

THE
INVESTMENT
ASSOCIATION

A POCKET GUIDE TO ASSET MANAGEMENT

Asset management in the UK 2017-18

September 2018



ABOUT THE IA

The Investment Association (IA) champions the interests of the UK-based asset management industry, helping savers access investment services, businesses secure the capital they need to grow, and infrastructure and social housing projects obtain the finance they need right across Europe.

Our 250 members range from small, boutique UK firms, to large global players with pan-European footprints. The industry supports nearly 100,000 jobs, and IA members collectively manage £7.7 trillion, £3.1 trillion of which is for overseas clients.

Our members have £920 billion invested in shares, accounting for over one third of the UK market capitalisation. They hold £540 billion in corporate bonds and £40 billion in significant infrastructure.

ASSET MANAGEMENT IN THE UK



Asset management sits at the heart of the UK economy, helping millions of households save for the future while supporting businesses and economic growth in the UK and abroad.

The 2017-2018 edition of Asset Management in the UK, the Investment Association's annual survey of the industry, shows the continued importance of the UK asset management industry to investors worldwide. The UK maintains its status as a pre-eminent global centre of asset management expertise, with IA members managing £7.7 trillion for individuals and institutions from the UK and around the world.

Next year will be a year of change: the UK's new relationship with the EU and a refreshed focus on building new links with the rest of the world, will reset the priorities and shape of some asset management businesses. As Brexit approaches, there is an increasing spotlight on this international dimension. With £3.1 trillion being managed for overseas clients, most of this from elsewhere in the EU, our industry clearly has the talent and infrastructure to attract clients from around the world.

Part of our strength is in our ability to adapt. That's why our industry is doing more than ever to play our part in powering British businesses. Bank lending is no longer as widely accessible, governments are limiting their borrowing and public listing is becoming less attractive for certain companies. In this changing landscape, new opportunities are emerging for asset managers. Our industry is not only able to help its customers meet their income and diversification needs, but to provide a different funding route in the wider economy.

One particular area of focus is infrastructure. The demand for infrastructure from pension schemes and insurance companies is not new, but it is becoming more prominent. Our survey this year contains for the first time more detail as to how asset managers are directing capital into long-term UK projects, including social housing, hospitals and transport infrastructure that we need.

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Opportunities and challenges are also emerging from the evolving UK pensions landscape. Both automatic enrolment and the Pension Freedoms have greatly increased the level of individual responsibility and investment risk that savers are being asked to take.

On the Defined Benefit side, schemes rely on generating investment returns to pay pensions, now and in the future. This means that they are increasingly looking for investments which closely match the amounts needed to be paid out.

The increased number of UK pension savers using the services of asset managers puts ever more responsibility on our industry to communicate in a transparent and straightforward way.

At the same time, we are also starting to see a greater interest in responsible and sustainable investment from savers, complementing an intensifying focus from governments, regulators and international bodies.

All of this takes place against the backdrop of intensifying technological change, which is impacting every level of our industry's activity, whether it is the way we communicate with investors, the way we distribute our services or how we improve back office technology so that we become more efficient. The UK is becoming a key FinTech centre creating the potential for significant disruption and re-invention. The launch of Velocity in February 2018, the IA's own accelerator, reflects the changing realities for us all.

This is a very exciting time in the evolution of the UK asset management industry. Certainly, we face a continued period of uncertainty as the UK develops new trade partnerships with countries around the world and the industry responds to searching questions posed by regulators about the value we deliver to customers. But the depth of expertise within our industry means we are well placed to adapt to the challenges.

I hope you find this summary a useful snapshot of where our industry is today. The full survey results, containing detailed insight and information about our industry, can be found on our website.



Chris Cummings

Chief Executive



ASSET MANAGERS OWN
ONE THIRD
OF UK PLC

MANAGE
35%
OF ALL ASSETS
MANAGED IN
EUROPE

100,000
JOBS ACROSS
THE SECTOR

£615
BILLION
MANAGED IN
SCOTLAND

£3.1
TRILLION
MANAGED FOR
OVERSEAS
CLIENTS

£1.2
TRILLION
MANAGED FOR
UK FUNDS

£1.7
TRILLION
MANAGED FOR
OVERSEAS FUNDS

**SECOND
LARGEST**
ASSET MANAGEMENT
CENTRE AFTER
THE US

£7.7 TRN
MANAGED BY IA
MEMBERS IN THE UK
UP 11%

£40BN
INVESTED IN
INFRASTRUCTURE

A WORLD LEADING CENTRE

The UK excels in asset management and the sector is both a European and a global success story. It is the largest centre for asset management in Europe (larger than the next three countries – Germany, France and Switzerland – combined); and globally second only to the US in size.

Total assets managed in the UK by the IA's members increased by 11% during 2017, ending the year at a record £7.7 trillion. Including the wider industry, (such as private equity, hedge funds etc.) UK assets under management totalled £9.1 trillion at the end of 2017.



ASSETS UNDER MANAGEMENT BY IA MEMBERS GREW TO £7.7 TRILLION IN 2017, UP FROM £6.9 TRILLION IN 2016.



