5 RETAIL FUND MARKET

KEY FINDINGS

FUNDS UNDER MANAGEMENT

- UK investor funds under management in authorised and recognised funds domiciled in the UK and overseas grew by 15% to £1.2 trillion in 2017. £147 billion of this is held in funds domiciled overseas suggesting UK investors are not shying away from overseas funds following the Brexit referendum.

ASSET MIX

- Equity funds accounted for the largest proportion of funds under management, although their market share decreased slightly to 53%. UK equity funds fell to 20% of assets and non-UK equities increased slightly from 2016 to 34%.
- The allocation to Fixed Income funds remained unchanged during the year at 18%.
- Mixed Asset fund allocations fell slightly, partly reflecting the launch of the IA's Volatility Managed sector in April 2017 into which some mixed asset funds moved. The Other category saw the greatest growth in 2017 increasing by 1.7 percentage points to 12.5%.

RETAIL FUND SALES

- Net retail sales were £47.1 billion in 2017. This in part reflected a rebound from weak sales in 2016 following the Brexit referendum, but higher sales seen after the financial crisis may also be a response by investors to a number of structural changes encouraging investment into UK funds, in particular the low interest rate environment and the introduction of Pension Freedoms

INVESTOR OBJECTIVES

- Three themes dominated demand in 2017. Outcome and allocation funds continued to be in high demand with £13.8 billion in net retail sales. Fixed income was the second best selling strategy with £13.2 billion in net retail sales, consistent with continued demand for income-producing strategies. Equity growth sales were strong at £10 billion, although UK equity remained out of favour in the aftermath of the Brexit referendum.

PASSIVELY MANAGED FUNDS

- Index tracking and passively managed funds increased market share to 13.7% of the industry, continuing the overall trend towards passive investment. However, gross retail sales data, particularly for equity funds, indicated that investors have shown an increasing preference for active funds since 2015.
- Mixed asset was the most popular choice in passive investment, with £2.9 billion in net retail sales.

TRENDS IN FUND DISTRIBUTION

- Fund Platforms remain the largest distributors in the UK with 43% of gross sales totalling £106 billion. Off platform sales through advisers increased by 49% in 2017 to £66 billion.

INDUSTRY STRUCTURE AND CONCENTRATION

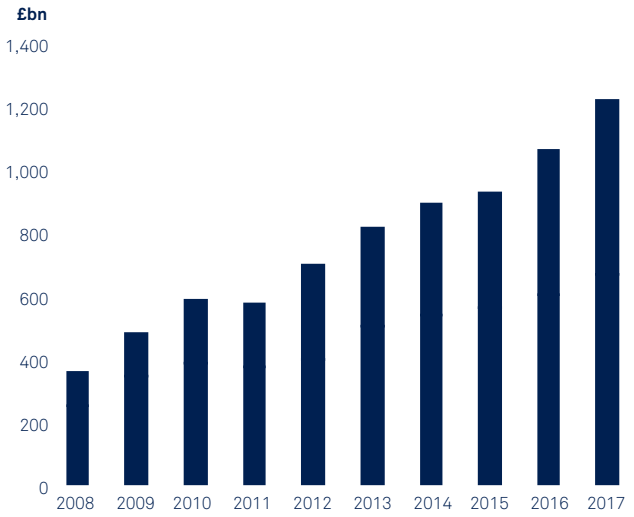
- The ten largest firms increased their market share by two percentage points in 2017 to 46%.

This Chapter focuses on investment in UK authorised and recognised funds, which are approved for promotion and sale to retail investors in the UK and overseas. Although the Chapter discusses primarily sales to retail investors, institutional investors may also choose to invest in these funds and institutional comparisons have been included where relevant.

FUNDS UNDER MANAGEMENT

Funds under management (FUM) for UK investors reached £1.2 trillion at the end of 2017, marking an average growth rate of 11.7% per year over the past five years – see Chart 48.[46] This is broadly in line with the growth rate of wider UK assets under management discussed in Chapter 1.

CHART 48: INDUSTRY FUNDS UNDER MANAGEMENT (2008-2017)



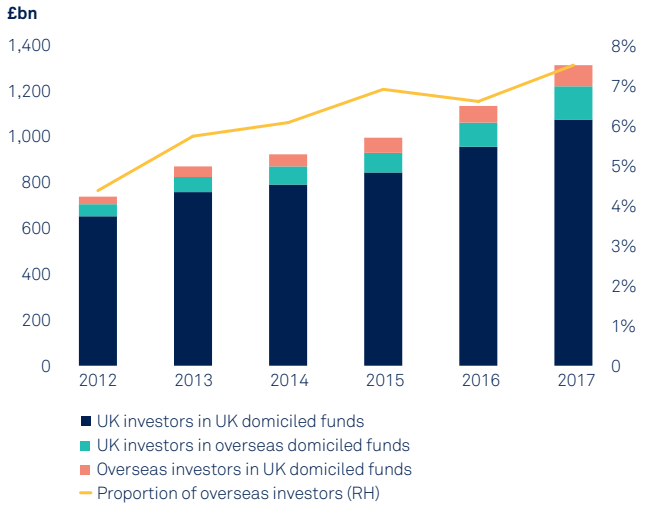
INVESTOR DOMICILE

As part of a broader fund market characterised by significant cross-border activity,the UK market reflects activity of both UK and overseas investors.[47] Chart 49 breaks down the total FUM into three categories: FUM held by UK investors in UK-domiciled funds, FUM held by overseas investors in UK-domiciled funds; and FUM held by UK investors in overseas-domiciled funds.

It is quite clear that UK investors tend to invest in UK-domiciled funds, accounting for 93% (£1.1trn) of total FUM. This does not preclude appetite for investing in overseas-domiciled funds, as FUM held by UK investors in such funds reached £147 billion in 2017, which was a 37% year-on-year growth and a 178% increase since 2012. This would suggest that, as yet, UK investors are not beginning to shy away from overseas-domiciled funds following the Brexit referendum. As discussed later, IA data implies that this may rather be reflected in continued outflows from UK equity funds.

Notably, there has also been further demand for UK-domiciled funds by overseas investors who now hold 7% of UK-domiciled FUM, up from 4% in 2012.

CHART 49: UK FUM BY INVESTOR RESIDENCE



[46] Includes all assets held by UK investors whether in funds domiciled in the UK or overseas

[47] For example, the European Parliamentary Research Service estimates that over half of UCITS are distributed in two or more EU countries. See: EPRS, Cross-border distribution of investment funds, April 2018.

FUNDS UNDER MANAGEMENT BY ASSET CLASS

The asset allocation of UK funds over the last twenty years has followed a similar pattern to that seen in the overall market, with the proportion of assets invested in equities, particularly the UK, falling, and the allocation to the Other asset class increasing (see Chart 50). UK Equities continued to lose market share in 2017, falling by 1.5 percentage points to 19.8% of the market, which is the lowest on record. In contrast, the share of non-UK equities has been growing steadily in the past five years, reaching 33.6% in 2017.

