have therefore been unable to compare the data one year to the next. Last year’s data was collected based on the Global Sustainable Investment Alliance (GSIA) definitions. On the back of an extensive consultation to develop industry-agreed definitions, the IA published its Responsible Investment Framework in November 2019, which forms the basis of this year’s data. Since this is the first year of data collection based on the IA’s framework, we expect the way that firms report data to us to continue to develop. Investment managers’ application of responsible investment practices will inevitably flex and change to meet evolving investor expectations and a rapidly changing investment landscape post Covid-19. As we work towards consistency in interpretation, this may mean that over time AUM increases as a result of changes to reporting as well as asset appreciation and the mainstreaming of ESG integration and other RI approaches.

Chart 5 shows that 38% of total assets are integrating ESG factors into their investment selection processes. This figure is based on firm level policies rather than at the individual fund or mandate level. There is often an overlap with firms using a combination of approaches outlined in the framework. Last year ESG integration stood at 26% of total assets, so there has been considerable growth. Exclusion policies are applied to 19% of total AUM. Despite the growth in AUM and the investor interest reported by members, sustainability-focused approaches and impact investing remain a relatively small proportion of the industry with 1.4% and 0.3% of assets respectively.

**CHART 5: PROPORTION OF ASSETS UNDER MANAGEMENT BY RESPONSIBLE INVESTMENT CATEGORY**



**TABLE 3: DEFINITIONS BASED ON IA RESPONSIBLE INVESTMENT FRAMEWORK**

Category	Definitions
ESG Integration	The systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions. ESG Integration alone does not prohibit any investments. Such strategies could invest in any business, sector or geography as long as the ESG risks of such investments are identified and taken into account.
Exclusions	Exclusions prohibit certain investments from a firm, fund or portfolio. Exclusions may be applied on a variety of issues, including to align with client expectations. They may be applied at the level of Sector, Business activity, products or revenue stream, A company or Jurisdictions/ countries. Exclusions determine that a fund or mandate does NOT invest in certain things. It does not constitute an approach that is characterised by proactively allocating capital to specific assets. It may involve excluding investments from a certain sector or investments that derive a portion of their income from the sale of certain specified products.
Sustainability Focused	Investment approaches that select and include investments on the basis of their fulfilling certain sustainability criteria and/or delivering on specific and measurable sustainability outcome(s). Investments are chosen on the basis of their economic activities (what they produce/what services they deliver) and on their business conduct (how they deliver their products and services).
Impact Investing	Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. There are four key elements: 1. Intentionality: Impact investments intentionally contribute to social and environmental solutions. This differentiates them from other strategies such as ESG investing, Responsible Investing, and screening strategies. 2. Financial Returns: Impact investments seek a financial return on capital that can range from below market rate to risk-adjusted market rate. This distinguishes them from philanthropy. 3. Range of Asset Classes: Impact investments can be made across asset classes. 4. Impact Measurement: A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance of underlying investments.

#### 4: ENHANCING UK INTERNATIONAL STANDING IN THE CONTEXT OF BREXIT

The UK investment management industry is a leading centre of excellence and one of the most international in the world in terms of both the customers and businesses we serve and the assets that we invest in.

Last year we spoke to a range of firms to capture their views on maintaining the UK’s competitive advantage in a post-Brexit environment and the conditions needed for future growth. This year we asked firms again about their views, following the UK’s exit from the EU on 31 January 2020 and as all eyes are on the negotiations as we edge closer to the end of the transition period on 31 December 2020.

Firms have been preparing for a range of scenarios, including a no deal Brexit, for a number of years but many are concerned about business continuity given the shortening negotiation timelines and increasing demands on government resources due to Covid-19. For some firms, the outcomes of these negotiations could pose the single biggest threat to the UK’s position as a financial services centre, and its overall attractiveness as a venue for their operations when measured against other emerging centres.

*“The end of the Brexit transition is on all of our minds and is approaching very rapidly. That free trade agreement and the treatment of financial services still dwarfs anything else in relation to issues for the UK as an international financial centre. Making sure there is an agreement in place is the biggest dependency.”*



**FIGURE 8: FOUR MEASURES OF A GLOBAL INDUSTRY**



*“The industry will be carefully watching what the trade agreement looks like with the EU and the extent to which it draws a line under negotiations and the future relationship. There is a big difference between scenarios where various countries are trying to chisel away pre-eminence of UK financial services vs. having positioned things very securely in a long-term agreement. It creates a different mindset around the extent to which executives have to be worried about those issues on an ongoing basis.”*



Many IA members run global businesses and in every interview we held, the ability to delegate portfolio management functions was raised as the most critical area of uncertainty that needs to be addressed in order to continue to serve customers internationally. Delegation is an international norm that allows investors access to global expertise and investment opportunities, whilst also benefitting from significant cost savings

*“The battle is going to be to make sure delegation rights for fund managers operating out of the UK and managing assets for other European fund domiciles. If that is threatened, it is bad news for the investment management industry and you will have to move more substance to Europe.”*



Looking beyond Brexit, there are a number of aspects that continue to give investment managers confidence in the UK despite the political uncertainty. One of the key features of UK financial services are the city clusters such as those located in London and Edinburgh. The physical proximity of the industry to other market participants, such as investment banks, wider professional services, including legal and audit, and most recently fintech are key components of the UK's success.

Following the onset of Covid-19, the investment management industry transitioned very quickly and effectively to remote working. This raises a question over whether city clusters could become less significant, particularly given real estate costs. However, for many the pandemic has reinforced the importance of the physical proximity to teams, clients and ancillary industries. Firms we spoke to for the Survey have noted that external networks and relationships are particularly difficult to navigate once outside the cluster.

*“In most industries, including finance, there is a benefit in clustering. Despite the Covid-19 effect, where we’ve all learned how to work remotely, industries do tend to cluster and proximity is important for making sure you have a good flow of talent and sharing ideas.”*



*“In our Brexit planning we looked at all sorts of permutations for how we should be structured as an organisation. When you start looking at other potential locations you start to realise how much is here. The Fintech community here is very vibrant and is an important part of why you would come here.”*





The breadth and depth of the talent pool in the UK is another key feature of UK investment management that is often underestimated. Many globally headquartered firms have indicated that the talent pool is a key driver in setting up regional offices in the UK versus other jurisdictions. As long as Brexit does not impact the UK's ability to attract global talent, the continued success of the UK as an investment management centre is assured.

*“If you look at the talent and the infrastructure we have here- that is not easily replicated in other locations quickly. That is why it continues to attract people. The UK will remain the leading financial services and investment management centre.”*

While certain immutable advantages such as time zone, language, and a stable legal system have helped the UK position itself as a global leader in investment management, it is clear that post-Brexit this alone will no longer be sufficient. In order to ensure that the UK remains a dominant player on the international stage, regulators must create an attractive operating environment that does not place an undue burden on firms. More broadly, firms point to the importance of the wider environment for business, notably around critical points such as the tax regime, immigration and the broader operating infrastructure.

While the industry recognises the value of robust, customer-focused regulation, there are also examples in recent years of approaches to regulation that have made the UK increasingly less attractive for international firms. Notably, the Financial Services Compensation Scheme (FSCS) has an important purpose in protecting consumers when firms fail, but because it does not operate on a ‘polluter pays’ principle, its recent funding mechanisms have focused disproportionately on firms with little direct connection to the problems it is trying to address. The annual levy on firms has also risen significantly in recent years and is variable, making it a financial forecasting challenge for firms.

*“The weight of regulation over the last 5 years has been enormous. The way that the FSCS has been structured is specifically disincentivising large international offshore managers setting up in the UK. In the context of competing as an international centre, the volume of regulation are straws that look like collectively breaking the camel’s back. You can’t be complacent about the UK’s attractiveness.”*

# 3 TRENDS IN CLIENT ASSETS AND ALLOCATION

## KEY FINDINGS

### CLIENT TYPE

- » Institutional clients remain the largest client group accounting for four fifths of assets under management (79%)
- » Pension schemes continue to be the largest institutional client type with 43% of total assets in 2019, slightly down on 2018. Corporate client assets have seen the largest year on year increase accounting for 6% of all assets.
- » Consistent with previous findings, 55% of assets were managed on a segregated basis and 45% on a pooled basis.

### ASSET ALLOCATION

- » Allocation to equities increased from 36% in 2018 to 38% in 2019 reflecting the resurgence of equity markets in 2019. Fixed income allocation was the biggest loser falling 1.8 percentage points on last year to 32%. All other asset classes remained largely unchanged from 2018.
- » Within equities the UK allocation fell below 30% for the first time to 29%, representing an 18 percentage point fall in allocation over the last decade. Given performance of UK equities relative to global indices, it is likely that the region continues to attract flows from certain client segments.
- » The shift to overseas fixed income has stalled in 2019 with allocations unchanged at 50% year on year.

### GROWTH OF INDEXING MARKET

- » 2019 saw an acceleration in the growth of indexing strategies, which increased four percentage points to reach 30% of total assets.
- » Contributing to the growth in indexing is the very strong growth in ETFs. Total global assets in ETFs increased 30% year on year. Although still largely dominated by US domiciled funds, 2019 saw assets in Irish domiciled funds increasing over 50% to \$620 billion.

### INVESTMENT IN THE UK ECONOMY

- » Despite reduced allocations to UK assets as a proportion of total assets, IA members remain significantly invested in the UK economy holding £1.6 trillion in UK equities, corporate bonds, commercial property and, increasingly in recent years, in infrastructure. This is particularly important given government indebtedness and heightened economic uncertainty.
- » Infrastructure investments have reached £45 billion, three quarters of which is invested in economic infrastructure such as roads and rail, with the remaining quarter invested in social infrastructure such as public schools or hospitals. This is up from £35 billion in 2018.



This Chapter looks across the entire UK-managed asset base of IA members and documents how these assets are split between different client groups, how they are allocated across asset classes and geographies, and what proportions are managed on an active or indexed basis. The distinctions are not always entirely clear, for example the line between retail and institutional is becoming increasingly blurred in the context of the growth in DC pensions. The institutional and retail markets are covered separately and in more detail in Chapters 4 and 5 respectively.<sup>11</sup>

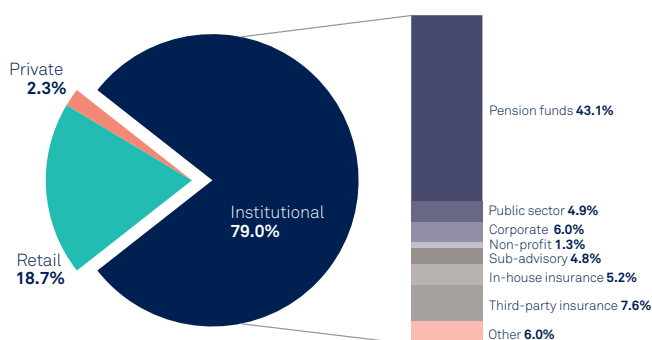
The definition of pension funds in the IA's data includes all schemes, both defined benefit (DB) and defined contribution (DC) where the scheme has a direct relationship with the asset manager, notably DB schemes and some of the larger DC schemes, including master trusts. However, the direction of travel in the pension provision market, with the ever-increasing importance of DC schemes, is making the distinction between the different client types more challenging.

## CLIENT TYPES

Chart 6 provides an overview of UK managed assets by client type. The relative size of different client segments changes very little year on year. The vast majority (79%) of assets continue to be managed on behalf of institutional clients in 2019 with retail client broadly unchanged at 21%. The largest institutional client segment are pension funds which make up 43% of all assets under management, down from 46% in the previous year despite a £155 billion increase in assets.

The largest relative increase has been amongst corporate clients who make up 6% of total assets, almost double the level it was five years ago. Combined insurance assets were down once again this year, falling one percentage point to 13% of total assets.

**CHART 6: ASSETS MANAGED IN THE UK BY CLIENT TYPE 2019**



## BLURRING OF CLIENT TYPES

### Insurance vs Pension

DC pension assets that are operated via life companies wrapping funds are not included in pension fund assets but are rather reflected in assets managed on behalf of insurance companies. This includes assets managed for personal pension and Group personal pensions (GPPs). This blurs the line between pension and insurance assets and means that the allocation to pension funds understates actual pension investment.

### Retail vs Institutional

DC is something of a hybrid between retail and institutional. Pension savers in DC schemes receive an income in retirement that is based on the value of the pension pot they have accrued during their working life. Unlike a DB scheme, where their pension is based on their salary and is ultimately guaranteed by an employer, the value of a DC pension is determined by the contributions an individual makes to their plan and the return on assets they achieve on the investment strategies they select. The ultimate investment risk lies with the individual rather than the employer, and in this regard DC pensions are more akin to retail investments than institutional, albeit they will appear in the IA's data either as Pension fund or Insurance assets.

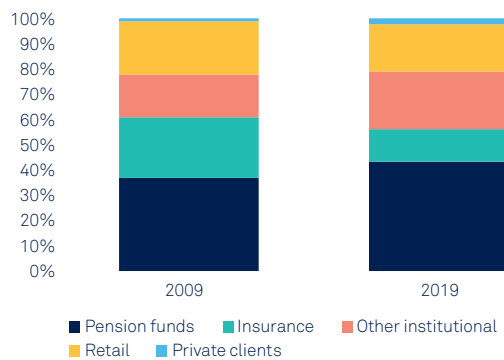
<sup>11</sup> Chapter 4 relates to money managed for UK institutional investors by IA members globally. It does not reflect money managed in the UK for all institutional clients.

## HISTORIC EVOLUTION OF CLIENT ASSETS

As discussed, there is very little variation in the composition of the client base year on year, however we observe more significant changes in the market when we look back over data from the last decade. The split between retail and institutional clients has remained broadly unchanged for over a decade with about 80% of assets managed on behalf of institutional investors and 20% of assets managed on behalf of retail investors.

The composition of the institutional market is where the most significant changes in client base can be observed (Chart 7). The most consistent long term trend has been the decline in insurance assets, which are almost half the level they were a decade ago as a proportion of total assets. In-house insurance assets have seen significant falls whereas third party insurance assets have increased as a proportion of the overall total, possibly as a result of demerger activity. Insurance assets' share of total assets has fallen 10 percentage points over the last decade. The lost market share has been absorbed by other institutional (most notably corporate clients) and pension assets which have both increased their share of total assets by 6 percentage points over the last decade.

**CHART 7: PROPORTION OF ASSETS MANAGED IN THE UK BY CLIENT TYPE (2009-2019)**

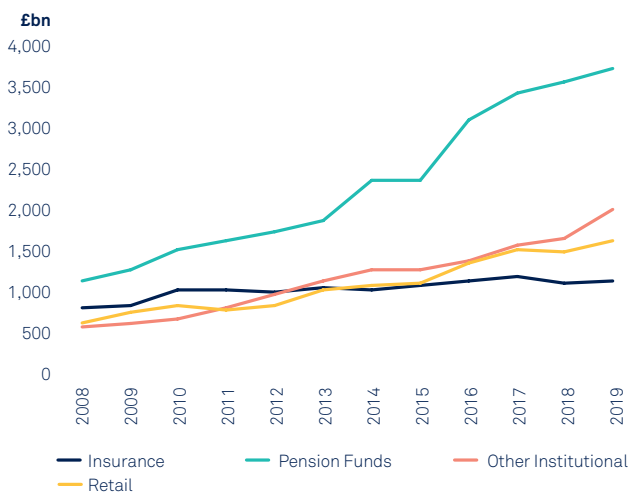


Looking at the growth of assets over time in nominal terms sheds some light on the drivers of the changing composition in the institutional client base. Chart 8 illustrates that since 2013 pension assets have outpaced the growth in retail and Other institutional assets, almost doubling their assets over the period.

As we will see in Chapter 4, a large component of the growth in pension assets has been the significant rise in liability driven investment (LDI) by DB pension schemes looking to manage the run off of their liabilities. To a lesser extent it will also reflect the increased pension participation resulting from automatic enrolment, much of which has been invested into master trust arrangements.

While pension asset growth has taken off, insurance assets have flatlined in nominal terms. We have seen some significant demerger activity over recent years that would explain some of the decline in in-house insurance assets. However, another component of this is the evolving business models of those insurance owned firms. These firms have increasingly diversified businesses and the majority are no longer reliant on the insurance business as the primary source of revenue growth.

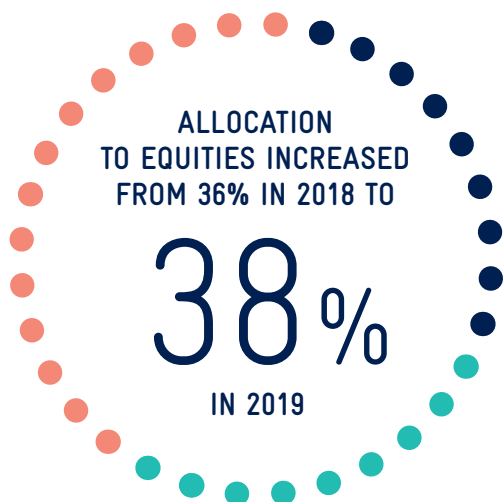
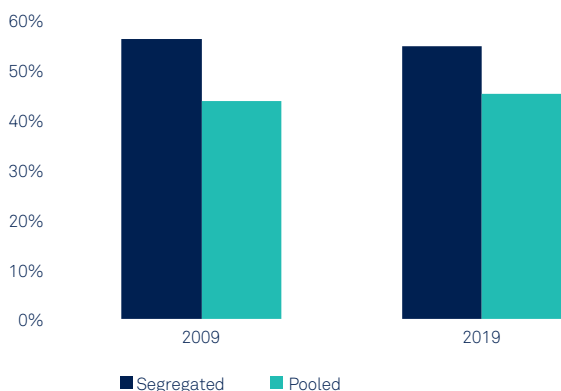
**CHART 8: ASSETS MANAGED IN THE UK BY CLIENT TYPE, (2009-2019)**



## SEGREGATED VS. POOLED

Chart 9 shows the split of total assets under management between segregated mandates and pooled investments. The figures were very marginally changed year on year with 55% of assets managed on a segregated basis and 45% on a pooled basis in 2019. This data has seen very little fluctuation for over a decade despite the substantial evolution in product offerings in the pooled fund universe, particularly the rise of ETFs alongside more established indexing vehicles. Segregated mandates continue to be heavily used in the traditional institutional market.

**CHART 9: SEGREGATED VERSUS POOLED INVESTMENT (2009-2019)**

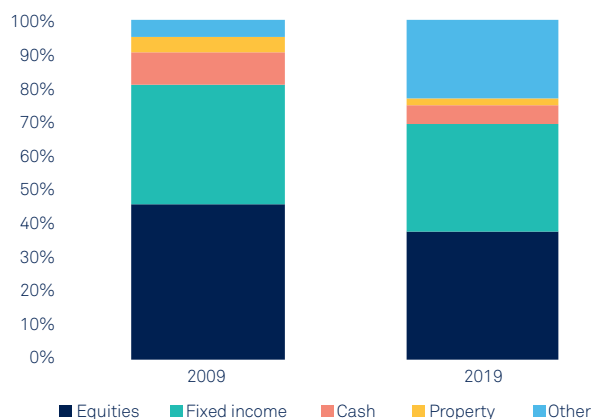


## ASSET ALLOCATION

The overall mix of assets at the end of 2019 can be seen in Chart 10 which also shows the evolution in asset class allocation over the last decade. Asset class movements year on year tend to be consistent with market performance. Last year saw a four percentage point fall in equity allocation to 36% due to equity market downturns in the last quarter of 2018. As we saw in Chapter 1, equity markets have rebounded strongly in 2019 resulting in an increase in allocation to 38%. The higher relative allocation to equities came at the expense of fixed income and property which were both down one percentage point year on year to 32% and 2% respectively. Allocations to cash and 'Other' remained broadly unchanged.

The long term trend as shown in Chart 10 suggests a structural shift in asset allocation over the last decade towards a significantly increased allocation to 'Other'. Other assets include assets in private markets and solutions type strategies. The most substantial component of 'Other' will be Liability Driven Investment (LDI) strategies which are largely derivatives based. Allocations to 'Other' have increased from 5% in 2009 to 22% in 2019 however this trend has slowed down since 2015 with assets increasing two percentage points in the last four years. Equity and fixed income remain the two largest asset classes, making up 70% of total assets, however this is down from 81% in 2009. 'Other' overtook cash as the third biggest asset class in 2011.

**CHART 10: OVERALL ASSET ALLOCATION OF UK-MANAGED ASSETS (2009-2019)**



IA members invest across a range of asset classes. Almost all IA members are invested in equities to varying degrees, with a lower proportion investing in fixed income. Just under one third of Survey respondents (30%) are specialists investing only in either equities or fixed income, often also combining this with allocations to cash.

**TABLE 4: PROPORTION OF IA MEMBERS INVESTING BY ASSET CLASS**

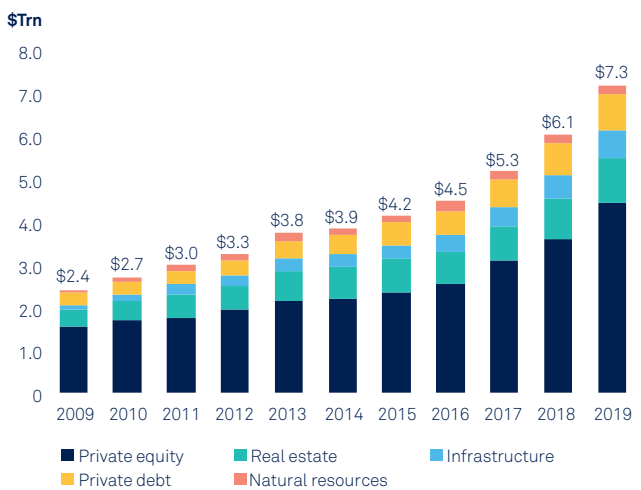
	Percentage of firms
Equities	93%
Fixed income	75%
Cash	78%
Property	40%
Other	57%

## GROWTH OF PRIVATE MARKETS

A growing component of ‘Other’ is the allocation to private market assets. We do not collect a granular breakdown of this data, so we cannot quantify the size of these investments by IA members. However, we reference global data to get a sense of the size of the investment opportunity in this space.

As Chart 11 shows, the growth in private market assets under management globally continued to increase through 2019 and has accelerated significantly in recent years. The drivers of this trend in the UK have been well explored, including in previous editions of the Investment Management Survey. From the demand side, record low interest rates have created a ‘hunt for yield’ further afield than the public bond markets. Investors desiring diversification of risk and superior returns are also looking to private markets against a back drop of long term de-equitisation by UK DB pension schemes.

**CHART 11: GLOBAL ASSETS UNDER MANAGEMENT IN PRIVATE MARKETS (2009-2019)**

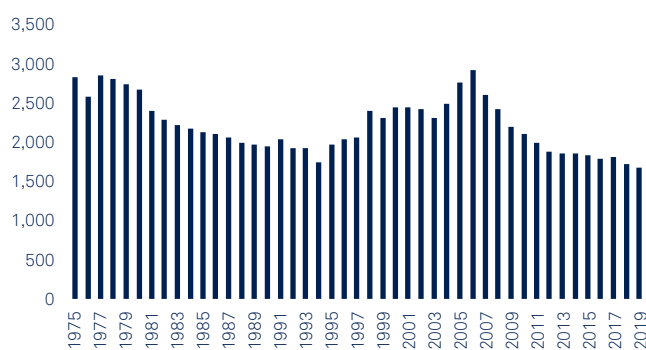


Source: Preqin



On the supply side, many companies have found public market listing a less attractive route for a range of reasons, including perceived complexity and the relative cost of capital elsewhere. In the UK, this has resulted in a decline in listed companies. Chart 12 illustrates the scale of the change over the last two decades, while also suggesting that there could be long-term cyclical elements at work, given previous patterns of decline and recovery.

**CHART 12: NUMBER OF COMPANIES LISTED ON UK MARKETS (1975-2019)**



Source: World Bank, LSE

## DETAILED ASSET ALLOCATION

Beyond the shifts between asset classes, the IA also monitors the trends within equity and fixed income allocations according to type of exposure and this section considers these changes in more detail.

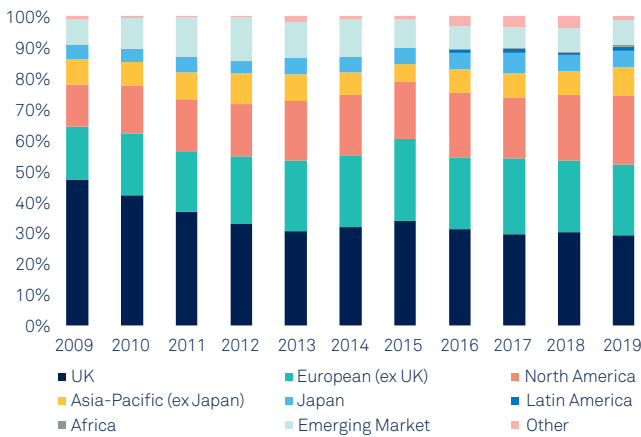
### EQUITY BY REGION

The most striking long term trend in regional equity has been the decreasing allocation to UK equity relative to overseas equity (Chart 13). In 2019, this figure fell one percentage point to 29%. Until 2019 allocations to UK equity have fluctuated around the 30% mark for a number of years but 30% had never been breached. The picture is different when looking at allocations to UK equities in the UK funds market (Chapter 5) and in the DB pension market (Chapter 4) which have seen consistent declines in UK equity allocations.

Our aggregate data on UK equity AUM does not allow us to distinguish between market performance and flows so it is difficult to draw definitive conclusions. However, based on market performance data alone we would expect to see more of a decline in UK equity allocations given that UK equities have underperformed global markets over the last few years. Instead, the UK equity allocation has stabilised over the last few years suggesting that it continues to attract quite significant inflows from other institutional investors. Stripping out price return from total return suggests that UK equities produce higher income relative to other global markets. Superior dividend payments from UK equities could be a driver of the continued interest from overseas institutional investors.

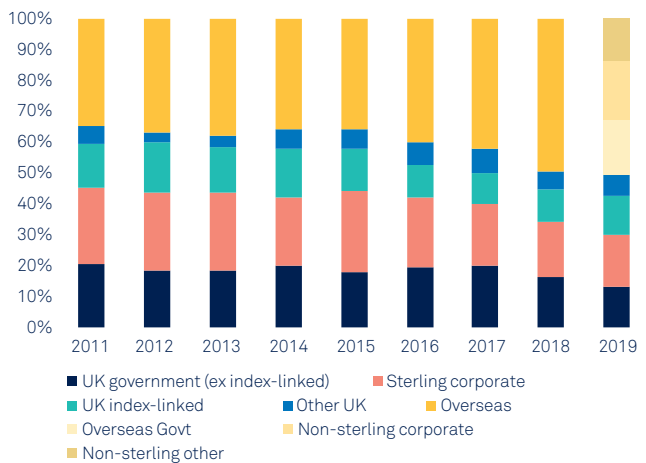
Equity allocations are dominated by investments in the UK, North America and Europe which make up 74% of total equity assets, slightly down from 77% a decade ago. European equities has been consistent at 23% for a number of years whereas there has been consistent growth in the proportion of North American equities to 22% in 2019, an increase of one percentage point from 2018. These assets will be heavily dominated by US equities where market performance has been remarkably strong. Asia pacific (ex. Japan) allocations have been more volatile over the last decade but 2019 saw allocations increasing 1.6 percentage points year on year to 9%.

**CHART 13: UK-MANAGED EQUITIES BY REGION (2009-2019)**



exposure to the UK market. The trend slowed at the end of 2019, despite the imminent departure from the European Union, which suggests that there is a third driver at play. Increased pension scheme derisking as scheme members age and require a higher allocation to bonds is leading to more much money chasing a limited supply of UK bonds. This is causing pension schemes to seek investment opportunities through bonds issued overseas.

**CHART 14: ALLOCATION OF UK-MANAGED FIXED INCOME BY TYPE AND REGION (2011-2019)**



**FIXED INCOME BY REGION**

Fixed income exposure has historically been more domestically focused than equities. In 2019, similar to last year, 50% of all fixed income assets were in domestic bonds compared with 66% in 2011.

Within the domestic market, the proportion of assets in conventional UK government bonds has continued to decline from 21% in 2011 to 13% in 2019. Allocations to index-linked government bonds have tended to fluctuate year on year but were up two percentage points in 2019. We have collected more data on the overseas market in 2019 and observe that despite the falling allocation, assets in UK government bonds incl. index linked (26%) remain higher than overseas government bonds (18%).

The biggest losers since the Brexit referendum have been sterling corporates, which since 2015 are down almost ten percentage points to 17%. This means that allocation to sterling corporates is lower than the allocation to Non-sterling corporates (19%).