Source: ComPeer, Hedge Fund Intelligence/EuroHedge, Investment Property Forum, IA estimate based on private equity return data.

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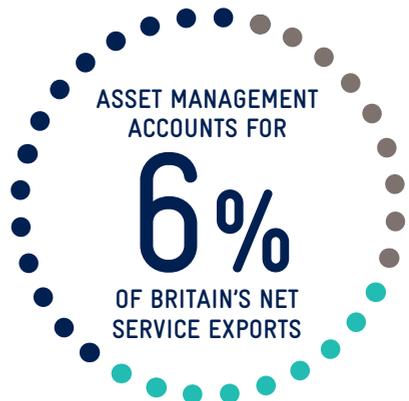
About 40% of the assets managed in the UK are for overseas customers, from Europe and around the world.

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IA MEMBERS MANAGE £3.1 TRILLION FOR OVERSEAS CLIENTS, OVER HALF OF WHICH IS FROM EUROPE



This strength also means that asset management makes an important contribution to export earnings. Asset managers are responsible for 6% of UK net service exports, and the value of export receipts has risen seven times (adjusted for inflation) since 1997.



HELPING THE UK TO PROSPER

Asset Management is an indispensable part of the UK economy, providing vital funding for UK businesses and infrastructure and contributing to long-term growth.

A total of £1.7 trillion is invested in the UK economy through asset managers. Traditionally this has been channelled through public equity and bonds providing the finance that business needs in order to grow. In 2017, the value of asset managers' UK equity holdings corresponded to around a third of the value of UK PLC – approximately £920 billion. A further £500 billion was invested in sterling corporate bonds showcasing the industry's primary role in corporate debt financing.

In the context of the continued decline in bank lending since the financial crisis, the nature of this financing is evolving and UK asset managers are increasingly funding businesses through private markets with £31 billion invested in direct lending in 2017. Small businesses are benefiting from this as there is growing interest from investors in the opportunities arising from lending to SMEs.



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Funding infrastructure

Beyond company financing, there is a broader and more tangible contribution to Britain's long-term growth through investment in infrastructure.

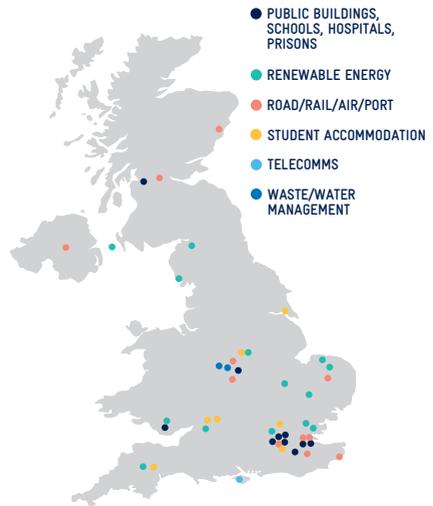
This supports the provision of the energy that households and businesses need, the transport that underpins our economy, and the homes and hospitals that society depends on.

Demand for private infrastructure finance has been increasing, as has customer demand, particularly by pension schemes that are looking both to more diverse sources of return and returns that match the amounts they need to pay out.

By the end of 2017, IA members had invested £40 billion in UK infrastructure, up from £29 billion the year before. Three quarters of this investment is in economic infrastructure including energy, transport and environmental projects. The remaining quarter is invested in projects which provide a social benefit, such as social housing.

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SOME OF THE INFRASTRUCTURE PROJECTS FUNDED BY IA MEMBERS



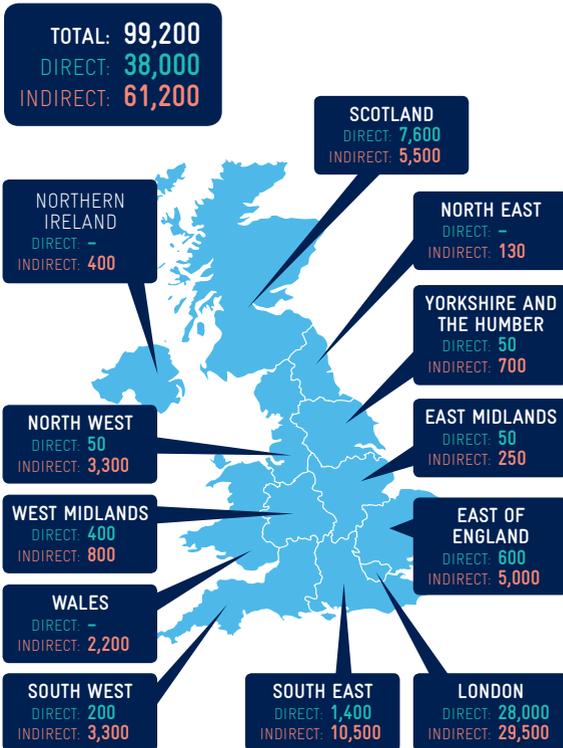
SUPPORTING JOBS AROUND THE UK

The number of people employed in asset management has been growing consistently over the last years. The asset management industry now supports around 100,000 jobs across the UK.