CHART 50: FUM BY ASSET CLASS (1998-2017)

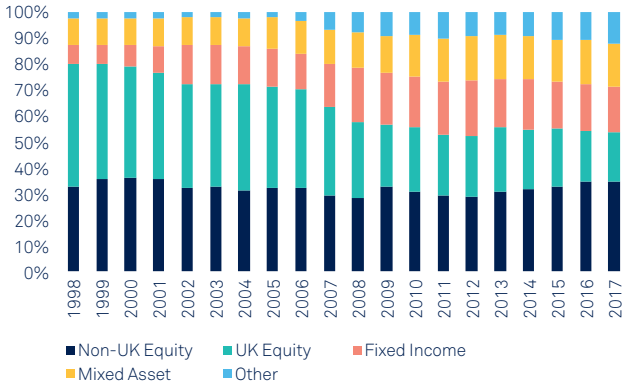
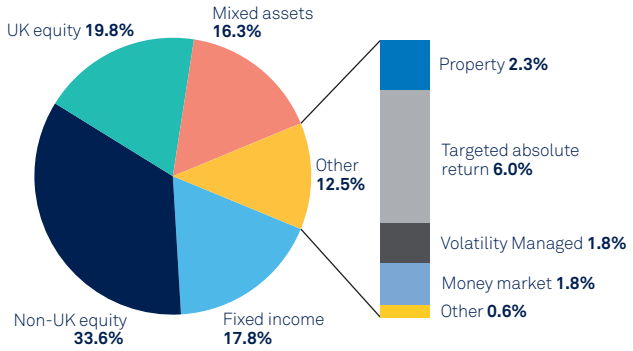


Chart 51 breaks out the Other category in more detail. One reason for the year-on-year increase (from 10.8% to 12.5%) was the introduction of the Volatility Managed sector which moved some funds from the Mixed Asset category. The other significant reason was the growth of the Targeted Absolute Return which increased by 14% from last year, and now accounts for 6% of total FUM.

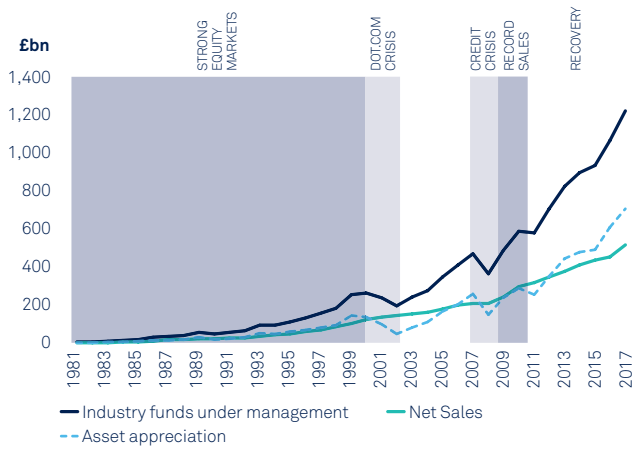
CHART 51: FUNDS UNDER MANAGEMENT BY FUND/ASSET TYPE



DRIVERS OF GROWTH

Chart 52 shows the importance of both sales and asset appreciation to the increase in FUM since 1980. Over the period each has contributed broadly half of the growth in FUM. Whether this pattern will continue is unclear, as the potential changes to the structural drivers of retail sales could be leading to an increase in net annual sales figures (see page 69) at a time when market returns are likely to become more of a challenge.

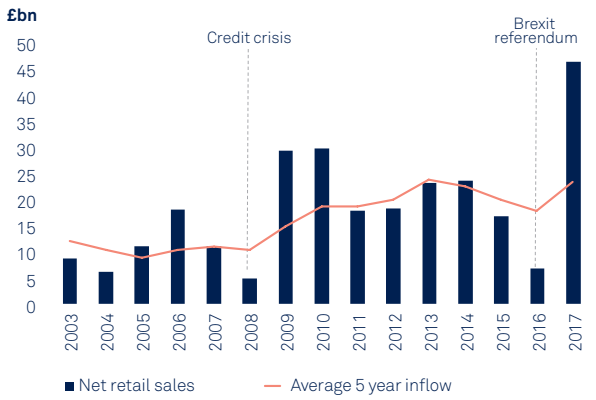
CHART 52: DRIVERS OF INDUSTRY GROWTH (1980-2017)



RETAIL FUND SALES

2017 was a record year for net retail sales in the UK fund industry with £47.1 billion of new money being invested – see Chart 53. This could be reflecting a bounce back from the extremely low retail sales seen in 2016 which reflected concern around the Brexit referendum and the substantial outflows that followed from both equity and property funds.

CHART 53: NET RETAIL SALES (2003-2017)

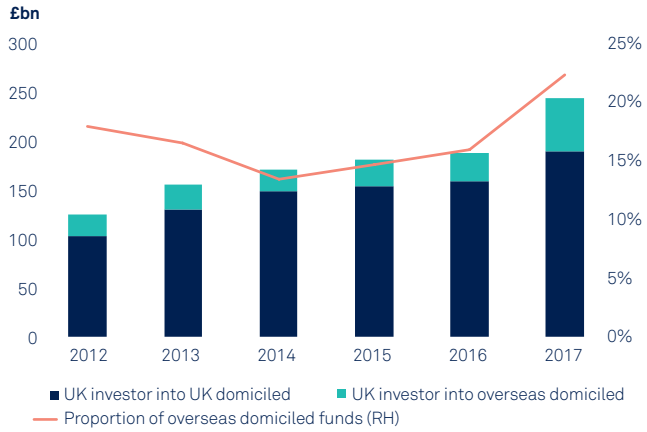


RETAIL SALES IN OVERSEAS FUNDS

Gross sales are perhaps more indicative of investor demand for funds than net sales. During 2017, £189 billion of gross sales was invested in UK-domiciled funds and £54 billion in overseas-domiciled funds – see Chart 54.

The fact that 22% of UK investor money was directed towards overseas-domiciled funds, the highest since 2012 when the IA started collecting this data, suggests that any concerns over passporting of investment products following the UK's departure from the EU are not yet having a significant impact.

CHART 54: GROSS UK INVESTOR SALES BY FUND DOMICILE



EXPLAINING FLOWS

In any given year, the drivers of retail fund demand are likely to reflect a wide-ranging set of factors. In the short-term, it would appear that the strength of 2017 was linked to the weakness of 2016 when negative sentiment around Brexit significantly dampened aggregate flows, impacting on specific asset classes (see Chart 56).