There are a number of potential drivers of these shifts. The growth in allocation to overseas bonds reflects the increasing globalisation of the investment process. However, the acceleration in the growth of allocation to overseas bonds since 2015 has coincided with the UK's decision to exit the European Union. The heightened political and economic uncertainty caused by Brexit has meant that firms have been looking to reduce their





## GROWTH OF INDEXING MARKET

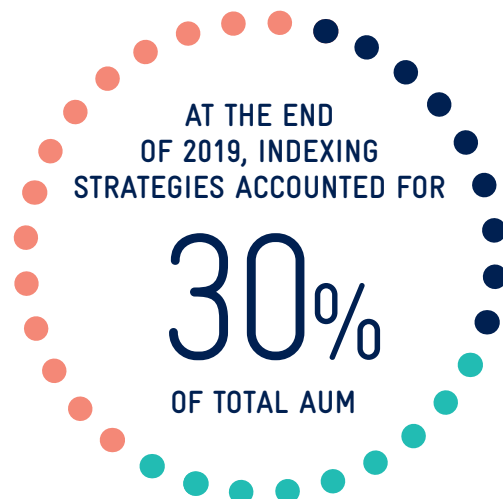
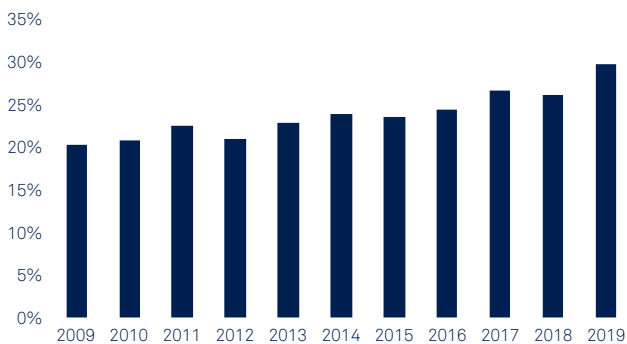
Chart 15 illustrates the use of indexing strategies across the UK managed asset base and how this has evolved over the last decade. In 2009 indexed assets as a proportion of total assets under management stood at 20% and have grown very steadily since then. 2019 saw a notable jump in this figure to 30%, a four percentage point increase year on year.

Use of indexing is more prevalent amongst UK institutional investors but is rapidly increasing amongst UK investors in the retail funds market. IA data on retail fund flows shows 2019 to be a bumper year for net flows into index funds with record net sales of £18 billion. Over the last two years, net retail sales to index trackers have propped up fund sales overall: sales to index trackers were £27 billion over 2018 and 2019 compared with almost £10 billion in net outflows from active funds over the same period.

In 2019 just under half (44%) of equity assets and less than one third (30%) of fixed income assets were managed on an indexed basis.

One striking trend from the last year has been the growth in assets under management in the ETF market. Although only a small number of IA members are active players in the provision of ETFs, it is likely that the growth in demand for these vehicles is contributing to the increasing overall allocation to index strategies.

**CHART 15: INDEXING STRATEGIES AS PROPORTION OF TOTAL UK ASSETS UNDER MANAGEMENT (2009-2019)**



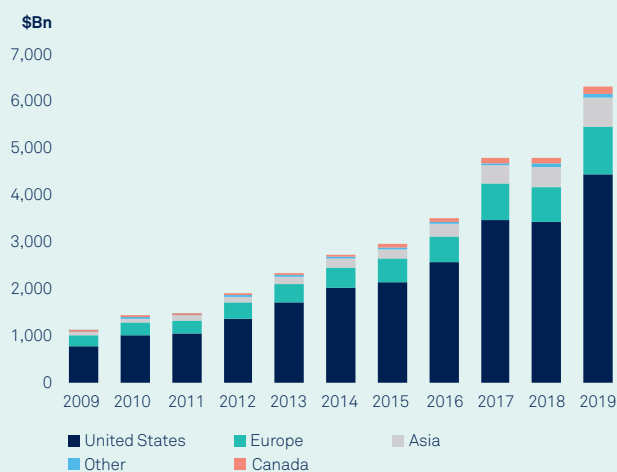
## ETF MARKET

An ETF is an open-ended pooled investment vehicle with shares that, like a 'traditional' fund, will offer investors access to a portfolio of stocks, bonds, and other assets, most commonly aiming to track an index. Unlike a fund, it can be bought or sold throughout the day on a stock exchange, which is why ETFs are effectively a hybrid of a tradeable stock and an index-tracking fund.

ETFs have seen explosive growth over the last decade with global assets under management increasing 19% each year on average. After a volatile 2018, which saw total assets flatline, global AUM in ETFs had reached \$6.3 trillion in 2019, representing a 30% increase on the previous year.

Chart 16 shows that ETFs domiciled in the United States make up 70% of total assets, equivalent to \$4.4 trillion at the end of 2019. European domiciled ETF assets grew at a slightly faster rate on aggregate than the US to \$1 trillion in 2019. This was largely driven by remarkable growth in assets in Irish domiciled ETFs which increased 50% between 2018 and 2019 to \$620 billion. Assets in Asian domiciled ETFs reached \$620 billion, up 38% year on year. Assets in Asia are predominantly (65%) in Japanese ETFs, though the increase in assets is driven by a 75% increase in China and Taiwan ETFs.

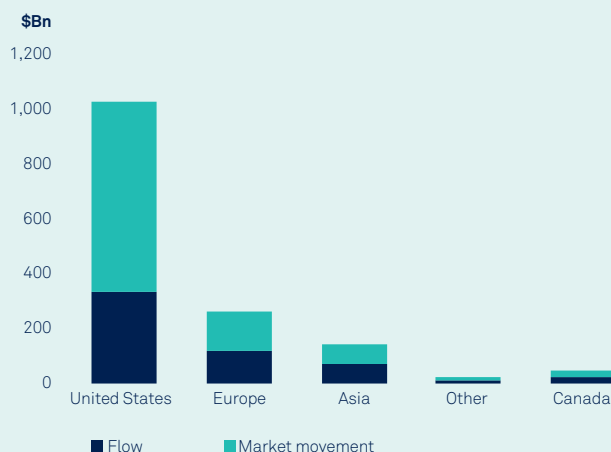
**CHART 16: ETF ASSETS UNDER MANAGEMENT BY REGION OF DOMICILE (2009-2019)**



Source: Morningstar

Chart 17 splits the growth in total net assets into two components:- market appreciation and net flows. The US has a more established ETF market and although US domiciled funds continue to attract flows, the majority of growth (68%) in 2019 came from market movements while the remaining 32% came from net flows. By comparison almost half of total growth came from net flows in Asia and Europe in 2019.

**CHART 17: DRIVERS OF 2019 GROWTH IN ETFS**



Source: Morningstar

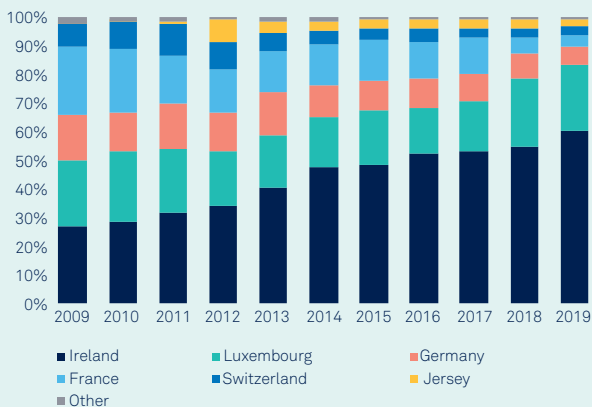
### ETFs IN EUROPE AND THE UK

European data show that the UK is not a domicile for ETFs. Ireland and Luxembourg domiciled funds have almost doubled their share of the European market over the last decade, accounting for 83% of total assets. Assets in both Luxembourg and Irish domiciled funds increased significantly in 2019 by 37% and 54% respectively. For Irish funds in particular, 2019 was a bumper year in terms of sales with almost three-fifths (57%) of the growth in AUM coming from a surge in sales.

Given that ETFs can be bought and sold from around the world, domicile is not the best way to capture regional investor appetite for ETFs. ETFs can be listed on multiple exchanges and listing location can be used as a proxy for investor location. There are over 1,200 ETFs listed on UK exchanges with total assets of £330 billion, 93% of which are in

Ireland domiciled funds and the remaining 7% in Luxembourg domiciled funds. The majority of UK listed ETFs are managed by the small pool of IA members who are ETF providers.

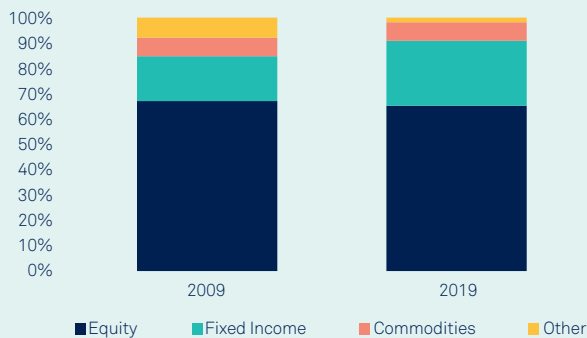
**CHART 18: TOTAL ASSETS BY EUROPEAN DOMICILE (2009 - 2019)**



Source: Morningstar

The biggest change in asset allocation within European domiciled ETFs over the last decade has been in the fixed income space, with allocations increasing from 18% in 2009 to 25% in 2019 (Chart 19). This trend accelerated in 2019 with assets increasing 54% year on year.

**CHART 19: PROPORTION OF EUROPEAN ASSETS UNDER MANAGEMENT BY ASSET CLASS (2009-2019)**



Source: Morningstar

### ETFs RESILIENT THROUGH COVID-19

The 2020 market volatility triggered by the coronavirus and subsequent economic lockdowns saw total global assets in ETFs fall 16% at the end of Q1 2020. In terms of net flows, some markets held up better than others in March. Most regions were able to attract positive net inflows, albeit at depressed levels. The clear anomaly was in Europe which saw \$24 billion in outflows compared with inflows of \$8 billion and \$16 billion to US and Asian domiciled funds respectively. As was the case in the mutual funds world, fixed income ETFs were most heavily affected and were trading at a significant discount to their net asset value (NAV). Fixed income ETFs domiciled across North America and Asia suffered heavy outflows but this was offset by equity inflows. In Europe however, both equity and fixed income ETFs experienced outflows in March of \$14 billion. As a proportion of assets under management, the outflow from fixed income is significantly more substantial in relative terms..

ETFs remained resilient throughout the crisis despite the high levels of trading on secondary markets, and proved to be effective tools in providing liquidity within investors' portfolios. IA members pointed to the fact that in the fixed income space during March's period of heightened market stress, price discovery was difficult and ETF prices were a much clearer indicator of the value of underlying instruments than the NAV, which reflected stale valuations at the time.

By the end of Q2 2020, total assets under management had almost completely recovered to pre-coronavirus levels given the sharp bounce back in performance across global markets. Sales to fixed income ETFs have also returned to positive inflows across domiciles but at time of writing net sales to equity ETFs remain volatile.

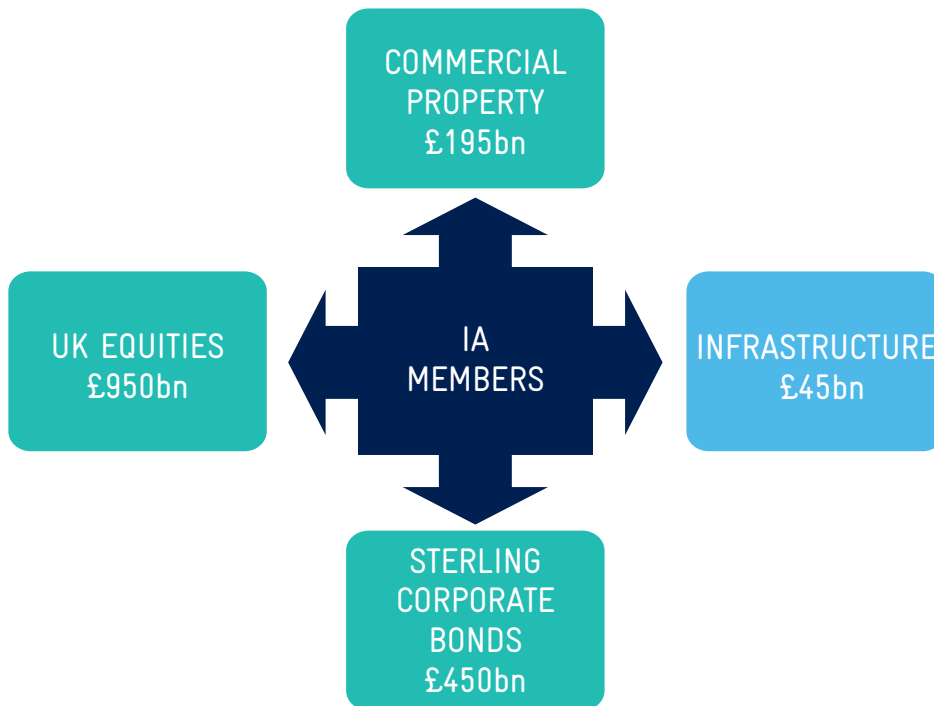
## INVESTMENT IN THE UK ECONOMY

The investment management industry channels savings to capital markets and is therefore a key source of funding for the UK economy. This is increasingly important in the context of the pandemic and the highly uncertain economic outlook. Investment management activity has historically focused on more traditional asset classes such as listed equities and bonds but there is increasing use of private markets most notably infrastructure and direct lending. These types of investments are especially attractive to DB pension schemes and insurers looking for liability driven and cash flow driven investment. – see Figure 9.

We have seen that relative to total assets under management there has been a reduced allocation to UK equities particularly amongst DB pension schemes and retail investors which we will discuss in Chapters 4 and 5. However in absolute terms, this figure has continued to increase which means that the £950 billion in UK equities held by IA members represents 36% of total market capitalisation.

Independent research suggests that investment managers have purchased the majority of corporate bond issues in recent years holding almost half a trillion in sterling corporate bonds. Despite this, as we saw earlier in the chapter, corporate bonds have still fallen significantly as a proportion of total fixed income assets since 2016. In 2019, the amounts invested in UK equities and infrastructure have increased 8% and 28% in nominal terms.

**FIGURE 9: IA MEMBER HOLDINGS IN UK ASSET CLASSES<sup>12</sup>**



<sup>12</sup> The majority of property investment is in commercial property, however a small amount may be allocated to residential accommodation, notably student housing. The majority of infrastructure investment is UK but some may be invested overseas.

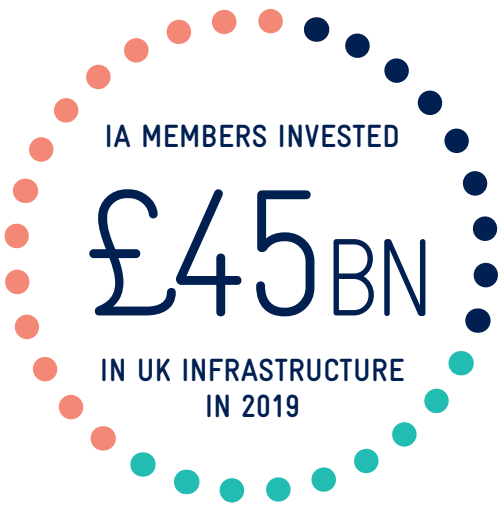
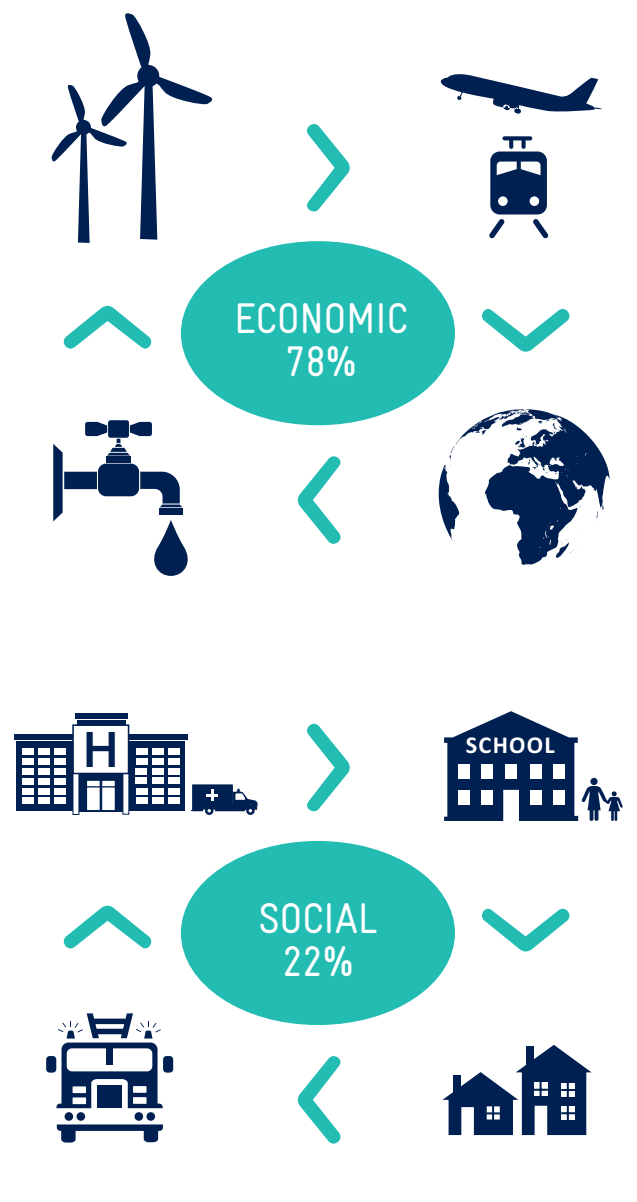
### INVESTMENT IN UK INFRASTRUCTURE

The amount of investment reported by UK investment managers into infrastructure increased to an estimated £45 billion in 2019, up from £35 billion in 2018. This reflects both the increase in assets overall but also the increased interest in private market investment reported in recent years.

The proportion of infrastructure investment allocated to economic projects increased slightly (78%) but was broadly in line with recent years where three quarters of infrastructure investment was reported to be in economic projects. These include a variety of schemes such as energy generation and metering, transport, utilities and environmental schemes such as flood protection.

The remaining 22% was invested in projects which offer a social benefit, particularly the construction and maintenance of schools and healthcare-related projects such as the construction of hospitals (see Figure 10).

FIGURE 10: INFRASTRUCTURE INVESTMENT BY IA MEMBERS

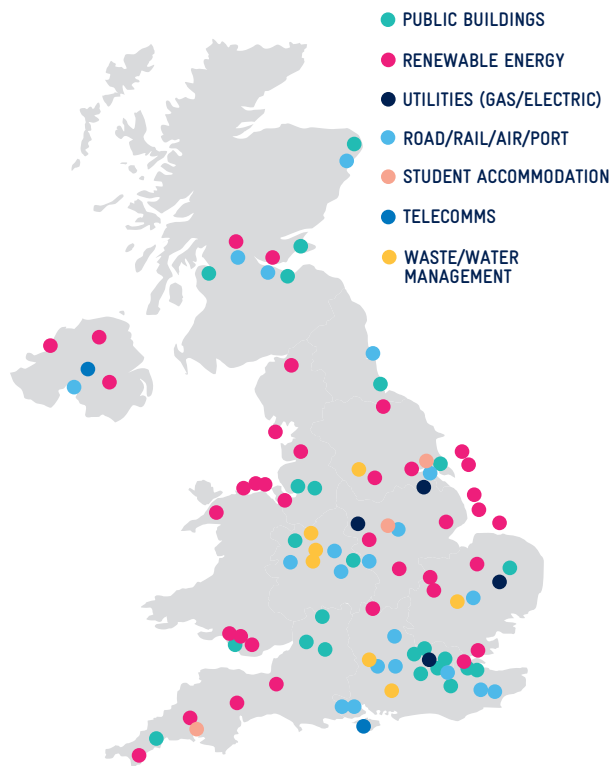


The range of projects facilitated by IA members on behalf of their clients is extremely broad and Figure 11 provides a flavour of the type and location of projects that have been supported by UK investment managers in recent years.

Green energy projects are particularly important and a significant proportion of projects supported by IA member firms are solar farms or onshore and offshore wind farms.

In addition to the examples illustrated, members invest in other projects, which have a greater geographical reach and therefore cannot be shown in this figure. This includes projects such as the introduction of new rail rolling stock and the installation of fibre broadband.

**FIGURE 11: SELECTION OF UK INFRASTRUCTURE INVESTMENT FACILITATED BY IA MEMBERS**



# 4 UK INSTITUTIONAL CLIENT MARKET

## KEY FINDINGS

### MARKET OVERVIEW

- » IA members manage £4.0 trillion for UK institutional clients in offices around the globe, although the large majority (90%) is managed in the UK. This is unchanged year on year.
- » Pension funds are the largest client type, with 65% of institutional assets under management, followed by insurance companies at 22%. The proportion of assets managed for pension funds has increased substantially over the last decade.
- » UK institutional customers have generally been taking a limited approach to portfolio change through the Covid-19 crisis, but there has been a greater focus on issues such as income and liquidity.

### EVOLUTION OF PENSIONS MARKET

- » £2.6 trillion is managed for UK pension schemes by IA members, with corporate pension schemes representing the greatest proportion of assets, at £2.3 trillion.
- » The wider pensions market, including individual pensions, drawdown and assets backing the annuity book, is now estimated at £3.8 trillion, with IA members managing a significant part of this through institutional mandates and funds.
- » The DC market has not seen significant changes to investment behaviour through the Covid-19 crisis, but clear risks to contribution levels exist given wider pressures on both firms and employees.

### THIRD PARTY MARKET

- » Once in-house mandates are excluded from the institutional data, assets under management stand at £3.4 trillion, unchanged from 2018.
- » Pension funds are even more dominant in the third party market, accounting for almost three quarters (72%) of third party assets.
- » Assets managed in liability-driven investment strategies reached an estimated £1.4 trillion in 2019, up from £1.3 trillion in 2018.

### MANDATE TYPES

- » Multi-asset, or 'balanced' mandates, account for about a quarter (24%) of total mandates once LDI mandates are excluded (down slightly from 2018).

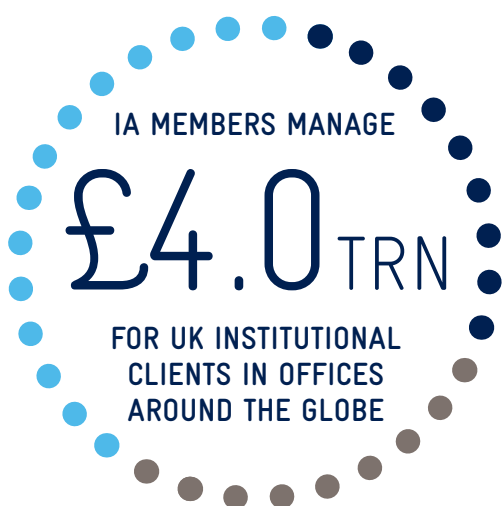
The breakdown of specialist mandates shows fixed income remaining the largest category at 40%, up one percentage point from 2018.

- » Just over two thirds (69%) of assets were managed actively. All institutional client types were more likely to be managed on an active than an indexing basis.
- » Almost two thirds (64%) of third party institutional mandates were managed on a segregated basis, down slightly from 2018.

This Chapter looks at the shape of the UK institutional client market. It differs from previous chapters in two key respects:

- It covers all assets irrespective of whether they are managed in the UK or in offices overseas: we estimate that more than 90% of the assets are managed in the UK.
- It focuses on the nature of a mandate rather than on the underlying assets. So a global equity mandate will appear as such, rather than being broken down into the underlying constituent countries.

In addition to key data points on client types and the evolution of the third party institutional market, the analysis considers the impact of the Covid-19 pandemic on the DC pensions market in the UK and the effect it might have on the millions of savers automatically enrolled into DC pensions since 2012.



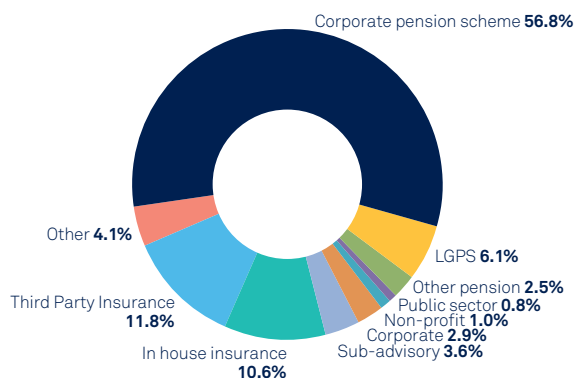
## MARKET OVERVIEW

IA members manage £4.0 trillion<sup>13</sup> for UK institutional clients globally, in line with the figure from the end of 2018. There were estimated outflows from UK institutional clients of £40 billion during the year.

## CLIENT BREAKDOWN

Chart 20 shows that pension funds and insurance companies (including in-house and third party management) continue to account for the vast majority of UK institutional assets (88%)<sup>14</sup> with pension funds remaining the largest client type.

**CHART 20: UK INSTITUTIONAL MARKET BY CLIENT TYPE**



<sup>13</sup> Implied figure based on data collected on an estimated 84% of the institutional client base.

<sup>14</sup> The remaining 12% of assets is made up from mandates managed for corporations (outside of pension assets) sub advisory, not for profit mandates and public sector mandates. One third of this (4%) is managed for 'other' client types, which generally refers to a variety of open-and closed-ended pooled vehicles, and investors from the more specialist areas of private equity, venture capital and property.



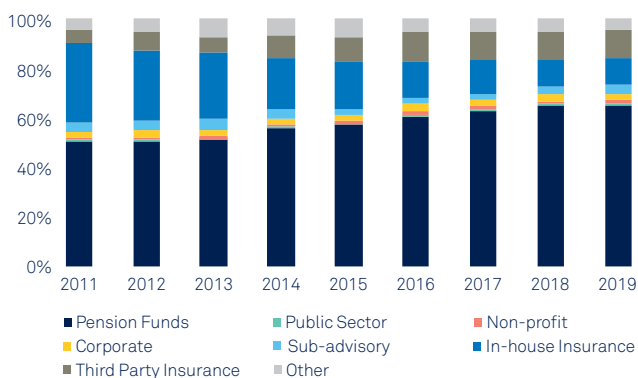
There has been a striking increase in the proportion of assets managed for pension funds since the IA began monitoring this data in 2011. The same period has seen a substantial decrease in the proportion of institutional assets managed for insurance clients, most notably in-house insurance.

The relative fall in in-house insurance assets does seem to be stabilising, with the allocation to in-house insurance assets almost unchanged year on year at 10.6%, but still three percentage points down on two years ago and down from 31% when the IA first collected this data in 2011.

The fall in in-house insurance assets may reflect both a reduction in the proportion of underlying assets managed in house but also assets which move from in-house to third-party as merger and acquisition activity continues to take place in the industry. The proportion managed for third-party insurance has increased from 6% to 12% since 2011.

It should be noted that DC pension assets operated via an intermediary platform through an insurance company are reflected in the IA's insurance assets. Consequently pension assets are actually under-represented in the Chart 21 and the shift in assets towards pension funds is even stronger than is implied.

**CHART 21: UK INSTITUTIONAL MARKET BY CLIENT TYPE (2011-2019)**



## EVOLUTION OF PENSION MARKET

In 2019, pension funds continued to account for more than half of the institutional client base (£2.6 trillion). The IA defines pension funds as DB and DC schemes where the asset manager has a direct relationship with the pension fund rather than it being distributed via a wrapped product through an insurance company.

The IA divides pension scheme assets in three categories:

- Corporate pension funds, which again represented the majority of UK pension fund assets in 2019, at £2.3 trillion. This category includes a number of in-house Occupational Pensions Scheme (OPS) managers, which we estimate manage around £175 billion in assets.
- The Local Government Pension Scheme (LGPS) which accounted for £245 billion of assets in 2019, indicating that IA members manage around 85% of LGPS assets.
- Assets managed for pension schemes that do not fit into either of these categories, such as those run for not-for-profit organisations, representing £100 billion.

Corporate pensions are still dominated by DB schemes, which accounted for a total of £2.1 trillion in corporate pension assets at the end of December 2019<sup>15</sup>.

<sup>15</sup> Includes assets in the PPF 7800 index plus an estimate of assets in crown guaranteed schemes. This figure is not a direct subset of the £2.3 trillion managed for corporate pensions by IA members as some DB assets will be managed by non-IA members.