At the end of 2017, around 38,000 people were employed directly by the industry – up by almost 30% since 2008.



DIRECT AND INDIRECT EMPLOYMENT IN ASSET MANAGEMENT IN THE UK



A SCOTTISH CENTRE OF EXCELLENCE

Around 7,500 people are employed directly in asset management in Scotland, and the industry supports another 5,500 jobs – up by nearly 8% since last year.

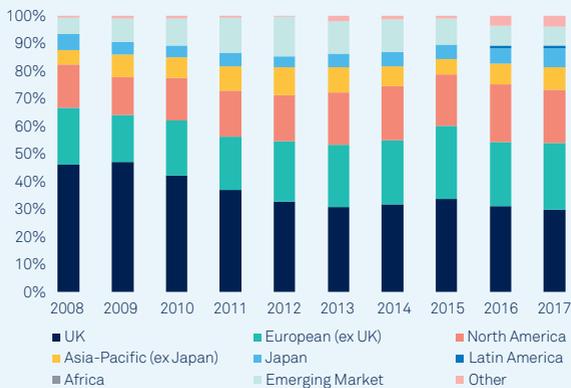
Almost a quarter (23%) of the assets managed by UK firms are invested by companies with their headquarters in Scotland.

£615 billion of total assets were managed in Scotland by IA members in 2017. This includes both Scottish-headquartered firms and a range of other UK and international firms.

INVESTING GLOBALLY

Asset management lets savers get exposure to investment opportunities across the world. In 2017, 70% of equities managed in the UK were overseas, up from just 49% a decade ago.

UK MANAGED EQUITIES BY REGION (2008-2017)



The same theme is evident in fixed income markets where overseas bonds now represent 42% of all fixed income assets (up from a third in 2011).



RESPONDING TO CHANGING CUSTOMER NEEDS

Asset management firms across the world are adapting to the changing needs of their customers as well as to the economies in which they invest. We saw the continuation of a number of trends in this year's results, in particular:

- ⇒ **1. Preparing for an ageing society**
- ⇒ **2. A greater focus on sustainable and responsible investment**
- ⇒ **3. Embracing technology to give investors a better outcome**





Preparing for an ageing society

Pension schemes remain the largest customer group for the asset management industry. In the UK, the majority of pension assets are still in defined benefit (also known as DB or final salary) schemes – at least for now.

Today, many DB schemes rely on generating investment returns to pay pensions, now and in the future. This means that they are increasingly looking for investments which closely match the amounts needed to be paid out (that is, their liabilities).

This year, the amount managed in ways aimed specifically to achieve this (liability-driven investment) broke through the £1 trillion mark.

However, following years of pension reform, most pension savers are now in defined contribution (DC) schemes. Automatic enrolment, the government's flagship response to the pension saving challenge, has resulted in over 9 million more people saving for retirement. Asset management is a fundamental part of this, helping to make sure that savings grow in order to meet retirement income needs.

The introduction of the Pension Freedoms in 2015 also means that asset managers will have a greater role in actually helping to deliver retirement income.

This creates significant responsibilities for the pensions and investment management industries, including:

- » Encouraging people to contribute enough into their pension pots.
- » More straightforward and transparent communications to build trust and confidence.
- » Better investment governance.
- » More support for savers, in the form of guidance or formal advice.



Growing incorporation of sustainable and responsible investment criteria

Asset managers invest for the long-term. On average, the industry holds UK equities for six years¹. This is often reflected in strong stewardship activity as firms monitor and engage with companies in which they invest on behalf of their clients.

The industry's stewardship remit is part of a broader role it has to play in addressing the growing need for sustainable and responsible investment, which is about incorporating a range of Environmental, Social and Governance (ESG) factors, most notably climate change concerns, into investment decisions.

This year, we asked asset managers to tell us about the specific ways in which they approach sustainable and responsible investment. Dedicated approaches are predominantly focused on 'negative screening' (ie. exclusion of holdings such as tobacco) and this remains primarily the domain of the larger pension fund clients. Among retail investors, interest is more muted, but there is increased adoption of responsible and sustainable values into mainstream investment process by asset management firms.



¹The contribution of asset management to the UK economy, July 2016, Oxera

Embracing technology to improve customer outcomes

The skills that our industry needs will change as asset management uses ever more **sophisticated technology** to deliver returns for savers. Next year, asset managers expect three areas to be particularly important:

- **More effective back office systems.** At the cutting edge, this could extend to the use of approaches such as blockchain. 2017 saw the first use of a blockchain-based platform to purchase funds², and this process is likely to significantly accelerate.

- **Using big data to improve decision making and achieve better investment outcomes.**

Fund managers are likely to increasingly use automated data analysis to spot investment opportunities as well as assess specialist areas such as ESG criteria.

- **Enhancing the investor experience.**

New technology allows consumers to have more information about their savings than ever before, and it makes it easier for everyone to take decisions about how their money is invested.



² Natixis AM completes blockchain transaction in fund distribution Investment Europe, July 2017



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