Longer-term, the aggregate retail flows into funds after the global financial crisis of 2008 have generally been higher than those seen previously. This is not obviously correlated with the pattern of UK aggregate savings rates which, while spiking through 2009-2010, are now lower than they were in 2008 after a steep fall through 2017.[48]

Based on research with financial advisers, the IA has tested the salience of four specific factors for explaining the current strength of flows into investment funds:

1. **Low interest rate environment**. Following the financial crisis in 2008, the UK Official Bank Rate fell to 0.5% and has remained at that level or below until the 0.25% rate hike announced in August 2018.[49] This is obviously part of a global pattern that has created a hunt for yield among both retail and institutional investors. IA analysis from 2010-2011

[48] Households and NPISH saving ratio, ONS
[49] Between August 2016 and November 2017 the Bank of England lowered the rate even further, to 0.25%.

suggested a strong substitution effect as existing investors moved cash from banks and building societies into fixed income and later equity income.[50] This substitution effect would inevitably slow over time. Recent strength (last five years) of retail sales may indicate new savings being allocated to funds over more traditional sources such as cash ISAs.

2. **Pension Freedoms**. Introduced in 2015, pension freedoms have allowed investors to take control of their own investment decisions during retirement, removing the virtual requirement to purchase an annuity that existed prior to that date. According to FCA data since October 2015, 55% of pension pots accessed have been fully withdrawn and 30% have entered drawdown.[51] The FCA also note that annuity sales are on a downward trend with new sales falling 13% in the period April to September 2017 compared to the same period in 2016. Pension freedoms also introduced the possibility for individuals to transfer out of private sector DB schemes into DC schemes for the first time.

3. **Inheritance of wealth**. Recent research has underlined how significant bequests remain, whether as a result of direct bequest motive or precautionary saving, or a combination of these factors.[52] Although it is not uncommon for individuals to utilise the wealth accumulated in their primary housing in later life, the majority of individuals do not currently do so. As the demographics of those reaching retirement changes and individuals become more reliant on DC rather than DB pensions, it could be expected that the proportion of individuals accessing their housing wealth may increase. When it comes to financial wealth (excluding pension saving) the picture is rather different and the evidence suggests that the majority of financial wealth will be passed on rather than spent during retirement. The combination of these factors implies that significant wealth is likely to be inherited by younger generations via financial and housing assets.

4. **Unwinding of buy-to-let property investment**. In recent years, buy-to-let investment has generally been viewed as a core investment option for those looking either for a stable income and/or for the potential for capital growth. However, recent changes to incentives for landlords may have had a negative impact on this form of investment. In April 2016 the Government introduced an extra 3% stamp duty for landlords and those buying second homes. In April 2017 the Government introduced further changes which reduced the mortgage tax relief that is claimable, which could reduce the profits of many landlords. Recent data shows buy-to-let lending down by a fifth year-on-year.[53] The question then becomes whether this may result in stronger inflows into other investment markets.

In order to explore these possibilities in more detail, the IA commissioned Opinium to undertake research among UK IFAs, asking them how important various factors were in prompting investors to seek advice from them during the last twelve months (1 being low in importance and 5 being high). The results of this survey are shown in Table 3.

TABLE 3: REASONS FOR SEEKING FINANCIAL ADVICE[54]

	Importance Ranking (1-5)
To review the suitability of current investment portfolio	3.6
Seeking an alternative to cash kept in savings accounts	3.3
Transfers from defined contribution pension schemes	3.2
Inheritance of wealth	3.2
Cash released under new pension freedoms	2.9
Transfers from defined benefit pension schemes	2.7
Unwinding of buy-to-let property investment	1.7

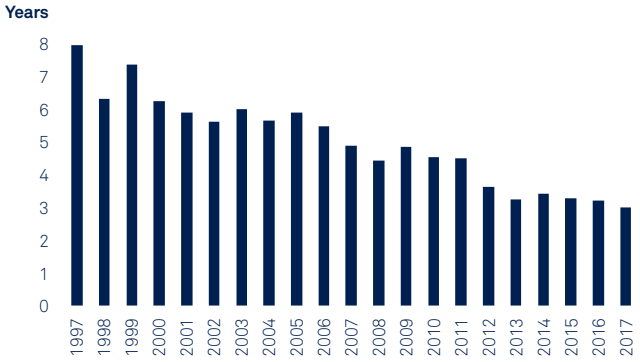
With the exception of the unwinding of buy-to-let property investment, which ranks relatively low in importance, each of the four reasons outlined above does seem to be significant in prompting individuals to seek advice. Drivers of flows into investment funds therefore appear diverse, but the pension reforms of recent years are starting to feed through alongside the longer-standing themes.

[50] Asset Management in the UK 2010-2011, IA
[51] https://www.fca.org.uk/publication/data/data-bulletin-issue-12.pdf,
[52] The use of wealth in retirement, IFS Briefing Note BN237, Rowena Crawford 2017
[53] UK finance
[54] Source: IFA omnibus survey conducted by Opinium in July 2018

HOLDING PERIODS OF UK FUNDS

The length of time that retail investors hold a particular fund has more than halved over the past 20 years from around eight years in 1997 to three years in 2017 (see Chart 55).

CHART 55: AVERAGE HOLDING PERIODS OF RETAIL INVESTORS (1997-2017)



The reasons behind this are numerous and include:

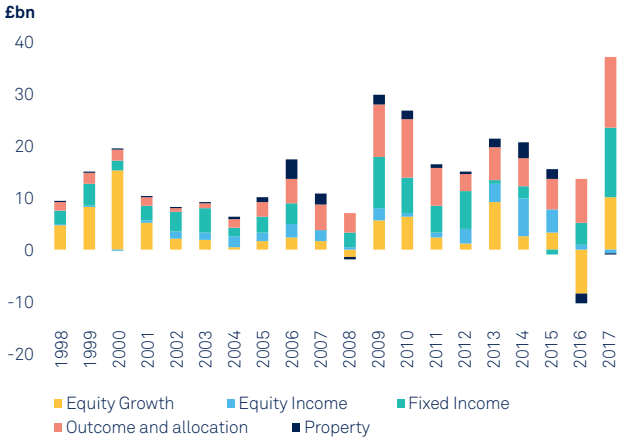
- Improved technology, particularly in regards to platforms. Retail sales through fund platforms have increased fourfold in the last ten years, with the greatest increase seen in relation to personal pensions (see Chart 71).
- Increased engagement as investors take more interest in managing their own money.
- An increase in the availability of independent research which can highlight new trends to investors.
- Increased concentration of funds selection through a variety of professional services designed to help investors and advisers.

INVESTOR OBJECTIVES

Chart 56 shows that three themes dominated investment demand by retail investors during 2017:

- Outcome and allocation funds continued to be in high demand with £13.8 billion in net retail sales.
- Fixed income was the second best-selling strategy with £13.2 billion in net retail sales, consistent with the persistent demand for income-producing strategies.
- Despite a strong rebound in overall equity growth sales, UK equity remained out of favour in the aftermath of the Brexit referendum. UK equity sectors saw an outflow of £2.6 billion but the overseas equity sectors experienced strong investor demand so that equity growth as an objective received £10 billion in net retail sales – the highest since the year 2000.