## INSTITUTIONAL CLIENT BEHAVIOUR THROUGH COVID-19

The extreme market volatility in March 2020 triggered a very sharp sell-off in the retail funds market. On the institutional client side members reported that on the whole, selling activity was limited. Institutional clients tend to not react to this sort of news in the short term or make major changes to their asset allocation. Pension assets in particular, where investment horizons are typically between 20–30 years, have not reacted significantly compared with the record outflows from fixed income funds observed in the retail market. Participants in our roundtable discussion on DC pension scheme members' behaviour during the pandemic on pages 60 to 63 also acknowledged the fact that generally member activity has been limited.

*“We have not seen much investor action at this point. The performance itself has been a bit up and down but our relative performance has been quite good which helps retain clients. We had one or two investors that needed some liquidity for issues in their portfolio elsewhere but we haven't see a wholesale change in terms of taking money out. Interestingly, some are coming back to talk about equity because now may be the time to be investing in more actively managed mandates again.”*

IA members reported that some institutional clients were more focused on liquidity than others. For example those managing assets on behalf of charity clients saw higher demand for liquidity in the portfolios as charities saw their incomes fall during a period of time when their expenditure rose considerably supporting those affected by Covid-19. A number of firms also reported outflows from insurance clients who were building reserves to pay claims, including substantial business interruption claims.

*“We saw some of the regulated/life insurance type clients de-risking for capital reasons. If you're in equities*

*and risky credit, it has a higher capital charge, so when capital is tight there is a tendency to want to de-risk. This has the unfortunate effect that you're selling risky assets at the worst possible time and that is something we've seen in every single crisis sadly.”*

*“Since the immediate crisis we have seen quite substantial inflows into investment grade credit. It is quite hard for us to gauge whether that is people switching out of more risky credit into investment grade or if it is coming from cash and sovereigns into IG.”*

Member engagements with institutional clients have been broadly optimistic. Many made comparisons with the conversations they were having with clients during the GFC where many institutional clients were concerned about the long term viability of companies. This time round institutional clients have been focusing on the operational resilience of companies and building more sustainable portfolios.

*“On the institutional side, this crisis has been very different from the GFC. In the GFC there were more questions on how we build financially safer and more secure businesses to avoid these worries. In this crisis the debate and engagement with sophisticated investors has been around how we build better and greener strategies, what are the different investments, how are supply chains coping, overall resilience and oversight as a fund manager.”*

## SIZING THE MARKET

The IA estimates the size of the UK pension market to be £3.8 trillion at the end of December 2019. The total includes all assets in DB and DC / personal pensions, as well as those assets in some form of drawdown arrangement, plus assets backing annuities, which will be part of insurance company balance sheets. IA members firms are therefore managing indirectly far more than the £2.6 trillion connected to pension scheme business.

This year's total figure of £3.8 trillion is not directly comparable to previous years as the overview this year includes data from new sources, enabling us to include an estimate for assets in SIPPs in the individual personal pensions estimate, and to provide an improved estimate for assets backing annuities.

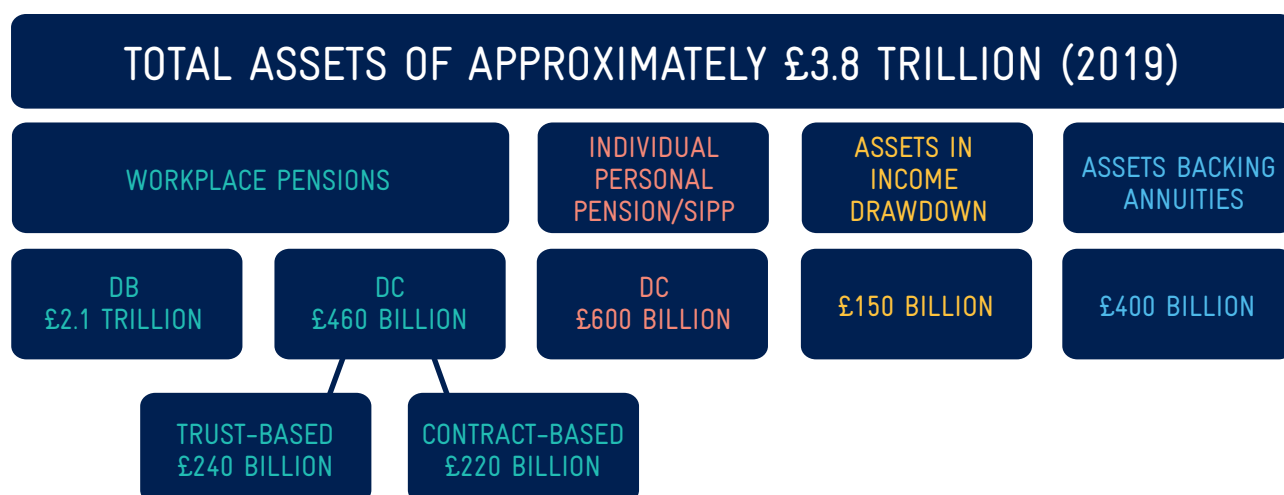
Figure 12 provides an estimate of how these assets are broken down across the different scheme types.

DB (funded) assets continue to be the dominant presence in the UK pensions market. However, the policy of automatic enrolment introduced by the UK Government in 2012 has had a major positive impact

on pension saving. Although assets in DC schemes remain lower than those in DB arrangements, the number of savers into DC schemes exceeds those actively saving into DB schemes. Most private sector DB schemes are now closed to new members, with UK DB provision now mainly a public sector phenomenon. Therefore, when only private sector pension saving is taken into account the shift from DB to DC is even more evident (see Chart 22).

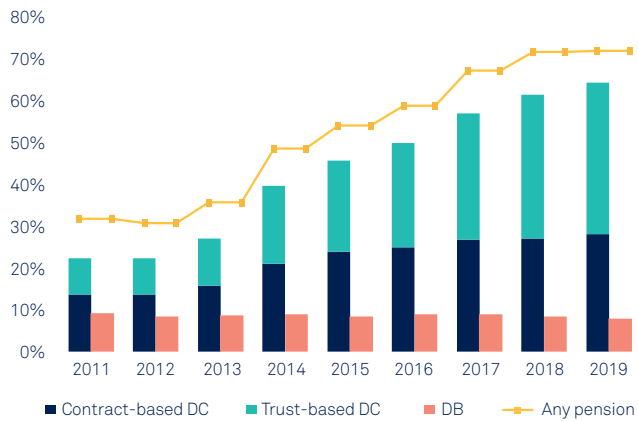
Pension participation increased steadily as automatic enrolment was rolled out. Since the completion of the initial rollout in 2017 participation has stabilised and there is no indication thus far that employees have subsequently opted out of occupational pension saving in significant numbers. However, the lockdown of 2020 has placed significant pressure on employees in many sectors, the full impact of which will not be known until the government furlough scheme ends in October. Many thousands of employees are likely to lose their jobs, which may lead people to re-consider their ability to save for their retirement at the expense of their standard of living today. If this happens, it has the potential to interrupt the success of automatic enrolment, at least in the short term (see discussion on pages 60 to 63).

FIGURE 12: OVERVIEW OF THE UK'S PENSION LANDSCAPE<sup>16</sup>



<sup>16</sup> Source: ONS, FCA, PPI, IA, DCLG, MoretoSIPPs. Estimates are provided on a best efforts basis.

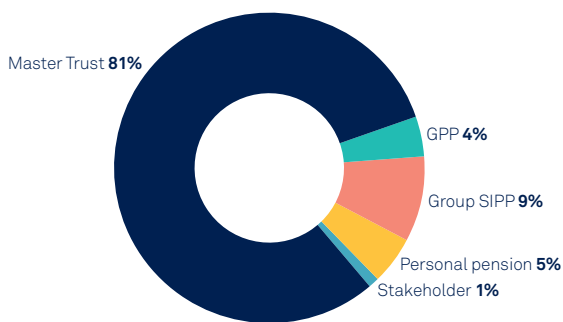
**CHART 22: PENSION PARTICIPATION FOR PRIVATE SECTOR JOBS**



Source: ONS

Many of these new savers have been enrolled into master trust arrangements. A recent survey of pension providers showed that 81% of DC scheme members are in a master trust arrangement.<sup>17</sup>

**CHART 23: DC MEMBERS BY SCHEME TYPE**



Source: Pensions Policy Institute

<sup>17</sup> PPI DC Assets Allocation Survey 2019, Pensions Policy Institute. Note some members may have pots in more than one scheme type. A master trust is an occupational private sector DC pension scheme that is used by multiple employers that are unconnected with each other.

## THE IMPACT OF COVID-19 ON THE DC PENSIONS SECTOR

The immediate impact of Covid-19 on DC pension schemes in the UK came via the volatility in markets following the spread of the virus around the world and the subsequent lockdowns imposed by governments. By summer 2020, markets, and scheme portfolios, had recovered to a significant extent, notwithstanding the continued depressed levels of economic activity.

However, given the uncertainty around the future shape of the economic recovery and its impact on the economy’s structure, the medium to long term impact of Covid-19 on the DC pensions sector remains uncertain. There are clearly significant risks, particularly in areas such as contribution levels if economic conditions continue to be stressed, affecting both employers and employees.

We asked a number of firms for their views on the impact of the pandemic on the DC pensions sector as well as the implications for investment managers serving DC pension schemes.

### ACCUMULATION: SAVINGS AND INVESTMENT BEHAVIOUR

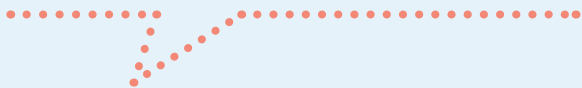
In the short term, pension contributions had held up well, as Government furlough schemes had covered these as part of the financial support offered to employers. However, any rise in unemployment as these schemes were withdrawn would likely result in an associated fall in pension contributions.

Some pension providers had reported a short-term lowering of members’ own contributions but this was not a widespread phenomenon. One area of concern was the possibility for members to be given limited early access to their pension pots to help mitigate the loss or reduction of income from earnings in the short term. US 401(k) DC plans already allow for early withdrawal under some circumstances and governments in Australia and Chile had allowed limited early withdrawals in response to the impact of Covid-19 on peoples’ finances.

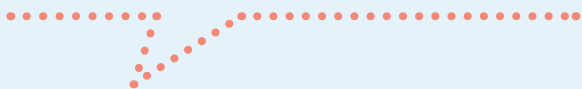
While such a policy may clearly be beneficial in the short term, it could have significant effects on future retirement income if saving was not subsequently increased later on. Firms expected that the experience of Covid-19 may result in more pension schemes seeking to follow the NEST 'sidecar' approach and incorporate a ring-fenced liquid savings pot for short-term/emergency access.

With respect to the impact on peoples' investments and associated behavioural responses, there was no evidence of panicked investment behaviour, with most people simply doing nothing and staying in their existing investment strategies.

*“Contributions fell because of a loss of income or redundancy but there was no mass-switching of investments in response to losses. Because asset value losses have been so short lived, people don't feel that impacted.”*



*“People are more likely to be inert because they have so many other problems to deal with – the last thing they will do is make a big call in markets. Inertia will reign.”*



### **INCOME IN RETIREMENT: MEMBER BEHAVIOUR AND INVESTMENT STRATEGY**

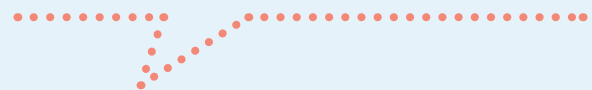
The impact on people close to, or in retirement was more significant. Some providers had reported an increase in the rate of cash that people over 55 were taking.

For people seeking an income from their pension, the impact of the pandemic on markets was challenging: central bank actions to support economies suggested that the low interest rate environment was set to continue for the foreseeable future. Annuities, which already looked expensive, would become even more so.

On the other hand, investment strategies that rely on income generation would find it very tough, given the falls in dividends and rises in corporate debt defaults that were already apparent. Although this did provide an opportunity to design income-focused products that did not rely as heavily on dividend and coupon payments. The crisis may also lead to a re-thinking of asset allocation in drawdown strategies, with a greater focus on the degree of risk taken.

Firms also worried about whether people able to access their pensions might perceive pension products as overly risky in the current environment in comparison to savings accounts, causing them to cash out their pensions and put the money into savings accounts.

*“Our research has picked up trepidation and concern about approaching the retirement decision and the current situation may make that worse. Savings accounts win out under those circumstances because people understand them.”*



**HOW WILL THE CRISIS AFFECT EXISTING TRENDS IN DC INVESTMENT?**

The crisis is also relevant for the further evolution of two trends that were already prevalent in DC investment in recent years: ESG integration into DC defaults and, increasingly, the role of illiquid assets.

**(i) Impact of Covid-19 on responsible investment**

The focus on responsible investment is widespread throughout the investment chain and the DC market is no exception. However, while there is interest from savers in the pure retail funds and retail pensions markets, demand in workplace DC is being driven largely – for now at least - by trustees, pension providers and investment consultants.

The institutionally-led focus on responsible investment in DC is likely to be due to regulation that has required trustees and providers to demonstrate how they are taking account of financially material ESG factors in their investment strategies, with a particular focus on climate change. These requirements and the interest they have generated predate the onset of the pandemic, but there is evidence that the pandemic has spurred additional interest. One of the notable aspects of this is an emerging focus on different aspects of the ‘E’, ‘S’ and ‘G’ of ESG, particularly the ‘S’:

*“At the institutional and trustee level there has been more focus on good governance and thinking about how well-managed companies are going to deliver better value for members over the long term . The impact of coronavirus has been that social responsibility is starting to come into the conversation a bit more.”*

*“We have seen a pickup in interest from clients in UK social investment. Particularly with regard to supporting the communities most impacted by Covid-19. That’s been a much stronger theme than climate change.”*

Over time, firms expect there to be an increasingly bottom-up approach feeding into trustee decision-making on responsible investment, with views from members and corporates being taken into account, with some firms already noting that they had observed this in some large schemes they had worked with.

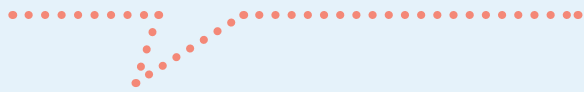
*“With some of the very large corporate schemes, members are getting a bit more vocal in going to their pension departments and the trustees and asking for more clarity on what is available from a sustainability perspective.”*

*“When we’ve seen schemes who have made big decisions in allocating to sustainable strategies, the trustee makes the decision but the corporate has an input. The schemes that have embraced this fully have the corporate standing somewhere quite close to the trustee. Whether that is member driven or aligning it with the corporate’s CSR, is less clear.”*

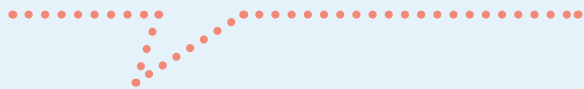
The cause of sustainable investment products had been further helped through the first phase of the crisis by the fact that such strategies had done well, although it was acknowledged that strong conclusions should not be drawn from this and that in general both the investment industry and schemes had to be better in setting out the investment case for ESG strategies. More generally, firms were expecting a greater focus from clients on the reasons for any outperformance of ESG strategies.

*“People buy performance and generally the more ESG friendly your strategy has been, the better you’ve done – largely because you tend to overweight health care and tech stocks which have done well.”*

*“We have to explain why saving the environment is going to be good financially and why it is a good investment opportunity. People have to step back and say what is it we’re trying to achieve and what is our belief that will give us the best outcome.”*



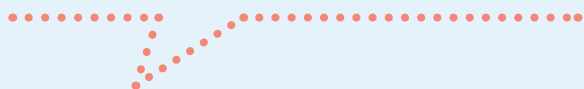
*“There is going to be an increased focus on reporting. How does what we are doing translate to performance, attribution analysis and if there is tilting in portfolios?”*



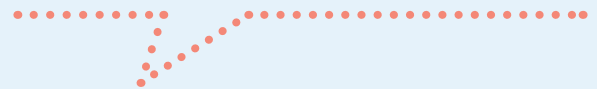
#### (ii) The role of illiquid assets in DC

The capital market and broader economic experience of 2020 has various ramifications for the debate about the role of illiquid investments. From an operational perspective, firms felt that some of the market events – notably, property funds suspending due to valuation uncertainty and some asset classes becoming less liquid due to a lack of buyers – highlighted more fundamental challenges with the DC model of daily pricing and liquidity.

*“People didn’t expect liquidity in investment grade corporate bonds to evaporate overnight at the end of March. Some pension schemes will have high yield exposure in their growth strategies and liquidity disappeared for a few weeks. It shines the light on this obsession with daily liquidity in DC and it’s not just property.”*

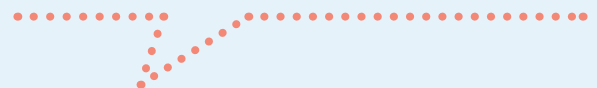


*“You’ve seen DB schemes take advantage of the pricing coming out of high yield and other parts of the credit market. DC can’t do that, they’re stuck with public markets that are very volatile and find it challenging to manage that volatility.”*



The issue of illiquids links to the broader question of the role that pension schemes and investment managers could play in the Covid-19 recovery, particularly in areas such as infrastructure and private markets, alongside recapitalisation activity in public markets. We have already explored some of these issues in Chapter Two of this report, including the role that a new Long-Term Asset Fund could play. Firms close to the DC market were also cautious about the different fiduciary responsibilities through the delivery chain and the importance of avoiding any formal direction from the Government to pension schemes in that area.

*“It’s difficult to predict if there will be a sea change in the Government’s view on what pension schemes and their asset managers should be doing with pension assets. There will be the message that ‘supporting the British economy is what pension schemes should be doing’. We’ve seen that mentioned in the context of infrastructure investment for a long time.”*



Indeed, firms felt that the trends in geographic allocation were moving in the opposite direction, with most pension scheme asset allocation models continuing to globalise, which suggested that the UK economy would also benefit from overseas pensions schemes continuing to look for investment opportunities.

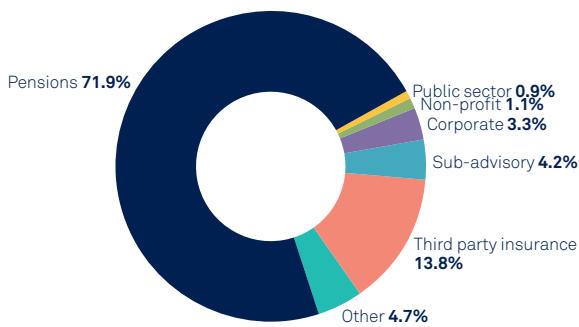
## TRENDS IN THE THIRD PARTY INSTITUTIONAL MARKET

Full details of the asset allocation and investment strategy for the entire institutional market are available in Appendix 2 of this report. The remainder of this chapter looks more closely at IA data from the institutional market that is available to third parties, that is, excluding mandates managed in-house by insurance parent groups and occupational pension schemes, as at the end of 2019.

Once in-house mandates are excluded from the institutional data, assets under management stand at £3.4 trillion, unchanged from 2018, but above the £3.1 trillion seen in 2017.

Pension funds become even more dominant (see Chart 24), representing almost three quarters of third party assets, with the remaining insurance assets representing only 12% of the market.

**CHART 24: THIRD PARTY UK INSTITUTIONAL CLIENT MARKET BY CLIENT TYPE**

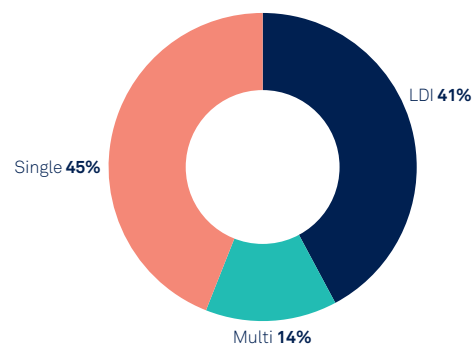


## MANDATE BREAKDOWN

Chart 25 breaks the institutional market down into three categories of mandate:

- Single-asset, or ‘specialist’ mandates, which focus on a specific asset class or geographical region. Specialist mandates remain the most popular form of investment among institutional investors, with 45% managed on this basis.
- Multi-asset, or ‘balanced’ mandates, which would cover a number of asset classes and regions. These account for 14% of total mandates. Stripping out the LDI mandates below, the balance between specialist and multi-asset is 76% single asset versus 24% multi-asset.
- LDI mandates, which are specifically designed to help clients meet future liabilities now represent 41% of assets managed for third party clients. These mandates frequently make greater use of derivative instruments and are therefore included on the basis of the notional value of liabilities hedged, rather than the value of physical assets held in the portfolio. An estimated £1.4 trillion is now being hedged in LDI mandates.

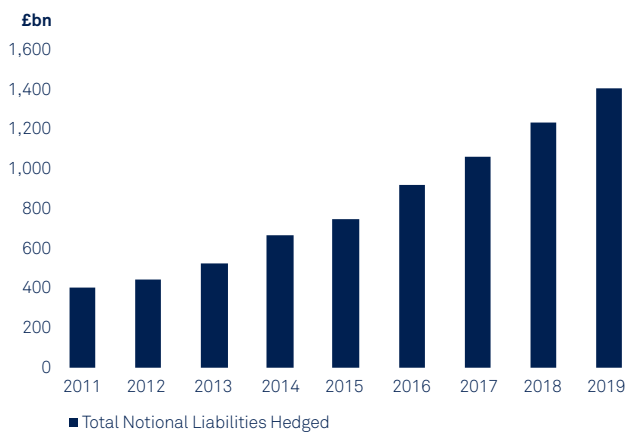
**CHART 25: UK THIRD PARTY INSTITUTIONAL CLIENT MANDATES INCLUDING LDI**





Assets under management for LDI mandates have increased from £400 billion in 2011 to £1,400 billion in 2019. LDI has seen faster growth than other types of mandate as DB pension schemes have sought to match their future liabilities. Regulatory changes around the DB funding regime in the UK have reinforced this shift towards liability management and will likely continue to grow in the near future.

**CHART 26: NOTIONAL VALUE OF LDI (2011-2019)**



Source: KPMG LDI Survey, IA

Although DB pension schemes remain a significant proportion of the institutional market, the fact that they have very specific requirements means that their LDI allocations can mask trends that might otherwise be observed in the market. For that reason we exclude the value of LDI mandates from the asset allocation analysis on pages 65 to 69 and focus purely on whether clients are favouring multi-asset or specialist solutions other than explicit liability management.

Chart 27 indicates that the preference for specialist mandates continues to be high overall but varies significantly depending on the type of client. Multi asset mandates are most likely to be used by third party insurance, whereas the largest client type, pension funds, remains heavily dependent on single asset specialist mandates. As the definition of pension funds in this report reflects mainly defined benefit, and larger defined contribution schemes (e.g. master trusts) it is not surprising to see this as they are more likely to have both the level of assets and the expertise to appoint specialist managers.

**CHART 27: UK THIRD PARTY INSTITUTIONAL CLIENT MANDATES: MULTI-ASSET VS. SPECIALIST**

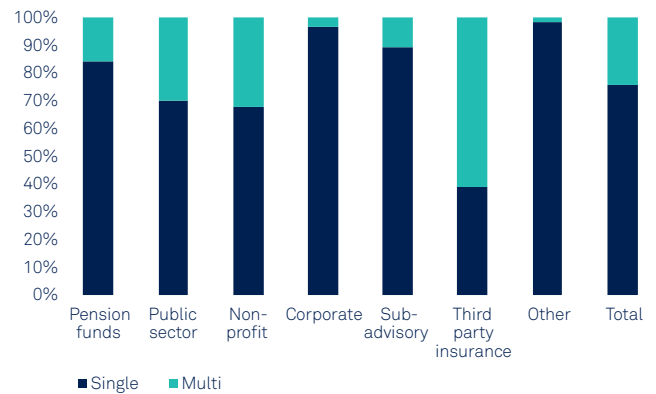
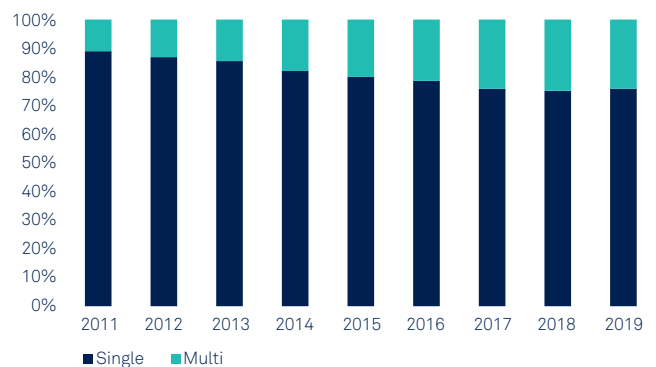


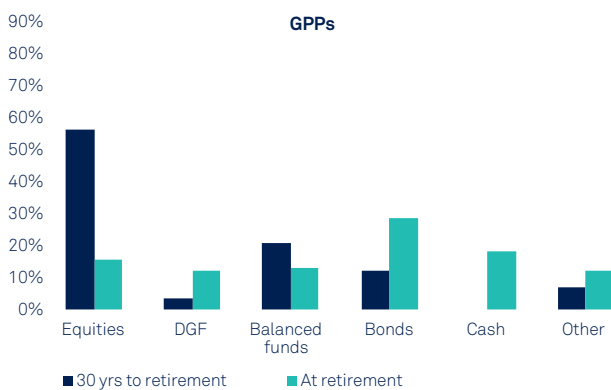
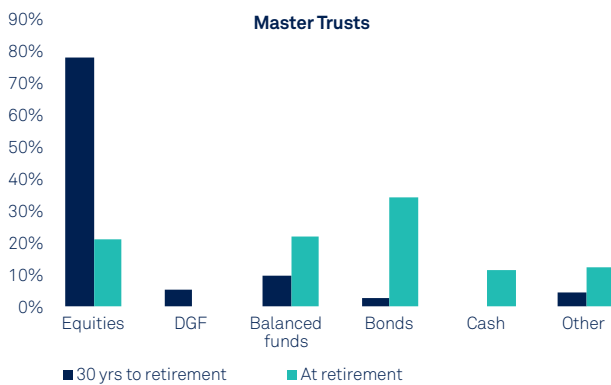
Chart 28 shows that the trend towards multi-asset investment in recent years seems to have stalled as the level of assets managed in multi-asset strategies at the end of 2019 was 24%, slightly down on the previous year. This suggests that the possibility raised in previous reports, that increased contributions through the automatic enrolment scheme would lead to an increase in multi-asset strategies, reflecting the nature of default investment strategies, does not seem to be coming to pass.

**CHART 28: UK THIRD PARTY INSTITUTIONAL CLIENT MANDATES: MULTI-ASSET VS. SPECIALIST (2011-2019)**



The major reason for this is likely to be that there are a range of approaches to asset allocation being used across the pensions industry, which mean that pension schemes and/or consultants will frequently be controlling the allocation directly, building strategies based on segregated mandates and/or component funds. Investment managers offering multi-asset strategies will then be competing for a share of this market. Chart 29 suggests that the use of multi-asset funds remains limited in default strategies.

**CHART 29: DC ASSET ALLOCATION, 30 YEARS PRIOR TO RETIREMENT AND AT RETIREMENT<sup>18</sup>**



Source: Willis Towers Watson FTSE 350 DC pension survey

**INVESTMENT TRENDS WITHIN SPECIALIST MANDATES**

Chart 30 shows that fixed income continued to account for almost 40% of total assets in specialist mandates. Cash increased to 10%. Looking over the past decade, it is difficult to see marked year on year trends, but broadly equity mandates have tended to fall as a proportion of overall mandates.

**CHART 30: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS (2011-2019)**

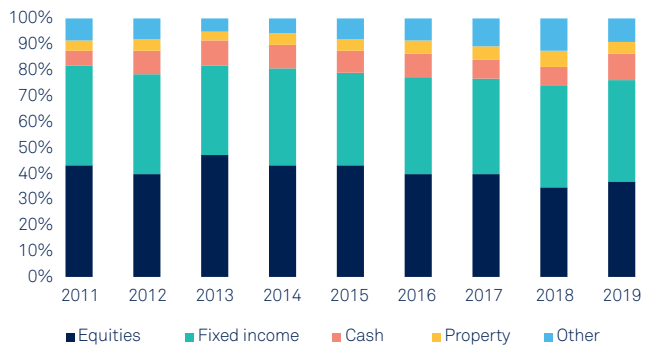
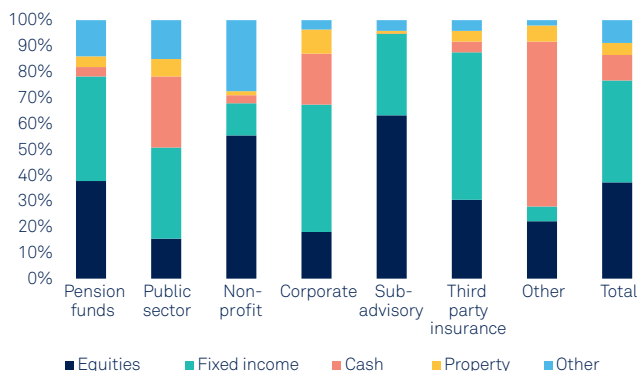


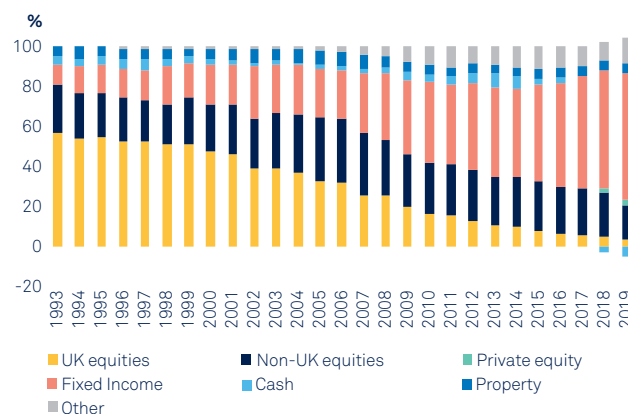
Chart 31 shows that different types of institutional client have very distinct requirements and the headline split between single asset classes masks a wide variation in the type of mandate required by each client type. Insurance companies for example have particularly high allocations to fixed income mandates (58%). Pension funds also have higher than average fixed income allocations (42%), led by particularly high allocations among corporate pension schemes (46%).