CHART 56: NET RETAIL SALES BY DIFFERENT INVESTMENT OBJECTIVE (1998-2017)



OUTCOME AND ALLOCATION IN THE ASCENDANCY

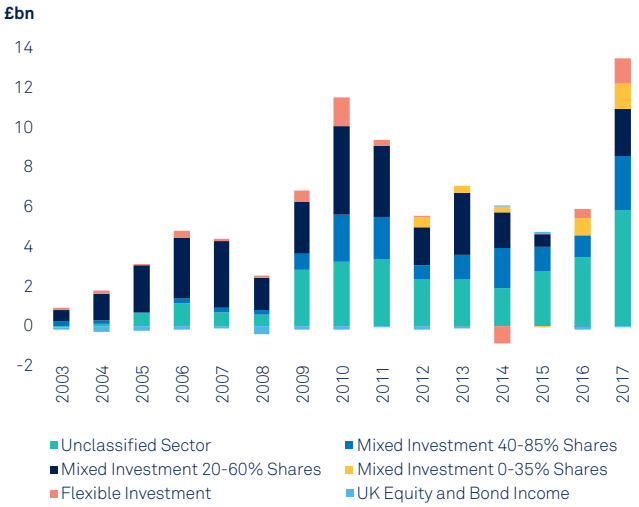
A diverse set of funds and sectors is included within the outcome and allocation category, with the unifying characteristics of active allocation and/or specific risk management objectives relating to volatility or absolute capital preservation:[55]

- Five Mixed Asset sectors, with retail inflows of £7.6 billion in 2017. Notably passive mixed asset funds accounted for £2.9 billion.
- The Targeted Absolute Return sector, which was the best-selling individual sector with an outcome and allocation objective categorisation. The TAR sector had net retail sales of £3.2 billion.
- The IAs newly-launched Volatility Managed sector saw positive retail sales of £1.9 billion since its launch in April 2017.
- Money Market sector funds attracted inflows of £1.3 billion.

MIXED-ASSET

Chart 57 shows the net retail sales into mixed asset funds broken down by specific categories within this (including those in the Unclassified sector). The Unclassified sector makes up a large share of the mixed asset universe and had the highest net retail inflow in 2017, £5.8 billion.

CHART 57: NET RETAIL SALES OF MIXED ASSET FUNDS (2003-2017)



There are a significant number of mixed asset funds in the Unclassified sector.

There are two reasons for this:

- These funds may change their asset allocation more often than those in the mixed-asset sectors, making them less comparable to other mixed asset funds.
- The mixed-asset sector parameters are largely based on the fund's exposure to equities. Funds which change their asset allocation relatively frequently could end up switching between mixed-asset sectors fairly often, meaning that not one sector would be appropriate.

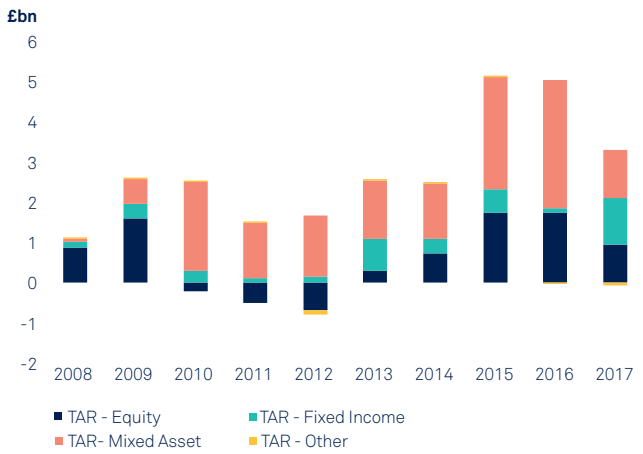
[55] Data in the outcome and allocation objective exclude funds in the IA's unclassified sector. Where possible the analysis on pages 72 to 73 includes unclassified funds allocated to various asset classes

TARGETED ABSOLUTE RETURN

The Targeted Absolute Return sector was the third best-selling sector for UK retail investors in 2017 with £3.2 billion in net retail sales. FUM grew by 15% reaching £81.3 billion at the end of 2017.

Looking at the asset class split within this sector, Mixed Asset and Fixed Income absolute return funds both had net retail sales of £1.2 billion in 2017 – see Chart 58. Equity funds had slightly lower net retail sales at £932 million.

CHART 58: NET RETAIL SALES TARGETED ABSOLUTE RETURN FUNDS BY ASSET CATEGORY (2008-2017)



VOLATILITY MANAGED

The IA launched the Volatility Managed sector in April 2017 for funds that are managed within specific volatility targets.

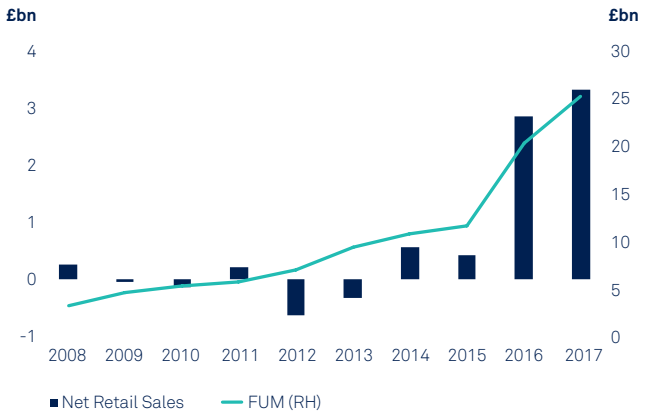
These funds are designed to carry investors through their investment cycle. Namely, earlier in their life investors may be looking to grow their investments over the long term and be prepared to take on more risk as a result. Nearer retirement investors are likely to have a shorter term investment horizon and may be more concerned about preserving the capital they have built up. Consequently, they would typically require lower volatility investments to meet their needs.

The sector launched with 87 funds in April. By the end of the year, it counted 98 funds. Funds under management grew from £20.2 billion in April to £24.8 billion in December, largely due to strong retail flows that averaged £216 million per month (including institutional flows the average was closer to £400 million).

MONEY MARKET FUNDS

After receiving a (then) record net inflow of £2.8 billion in 2016, Money Market funds (including those in the IA's unclassified sector) experienced another record year, with net retail inflows of £3.3 billion (see Chart 59).[56]

CHART 59: NET RETAIL SALES OF MONEY MARKET FUNDS (2008-2017)[57]



The large flows into Money Market funds began in the second half of 2016, following the Brexit referendum, and continued well into 2017, with the majority of assets coming through advisers. Overall, this could be reflecting increased cash allocations in model portfolios and discretionary management.

[56] When institutional investor channels are included net sales into Money Market funds were £8.7 billion in 2016 and £4.2 billion in 2017.
[57] Includes money market funds in the IA's unclassified sector, which saw inflows of £2billion in 2017.

A STRUCTURAL SHIFT?

Outcome and allocation funds have been particularly popular with retail investors for over 20 years. Notably, there has not been a single annual outflow since the IA started collecting data in 1995. The last ten years specifically have seen a step change:

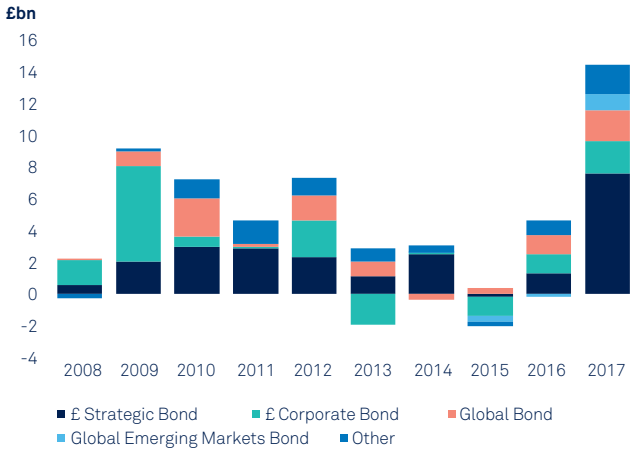
- Outcome and allocation funds accounted for 40% of total net retail sales since 2008 compared to 20% in the decade before that.
- Adding income funds (equity and fixed income), 80% of flows since the financial crisis of 2008 have been destined for funds that have an income, allocation or wider risk-management objective. This compares to 60% in the 1998-2008 period.

This universe expands the definition of active management well beyond stock and securities selection into areas where value is added by specific expertise – eg. asset allocation or risk targeting. This holds true independently of whether the underlying components are active or indexed. The rise of passive multi-asset (see page 72) is one illustration of this, with allocators needing to take a view on asset classes, geographies and possibly factors such as investment styles, which is ultimately an active allocation decision.

ONGOING FOCUS ON INCOME

Bonds are the natural home for investors looking for income provision and they clearly dominate this space (see Chart 60). Sterling strategic bond funds drew the lion's share of net retail sales in 2017 with £7.5 billion invested. The next best-selling was sterling corporate bond at £2.1 billion. Strategic bond funds tend to have wide investment mandates allowing access to bonds across the fixed income spectrum as well as more freedom to manage interest rate risk. Flows into this sector in 2017 are consistent with investors preferring bond funds with greater investment flexibility during a more uncertain investment environment.

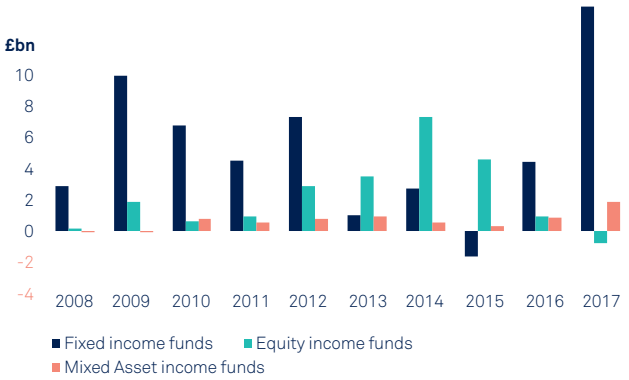
CHART 60: NET RETAIL SALES OF FIXED INCOME FUNDS (2008-2017)



Sales into income-focused mixed asset funds were strong as well, with a record of £15.3 billion of net retail sales. This would suggest that investors may be finding other sources of income-generating strategies.

In contrast to fixed income and mixed asset income funds, 2017 was the first year since 2000 when there was an outflow from equity income funds. Given that this group is skewed toward UK equity income funds (79% of assets are UK focused), this outflow could be linked to broader investor asset allocation decisions and the general outflows from UK equity that we have been observing throughout 2017 as discussed in the next section (see Chart 61).

CHART 61: NET RETAIL SALES OF INCOME FOCUSED FUNDS (2008-2017)



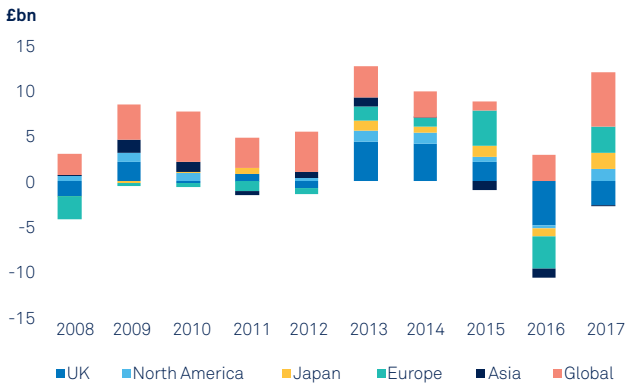
STRONGER EQUITY GROWTH SALES, BUT OUTSIDE THE UK

Equity growth funds saw positive net retail sales of £10 billion following an outflow in 2016. The drivers behind this were Global and European equity funds with £5.6 billion and £2.9 billion in net retail sales respectively (see Chart 62).

In sharp contrast, the UK All Companies and UK equity income sectors saw outflows of £1.7 billion and £1.1 billion respectively. Notably, outflows from active UK equity funds have been partially offset by inflows into passive UK equity (see page 77).

Still, cumulatively, UK equity funds have seen outflows of £7.5 billion over the last two years, suggestive of a more negative view of UK equities since the Brexit referendum. In the context of continued investment of UK investor money in overseas funds and vice versa (see page 67), this would imply that any concerns on Brexit relate more to the chances of future growth in the UK equity market rather than the continued existence of the infrastructure that allows seamless cross-border distribution.

CHART 62: NET RETAIL SALES OF EQUITY FUNDS BY REGIONAL FOCUS (2008-2017)



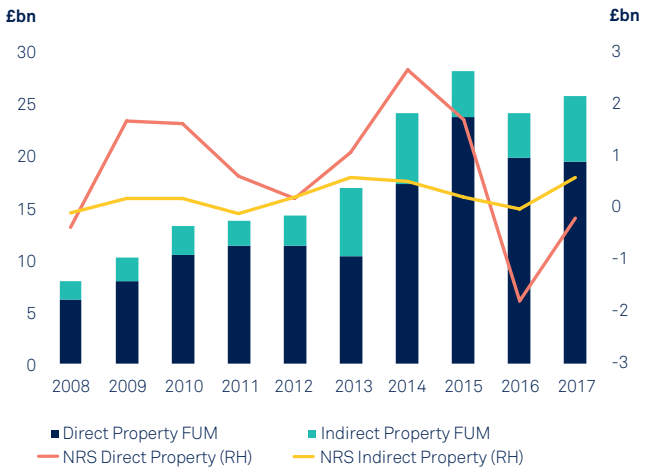
OTHER SECTORS

PROPERTY

Both 2016 and 2017 have been difficult for the Property sector. Large scale redemptions following the Brexit referendum ended a seven year run of positive annual net retail sales. There was a further, albeit much smaller, retail outflow from the property sector in 2017, of £137 million. Ultimately, it was due to asset appreciation that FUM overall grew by 7% to reach £25.7 billion.