<sup>18</sup> Asset allocation in DC varies by age cohort, reflecting the principle that members' capacity to bear investment risk reduces as they age. So we tend to see investment risk in DC strategies reduced over time through shifts out of equities and into bonds and other diversifiers.

**CHART 31: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS**



**CHART 32: UK DB PENSION FUND ASSET ALLOCATION (1993-2019)<sup>19</sup>**



Source: UBS, PPF/TPR Purple Book

Since the mid-1990s, the asset allocation of DB schemes has shifted significantly as they have moved away from using traditional scheme-specific asset allocation benchmarks to strategies which more closely match their assets to their liabilities and manage their deficit volatility, a trend that has been encouraged by evolving regulation of DB scheme funding.

In contrast to DB schemes, Chart 32 showed that the asset allocation of DC schemes has a much higher allocation to equities alongside a significant change in asset allocation between accumulation phase and at retirement.

This Survey has documented this change and recent years indicate an interesting shift. The proportion of assets held in cash and deposits has turned negative. This is likely to be related to investments such as swaps and repurchase agreements.

As with DC schemes, the LGPS has a rather different membership makeup than other DB schemes. As a public sector scheme, it is one of the few DB schemes that remains open to new members. Consequently, scheme membership is comparatively less mature than closed corporate DB schemes and new members continue to contribute and build up entitlements, meaning the scheme has a longer investment horizon than closed DB schemes. The LGPS funds also function within a different regulatory framework to corporate schemes and are thus subject to less pressure to implement de-risking investment strategies. Consequently, they can maintain a higher allocation to return-seeking strategies, which have higher equity allocations.

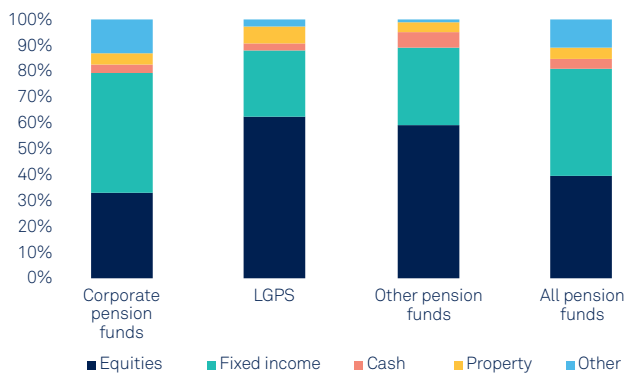
Over the longer term, compared to 25 years ago, a typical DB scheme is now likely to hold a much smaller proportion in equities (just under a quarter), which itself includes more overseas than domestic equities, as well as more private equity. The allocation to UK equities has fallen particularly dramatically over the last 25 years to just 4% of the overall asset allocation in 2019.

Over the same period pension funds have adopted a considerably larger allocation to fixed income assets (63%) and have an increasing allocation to alternative assets (13% compared with almost nothing in the mid-1990s).

<sup>19</sup> In order to more clearly illustrate the shift to negative cash holdings the format of this chart is different to that used in past reports.

Chart 33 shows the change in asset allocation of pension schemes in aggregate. There is a wide variation depending on the type of pension scheme in question. As in previous years the LGPS has a higher allocation to equities than corporate pension schemes (63% vs. 33%).

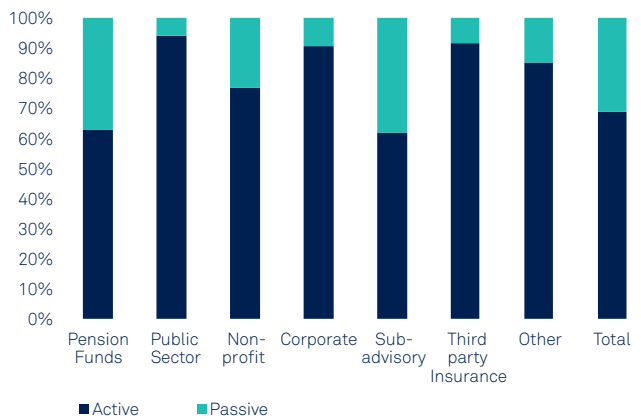
**CHART 33: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS AMONG UK PENSION FUNDS**



**ACTIVE VS. INDEXING**

Just over two thirds of institutional client assets (69%) were managed by IA members on an active basis, almost unchanged from 2018. Of the different client groups, pension scheme and sub-advisory were the most significant users of indexing.

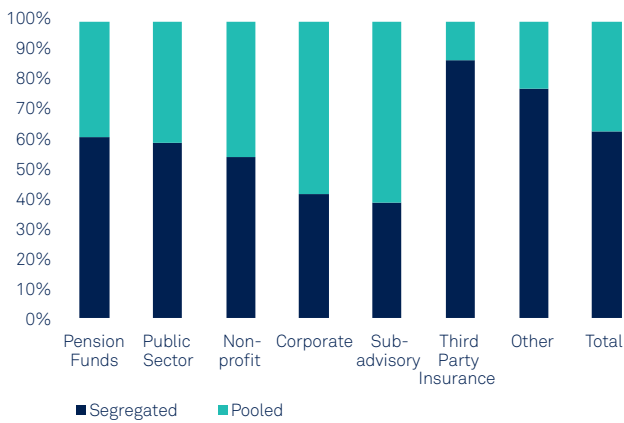
**CHART 34: ACTIVE AND INDEX THIRD PARTY MANDATES BY CLIENT TYPE (SAMPLE-ADJUSTED)**



## SEGREGATED VS. POOLED

Chart 35 shows that segregated mandates represented approaching two thirds (64%) of assets managed for third party institutional mandates at the end of 2019. Almost all mandates managed for third party insurance were managed on a segregated basis.

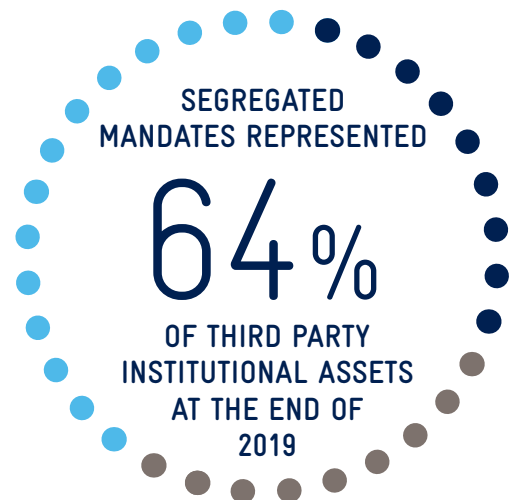
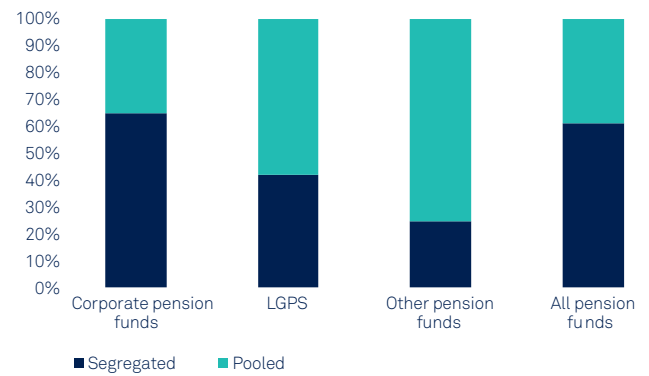
**CHART 35: SEGREGATED AND POOLED MANDATES BY INSTITUTIONAL CLIENT TYPE**



The proportion of mandates managed on a segregated basis has been relatively stable since 2015, with little year on year variation.

Among pension schemes corporate pension funds are significantly more likely to be managed on a segregated basis than any other type of scheme (65%).

**CHART 36: SEGREGATED AND POOLED MANDATES AMONG THIRD PARTY PENSION FUNDS**



# 5 RETAIL FUND MARKET

## KEY FINDINGS

### UK INVESTOR FUNDS UNDER MANAGEMENT

- » By the end of 2019, UK investor funds under management (FUM) in UK and overseas domiciled funds had reached a record £1.31 trillion.
- » Funds under management had recovered to £1.28 trillion by June 2020 despite a 14% fall in March.

### COVID-19 AND THE CHANGING PATTERN OF RETAIL FUND SALES

- » UK investors reacted strongly to extreme levels of market turbulence through 2020. The March 2020 outflow of £9.7 billion from UK retail funds was the highest ever, largely dominated (76%) by outflows from fixed income funds. The £1.12 billion outflow from equities was significantly lower given that the steep decline in equity valuations may have made it unattractive for investors to sell out of them in March.
- » Sales rallied strongly in Q2 2020 at £11.2 billion taking net retail sales for the first half of 2020 to £8.6 billion. By way of comparison, first half net retail sales in 2019 were £3.5 billion in a year of fairly weak total sales (£9.8 billion), which followed an even weaker 2018 (£7.7 billion).
- » The last five years have seen unusually volatile flow amidst rising domestic political and economic uncertainty.

### EROSION OF HOME BIAS IN EQUITIES

- » Allocations to UK equity funds have declined substantially as a proportion of total UK investor FUM in the last 15 years falling from 39% of FUM in 2005 to 14% by June 2020.
- » Since the Brexit referendum was announced in January 2016, up until June 2020, UK equity funds have seen heavy outflows of £12.7 billion.
- » Three factors have contributed to the decline:
  - A more uncertain economic outlook for the UK as a result of the Brexit referendum
  - Weaker total returns from the FTSE relative to global capital markets and a dependence on dividends to boost total returns
  - Relatively low capital growth over a sustained period and a low weighting of the FTSE All-Share to higher growth industry sectors

### INVESTOR INTEREST IN INDEXING FUNDS IS INCREASING

- » Indexing funds under management reached £230 billion at the end of 2019, up 26% year on year from 2018. In June 2020, FUM remained at £230 billion.
- » Growth has accelerated post-2012 when indexing funds accounted for just 8% of FUM. Total funds in indexing funds accounted for 18% of FUM in June 2020.
- » Sales to indexing funds have remained resilient during periods when capital markets were experiencing sharp falls. In March 2020, indexing funds saw positive net sales of £467 million against an outflow of £10.1 billion from active funds.

## RESPONSIBLE AND SUSTAINABLE FUNDS

- » The FUM in responsible investment funds rose by 89% from January 2019 to June 2020. FUM reached a high of £33 billion in June 2020 as asset prices recovered and inflows continued.
  - » Sales to RI funds have weathered the market shock of 2020: net retail sales between January 2019 and June 2020 were £7.0 billion with net inflows each month over this period. This includes March 2020 where net retail sales remained positive, albeit depressed, at £124 million.
  - » In the first six months of 2020, net sales to responsible investment funds were four times higher than in H1 2019.
- » The first half of 2020 has seen a shift in the patterns in distribution. Flows through the 'Other UK Intermediaries including IFAs' channel have been strong with particularly strong sales in the first quarter during a period when other channels saw flat sales or outflows.
    - UK Fund Platforms saw higher outflows from general investment accounts in 2020, whereas funds wrapped by ISAs or pensions were more resilient on platform. Outflows from unwrapped accounts for the first half of 2020 were at £903 million due to heavy outflows in the first quarter.

## RETAIL FUND DISTRIBUTION

- » UK fund platforms remain the dominant retail distribution channel in 2019 with a 49% share of total gross sales. Sales through platforms rose by 17% year on year to reach £127 billion.
- » Platforms were also the largest channel for net sales in 2019 despite a £2 billion decrease to £10.9 billion. The 'Other UK Intermediaries including IFAs' channel saw net sales of £3 billion, up from £0.2 billion in 2018.



Our analysis of the UK investment fund market is based on proprietary IA sales data looking at UK investor behaviour, particularly retail.<sup>20</sup> This data provides insight for the first half of 2020, offering more up-to-date analysis than the total assets under management data at investment management industry level. Chapter 5 looks in detail at both recent developments in UK retail fund investor behaviour and longer-term trends in the UK funds industry.

## UK INVESTOR FUNDS UNDER MANAGEMENT

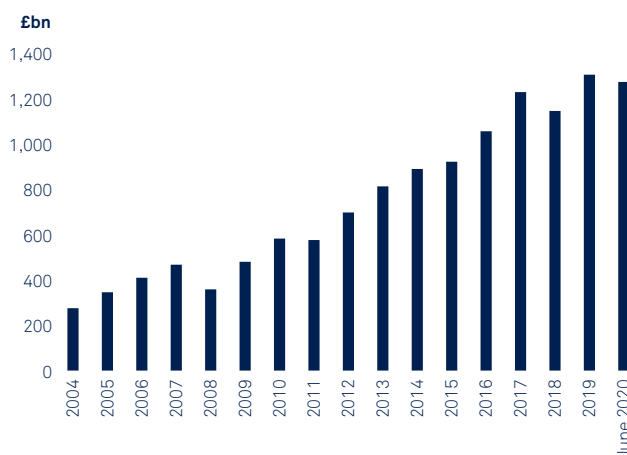
By the end of 2019, UK investor funds under management (FUM) in UK and overseas domiciled funds had reached a record £1.31 trillion, up from £1.15 trillion at year-end 2018 and a 14% increase year on year (see Chart 37). Although FUM fell at the end of 2018 as a result of a sharp reversal in global capital markets, market returns rebounded over the course of 2019, with asset appreciation driving the 14% increase in FUM.

Through Q1 2020, the UK retail fund market faced significant headwinds as investors grappled with the implications of Covid-19 for investment returns. Whilst the coronavirus pandemic is not a financial crisis in origin, the measures implemented to contain the virus, including the locking down of populations globally, had a swift and dramatic impact on capital market returns in March: the FTSE All-Share lost 28% of its value between 4-23 March, a pattern that was replicated across the global equity markets.

Between December 2019 and March 2020, the gains in FUM made during 2019 were therefore wiped out: FUM declined by 14% to £1.13 trillion as a result of March's steep market falls. However, as markets recovered, so funds under management have since risen to £1.28 trillion as at June 2020, a decline of 2% from December 2019.

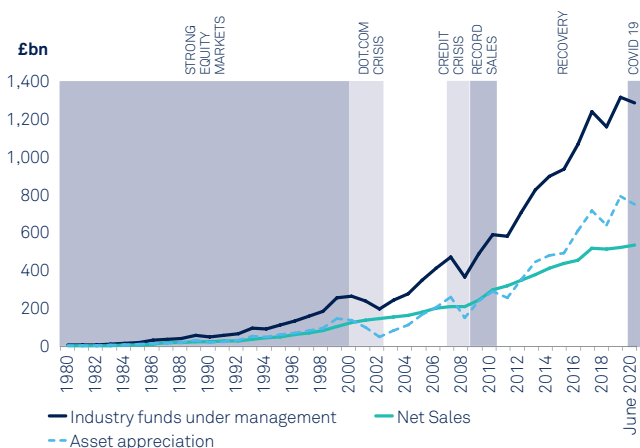
<sup>20</sup> IA data show retail and institutional funds under management for UK investors in UK domiciled and overseas domiciled funds but from 2012 does not include overseas investors in UK domiciled funds. Prior to 2012 the data represents all investors in UK domiciled funds. Data on overseas investors in UK domiciled funds is shown in Chart 68.

**CHART 37: TOTAL INDUSTRY FUNDS UNDER MANAGEMENT (2004- JUNE 2020)**



Looking over the past 15 years, despite strong growth in overall sales (total £294.3 billion), asset appreciation and depreciation have been the most significant driver of total FUM. Chart 38 particularly illustrates the impact of market movements on funds under management in 2008, as markets were affected by the GFC and again by major turbulence in 2018. Even at moments of acute stress when the industry sees significant outflows, it is market movement that overwhelmingly accounts for the change in overall FUM.

**CHART 38: DRIVERS OF INDUSTRY GROWTH (1980 TO 2020 JUNE)**



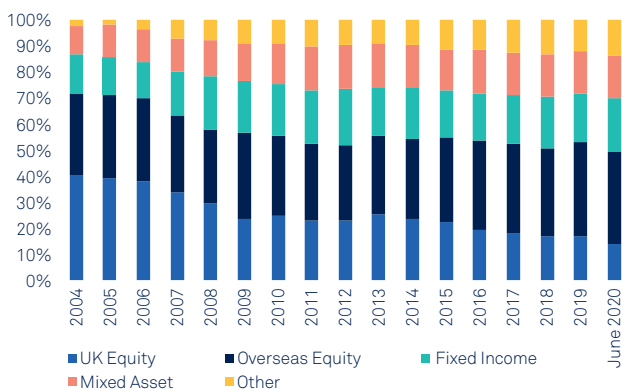


## UK INVESTOR FUM BY ASSET CLASS

As we explore in later sections of this chapter, a major historic trend within the overall asset mix is the decline in UK equities as a proportion of total FUM since 2004 – falling from 39% to 14% in June 2020 (see Chart 39). In contrast, overseas equities accounted for 36% of FUM in June 2020, an increase of 4 percentage points from 2005. This rise aligns with the wider increase in overseas equities as a proportion of total assets under management (See Chapter 3) as home bias continues to erode. That erosion is much more pronounced in parts of the institutional market, notably DB pension schemes, than in UK retail.

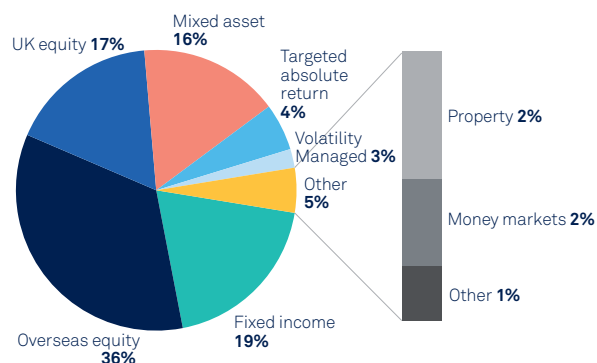
The overall proportion of funds allocated to equities has also fallen, again a trend seen in the institutional market. This sees funds invested in fixed income now representing 20% of FUM in June 2020, compared with 15% in 2005. Mixed asset as a proportion of FUM is now 16% against 12% in 2005.

**CHART 39: FUM BY ASSET CLASS (2004-2020 JUNE)**



The highest increase as a proportion of FUM over the last 15 years is seen outside the main fund categories (equities, fixed income and mixed assets). This takes the 'Other' category to 14% of FUM in June 2020: a substantial increase from 2% in 2005. This shift has particularly been driven by the rise in preference for outcome-oriented funds, notably targeted absolute return and volatility-managed funds, which now account for a combined total of 7% of total FUM (see Chart 40).

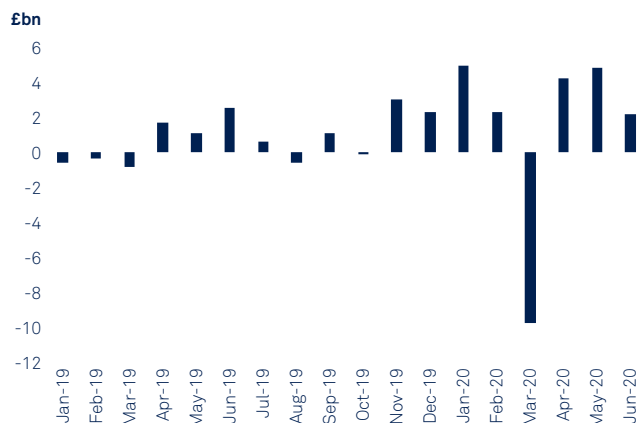
**CHART 40: UK INVESTOR FUM BY ASSET/FUND SECTOR**



## COVID-19 AND CHANGING PATTERNS OF RETAIL FUND SALES

After a comparatively uneventful beginning to the year, total outflows in March 2020 reached £9.7 billion overall, the highest ever seen in a month, the next highest being £2.5 billion in June 2016 following the Brexit referendum. This has been offset to a significant extent by a return to inflows in April totalling £11.2 billion through to June. Overall net retail sales for the first half of 2020 were £8.6 billion. By way of comparison, first half net retail sales in 2019 were £3.5 billion in a year of fairly weak total sales (£9.8 billion), which followed an even weaker 2018 (£7.7 billion). As we show later in this section, the last five years have seen unusually volatile flow amidst rising domestic political and economic uncertainty.

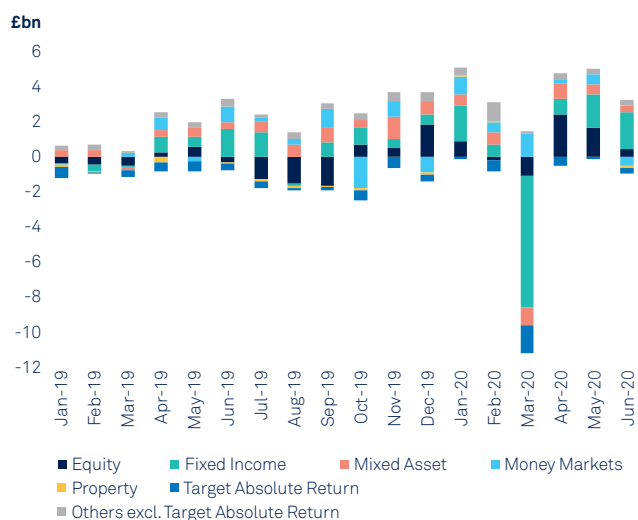
**CHART 41: MONTHLY TOTAL NET RETAIL SALES – 2019 TO JUNE 2020**



**EQUITY FLOWS**

Equity flows were very volatile through 2019, with significant outflows in the summer months. In March 2020, in spite of plummeting capital returns in the global equity markets, the £1.12 billion outflow was significantly lower both than fixed income and the monthly equity outflows in August and September 2019. The steep decline in equity valuations may have made it unattractive for investors to sell out of them in March at the bottom of the market.

**CHART 42: NET RETAIL SALES BY ASSET CLASSES (2019 – JUNE 2020)**

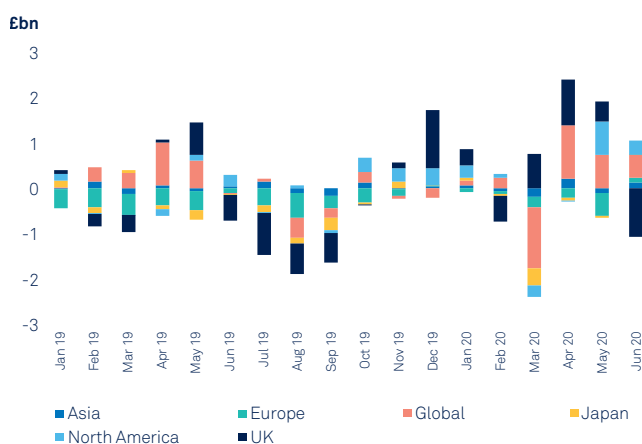


As Chart 42 shows, different patterns can be observed across different regions.

- Global.** Despite the overall restraint in equity sales, global equities saw large outflows of £1.33 billion in March. Sales to global funds have also enjoyed the strongest sales rebound in Q2 2020, as assets totalling £2.4 billion flooded back over the period.
- North America.** Outflows from North American equities were £256 million in March. Net retail sales picked up again in May, taking inflows in the second quarter to £1.0 billion. The S&P 500, the major US index, gained 36% between 23 March and 29 June 2020: this compares with a 23% gain for the FTSE 100 over the same period.
- Europe.** European equities have seen eight consecutive quarterly outflows up to Q2 2020: the highest outflows over this period coming in Q1 2019 of £1.3 billion. In March, £239 million flowed out and May saw higher outflows of £500 million despite rebounding returns in the European capital markets. The ECB has been less decisive than other Central Banks in using the monetary policy levers at its disposal.
- Asia.** Asian countries faced earlier restrictions in their efforts to contain the virus and whilst sales to Asian equities have been relatively volatile month on month through 2020, outflows were more concentrated in Q1: March’s outflow of £179 million pushed Asian equities to net retail sales of -£182 million in the first quarter. This is the highest quarterly outflow since Q1 2017, but significantly less than the highest outflow of the last ten years of -£611 million in Q3 2015. Q2 inflows reached £247 million as re-opening after strict lockdown measures in Asian countries preceded Europe and North America.
- UK.** Outflows from all the other major geographic locations in March were offset by a £747 million inflow across UK equities. As equity markets around the world, including the FTSE, lost 20-30% of their value reaching a low on 23 March, the net retail inflow to the UK All Companies sector of £965 million was the second highest on record. One explanation for this may be that some investors were prepared to allocate more capital to UK equities at relatively cheap valuations in March. These investors were banking on a steep recovery in performance. From

March through to May inflows totalled £2.2 billion. There are signs in June that investors have started to bank these gains as £1.1 billion flowed out of UK equities. An element of greater familiarity with companies listed in or deriving significant revenues from the UK may have guided some retail investors to risk allocating more capital to UK equities in March: we did not see UK investors taking this approach for global and US equities.

**CHART 43: NET RETAIL SALES BY EQUITY REGION (2019 - JUNE 2020)**



- Some 80% of fixed income funds recorded net outflows in March, and this is by far the highest proportion of funds seeing outflows in the main asset classes in current IA data (which goes back to 2002).

The largest fixed income net outflows in March were across funds in the £ Corporate, £ Strategic and the Global Bond sectors, the three largest fixed income sectors by FUM. There were also large-scale outflows from the High Yield sector which invests in sterling non-investment grade debt with the promise of higher yields and is therefore more vulnerable to credit defaults. However, there were outflows across all the fixed income sectors to varying degrees.

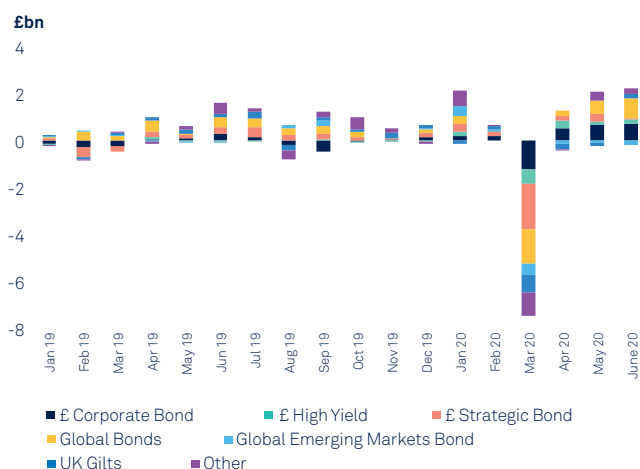
Assets have flowed back to fixed income funds in Q2, recouping 65% of March 2020's £7.4 billion outflow by June 2020. Whilst sales to bond funds have rebounded, the spectre of investment grade bond downgrades remains. Funds investing in this type of debt would have to adjust allocations to avoid too great an exposure to non-investment grade debt if the pace of downgrades accelerate. Globally, the strength of the dollar has also affected emerging market debt issuers as debt is often dollar denominated making it tougher to pay down when the dollar is strong.

**FIXED INCOME FLOWS**

Through 2019, net sales to fixed income had recovered substantially after outflows in Q4 2018 and the total over the year reached £6.7 billion. As we approached the height of the Covid-19 market crisis in Spring 2020, one might have expected that investors would avoid selling out of assets in fixed income funds, an asset class that is classically less risky for investors than equities. This was not the case:

- Outflows of £7.4 billion from fixed income funds in March accounted for 76% of the total retail outflow.
- All nine fixed income sectors recorded their highest ever outflow as a proportion of sector FUM in March.