Chart 63 shows the Property sector funds under management and net retail sales broken down by direct property funds that invest in buildings, and indirect property funds that invest in property related equities. Indirect property funds suffered less in 2016 with a small net retail outflow of £23 million and actually attracted an inflow of £580 million in 2017. Direct property funds experienced net retail outflows in both 2016 and 2017 of £1.8 billion and £207 million, respectively.

CHART 63: PROPERTY SALES AND FUM (2008-2017)



PASSIVELY MANAGED FUNDS[58]

Passively managed funds continued to take market share from active funds in 2017, accounting for 13.7% (13.1% in 2016) of the UK fund market. Their net retail sales were £9.2 billion in 2017 and FUM grew by 20% to £187 billion (including fund of funds).

Although UK equities still make up the largest strategy representing 34% of passive funds, this share is falling, with faster growth seen in the Global Equity and Mixed Asset strategies (see Chart 64).

CHART 64: FUNDS UNDER MANAGEMENT OF PASSIVE FUNDS BY INDEX INVESTMENT TYPE (2008-2017)

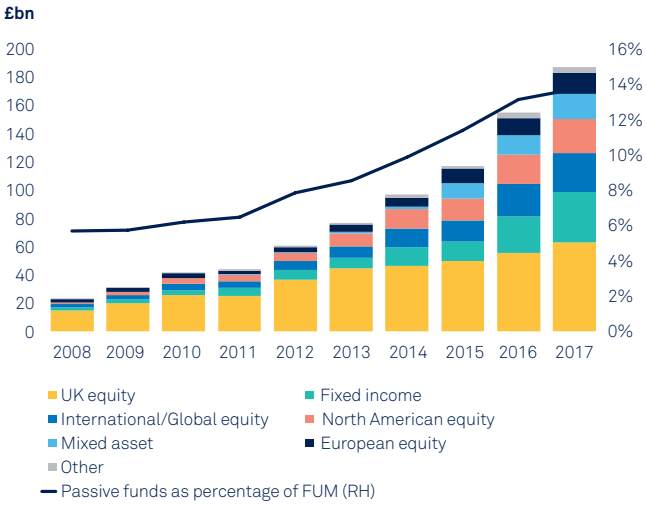


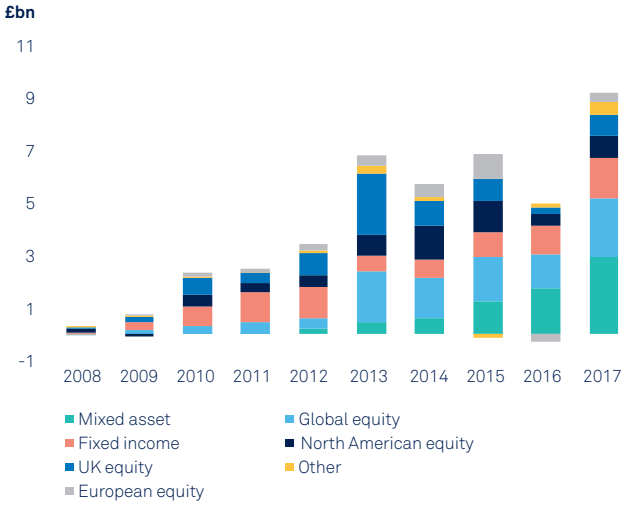
Chart 65 breaks down net retail sales for passive funds into underlying strategies. The best-selling passive strategy was Mixed Asset with net retail sales of £2.9 billion. This is a significant growth Chart 67 shows accelerating growth in this area since 2009, when net retail sales were just £13 million.

Similar to the active fund universe, Global equity was a popular strategy within passive funds with £2.2 billion in net retail sales.

Notably, unlike their active counterparts, passive UK equity funds received positive net retail sales, with an £800 million inflow.

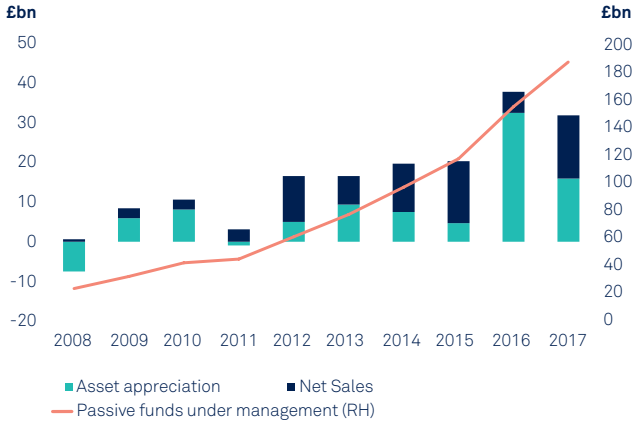
[58] IA data focuses on open-ended funds, and does not currently include ETF flows.

CHART 65: NET RETAIL SALES OF PASSIVE FUNDS BY INDEX INVESTMENT TYPE (2008-2017)



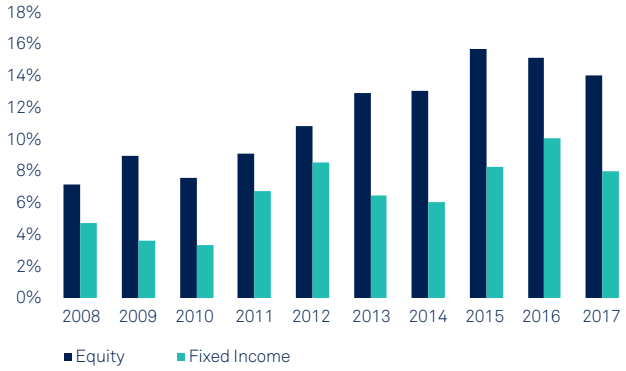
Net sales (retail and institutional) into passive funds were £16.2 billion in 2017 which marked a significant increase on the £5.3 billion invested in 2016. Asset appreciation was lower at £15.8 billion, compared to £32.6 billion in 2016.

CHART 66: CONTRIBUTION TO FUNDS UNDER MANAGEMENT IN PASSIVE FUNDS (2008-2017)



The proportion of gross sales attributed to passive funds fell in 2017 to 14% for equities and 8% for fixed income (see Chart 67). Whilst the proportion of FUM in tracker funds continues to increase, the gross sales data suggests that investor appetite for active funds, equities in particular, has recently increased.