**CHART 44: FIXED INCOME, MONTHLY NET RETAIL SALES BY SECTOR (2019 - JUNE 2020)**



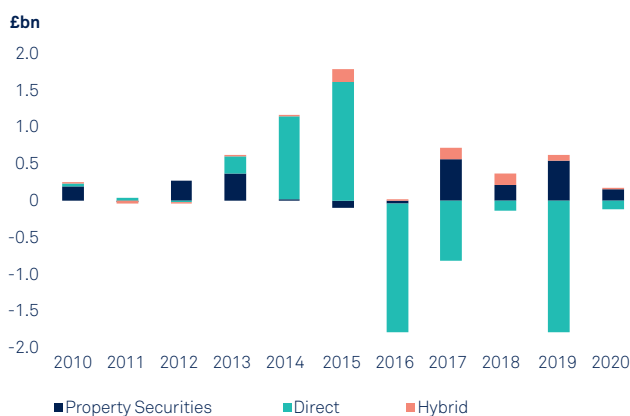
We see three key drivers of the heavy fixed income outflows:

- Re-balancing portfolios as equity valuations fell:** Equity valuations dropped 20% -30% over a short period of time, reaching a low on 23 March. Portfolios with a 60 /40 weighting to bonds and equities would have moved significantly out of alignment, leaving them with a much higher weighting to bonds. The prospect of selling down equities when valuations are low is unappealing. In particular, discretionary managers looked to balance portfolios in the short-term. Investors selling out of fixed income for re-balancing purposes appear to have sold down more liquid fixed income funds first, and this is part of the explanation for high outflows from £ corporate bond funds and £ strategic bond funds. As equity markets rebounded, further adjustments back into fixed income have been made.
- Calls on cash:** Some of the activity in March must represent a move to cash, either as a ‘flight to safety’ and/or reflecting the need to draw on assets invested to convert them into cash for immediate expenses. If a household income dropped significantly as a result of being furloughed or self-employed in an industry that was effectively shut-down, drawing on investments may not have been desirable but could have been a necessity in order to pay mortgages or other household expenses. To meet these needs, investors may have sold down fixed income or mixed asset funds to avoid crystallising the losses sustained on equities.
- Short-term risk management plays:** Volatility was a feature across asset classes, with conditions in both the bond and equity markets becoming exceptionally challenging in mid-March. It is possible that some investors may have opted to reduce their exposure to bonds in immediate reaction to this. The massive scale of bond buying programmes from the Federal Reserve, the BoE and the ECB helped to drive greater liquidity and improve price stability but this pulled through into bond markets at the end of March.

## PROPERTY CHALLENGES

Sales to funds investing in property have been consistently lower in the years following the Brexit referendum and the suspension of redemptions from funds investing in UK physical commercial property in July 2016, and have been in net outflow (see Chart 45). Funds under management had also dropped back at the end of 2019 to £28.2 billion, levels last seen in 2016. 53% of the £28.2 billion was invested in funds investing directly in property, 21% of FUM was in property securities funds and 5% of property FUM was invested in hybrid funds.

**CHART 45: NET RETAIL SALES BY TYPE OF PROPERTY FUND (2010-2020)**



In 2018, the IA split the Property sector into UK Property Direct and Property Other, which contains funds investing in property securities, a hybrid of direct and securities and global physical property funds. Chart 45 shows that sales to funds investing in property securities, which are more liquid, have outstripped sales to funds investing in direct property since 2017. Cumulative sales to property security funds over 2019 were £530 million, compared with an outflow of £1.8 billion from funds investing directly in property.

The net retail sales data in 2020 in Chart 45 is affected by the widespread suspension of redemptions and subscriptions for daily and quarterly-traded open-ended property funds investing directly in physical UK property. This is due to valuers qualifying their valuations with a material uncertainty clause meaning that fund managers cannot price units with any certainty. According to data from the Association of Real Estate Funds, 35 property funds suspended in March (21 UK domiciled funds). Whilst most funds remain suspended, at the time of writing some firms have begun to lift their suspensions.<sup>21</sup>

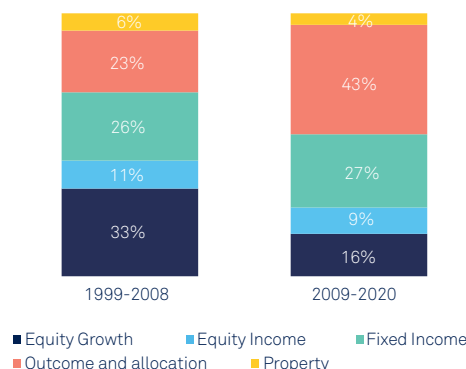
The material uncertainty clauses were invoked by valuers once the UK Government took steps to introduce the national lockdown required to halt the spread of Covid-19. The material uncertainty was a result of the following drivers:

- Over lockdown, people shopped less, travelled less, could not eat out or commute in to offices, instead working from home.
- The revenue of retailers, hotels and restaurants was significantly reduced, and in some cases, revenues were non-existent during lockdown, which meant that they were less able to pay rent.
- The investment value of a property is derived from its income stream, the rent. If this is at risk, so is the value.

## OUTCOME AND ALLOCATION

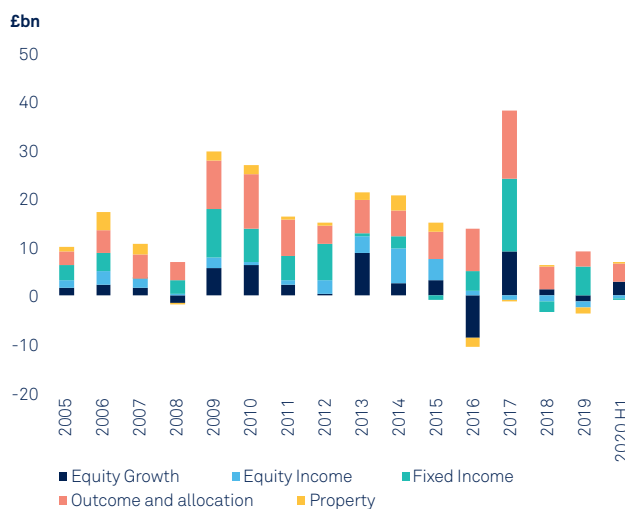
The last 15 years have seen what increasingly appears to be a structural shift in investor preference for what the IA terms outcome and allocation funds. These include the mixed asset sectors as well as some specialist funds, money market funds, targeted absolute return and volatility managed. The proportion of total net sales to outcome and allocation funds has risen from 23% in the decade before the Global Financial Crisis to 43% since 2009. This shift in the balance of net retail sales is largely at the expense of flows to equity growth funds, which have declined as a proportion of sales to 16% from 33% in the preceding period (see Chart 46).

**CHART 46: CUMULATIVE NET RETAIL SALES BY INVESTOR OBJECTIVE PRE-2008 AND POST-2008**



This story remains intact into 2020 as Chart 47 shows. However, there are some important sub-trends, particularly affecting Targeted Absolute Return funds. Whilst we continue to see steady inflows to mixed investment funds over the last fifteen years, the targeted absolute return sector, which was launched in 2008 and initially proved very popular with investors, has moved into outflow each quarter from Q3 2018. Total retail outflows through 2019 were £5.0 billion.

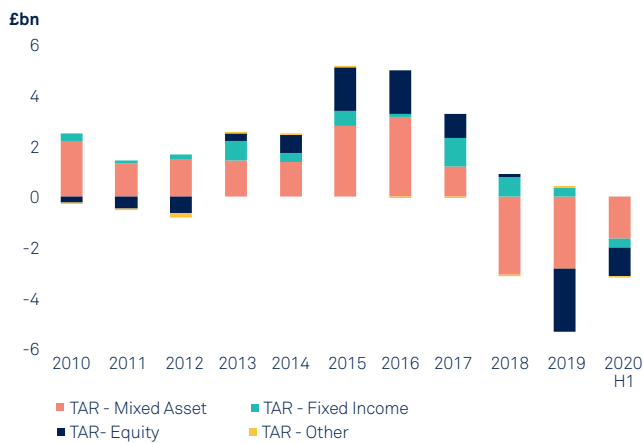
**CHART 45: NET RETAIL SALES BY INVESTOR OBJECTIVE (2005 – JUNE 2020)**



<sup>21</sup> This number is based on publicly available data on suspensions and information provided to AREF by its members. It is possible that there are fund suspensions that AREF is not aware of. Of these funds, the majority are Property Authorised Investment Funds (PAIFs) – either Non UCITS Retail Schemes (NURS) or Qualified Investor Schemes (QIS). They are all open ended.

In 2020, as the investment industry navigated the impact of the coronavirus on performance and on net sales, some suggested that the targeted absolute return sector might return to inflow. This type of outcome fund should be attractive for investors looking to achieve returns irrespective of market conditions. Whilst some funds in the sector have achieved positive net retail sales, Chart 48 shows that 2020 hasn't heralded the reversal in fortune that might have been anticipated and net outflows for the first two quarters of 2020 have reached £3.2 billion.

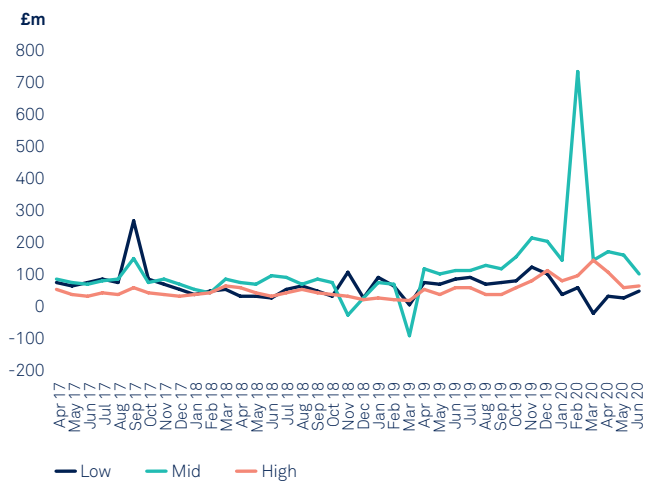
**CHART 48: NET RETAIL SALES TO TARGETED ABSOLUTE RETURN FUNDS BY ASSET CATEGORY (2010- JUNE 2020)**



Where flows to targeted absolute return funds have faltered, the Volatility Managed sector has consistently attracted inflows since its launch in 2017. This type of fund often maps to the advisers' risk profiling process to help build investor portfolios that are suitable for different risk appetites. A medium risk tolerance is likely to be the most common result. Chart 49 divides the funds in the volatility managed sector into funds managing returns within low, medium and high volatility parameters.<sup>22</sup>

The volatility managed sector was one of only six sectors to see an inflow in March 2020<sup>23</sup>, net retail sales for the month were £250 million and proved able to weather March's significant outflows more effectively than the mixed asset sectors.

**CHART 49: NET RETAIL SALES TO THE VOLATILITY MANAGED SECTOR SPLIT BY FUNDS MANAGING TO LOW, MID AND HIGH VOLATILITY BANDS**



<sup>22</sup> As there is no standardised industry approach to what constitutes a low, medium or high volatility parameter, this chart is based on fund names and investment objectives.

<sup>23</sup> The other sectors being UK All Companies, Property Other, Global Emerging Markets, Standard Money Markets and Short-term Money Markets.

## COMPARING THE PATTERN OF RETAIL SALES WITH PREVIOUS CRISES

The conditions that led to the GFC were completely different from 2020 but 2008 does bear comparison with 2020 because it gives us some sense of how investors have responded to significant market shocks in the past and how 2020 differs.<sup>24</sup>

**CHART 50: TOTAL SALES AS A PERCENTAGE OF FUM THROUGH CRISES**

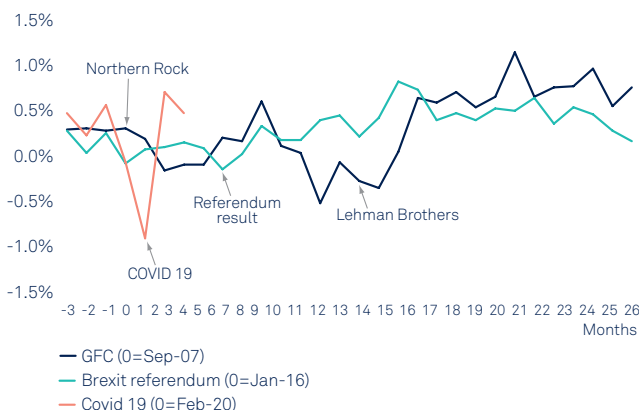


Chart 50 shows that in 2007, when the run on Northern Rock made it apparent that the crisis was spreading internationally, we start to see outflows. The striking difference between 2008 and 2020 is the speed of events and the scale of outflows:

- In 2007/8 the full impact on sales plays out over a much longer time period than in 2020: the highest outflow of 0.5% of total FUM occurs ten months after Northern Rock in 2008, and sales are volatile over a 13 month period before moving into a sustained recovery.
- Outflows in 2020 begin in February but reach 0.91% of FUM in March, the highest outflow ever in percentage terms as well as absolute terms. Inflows in April of 0.69% of FUM demonstrate the strength of the rebound in sales, and is far swifter than in 2008.

<sup>24</sup> The scale of the UK funds market in 2008 was smaller, and IA data did not capture FUM in overseas domiciled funds at that time. This means that the most effective way of comparing the events of 2020 and 2008 is to look at outflows as a proportion of total FUM. We have combined institutional and retail sales as funds under management includes both institutional and retail assets.

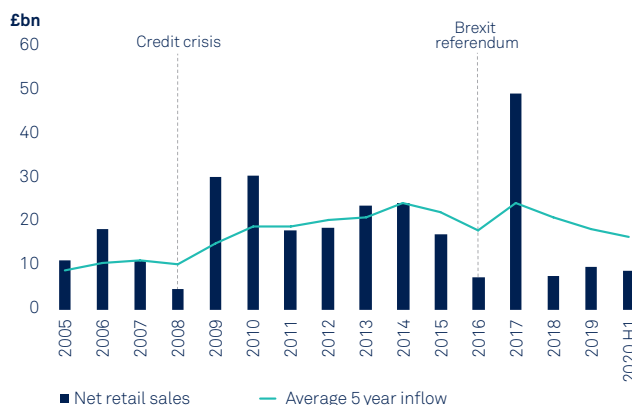
## LONGER-TERM PATTERNS

The historic data clearly suggest that investors do react to significant events - and outflows are likely to occur if there are further shocks - but that sales recover quickly.

Looking back at net retail sales over the last 15 years allow us to compare the long-term effects of the global financial crisis and the Brexit referendum with events of 2020 and the impact of the coronavirus pandemic:

- In 2008, in the depths of the Global Financial Crisis, net retail sales declined significantly year on year to £4.8 billion but they rebounded dramatically in 2009 to a then record level of £29.8 billion.
- A similar effect can be seen in response to the Brexit referendum. In 2016, net retail sales of £7.0 billion for the year were followed by a record £48.6 billion in 2017.

**CHART 51: NET RETAIL SALES (2005- H1 2020)**



However, a rebound in retail sales over 2021 similar to that seen in 2017 and 2009 may be optimistic:

- One very significant driver of the increase in average inflows post-2008 was the sharp reduction in interest rates. In 2007, the Bank of England base rate stood at 5.5%. It was lowered to 0.5% in 2008, where it remained for over seven years before being dropped to 0.25% in 2016. This made bank and building society deposits a relatively unattractive means of saving in the UK and investment funds benefited from this.
- Despite the record-breaking inflow in 2017, we see a sharp reversal in 2018 and then a decline in the moving five-year sales average into 2020. This draws attention to a number of factors pre-dating the pandemic that have weighed on sales. A more negative outlook for global trade has affected markets since the ratcheting up of trade tensions between the US and China. Investors are also now used to a persistently low interest environment and there is therefore no clear new impetus for savers to transfer cash savings to funds. The assets flowing into funds from DB transfers through 2016 and 2017 have also slowed substantially through 2018/2019 according to FCA data.<sup>25</sup>



## UK EQUITIES – THE EROSION OF HOME BIAS

UK equities have declined substantially as a proportion of total UK investor FUM in the last 15 years. In 2005, UK equities represented 39% of FUM but this had fallen to 14% by June 2020 (See Chart 39). Since 2016's Brexit referendum, UK equity funds have also seen sustained outflows. In this section, we explore three factors behind the erosion of UK investors' home bias:

- A more uncertain economic outlook for the UK as a result of the Brexit referendum.
- Weaker total returns from the FTSE compared with other global capital markets and a dependence on dividends to boost total returns.
- Flat capital growth over a sustained period and a low weighting of the FTSE All-Share to higher growth industry sectors.

## IMPACT OF THE BREXIT REFERENDUM ON NET RETAIL SALES

Chart 52 shows net retail sales over the last five years to the IA's three UK equity sectors:

- UK All Companies, the largest sector by FUM at £150 billion in June 2020
- UK Equity Income (£41.8 billion as at June 2020)
- UK Smaller Companies (£13.7 billion as at June 2020).

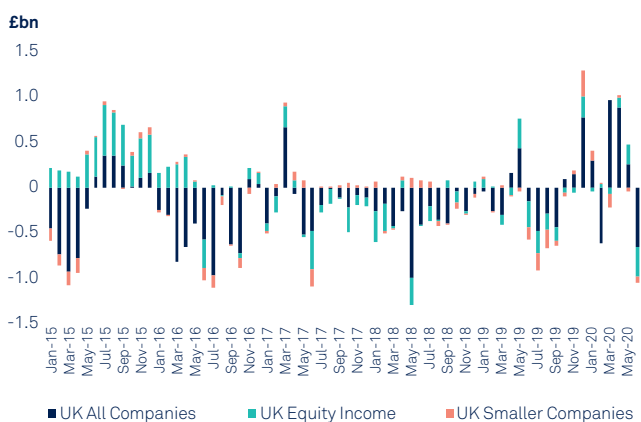
In the years preceding the Brexit referendum, sales to UK equities had been volatile but between January 2016 when the referendum was announced, until June 2020 UK equities have seen heavy outflows of £12.7 billion. The last quarter of 2019 saw a shift in this pattern in the run up to the UK general election as the prospect of a sizeable Conservative majority became a reality. Boris Johnson's government set out a clear and

<sup>25</sup> Pension providers reported receiving just over 57,000 transfers from DB schemes into DC plans in 2018/19 to the FCA. The number of transfers in the second 6 months of 2019 (24,800 received by 76 firms) was down 24% on those in the first 6 months (32,500 received by 83 firms). This was also noticeably lower than seen in the first 6 months that firms reported data to the FCA: from October 2017 to March 2018 (34,750), when the FCA states that there was a smaller population of reporting firms. The FCA attributes the decline to a range of factors, including a greater awareness of the risks of transfers as a result of increased media attention and FCA supervisory activity.



stricter timetable for Brexit transition. Greater certainty around Brexit looks to have been a factor in attracting investors back to UK equities.

**CHART 52: NET RETAIL SALES, UK EQUITY SECTORS (2015 - JUNE 2020)**

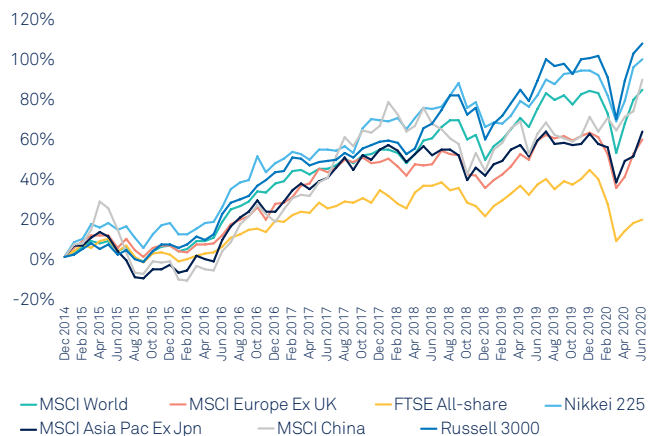


**COMPARATIVELY WEAK FTSE ALL-SHARE TOTAL RETURNS**

The uncertainty surrounding the outlook for the UK economy as a result of the Brexit transition has been a factor in driving retail sales but the FTSE attracts companies from around the world to list on it and UK companies trade globally too, so the fortunes of the UK economy are not the only influence on investor sentiment.

The rise and fall in UK equity funds under management is principally governed by market movements rather than sales, and as Chart 53 illustrates, the total return delivered to investors by the FTSE All-Share has been the lowest of the major global markets in the last five years.

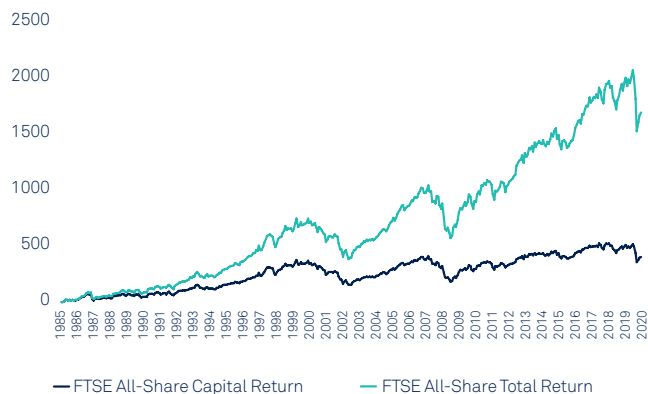
**CHART 53: MAJOR GLOBAL EQUITY MARKETS TOTAL RETURN (2015 - JUNE 2020)**



Source: Morningstar

The FTSE is very reliant on dividend payments from the companies that list on it to boost total returns. Chart 54 shows the total return and capital return performance of the FTSE since 1985, illustrating the significant contribution that dividends have long made to total return. Capital returns over the same period have been flat.

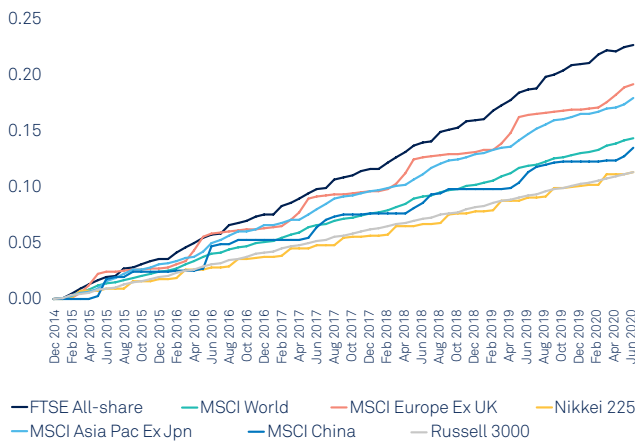
**CHART 54: FTSE ALL-SHARE TOTAL RETURN AND CAPITAL RETURN (1985 - JUNE 2020)**



Source: Refinitiv

If we strip out capital returns and look at how the FTSE All-Share compares with its global peers on the basis of dividend distributions then, the FTSE All-Share has offered the highest distributions since 2015. Higher dividend distributions do not make up for the lag on capital returns, however. The outlook for dividend distributions has weakened significantly in 2020: UK company dividend payments fell by 57% in Q2 2020 compared with Q2 2019.<sup>26</sup>

**CHART 55: MAJOR GLOBAL EQUITY MARKETS CUMULATIVE DIVIDEND PAYMENTS (2015 - JUNE 2020)**

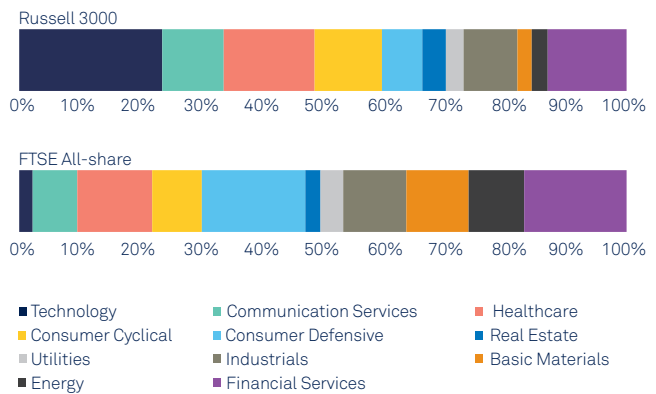


Source: Morningstar

**THE PROFILE OF COMPANIES LISTED ON THE FTSE**

Chart 56 shows the significant differences in the profile of company listed on the FTSE All-Share<sup>27</sup>, with those of its US counterpart, the Russell 3000. Technology, communication services and healthcare are industry sectors that have remained resilient through 2020 and these are grouped on the left-hand side of the chart. These industries account for 49% of the Russell 3000 but just 22% of the FTSE All-Share.

**CHART 56: COMPARISON OF THE WEIGHTING BY INDUSTRY SECTOR OF THE FTSE ALL-SHARE AND RUSSELL 3000**



Source: Morningstar

Technology companies have delivered strong growth in capital returns in recent years. The FAANG stocks: Facebook, Apple, Amazon, Netflix and Google (Alphabet) are all listed on the Nasdaq. These technology giants make up a substantial proportion of the market capitalisation of the S&P 500 and the Russell 3000. Technology companies overall make up 24% of the Russell 3000 but only 2% of the FTSE All-Share.

<sup>26</sup> Link Asset Services' Dividend Monitor Q2 2020

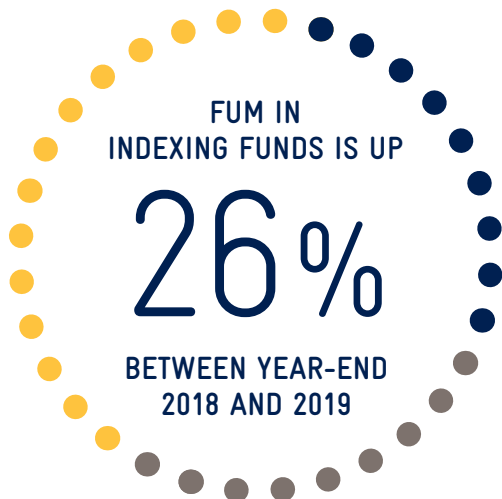
<sup>27</sup> The FTSE All-Share accounts for 98% of the market capitalisation of the FTSE

Just over a third of the FTSE All-Share, according to Morningstar’s categorisation of the underlying stocks, is comprised of financials (17%), energy (9%) and basic materials (10%). These companies account for 18% of the Russell 3000.

Energy and financial companies have historically been consistent and generous dividend payers. However, on the 31st of March 2020, the Bank of England asked deposit takers, which include the major banks listed on the FTSE, to suspend dividend payments and share buybacks until at least January 2021 (at the current time of writing). The BoE made this request in order to provide ‘extra headroom’ on capital reserves in an uncertain economic outlook where rising loan defaults are in prospect.

In the energy sector, Royal Dutch Shell, the third largest company on the FTSE 100 by market capitalisation, announced a reduction in its dividend payment in Q1 2020 to 0.16 per share shrinking the dividend payment by 66%. This comes on the back of a steep fall in oil prices.

The low weighting to industry sectors that have the highest capital growth potential and the reduction in dividend payments from core industry sectors means that investors in this broad spectrum of UK listed equities face stronger headwinds than those investing in the FTSE’s US and global peers.



## INCREASING INTEREST IN INDEXING FUNDS

The growth of assets in indexing funds as a proportion of FUM mirrors the pattern that we see in AUM. Growth has been gradual but the pace is accelerating post 2012 when indexing funds accounted for 8% of FUM to 18% in June 2020.

Any increase in FUM is always supported by strong asset appreciation, and as markets rose, particularly in Q4 2019, this contributed to indexing funds under management reaching £230 billion at the end of the year, up 26% year on year from 2018. This compares with a 1% increase between 2017 and 2018 as challenging markets in the last quarter of 2018 eroded gains in FUM.

**CHART 57: ACTIVE FUNDS AND INDEXING FUNDS AS A PROPORTION OF TOTAL FUNDS UNDER MANAGEMENT (2004-2020 JUNE)**

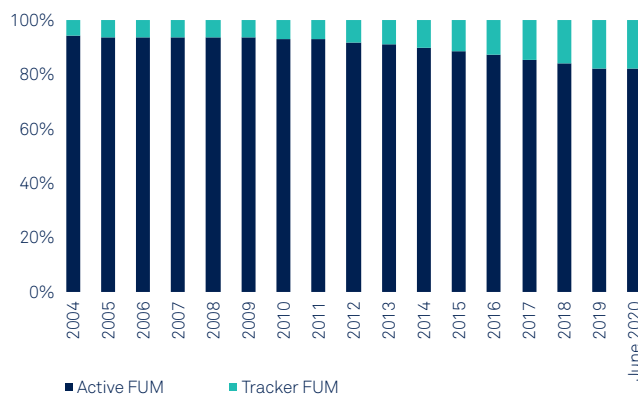
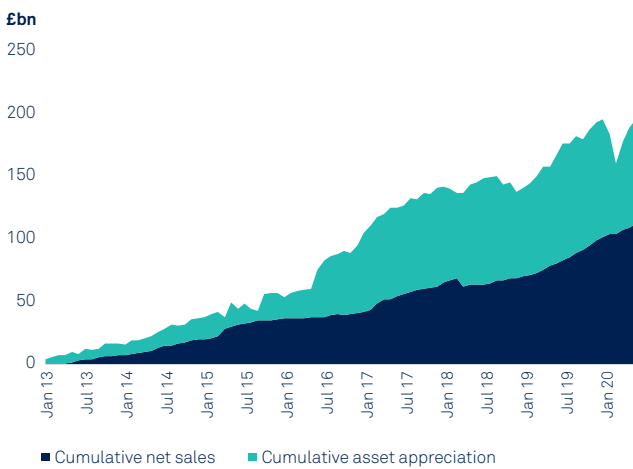


Chart 58 shows that net sales have also made a significant contribution to the growth of FUM. In addition, it shows the relative resilience of net sales when assets depreciated sharply in March 2020.