CHART 67: GROSS SALES OF PASSIVE FUNDS AS A PERCENTAGE OF GROSS SALES BY ASSET CLASS (2008-2017)



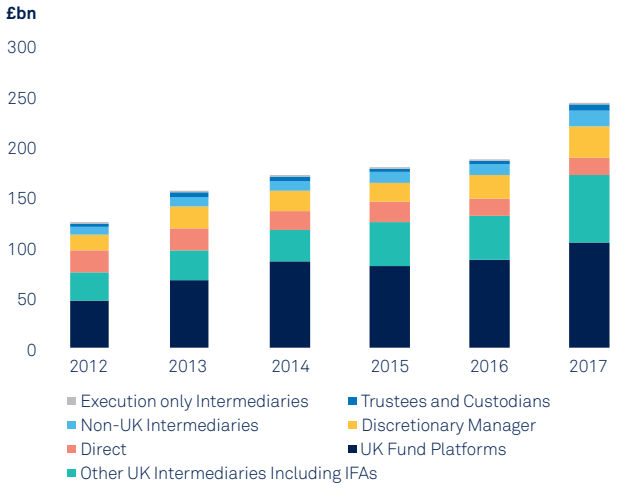
TRENDS IN FUND DISTRIBUTION

Fund platforms continue to be the largest sales channel for investment funds in the UK (see Chart 68).[59] In 2017, gross sales through direct-to-consumer and adviser fund platforms were £106 billion, a 21% year-on-year increase. Platforms accounted for 43% of the total £243 billion of gross sales last year.

Sales through the Other UK Intermediaries including IFAs channel increased by 49% with gross sales of £66 billion with the market share increasing to 27%. Direct sales increased slightly from £17.7 billion in 2016 to £17.9 billion in 2017, however, their market share was at only 7%.

This reflects a new state of the retail distribution landscape following the structural change brought about by RDR. For example, in 2012 the Direct channel accounted for 18% of gross retail sales while platforms were only at 38%.

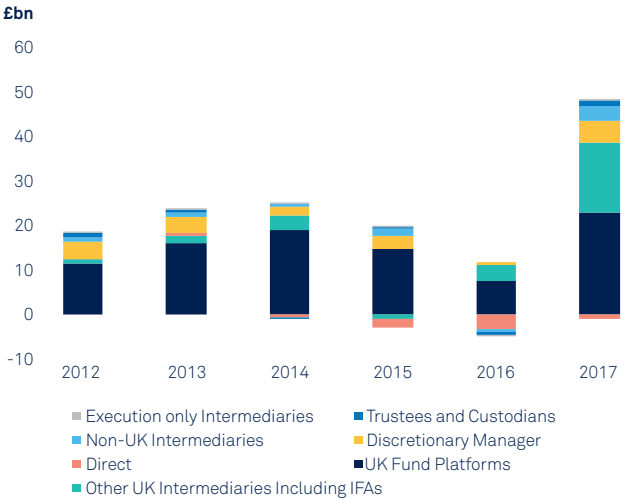
CHART 68: GROSS RETAIL SALES BY DISTRIBUTION CHANNEL (2012-2017)



Of the record £47.1 billion net retail sales in 2017, £22.9 billion of net retail money came through platforms and £15.5 billion came through the Other UK Intermediaries including IFA channel (see Chart 69).

The Direct channel was the only one to experience a net outflow in 2017, by £759 million. This was significantly lower than the outflows seen in 2015 and 2016 (£2.1 billion and £3.2 billion respectively). The fact that the Direct sales channel had similar gross sales in 2017 to 2016, but lower net outflows, would suggest that fewer investors sold out of their direct investments in 2017.

CHART 69: NET RETAIL SALES BY DISTRIBUTION CHANNEL (2012-2017)

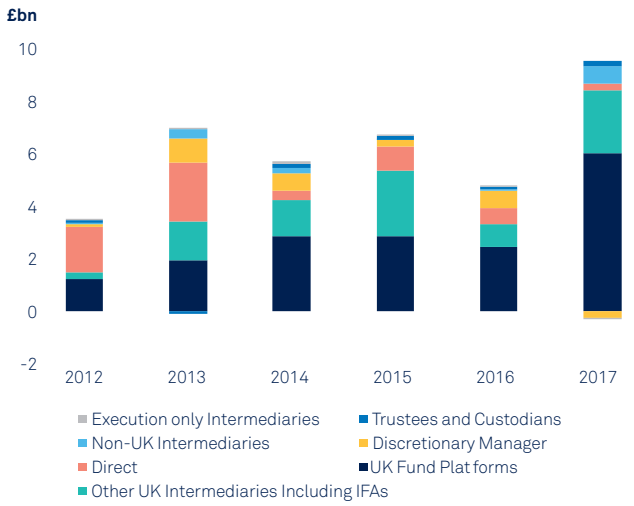


[59] Five fund platforms provide data to the IA. These are Cofunds, Fidelity, Hargreaves Lansdown, Old Mutual Wealth and Transact.

DISTRIBUTION OF PASSIVE FUNDS

Chart 70 shows the distribution of passive funds in more detail. UK Fund Platforms were the dominant sales channel in 2017 with £6 billion of net retail sales. Advisers are the second largest channel with net retail sales of £2.4 billion. Discretionary managers had an outflow of £277 million, which implies that they showed a preference for active strategies in 2017.

CHART 70: TRACKER NET RETAIL SALES BY DISTRIBUTION CHANNEL (2012-2017)



WRAPPERS USED BY RETAIL INVESTORS IN THE UK

Chart 71 uses data provided by five UK fund platforms with combined assets under administration of £261 billion to show how retail investors use various tax efficient vehicles to buy funds.

- The largest absolute growth was in personal pensions with a 104% year-on-year increase. Since 2008, net retail sales have grown from £1.6 billion in 2008 to £8.9 billion in 2017.
- ISA sales have increased from £1 billion in 2008 to £3.5 billion in 2017. ISA allowances have increased by a similar factor, from £7,000 a year in the 2007/08 tax year to £20,000 in the 2017/18 tax year.

CHART 71: RETAIL INVESTING TRENDS (NET RETAIL SALES THROUGH FUND PLATFORMS)

FUND OF FUNDS

Fund of funds also had a record breaking year in terms of sales in 2017, helping their market share increase to 12.5% of industry assets (£153 billion). The choice between fettered (constructed by a single manager) and unfettered (whole of market) was relatively evenly split with £5.2 billion in net retail sales into fettered fund of funds and £4.6 billion in unfettered funds (see Chart 72).

CHART 72: NET RETAIL SALES OF FETTERED AND UNFETTERED FUNDS OF FUNDS (2003-2017)

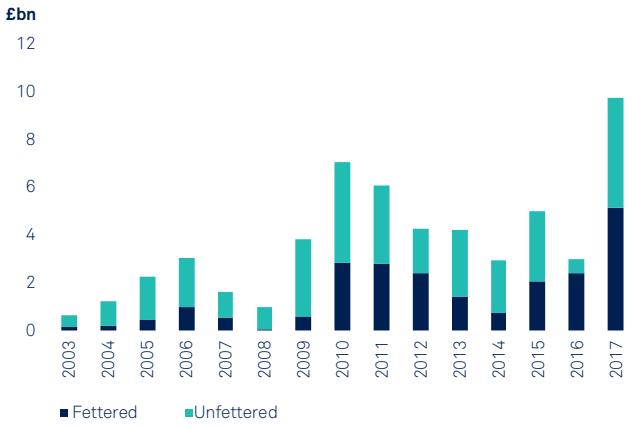


Chart 73 shows the annual contribution made to FUM growth by sales and asset appreciation. Net sales have been positive in each of the last ten years, even when asset appreciation has been negative.