**CHART 58: DRIVERS OF INDEX FUND GROWTH (2013 - JUNE 2020)**

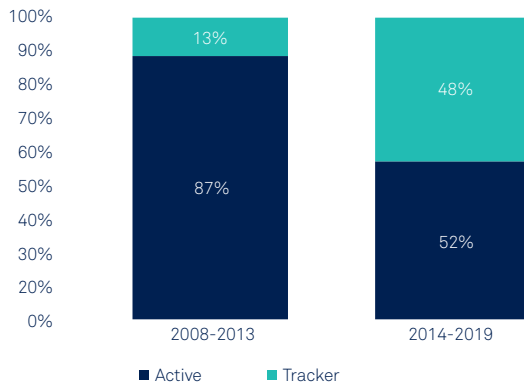


**The pattern of net retail sales to indexing funds in 2019 and 2020**

Net retail sales to indexing funds have been persistent over the last ten years, with no quarterly net outflows. Sales to active funds have shown much greater volatility. From 2018, a step change in the level of sales flowing to indexing funds occurs. Net retail sales to indexing funds in 2018 are up at £9.0 billion, whereas active fund sales ended the year on an outflow of £1.3 billion. Whilst this is slightly lower than the £10.8 billion in sales to index trackers in 2017, 2017 was a record year for sales and index trackers accounted for 22% of total inflows. In 2018, this balance shifted significantly.

This pattern is repeated in 2019, cumulative net retail sales to indexing funds stood at £18.1 billion, whereas outflows from active funds reached £8.3 billion.

**CHART 59: NET RETAIL SALES BY INDEX FUNDS AND ACTIVE FUNDS PRE- AND POST-2014**

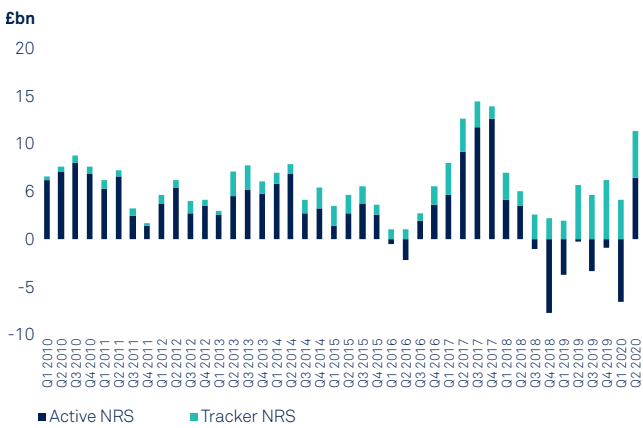


**Sales to indexing funds are resilient when markets fall**

When capital market returns have fallen sharply, as in the last quarter of 2018 and again in March 2020 in one of the steepest declines ever seen over a month, sales to indexing funds have remained resilient. In Q4 2018, £6.1 billion in inflows to index funds compared with outflows of £7.7 billion from active funds.

In March 2020, the month of the highest ever outflow from retail funds, index funds still managed to generate positive sales of £467 million against an outflow of £10.1 billion from active funds. Despite the fact that indexing funds by their nature follow the markets down, the data show that market shocks have not deterred investors from using index trackers.

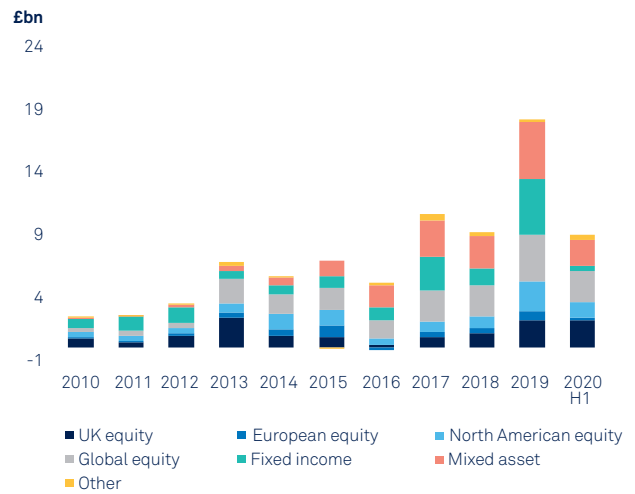
**CHART 60: NET RETAIL SALES TO ACTIVE AND INDEX TRACKING FUNDS (2010 - Q2 2020)**



**Sales to indexing funds by asset class**

Traditionally, indexing funds are seen as dominated by funds tracking developed market equity indices such as the S&P 500 or the MSCI World, the argument for using lower cost indexing funds being that in these markets it is harder for more expensive actively managed funds to beat the index benchmark because of the wide availability of research. Sales to equity index trackers accounted for 50% of net retail sales to indexing funds in 2019 but as Chart 61 shows, net sales to fixed income and multi-asset indexing funds have been rising as a proportion of sales since 2016.

**CHART 61: NET RETAIL SALES OF INDEXING FUNDS BY INDEX INVESTMENT TYPE (2010- JUNE 2020)**

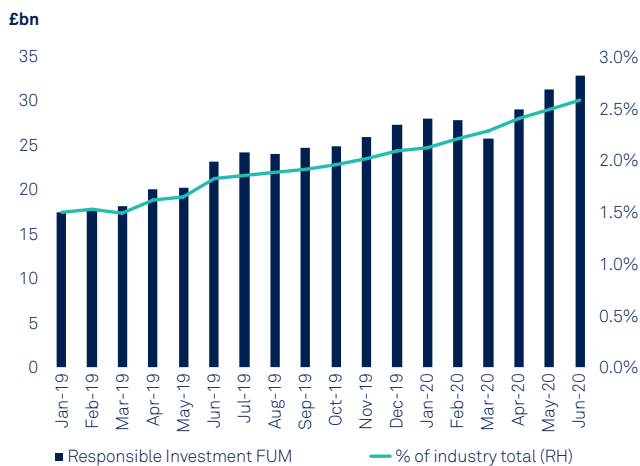


## RESPONSIBLE AND SUSTAINABLE INVESTMENT

2019 and the first half of 2020 have seen a rise in the prominence of sustainability issues, both in the investment management industry and in wider society. In 2019, the particular focus was on climate change and the need to decarbonise the global economy while in 2020, the Covid-19 pandemic has focused attention on the social impacts of business activity.

The FUM in responsible investment funds grew by 89% between January 2019 and June 2020. This increase meant that the RI share of industry FUM rose by over 70% over the 18 months leading to June 2020 (see Chart 62), illustrating the impact of the growing prominence of sustainability and social responsibility on the funds market. While absolute values for RI FUM suffered in line with market movements in March 2020, funds investing responsibly have continued to grow as a proportion of FUM month on month, with FUM reaching a high of £33 billion in June 2020 as asset prices recovered and inflows continued.

**CHART 62: RESPONSIBLE INVESTMENT FUM (2019 - JUNE 2020)**

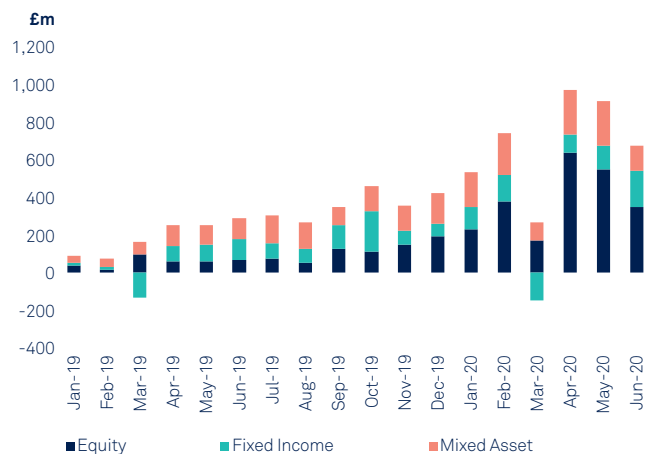


Net retail sales to RI funds have proved remarkably consistent across the past 18 months, with net inflows for every month. Net retail sales between January 2019 and June 2020 were £7.0 billion. In the first six months of 2020, net retail sales to RI funds were four times higher than the same period in 2019. Sales to RI funds are not confined to equities: sales to fixed income funds (19%) and mixed asset funds (34%) accounted for over half of total sales between January 2019 and June 2020.

Even as the wider industry saw record outflows of £9.7 billion in March 2020, the net retail flows to RI funds remained positive, if somewhat reduced, at £124 million.

Total sales from January 2019 to June 2020 were £7.2 billion, a significant driver of the £15.5 billion increase in the FUM shown in Chart 63. Alongside institutional inflows of £1.8 billion, and asset appreciation, the addition of new funds has also been a driver, with a 30% increase in the number of RI funds as managers have created new products to meet investor demand.

**CHART 63: RESPONSIBLE INVESTMENT NET RETAIL SALES BY ASSET CLASS (2019 - JUNE 2020)**

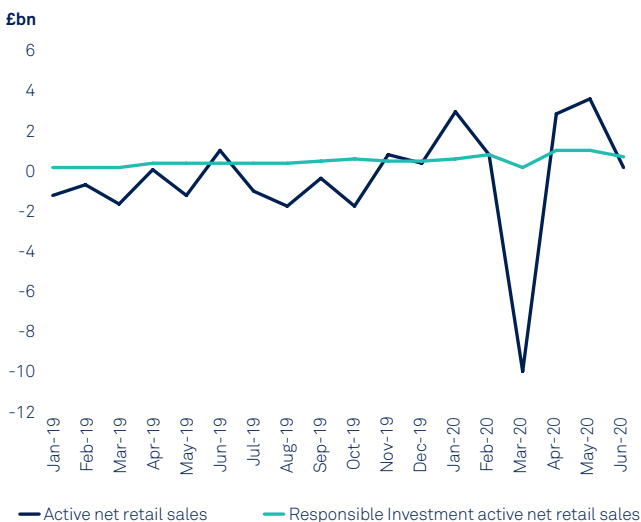


Responsible Investment can be considered an area where active management offers particular value to investors. These funds have the potential to increase returns through identifying opportunities and risks brought about by societal change, whilst also allowing investors to align their investments with non-financial objectives.

Investing in companies that promote societal good, or at the very least avoiding companies that are deemed unethical, do not necessitate that investors sacrifice returns: and active investment managers are seeking to correct this legacy perception.

Chart 64 compares net retail sales to actively managed funds with those to actively managed RI funds, which so far represent the overwhelming majority of RI funds. Active funds as a whole show considerable volatility in sales patterns and have seen outflows of £8.6 billion through 2019/20. Active RI funds have attracted consistent inflows, taking in £7 billion in investor money. This suggests that RI funds are less affected by short term market events and sentiment, attracting investors with a different set of priorities.

**CHART 64: RESPONSIBLE INVESTMENT ACTIVE SALES AND INDUSTRY ACTIVE SALES (2019 - JUNE 2020)**



## UK INVESTORS AND OVERSEAS DOMICILED FUNDS

While many thousands of overseas funds are recognised for UK distribution, UK retail investors in particular have had a historic preference for UK-domiciled funds. Nevertheless, as Chart 65 shows, overseas domiciled funds are now 16% as a proportion of UK investor FUM, an increase of 5% from Q1 2017.

**CHART 65: UK INVESTOR FUM IN OVERSEAS DOMICILED FUNDS (2017- Q2 2020)**

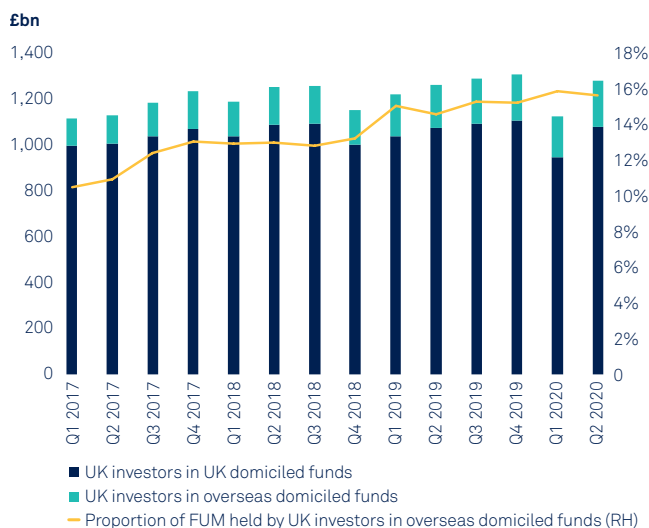
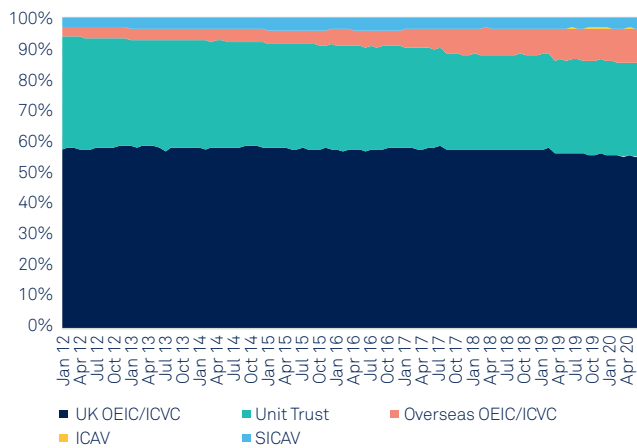


Chart 66 shows the breakdown of total UK investor FUM by fund structure, both UK and overseas. There are three overseas fund structures principally invested in by UK investors:

- Société d’investissement à Capital Variable (SICAV), mainly domiciled in Luxembourg.
- Irish Collective Asset-management Vehicle (ICAV).
- Overseas Open-Ended Investment Company (OEIC) / Investment Company with Variable Capital (ICVC), the majority of these funds in IA data are domiciled in Ireland.

The growth in FUM in overseas domiciled funds has chiefly been in overseas OEICs/ICVCs, whilst FUM in SICAVs has remained flat since 2012. ICAVs represent a tiny proportion of total FUM.

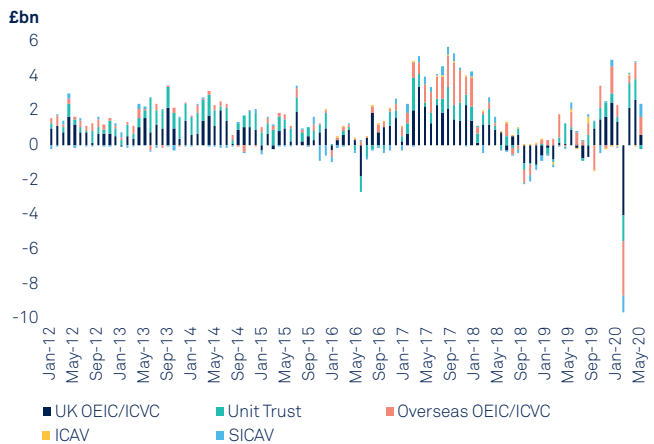
**CHART 66: UK INVESTOR FUM BY FUND STRUCTURE (2012- JUNE 2020)**



Net retail sales can be used as a barometer of investor sentiment towards overseas domiciled funds. Chart 67 does not suggest that investors and their investment advisers have been unduly influenced by the domicile of the fund when making investment decisions in the context of the UK leaving the European Union. Sales in 2019 to overseas domiciled funds were £4.2 billion, an increase on 2018’s £1.3 billion in inflows.

In March 2020, we did see substantial outflows from overseas OEICs/ICVCs and SICAVs accounting for nearly half of total outflows that month. Rather than this being a sign that investors were turned off funds domiciled overseas, it is due to the scale of outflows from the fixed income asset class: 57% of funds investing in fixed income are domiciled overseas.

**CHART 67: UK INVESTOR NET RETAIL SALES BY FUND STRUCTURE (2012 - JUNE 2020)**



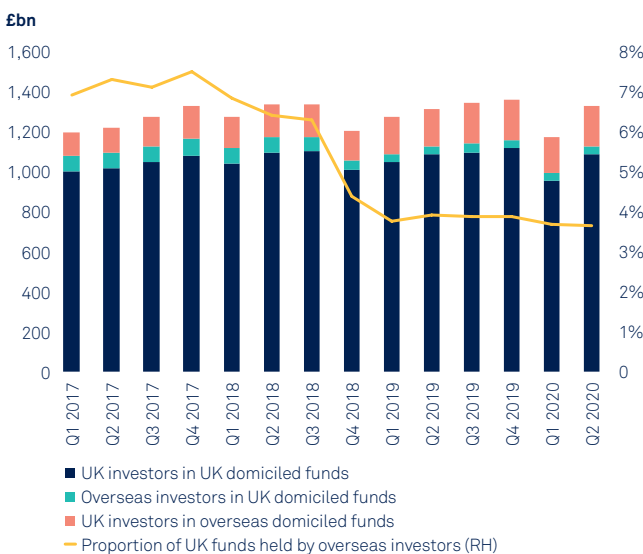


## OVERSEAS INVESTORS IN UK DOMICILED FUNDS

As at June 2020, FUM in UK domiciled funds including funds managed on behalf of overseas investors is £1.32 trillion – the overseas investor portion of this total is £40.7 billion.

As Chart 68 shows, UK domiciled funds under management held by overseas investors has remained at 4% of FUM since Q4 2018. The decline from 7% in Q1 2018 to 4% in Q4 2018 was driven by operational decisions at a number of firms to move overseas investors out of non-sterling denominated share classes in UK domiciled funds, it is not a reaction by overseas investors to the impending Brexit.

**CHART 68: UK DOMICILED FUNDS BY INVESTOR PROFILE (2017-Q2 2020)**

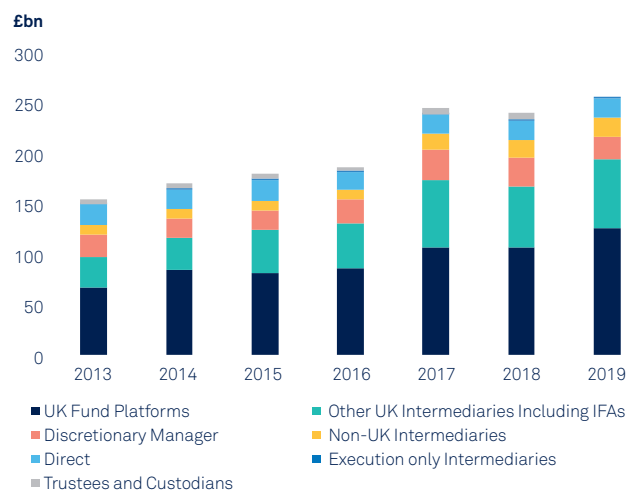


## SALES BY DISTRIBUTION CHANNEL

UK fund platforms remain the dominant retail distribution channel in 2019 with a 49% share of total gross sales<sup>28</sup>. Sales through platforms rose by 17% year on year to reach £127 billion, while gross sales as a whole rose by 6% to reach a total of £257 billion, reversing the slight decline seen from 2017 to 2018 and taking gross sales to a new high.

Other UK Intermediaries including IFAs and Non-UK Intermediaries both saw gross sales increase year on year, by 14% and 9% respectively. All other channels saw gross sales decline, most notably the Discretionary Manager channel with an 18% decline from £28 billion in 2018 to £23 billion in 2019. The rise of discretionary model portfolios run by discretionary managers on platform is likely to mean that some of the gross sales recorded as discretionary are now showing up in gross sales through platforms.

**CHART 69: GROSS RETAIL SALES BY DISTRIBUTION CHANNEL (2013-2019)**



<sup>28</sup> The growth of the UK fund platform channel represents the increasing use of fund platforms by both direct and advised investors, and additionally reflects the recategorization of a number of businesses as fund platforms as business models have shifted over time.

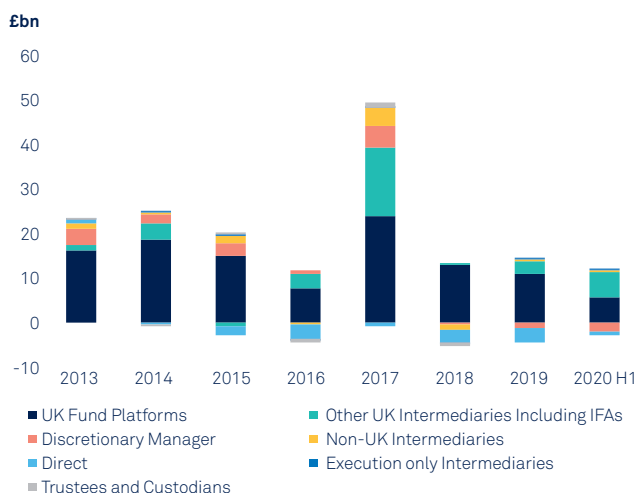
Platforms were also the largest channel for net sales in 2019, however net retail sales for 2019 decreased by £2 billion to £10.9 billion. The ‘Other UK Intermediaries including IFAs’ channel appears to have staged something of a comeback with net sales of £3 billion, up from £0.2 billion in 2018. This is still a long way short of the sales seen in 2017.

Discretionary Managers show a rise in outflows to £1.1 billion, though this is at least in part driven by managers moving portfolios from funds to segregated mandates rather than a genuine outflow from the industry. The Direct channel continues to see outflows as the industry moves away from the traditional model of investors buying directly from asset managers.

The first half of 2020 has seen a shift in the patterns in distribution. Flows through the Other UK Intermediaries including IFAs channel have been strong and just under half are in the first quarter, a period when other channels saw flat sales or outflows.

Sales through UK Fund Platforms remain healthy but have not been as dominant in 2020 as in previous years being only slightly higher than Other UK Intermediaries including IFAs. Sales through UK Fund Platforms have been concentrated in Q2 after being flat in Q1. The Discretionary Managers channel saw heavy outflows in Q1. This has reversed somewhat in Q2, with money returning particularly to fixed income funds. However, sales through Discretionary Managers remain in a deficit for the year so far.

**CHART 70: NET RETAIL SALES BY DISTRIBUTION CHANNEL (2013-2020)**



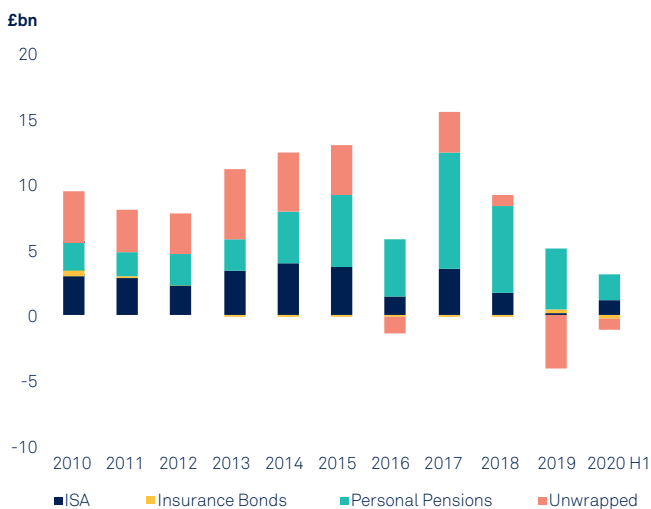
**SALES TO TAX WRAPPERS**

Net sales to pension wrappers of £4.6 billion in 2019 remain the highest of any wrapper on platforms reporting data to the IA. This is a reduction of 32% from the levels seen in 2018 and of nearly 50% from 2017 at the height of the influx of DB pension transfers into pension wrappers on platform. The rise in net sales to pension wrappers follows the introduction of the pension freedoms in 2015. Whilst sales to pensions remain the highest as a proportion of total sales to wrappers, they have declined year on year following 2017’s high. At the half way point in 2020 sales were a promising £2.0 billion but it is too early to say if they will top 2019.

2019 saw high outflows of £4.2 billion from unwrapped general investment accounts, the most significant over the last ten years. Outflows continued into the first half of 2020 at £903 million but were concentrated in the first quarter.

Unwrapped assets are the least sticky. Without the commitment of a tax wrapper, investors appear to have chosen to withdraw unwrapped assets first in 2020 rather than sacrifice the tax incentives provided by ISAs (ISA sales are £1.1 billion for H1 2020). The significant penalties for early withdrawal from pensions probably precluded many investors from calling on cash from them during the Covid-19 crisis.

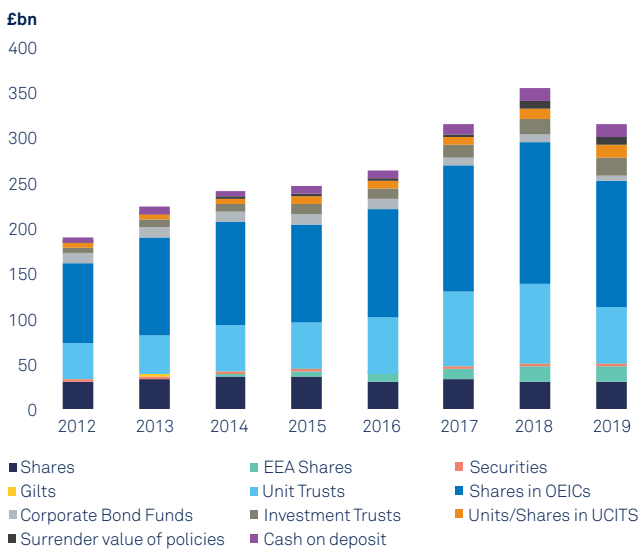
**CHART 71: NET RETAIL SALES TO TAX WRAPPERS THROUGH UK FUND PLATFORMS (2010 - JUNE 2020)**



**Sales to ISAs fall in 2019**

In 2019, assets in stocks and shares ISAs were £314 billion according to data from HMRC, a decrease of 11% from 2018. Assets in funds stood at £227 million or 71% of total assets, a decline of 4% from 2018.

**CHART 72: TOTAL ASSETS IN STOCKS AND SHARES ISAs BY TYPE OF ASSET (2012 - 2019)**

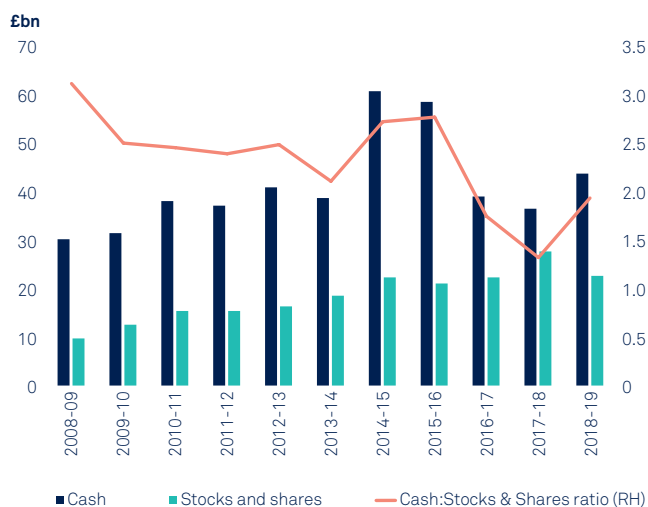


Source: HMRC

IA data show that in 2019 there was a huge fall in sales to ISA wrappers on platform (see Chart 71): sales of just £14 million are a decrease of 99% year on year. IA data covers five of the largest platforms by assets under administration but HMRC data for the 2018/19 tax year, which is more comprehensive, also show a decline in subscriptions to stocks and shares ISAs.

In 2018/19 there was a 19% decrease in the amount subscribed to stocks and shares ISAs to £26 billion. Average subscription amounts only fell slightly by 4% to £9,331 and remain higher than the average cash ISA subscription of £5,187 in 2018/19. There was a sharper decrease in the number of people using stocks and shares ISAs in 2018/19 compared with cash ISAs however. A 16% fall in the numbers of people subscribing to stocks and share ISAs in 2018/2019 corresponds to a 20% increase in the number of subscriptions to cash ISAs. This is the first year since 2013/14 that we have seen an increase year on year in the number of cash ISA subscriptions.

**CHART 73: TOTAL SUBSCRIPTIONS TO CASH AND STOCKS AND SHARES ISAs (08/09 -18/19)**



Source: HMRC

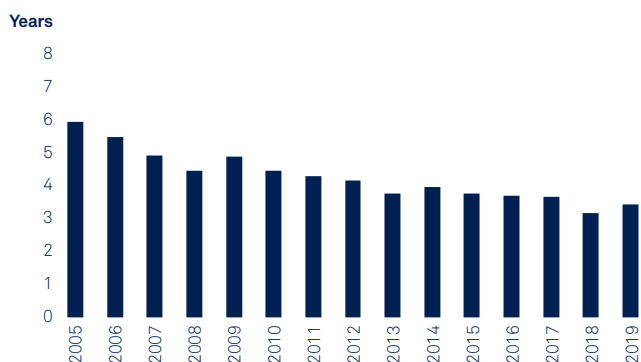
2018/19 may be a blip or it may be the beginning of a sustained trend. IA sales data to ISAs for H1 2020 is more promising, with sales of £1.6 billion in Q2 more than recovering the first quarter outflow of £522 million. Very low interest rates of 0.25% make cash ISAs unattractive but if volatility in investment returns increases through H2 2020 into 2021, nerry investors could be drawn to the perceived safety of cash.

## INVESTOR AVERAGE HOLDING PERIODS

A reduction in investor holding periods has been observed since the widespread adoption of investment platforms in the UK, making it substantially easier to switch assets between funds on platform. The rise of the centralised investment proposition, now used by 82% of advisers and often taking the form of a model portfolio of funds, means that fund allocations are now rebalanced on a quarterly basis. This also helps to explain the reduction in average holding periods.

Average investor holding periods stood at around 3.4 years in 2019 following a low of 3.2 in 2018.<sup>29</sup> For investment managers seeking to encourage longer-term investment horizons, it is encouraging to see holding periods stabilise rather than fall further. It is likely that three years is a floor for investor holding periods: it is typically the minimum track record that advisers want to see before investing in a fund.

**CHART 74: RETAIL INVESTOR AVERAGE HOLDING PERIODS (2005–2019)**

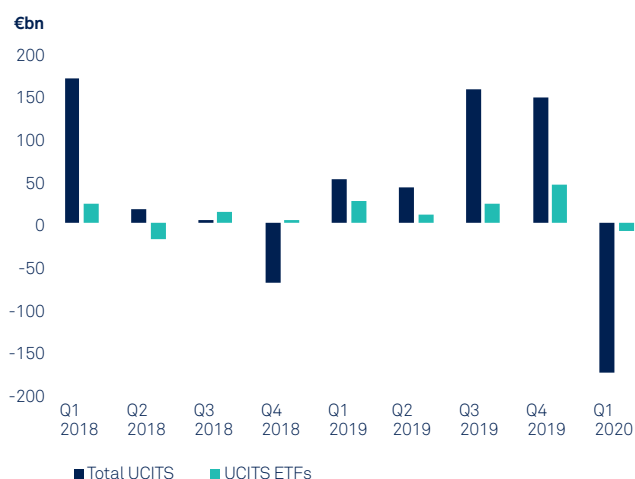


## EUROPEAN DOMICILED FUNDS

The pattern of sales to European domiciled funds shows that after the outflows experienced in Q4 2018, sales rebounded on the back of rising capital market returns through 2019. The pace of the recovery was slow in the first half of the year: 77% of inflows came in the second half of 2019. Total sales to UCITS funds for 2019 were €395.9 billion, compared with net sales of €118.4 billion in 2018.

Outflows across Europe in the first quarter of 2020 were €176 billion in a similar pattern to UK retail fund outflows. March's sharp downturn in capital market returns coincided with a challenging environment in the bond markets. There were short-term bond and multi-asset fund suspensions in Finland, Norway and Sweden and in Denmark some equity funds, alongside bond and multi-asset funds, were temporarily suspended from taking subscriptions and redemptions.<sup>30</sup> These suspensions were brief as a result of the swift intervention of Central Banks in the bond markets through quantitative easing.

**CHART 75: EUROPE-WIDE UCITS NET SALES (2018 - Q1 2020)**

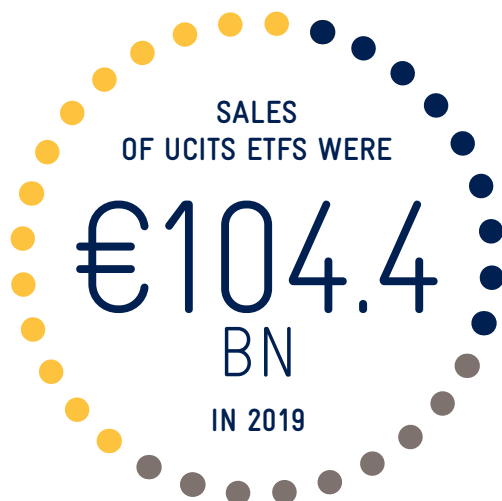


Source: EFAMA

<sup>29</sup> We calculate the average holding period as the average FUM in retail funds over two years (less net sales in the second year), divided by the repurchases from these funds.

<sup>30</sup> According to EFAMA data, in Denmark there were 406 fund suspensions (213 equity, 122 bond, 73 multi-asset); in Finland 20 bond fund suspensions; in Sweden 24 bond and 8 multi-asset fund suspensions and in Norway one High Yield bond fund suspension in March.

Total sales to UCITS ETFs increased dramatically in 2019 to €104.4 billion, an increase of 477% on 2018 where total sales to UCITS ETFs were €18.1 billion, indicating that 2019 marked a step change in the uptake of ETFs by European investors. ETFs were also affected by challenging market conditions in March and saw outflows in Q1 2020 of €10.6 billion. Fears that ETF structures might pose risks in challenging market conditions were quelled, however and fixed income ETFs emerged as efficient price discovery tools in the bond markets at the height of the crisis.



### FUM by domicile

Funds under management in UCITS and AIFs domiciled in Luxembourg, Ireland and the UK all rose year on year from 2018 but the rise in FUM is more substantial in Ireland than in the UK and Luxembourg.

- FUM in funds domiciled in Luxembourg rose to €4.7 trillion, an increase of 16% from 2018.
- Ireland's FUM total reached €3.0 trillion up from €2.4 trillion in 2018, a rise of 26%.
- In the UK, FUM in 2019 was €1.7 trillion increasing by 17%, a similar proportion year on year to Luxembourg.

CHART 76: ASSETS IN UCITS AND AIFs BY DOMICILE



# 6 OPERATIONAL AND STRUCTURAL ISSUES

## KEY FINDINGS

### REVENUE AND COSTS

- » Total average industry net revenue stood at £22.9 billion in 2019, equating to 28bps of total assets.
- » Total operating costs in 2019 were £15.8 billion, representing 20bps of total assets under management.

### INDUSTRY EMPLOYMENT

- » Around 113,000 jobs are supported by the UK investment management industry, either directly or indirectly. This number has changed little from 2018.
- » The UK investment management industry directly employed an estimated 40,000 people at the end of 2019, almost unchanged from 2018.
- » Jobs in the investment management industry vary by location, with the largest proportion in London being employed in investment management and operations and fund administration being of greater importance in Scotland.

### INDUSTRY CONCENTRATION

- » The UK investment management industry remains relatively unconcentrated. Assets managed by the top five and the top ten firms stood at 43% and 58% of total assets respectively. Both were one percentage point higher than in 2018.
- » The industry continues to comprise a small number of very large firms but a long tail of medium- and small-sized organisations. The median figure for assets managed by IA member firms was similar to 2018, at £10 billion, compared to a mean figure of £51 billion.

### ASSET MANAGER OWNERSHIP

- » Over the past decade the proportion of UK asset managers owned by a parent headquartered in the US has increased from 40% to 46%, though the proportion has been relatively stable for the past five years.
- » The number of independent asset managers now stands at 42%, ten percentage points higher than it was a decade ago. This in part reflects the high levels of M&A activity seen in the industry over that period.

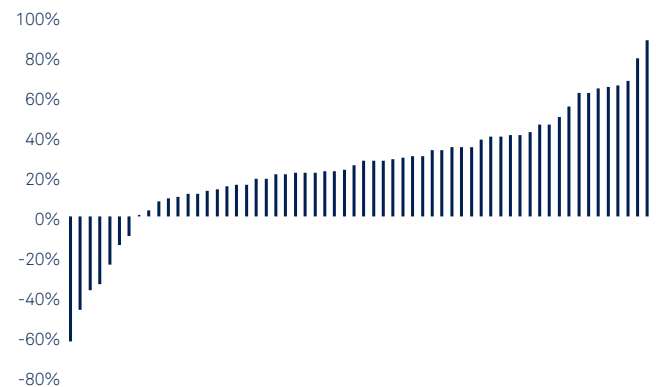
## REVENUE AND COSTS

Aggregate revenue and cost figures for the industry cover both in-house and third party business. 2019 figures reflect a change in methodology. In addition to returns from members, the dataset for 2019 utilises publicly available data obtained from submissions to Companies House where available. This has enabled access to substantially more data than would otherwise be possible. Due to some omissions or delays in submission due to the Covid-19 pandemic in 2020, we would expect to be able to make further improvements to this dataset in future reports. It should be noted that this change in methodology means that numbers may not be directly comparable to previous years, although the data indicate that there has been a gradual fall in profitability from around 35% to 31% over the past five years.

- Total average industry net revenue stood at £22.9 billion, representing 28 bps of total assets.
- Total operating costs in 2019 were £15.8 billion. In basis point terms this represented 20bps of total average assets under management.
- Profitability based on headline data stood at 31%<sup>31</sup>

The average profitability figure is a useful measure for monitoring year on year changes in the overall industry. However, it can hide the fact that investment managers operate in a very diverse environment and there is significant variation in profitability between individual IA member firms. Chart 77 shows the distribution of profitability of respondent firms in 2019 covering a very broad range, from -63% to 89%.

**CHART 77: DISTRIBUTION OF ASSET MANAGER PROFITABILITY (2019)**



<sup>31</sup> Calculated as net revenue less costs divided by net revenue. Figure not directly comparable to previous years due to change in methodology in 2019

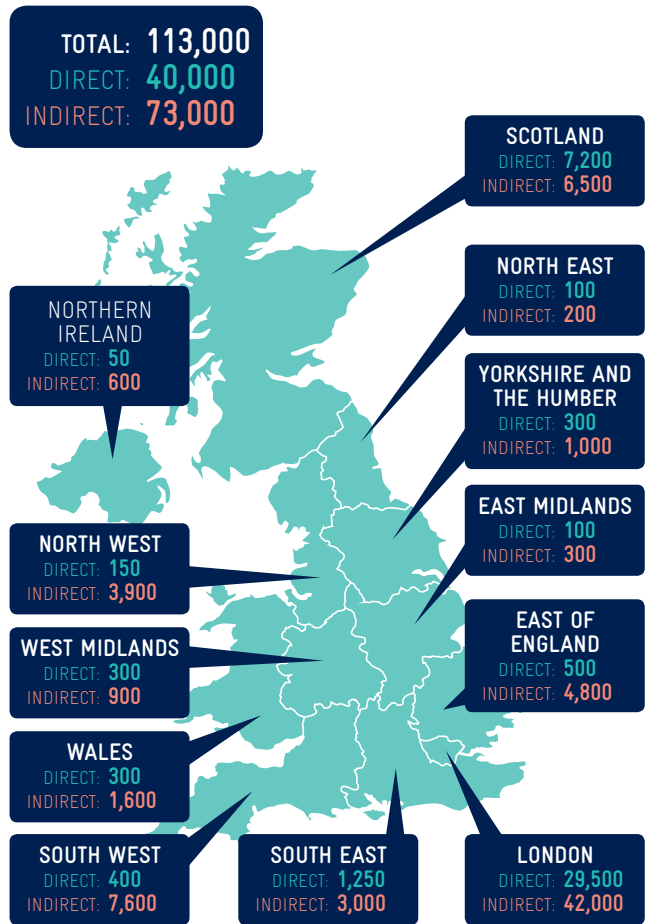
## EMPLOYMENT IN THE INVESTMENT MANAGEMENT INDUSTRY

The IA has been monitoring direct employment numbers in the investment management industry since 2006. In recent years this has been broadened to include an estimate of the level of employment in supporting industries such as custodian banks, transfer agents and wealth managers. Data also now includes those employed by the IA's affiliate members, notably legal firms providing services to the investment management industry.

The IA estimates that the UK investment management industry supports around 113,000 jobs in the UK. Nearly 40,000 people are employed directly by investment management firms. The remainder are employed in IA affiliate members and in fund and wider administration services and securities and commodities dealing activities. These numbers are broadly unchanged from 2018.<sup>32</sup>

The bulk of this resource is concentrated in London and South East England, with a broader regional footprint, particularly seen in a strong Scottish industry. Figure 13 shows this in more detail. Specifically, IA members have offices across the UK. Locations include: Bristol, Birmingham, Bournemouth, Cardiff, Chester, Chelmsford, Guildford, Harrogate, Henley, Leeds, Manchester, Norwich, Oxford, Peterborough, Southampton, Swindon and York.<sup>33</sup> In addition, a number of firms have offices in other parts of the British Isles, notably the Channel Islands.

**FIGURE 13: DIRECT AND INDIRECT EMPLOYMENT IN INVESTMENT MANAGEMENT IN THE UK**



Source: IA estimates from information provided by members and publicly sourced information. All regional numbers have been rounded to the nearest 50 and therefore may not add to exact total

<sup>32</sup> Our figures do not include the estimated 26,000 financial advisers in the UK, who provide a distribution point for a wider variety of financial services alongside funds and/or discretionary wealth management (e.g. insurance).

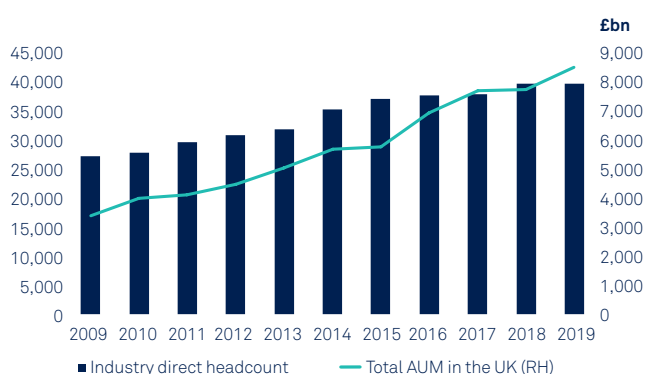
<sup>33</sup> It is difficult to identify jobs associated with investment management among firms that have a remit that extends wider than their investment management support, such as consultants, lawyers and accountants. In addition, a substantial number of roles in areas such as IT are outsourced to third party organisations and cannot be discretely measured. The figures provided in this section should therefore be viewed as a conservative estimate of those employed in investment management related roles.



## DIRECT EMPLOYMENT

An estimated 40,000 people are directly employed by asset managers in the UK. This figure is almost unchanged since the end of 2018. It is notable that the numbers employed in investment management in the UK did not fall during the year in which the UK left the EU. This suggests that firms have managed to adapt their businesses without the loss of staff numbers. It may also indicate that EU nationals have not on the whole been tempted to leave the UK in order to remain within the EU.

**CHART 78: INDUSTRY DIRECT HEADCOUNT ESTIMATE VS. UK ASSETS UNDER MANAGEMENT (2009-2019)**



The investment management industry involves significant levels of outsourcing, notably in IT. Consequently, these figures are likely to understate the numbers working to directly support investment management activity.

## DISTRIBUTION OF STAFF BY ACTIVITY

Table 5 provides more detail on the number of employees directly employed by asset managers in the UK by function. Around a quarter of directly employed staff were involved in investment management activity.

**TABLE 5: DISTRIBUTION OF STAFF BY ACTIVITY (DIRECT EMPLOYMENT)**

Activity	Percentage of total headcount
<b>Investment Management of which</b>	<b>24%</b>
Investment management (asset allocation and stock selection)	68%
Research, analysis	25%
Dealing	7%
<b>Operations and Fund Administration of which</b>	<b>18%</b>
Investment transaction processing, settlement, asset servicing	31%
Investment accounting, performance measurement, client reporting	32%
Other fund administration (incl. CIS transfer agency, ISA administration etc.)	37%
<b>Business Development and Client Services of which</b>	<b>18%</b>
Marketing, sales, business development	63%
Client services	37%
<b>Compliance, Legal and Audit of which</b>	<b>8%</b>
Compliance	39%
Risk	32%
Legal	22%
Internal audit	7%
<b>Corporate Finance and Corporate Administration of which</b>	<b>12%</b>
Corporate finance	43%
HR, training	26%
Other corporate administration	31%
<b>IT Systems</b>	<b>14%</b>
<b>Other Sector</b>	<b>6%</b>

Over the longer term some trends in staffing levels emerge. On a like-for-like basis over the last five years, Chart 79 shows the following changes:

- The proportion of people employed in investment management has fluctuated slightly year on year but has been relatively stable at around one quarter of the workforce (24% in 2019).
- Operations and fund administration roles have seen a four percentage point fall over the same period (from 22% to 18%).
- The proportion employed in Business Development and Client Service has fallen by two percentage points to 18% in 2019.
- The levels of staffing in Compliance, Legal and Audit and in Corporate Finance and Administration has remained stable over the past five years at 8% after increasing from a low of 4% in 2010.
- The proportion of people employed in Corporate Finance and Administration has increased by two percentage points from 10% to 13% in the past five years.
- The proportion of people employed in IT has increased by three percentage points from 11% to 14%.

**CHART 79: DIRECT EMPLOYMENT BY STAFF SEGMENT (2014-2019)**

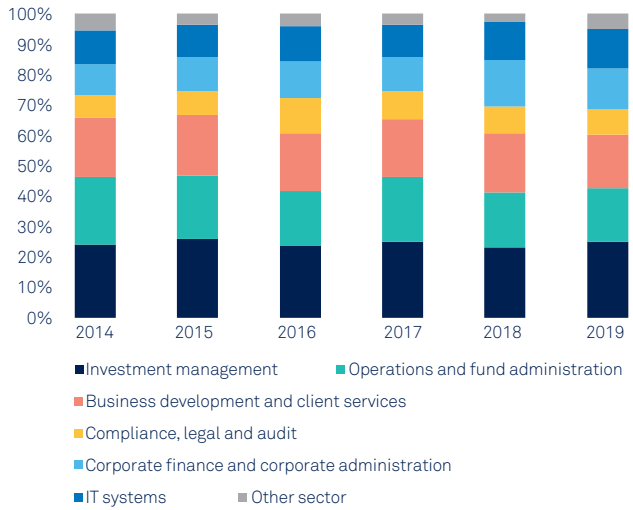


Table 6 shows that the type of activity undertaken in different locations differs widely:

- London is the main centre of investment management activity and business development.
- Operations activities and finance are more important outside London. There is a marked contrast with Scotland in this regard, also seen in IT roles.

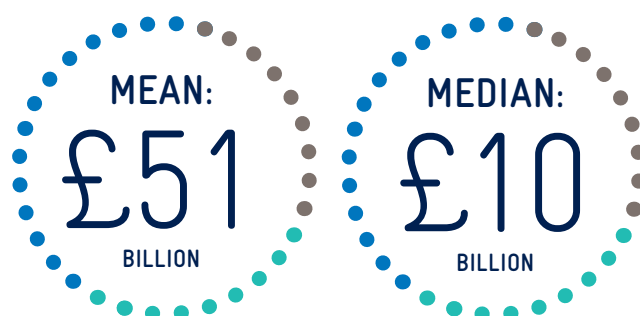
**TABLE 6: DISTRIBUTION OF INVESTMENT MANAGEMENT JOBS BY REGION**

	London	Scotland	Elsewhere in the UK
<b>Investment Management of which</b>	<b>27%</b>	<b>17%</b>	<b>11%</b>
Investment management (asset allocation and stock selection)	67%	70%	66%
Research, analysis	26%	24%	27%
Dealing	7%	7%	7%
<b>Operations and Fund Administration of which</b>	<b>14%</b>	<b>29%</b>	<b>34%</b>
Investment transaction processing, settlement, asset servicing	46%	14%	14%
Investment accounting, performance measurement, client reporting	32%	32%	30%
Other fund administration (incl. CIS transfer agency, ISA administration etc.)	21%	54%	55%
<b>Business Development and Client Services of which</b>	<b>19%</b>	<b>15%</b>	<b>14%</b>
Marketing, sales, business development	67%	36%	73%
Client services	33%	64%	27%
<b>Compliance, Legal and Audit of which</b>	<b>9%</b>	<b>6%</b>	<b>8%</b>
Compliance	37%	44%	47%
Risk	36%	27%	26%
Legal	21%	22%	23%
Internal audit	7%	7%	5%
<b>Corporate Finance and Corporate Administration of which</b>	<b>11%</b>	<b>14%</b>	<b>12%</b>
Corporate finance	41%	46%	50%
HR, training	26%	30%	19%
Other corporate administration	33%	23%	31%
<b>IT Systems</b>	<b>13%</b>	<b>15%</b>	<b>18%</b>
<b>Other</b>	<b>6%</b>	<b>4%</b>	<b>3%</b>

## INDUSTRY CONCENTRATION

Chart 80 illustrates that the investment management industry in the UK continues to comprise a small number of very large firms but a long tail of medium- and small-sized organisations. This can be seen in the difference between the mean value of assets under management by an IA member firm and the median value. The median value of assets under management stands at £10 billion of assets but the mean average value is much higher. This indicates that there is a relatively small number of members managing large volumes of assets under management.

## AVERAGE ASSETS UNDER MANAGEMENT AT JUNE 2019



**CHART 80: IA MEMBER FIRMS RANKED BY UK ASSETS UNDER MANAGEMENT (JUNE 2019)**

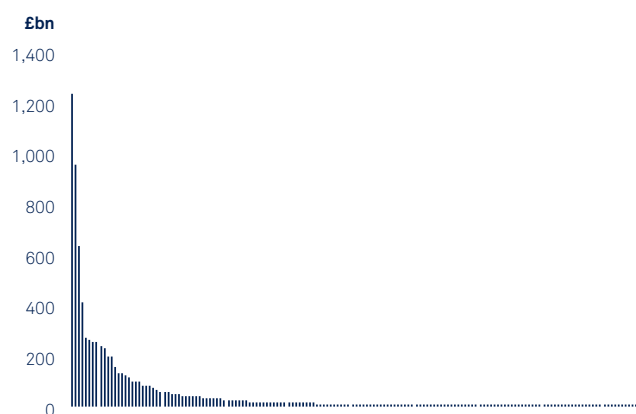


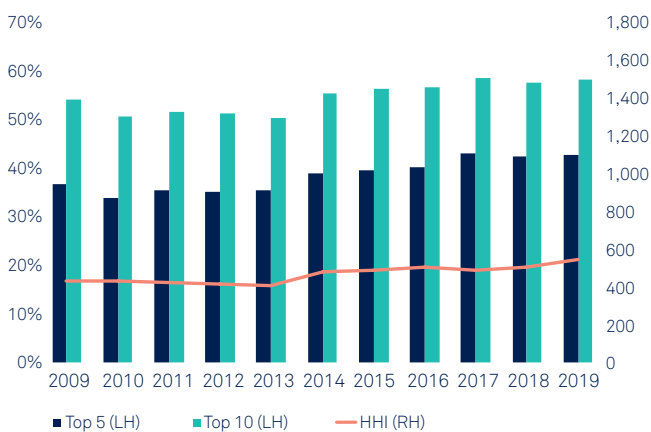
Table 7 looks at how the distribution of assets under management has changed over time. As we saw in Chart 80 there is huge difference in scale between the largest firms within the industry and the smallest firms. However, the number of firms with over £50 billion in assets has remained unchanged over the last few years, hence the falling proportions.

The majority (45%) of IA members fall in the £1-15 billion of assets under management category, though this proportion has fallen in 2019. There is still significant competition and demand for smaller firms, which might be more likely to offer specialist investment services. 2019 saw an increase in the proportion of firms with less than £1 billion under management reaching 13%. There was also a relatively significant increase in the proportion of firms in the mid-sized category of £15-25 billion reaching 12%, a four percentage point increase on 2018.

The investment management industry in the UK remains relatively unconcentrated. The five largest firms represented 43% of assets and the ten largest firms represent 58% of industry assets. Both figures are marginally up year on year, though still slightly lower than the highs of 2017. A figure of less than

1,000 on the Herfindahl-Hirschmann Index, a standard measure of competition, represents low concentration. The value for the investment management industry stands at just 542 (see Chart 81). As we saw in Table 7, we continue to see increases in the small and mid-sized firm categories.

**CHART 81: MARKET SHARE OF LARGEST FIRMS BY UK ASSETS UNDER MANAGEMENT VS. HHI (JUNE 2009-2019)**



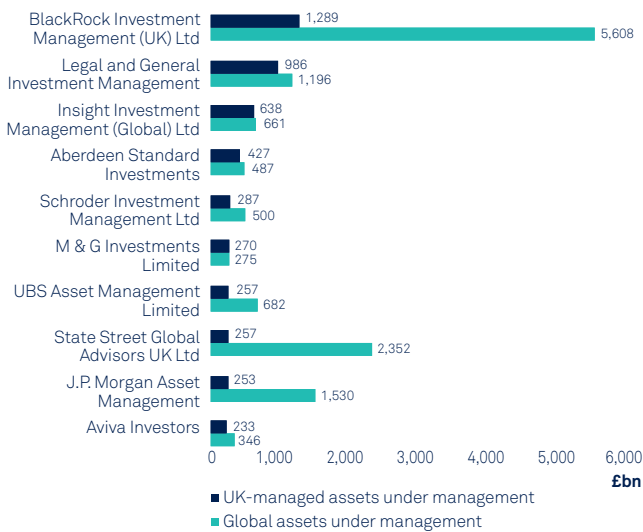
**TABLE 7: ASSETS MANAGED IN THE UK BY IA MEMBERS BY FIRM SIZE**

AUM	No. of firms (June 2014)	No. of firms (June 2015)	No. of firms (June 2016)	No. of firms (June 2017)	No. of firms (June 2018)	No. of firms (June 2019)
>£100bn	8%	10%	11%	12%	12%	11%
£50-100bn	10%	10%	9%	9%	8%	7%
£25-50bn	10%	10%	11%	10%	14%	11%
£15-25bn	10%	10%	8%	10%	8%	12%
£1-15bn	48%	50%	51%	47%	49%	45%
<£1bn	15%	11%	10%	13%	10%	13%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Chart 82 shows the ten largest firms in the UK, measured by UK assets under management supplied to the IA in response to the Survey questionnaire.<sup>34</sup> The top ten includes a mix of active managers and those also offering indexing. There is a wide variety of group types in the top ten, including independent asset managers, as well as managers that are part of a larger insurance group, or bank. Unsurprisingly, with institutional clients representing 80% of assets under management, the assets of the top ten managers are dominated by institutional assets.

As the difference between UK and global assets shows, a number of the largest asset managers are primarily UK focused, whereas others have a much wider global footprint.

**CHART 82: TOP TEN FIRMS BY UK-MANAGED AND GLOBAL ASSETS UNDER MANAGEMENT<sup>35</sup>**



## BOUTIQUES

The IA membership contains a number of boutique managers. The definition of a boutique firm is not based purely on the size of the firm. There are four broad criteria:

- Being independently owned
- Managing assets of less than £5.5 billion
- Providing a degree of investment specialisation
- Self-definition

According to these criteria the number of boutiques within the IA membership remained stable at 22 in 2019.



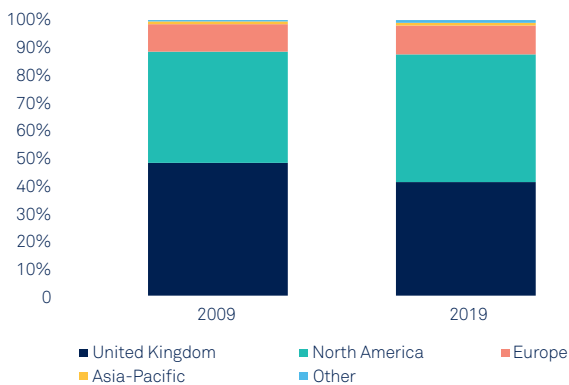
<sup>34</sup> Based on headline data supplied to The IA in response to the Survey Questionnaire

<sup>35</sup> Assets under management figures may reflect the value of wider economic exposure managed for clients in addition to securities within segregated or pooled portfolios.

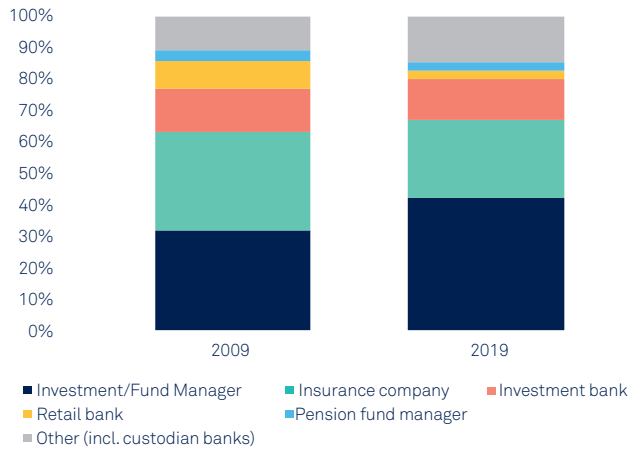
## ASSET MANAGER OWNERSHIP

Over the past decade the shift towards ownership by firms with a headquarters in the US has continued although most of the shift occurred in the first half of the decade. In fact since 2014, the proportion of firms by AUM owned by a US headquartered company has remained stable at around 46%. UK-owned asset managers now account for 41% of assets managed in the UK, down from 48% in 2009. Assets managed by European-owned firms remain at a relatively low proportion of total assets managed in the UK, at around 10%.

**CHART 83: ASSETS UNDER MANAGEMENT BY REGION OF PARENT GROUP HEADQUARTERS- TEN YEAR COMPARISON**



**CHART 84: BREAKDOWN OF UK ASSETS UNDER MANAGEMENT BY PARENT TYPE- TEN YEAR COMPARISON**



Over the same period, there has been a fundamental shift in the ownership of investment management companies. The biggest shift is the increase in independent asset managers from 32% to 42%. At the same time the proportion of assets managed by firms with an insurance parent has fallen from 32% to 25% and the proportion of assets managed by firms owned by a retail bank has fallen from 9% to 2%.

# APPENDICES

# APPENDIX 1

## SUMMARY OF ASSETS UNDER MANAGEMENT IN THE UK<sup>1</sup>

	TOTAL
<b>Assets under management in the UK (£m)</b>	<b>8,510,445</b>
<b>Segregated or pooled (%)</b>	
Directly invested on a segregated basis	54.7%
Managed on a pooled basis	45.3%
<b>Active or passive (%)</b>	
Actively managed	70.5%
Passively managed	29.5%
<b>Asset allocation (%)</b>	
<b>Equities of which:</b>	<b>38.3%</b>
UK	29.3%
Europe (ex UK)	22.8%
North America	21.9%
Pacific (ex Japan)	9.3%
Japan	5.5%
Latin America	1.3%
Africa	0.5%
Emerging market	8.0%
Other	1.4%
<b>Fixed Income of which:<sup>2</sup></b>	<b>31.6%</b>
UK Government	13.4%
Sterling corporate	16.9%
UK index-linked	12.5%
Other UK	7.0%
Overseas govt	17.7%
Non-sterling corporate	18.8%
Non-sterling other	13.7%
<b>Cash/Money market</b>	<b>5.5%</b>
<b>Property</b>	<b>2.3%</b>
<b>Other</b>	<b>22.4%</b>

<sup>1</sup> This includes all assets under management in this country, regardless of where clients or funds are domiciled.



INSTITUTIONAL								ALL INSTITUTIONAL	RETAIL	PRIVATE CLIENT
Pension funds	Public sector	Corporate	Non-profit	Sub- advisory	In-house insurance	Third party insurance	Other institu- tional			
3,670,887	418,108	514,682	111,101	411,264	443,955	644,018	512,261	6,726,276	1,588,234	195,936
43.1%	4.9%	6.0%	1.3%	4.8%	5.2%	7.6%	6.0%	79.0%	18.7%	2.3%

## APPENDIX 2

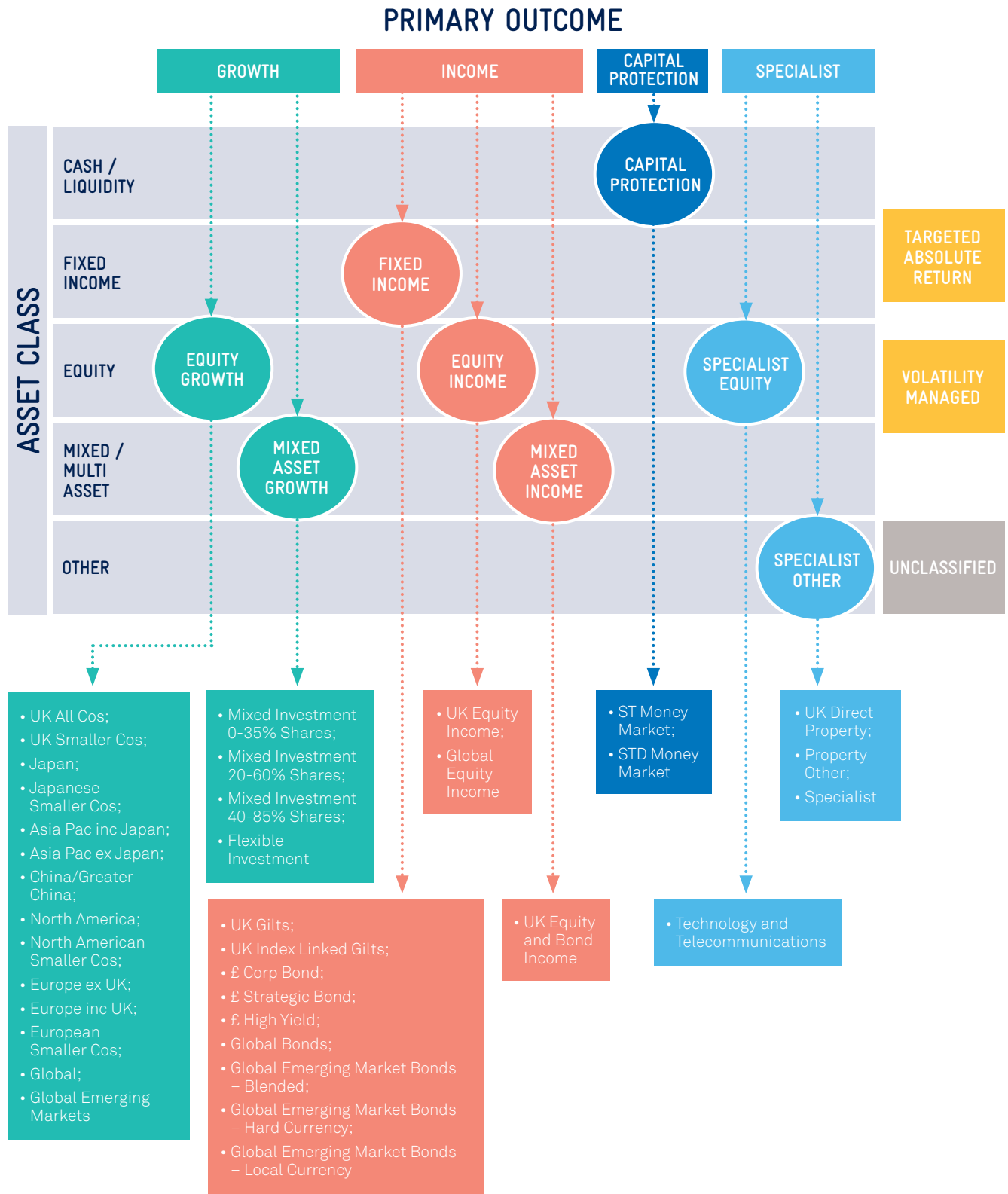
# SUMMARY OF DATA FROM THE UK INSTITUTIONAL MARKET<sup>2</sup>

	TOTAL
<b>Total Institutional Market (£m)</b>	<b>3,964,468</b>
Assets directly invested on a segregated basis	64.8%
Assets managed on a pooled basis	35.2%
<b>Active or passive (%)</b>	
Actively managed	71.4%
Passively managed	28.6%
<b>Multi-asset, LDI or Specialist (%)</b>	
<b>Multi-asset</b>	<b>13.5%</b>
<b>LDI (notional)</b>	<b>36.9%</b>
<b>Single-asset / specialist of which:</b>	<b>49.6%</b>
<b>Equities</b>	<b>35.0%</b>
<b>Fixed Income</b>	<b>42.4%</b>
<b>Cash/Money Market</b>	<b>9.5%</b>
<b>Property</b>	<b>6.1%</b>
<b>Other</b>	<b>6.9%</b>

<sup>2</sup> This includes UK institutional client mandates, regardless of where assets are managed in the world.

	Pension funds			Public sector	Corporate	Non-profit	Sub-advisory	In-house insurance	Third party insurance	Other institutional
	Corporate	Local government	Other							
	2,253,317	242,014	97,819	30,664	113,309	37,669	142,062	419,832	466,864	160,920
	56.8%	6.1%	2.5%	0.8%	2.9%	1.0%	3.6%	10.6%	11.6%	4.1%
	65.0%	42.0%	24.5%	59.1%	41.9%	54.4%	38.9%	71.7%	88.3%	77.3%
	35.0%	58.0%	75.5%	40.9%	58.1%	45.6%	61.1%	28.3%	11.7%	22.7%
	63.7%	58.9%	49.6%	94.2%	90.6%	76.8%	62.1%	93.3%	91.7%	85.0%
	36.3%	41.1%	50.4%	5.8%	9.4%	23.2%	37.9%	6.7%	8.3%	15.0%
	<b>5.9%</b>	<b>7.6%</b>	<b>38.2%</b>	<b>24.2%</b>	<b>3.2%</b>	<b>31.8%</b>	<b>11.0%</b>	<b>7.4%</b>	<b>58.9%</b>	<b>1.4%</b>
	<b>59.7%</b>	<b>16.5%</b>	<b>24.9%</b>	<b>18.8%</b>	<b>1.6%</b>	<b>2.0%</b>	<b>0.0%</b>	<b>0.1%</b>	<b>3.6%</b>	<b>14.8%</b>
	<b>34.4%</b>	<b>75.9%</b>	<b>36.9%</b>	<b>57.1%</b>	<b>95.3%</b>	<b>66.2%</b>	<b>89.0%</b>	<b>92.5%</b>	<b>37.4%</b>	<b>83.8%</b>
	<b>33.0%</b>	<b>62.6%</b>	<b>58.9%</b>	<b>15.7%</b>	<b>18.2%</b>	<b>55.6%</b>	<b>63.2%</b>	<b>25.3%</b>	<b>30.7%</b>	<b>22.0%</b>
	<b>46.1%</b>	<b>25.5%</b>	<b>30.4%</b>	<b>35.1%</b>	<b>49.1%</b>	<b>12.1%</b>	<b>31.5%</b>	<b>54.4%</b>	<b>56.6%</b>	<b>5.6%</b>
	<b>3.5%</b>	<b>2.6%</b>	<b>5.9%</b>	<b>27.3%</b>	<b>19.8%</b>	<b>3.1%</b>	<b>0.1%</b>	<b>8.4%</b>	<b>4.4%</b>	<b>64.1%</b>
	<b>4.3%</b>	<b>6.5%</b>	<b>3.6%</b>	<b>6.7%</b>	<b>9.1%</b>	<b>1.7%</b>	<b>0.8%</b>	<b>12.0%</b>	<b>4.0%</b>	<b>6.3%</b>
	<b>13.1%</b>	<b>2.8%</b>	<b>1.1%</b>	<b>15.3%</b>	<b>3.8%</b>	<b>27.6%</b>	<b>4.4%</b>	<b>0.0%</b>	<b>4.3%</b>	<b>1.8%</b>

# APPENDIX 3 IA SECTOR CLASSIFICATION SCHEMATIC



## APPENDIX 4

## NOTABLE M&amp;A DEALS IN THE UK ASSET MANAGEMENT SECTOR (2009-JUNE 2020)

## 2019-2020

ACQUIRER	PURCHASE
AllianceBernstein	AnchorPath
AXA	Increased equity holding in Capzanine
BlackRock	eFront
Bluebay	Spins out Arcmont Asset Management
BNP Paribas	Purchase of 22.5% of Allfunds
Brewin Dolphin	Epoch Wealth Management Investec's Wealth Management Business in Ireland Mathiesen Consulting
Brooks Macdonald	Lloyds Investment Fund Managers Cornelian Asset Managers Group Limited
Charles Stanley	Myddleton Croft
F&C	Thames River Capital
Franklin Templeton	Legg Mason Material stake in Embark Group
Goldman Sachs	S&Ps Model Portfolio business
Hargreaves Lansdown	£765m stake of retail ISA assets from JPM Chase
Invesco	RedBlack
Jupiter Asset Management	Merian Global Investors Minority stake in NZS Capiak
Liontrust	Architas Neptune Investment Management
M&G	Ascentric
Merian Global Investors	Kestrel Investment Partners multi-asset business
Mitsubishi UFG Trust and Banking	First State Investments
Premier Asset Management	Miton Group
Quilter	Charles Derby Lighthouse
Rathbone	Personal Injury and Court of Protection business of Barclays Wealth
Sanlam	Astute Wealth Management Thesis Asset Management
Schorders	Thirdock Majority stake in BlueOrchard Finance
SJP	Havest Financial Services
Standard Life Aberdeen advice firm- 1825	Grant Thornton advice code
Stonehage Fleming	Cavendish Asset Management
Sumitomo Mitsui Financial Group	TT International
Waverton Investment Management	Timothy James & Partners

## 2018

ACQUIRER	PURCHASE
Alliance Bernstein	Autonomous Research
Allianz GI	Sound Harbour Partners
Amundi	Mirae Global Investments Taiwan Anatech
Candriam	Tristan Capital Partners (strategic partnership)
Federated Investors	Hermes Investment Management (majority stake)
Franklin Templeton	Benefit Street Partners Edinburgh Partners
FundRock	SEB Fund Services Luxembourg
Goldman Sachs	Aptitude Investment Management Rocaton Investment Advisors
Impax Asset Management	Pax World Management LLC
Invesco	Openheimer Funds Intlliflow
Jupiter	Merger of retail and wealth management sales teams
Lyxor ETF	Commerzbank ETF Arm
Man GLG	Bond Fund from Salnlam
Mellon	Walter Scott & Partners
Muzinich	Springrowth SGR
Natixis	MB Credit
Nomura Asset Management	8 Securities (majority stake)
Pimco	Gurtin Municipal Bond Management
Rathbones	Spears and Jeffery
Seven Investment Management	TCAM

2017

ACQUIRER	PURCHASE
Amundi Group	Pioneer Investments
Blackrock	Cachematrix Holdings First Reserve Energy Infrastructure Funds Scalable Capital (minority stake)
BNP Paribas Asset Management	Gambit Financial Solutions (majority stake)
Brewin Dolphin	Duncan Lawrie Asset Management
Canada Life Group (UK)	Retirement Advantage
Close Brothers	Adrian Smith and Partners
Crux Asset Management	Oriel global and European funds from City Financial
FundRock	Fund Partners
LGIM	Canvas
Link Group	Capita Asset Services
Lovell Minnick Partners/ Existing Management Team	BNY Mellon Investment Management (CentreSquare Investment Management Real Asset Boutique)
Natixis Global Asset Management	Investors Mutual Ltd
Nikko Asset Management	ARK Investment Management (minority stake)
Principal Global Investors	Internos Global Investors
RWC	Pensato Capital
Sandaire	Joint venture with Delancey
Schroders	Adveq Holdings AG Alonquin
SJP	HJP Independent Financial Advisers
Standard Life Investments	Aberdeen Asset Management (merger)
Stonehage Fleming	OmniArte
Swiss Re	LGIM with profits business
TA Associates	Old Mutual Global Investors (single strategy funds)
Thesis Asset Management	Cambridge Fund Managers

## 2016

ACQUIRER	PURCHASE
Aberdeen	Arden Asset Management, Parmenion Capital,
Aegon	Cofunds
AJ Bell	Indexx Markets Ltd, Allium Capital
Alliance Bernstein	Ramius Alternative Solutions
Allianz	Rogge Global Partners
Amundi	Kleinwort Benson Investors
Columbia Threadneedle	Emerging Global Advisors
Courtiers	JRH Asset Management
Franklin Templeton	AlphaParity
Henderson Global Investors	Janus
Legal and General Investment Management	Aegon annuity portfolio
Legg Mason	EnTrust Capital, Clarion Partners, Financial Guard
Liontrust	Alliance Trust Investment
Momentum	London and Capital adviser business
Standard Life	AXA portfolio services
State Street Global Advisors	GE Asset Management
Stonehage Fleming	FF&P Wealth Planning

## 2015

ACQUIRER	PURCHASE
Aviva	Friends Life
BNY Mellon	Cutwater Asset Management
Henderson	90 West (increased holding to 100%) Perennial Fixed Interest Partners/Perennial Growth Management
Broadstone	Blythwood
Brooks Macdonald	Levitas Investment Management Services Ltd
Legal and General Investment Management	Aerion
GAM	Singleterry Mansley Asset Management
Maitland	Phoenix Fund Services
Stonehage	Fleming Family
Threadneedle	Columbia (merger)
Vontobel	TwentyFour



## 2014

ACQUIRER	PURCHASE
Aberdeen	Scottish Widows Investment Partnership
Bank of Montreal	F&C
Broadstone	Blythwood
Brooks Macdonald	Levitas Investment Management Services Ltd
Family Investments	Engage Mutual
GAM	Singletery Mansley Asset Management
Legg Mason	Martin Currie
Octopus	MedicX
Rathbones	Jupiter Asset Management Limited's private client and charity investment management business
River and Mercantile	P-Solve (merger)
Standard Life	Ignis Asset Management
Thomas Miller	Broadstone Wealth Management

## 2013

ACQUIRER	PURCHASE
Aberdeen	Artio Global Investors Scottish Widows Investment Partnership
Aviva	Solar portfolio from Ecovision Renewable Energy
Barings	SEI Asset Korea (SEIAK)
BlackRock	Credit Suisse ETF Business
Bank of Montreal	F&C
Henderson	H3 Global Advisers Northern Pines Capital (50%) 90 West (33%)
Liontrust	North Investment Partners
Miton	PSigma
PSigma	Axa Framlington private client business
Royal London	Co-Operative (Insurance and asset management businesses)
Schroders	Cazenove Capital Management STW Fixed Income
Standard Life Wealth	Private client division of Newton

## 2012

ACQUIRER	PURCHASE
Brooks Macdonald	Spearpoint
Bridgepoint & Quilter	Quilter (MBO)
Broadstone	UBS Wealth's corporate pension arm
Franklin Templeton	K2 Advisors
Goldman Sachs	Dwight
Insight	Pareto
Legg Mason	Fouchier Partners
Liontrust	Walker Crips
Natixis	McDonnell
Punter Southall	PSigma
Rathbone	Taylor Young

## 2011

ACQUIRER	PURCHASE
BT	JO Hambro
Close	Cavanagh Wealth Management
Close	Allenbridge Group
Cyrun Finance	SVM Asset Management
Franklin Templeton	Rensburg
Henderson	Gartmore
Investec	Evolution
Liontrust	Occam
Principal	Origin
Punter Southall	Brewin Dolphin's corporate pension arm
Royal London	Royal Liver
SGBP Hambros	Barings' private client business
Threadneedle	Liverpool Victoria
Williams de Broe	BNP Paribas' private client business

## 2010

ACQUIRER	PURCHASE
Aberdeen	RBS' multimanager and alternatives business
Alpha Real Capital	Close Brothers' property fund management business
AMG	Artemis
Aviva Investors	River Road
Close	Chartwell Group
F&C	Thames River Capital
Investec	Rensburg Sheppard
Man Group	GLG Partners
Marlborough	SunLife Financial of Canada's funds
Schroders	RWC Partners (49%)
State Street	Bank of Ireland

## 2009

ACQUIRER	PURCHASE
BlackRock	BGI
BNP Paribas	Fortis
BNY Mellon	Insight
Henderson	New Star
Ignis	Axial
Invesco	Morgan Stanley's retail fund business
Marlborough	Apollo
Neuberger Berman Group	Management buyout of Lehman asset management business
Rathbone	Lloyds' RBS PMS client portfolio and two private client portfolios
Sumitomo Trust	Nikko

## APPENDIX 5

# DEFINITIONS

### CORPORATE CLIENTS

Institutions such as banks, financial corporations, corporate treasuries, financial intermediaries and other private sector clients. Investment management services for fund products operated by financial corporations are included under 'Sub-advisory'.

### ESG INTEGRATION

The systematic and explicit inclusion by investment managers of environmental social, and governance factors into traditional financial analysis.

### FUND OF FUNDS

Funds whose investment objective is fulfilled by investing in other funds rather than investing directly into assets such as cash, bonds, shares or property. These may also be referred to as 'multi-manager products'.

### IMPACT-DRIVEN INVESTMENT

This approach seeks to enhance value by proactively screening for businesses that are seeking to work for the benefit of all their stakeholders, not just shareholders or owners.

### IN-HOUSE INSURANCE CLIENTS

Refers to assets that insurance-owned investment management firms manage for their parent company or an insurance company within the parent group.

### INVESTMENT FUNDS

All pooled and listed vehicles regardless of the domicile of the client or fund (ie. unit trusts, investment companies with variable capital including ETFs, contractual funds, investment trusts, and hedge funds) but it does not include life or insurance funds.

### LIABILITY DRIVEN INVESTMENT (LDI)

Defined as an approach where investment objectives and risks are calculated explicitly with respect to individual client liabilities.

### MULTI-ASSET MANDATE

Also called 'balanced', these types of mandate invest across a range of asset classes and geographies without a specific focus on a particular universe.

### NON-PROFIT CLIENTS

Includes charities, endowments, foundations and other not for profit organisations.

### NORMS-BASED SCREENING

Screening of investments against minimum standards of business practice based on international norms.

### 'OTHER' CLIENTS

Assets managed on behalf of client types that cannot be classified under any other category as well as unidentifiable client types, eg. closed-ended funds or institutional pooling vehicles.

### OVERSEAS BONDS

Include overseas government bonds as well as debt denominated in overseas currencies.

### OVERSEAS CLIENT ASSETS

Assets managed on behalf of non-UK clients. Includes assets delegated to the firm from overseas offices and assets directly contracted in the UK.

### PENSION FUND CLIENTS

Incorporates both defined benefit (DB) and defined contribution (DC) provision, where the respondent has a relationship with a pension fund, irrespective of type. Where the DC provision is operated via an intermediary platform, particularly a life company structure wrapping the funds, the assets are reflected in 'Insurance'.

### PUBLIC SECTOR CLIENTS

Encompasses central banks, supranational bodies, public sector financial institutions, governmental bodies, public treasuries and sovereign wealth funds as well as the non-pension assets of local authorities and other public sector clients.

### PRIVATE CLIENTS

Comprise assets managed on behalf of high-net-worth and ultra-high-net-worth individuals as well as family offices.

**POOLED**

Comprises investment vehicles operated by a manager for several clients whose contributions are pooled. It also includes assets in segregated portfolios that are held indirectly via pooled vehicles managed by the respondent.

**RETAIL**

Includes investment into unit trusts, open-ended investment companies (OEICs) and other open-ended investment funds irrespective of domicile. It incorporates assets sourced through both intermediated sales (ie. made through fund platforms, supermarkets and other third parties) and direct retail sales. It does not include life-wrapped funds, which are classified under 'Third Party Insurance'.

**RESPONSIBLE INVESTMENT**

An approach where the investor avoids investing in businesses that are harming people or the planet, such as oil, tobacco, or weapons production.

**SEGREGATED**

Assets directly invested within segregated portfolios, and managed on behalf of one client. This would also include mandates run on behalf of a single pooled vehicle (eg. a 'pooled' insurance fund run for an insurance parent company).

**SINGLE-ASSET**

Also called 'specialist', these types of mandate are overwhelmingly focused on one asset class, and therein usually a specific sub-type (either geographic or other; eg. a US equity mandate or an index-linked gilt mandate).

**STERLING CORPORATE DEBT**

Exposure to Sterling-denominated debt, irrespective of whether it is issued by UK or overseas companies.

**SUB-ADVISORY**

Business as part of which the respondent provides investment management services to third party fund products. It may therefore include business that is institutional to the respondent, but may ultimately be retail (eg. 'white-labelled' funds or manager of manager products).

**SUSTAINABILITY-THEMED INVESTING**

Investment in themes or assets specifically related to sustainability (for example clean energy, green technology, or sustainable agriculture).

**THIRD PARTY INSURANCE CLIENTS**

Assets sourced from third party insurance companies (ie. from outside the respondent's group), where the mandates are seen as institutional. It includes both unit-linked assets (ie. funds manufactured by the respondent and distributed with the respondent's brand through a life platform) and other third party assets.

**UK ASSETS UNDER MANAGEMENT**

Assets where the day-to-day management is undertaken by individuals based in the UK. This includes assets managed by the firm in the UK whether for UK or overseas clients contracted with the firm. It also includes assets delegated to the firm's UK-based asset managers by either third party asset managers or overseas offices of the company or group. With respect to fund of funds and manager of manager products, the figure only includes the size of the underlying funds managed by the firm's UK-based managers.

**UK FUND MARKET**

This primarily covers UK-domiciled authorised unit trusts and OEICs, which are by the far the largest part of the UK retail fund market, but also used by institutional investors. A small but growing part of the fund market is represented by funds domiciled overseas though often with portfolio management performed in the UK. There are also some UK-domiciled funds that are sold into overseas markets.

**UK INSTITUTIONAL CLIENT MARKET**

Covers mandates or investment in pooled funds by UK institutional clients. We analyse this market on the basis of client domicile, not domicile of funds invested in or location of asset manager. This is in contrast to the analysis of UK assets under management, which covers assets managed in the UK regardless of domicile of funds or clients for whom firms manage money.

## APPENDIX 6

# SURVEY RESPONDENTS

Aberdeen Standard Investments  
 Aberforth Partners LLP  
 AllianceBernstein Limited  
 Allianz Global Investors  
 Amundi London Branch  
 Aviva Investors  
 AXA Investment Management  
 Baillie Gifford & Co  
 Baring Asset Management Ltd  
 BlackRock Investment Management (UK) Ltd  
 BlueBay Asset Management LLP  
 Brooks Macdonald Asset Management  
 Candriam  
 Carmignac Gestion  
 CCLA  
 City of London Investment Management Company Ltd  
 Columbia Threadneedle  
 Courtiers Asset Management Limited  
 Crux Asset Management  
 Edinburgh Partners  
 EFG Asset Management (UK) Limited  
 FIL Investment Management Limited  
 Franklin Templeton Fund Management Limited  
 Genesis Investment Management LLP  
 Goldman Sachs Asset Management International  
 Guinness Asset Management  
 Hermes Investment Management  
 HSBC Global Asset Management (UK) Limited  
 Independent Franchise Partners LLP  
 Insight Investment Management (Global) Ltd  
 Invesco  
 J O Hambro Capital Management Limited  
 J.P. Morgan Asset Management  
 Janus Henderson Investors  
 Lazard  
 Legal and General Investment Management  
 Lindsell Train  
 Link Asset Service  
 M & G Investments Limited  
 Man Fund Management UK Limited  
 Margetts Fund Management Ltd  
 Martin Currie Fund Management Ltd  
 McInroy & Wood Ltd  
 Morgan Stanley UK Ltd  
 Newton Investment Management Limited  
 Ninety One  
 Odey Asset Management LLP  
 Pinebridge  
 Polar Capital LLP  
 Pyrford International Ltd  
 Quilter Fund Management  
 Rathbone Unit Trust Management  
 Royal London Asset Management  
 Ruffer  
 Santander Asset Management  
 Sarasin & Partners LLP  
 Schroder Investment Management Ltd  
 Scottish Friendly Asset Managers Ltd  
 Slater Investments Ltd  
 Smith & Williamson  
 State Street Global Advisors UK Ltd  
 SVM Asset Management  
 T. Rowe Price International Ltd  
 Trinity Street Asset Management  
 Troy Asset Management  
 TT International  
 TwentyFour Asset Management LLP  
 UBS Asset Management (UK) Limited  
 Valu-Trac Investment Management Ltd  
 Vanguard Asset Management Limited  
 Veritas Investment Management  
 WAY Fund Managers Limited

## APPENDIX 7

# INTERVIEW AND ROUNDTABLE PARTICIPANTS

Aberdeen Standard Investments  
AllianceBernstein Limited  
Aviva Investors  
Baillie Gifford & Co  
BlackRock Investment Management (UK) Ltd  
Carmignac Gestion  
FIL Investment Management Limited  
J.P. Morgan Asset Management  
Legal & General Investment Management  
Natixis Investment Management  
Newton Investment Management Limited  
Ninety One  
Schroder Investment Management Ltd  
State Street Global Advisors UK Ltd  
Vanguard Asset Management Limited



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