CHART 73: CONTRIBUTION TO FUNDS UNDER MANAGEMENT IN FUND OF FUNDS (2008-2017)

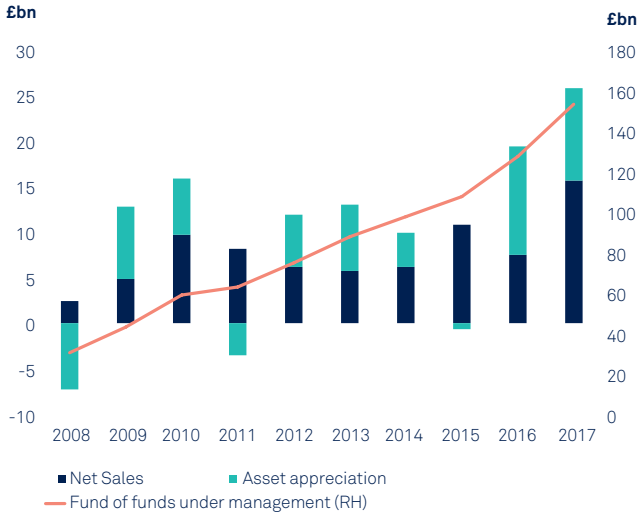


Table 4 shows the breakdown of net retail sales into fund of funds by distribution channel.

TABLE 4: NET RETAIL SALES INTO FUND OF FUNDS BY DISTRIBUTION CHANNEL

	Net Retail Sales Fettered £'s	Net Retail Sales Unfettered £'s
UK Fund Platforms	4,278,152,805	2,690,186,242
Other UK Intermediaries Including IFAs	594,016,861	651,083,372
Discretionary Manager	304,629,449	669,900,951
Trustees and Custodians	181,746,236	-85,301,927
Non-UK Intermediaries	97,584,505	203,286,280
Execution only Intermediaries	-254,301	2,585,028
Direct	-262,290,498	489,952,689

INDUSTRY STRUCTURE AND CONCENTRATION

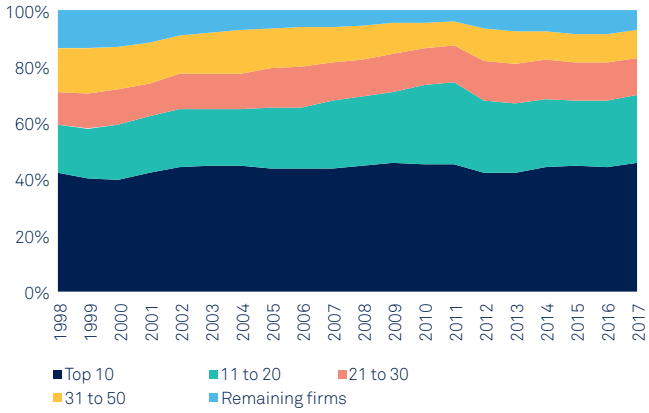
Despite M&A activity and the widespread use of third party CIS Operators, the number of fund management companies reporting data to the IA increased in 2017 to 158. This includes a number of new members joining the IA in 2017.

Chart 74 shows the number of firms reporting to the IA over the last 15 years. The sharp increase in 2012 is due to the change in the way the IA reports data from a UK-domiciled to UK investor basis. From 2012 onwards, the data included overseas funds operated by firms reporting to the IA which include money from UK investors.

CHART 74: NUMBER OF FIRMS REPORTING TO IA (2003-2017)

In terms of industry concentration, the ten largest firms increased their market share by two percentage points in 2017 to 46%.

CHART 75: COMBINED MARKET SHARES OF TOP FIRMS BY FUNDS UNDER MANAGEMENT (1998-2017)



UK MARKET IN EUROPEAN CONTEXT

The UK remains the fifth largest European fund domicile with €1.6 trillion equivalent in UK-domiciled funds.

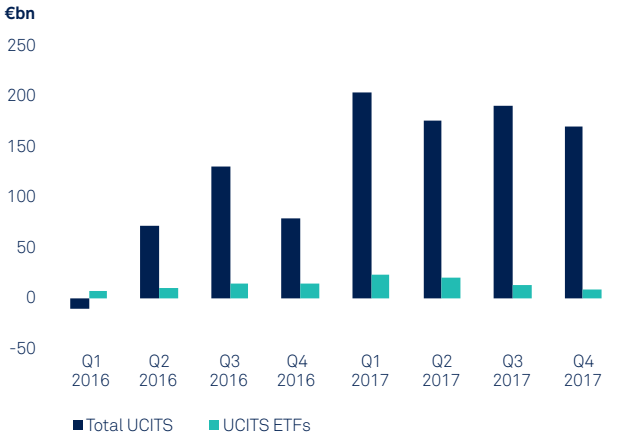
FIGURE 12: ASSETS DOMICILED IN EUROPEAN UCITS AND AIFS 2017

Country	Net assets (€bn)	Market share
1. Luxembourg	4,160	27%
2. Ireland	2,396	15%
3. Germany	2,038	13%
4. France	1,929	12%
5. United Kingdom	1,646	11%
6. Netherlands	843	5%
7. Switzerland	551	4%
8. Sweden	335	2%
9. Italy	321	2%
10. Denmark	301	2%
Rest of Europe	1,103	7%
TOTAL	**15,623**	**100%**

Source: EFAMA

Flows into funds across Europe were high during 2017 (see Chart 76).

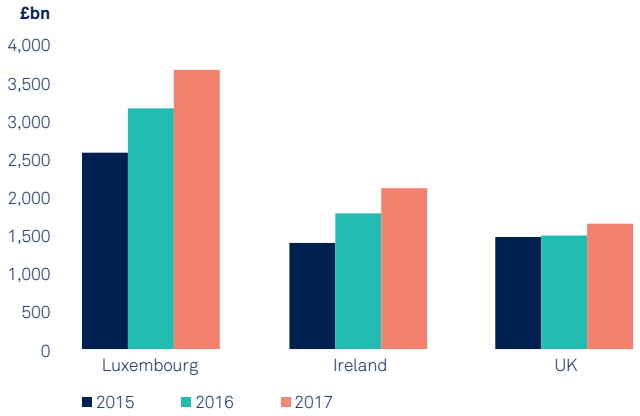
CHART 76: NET SALES OF UCITS IN EUROPE (2016-2017)



Source: EFAMA

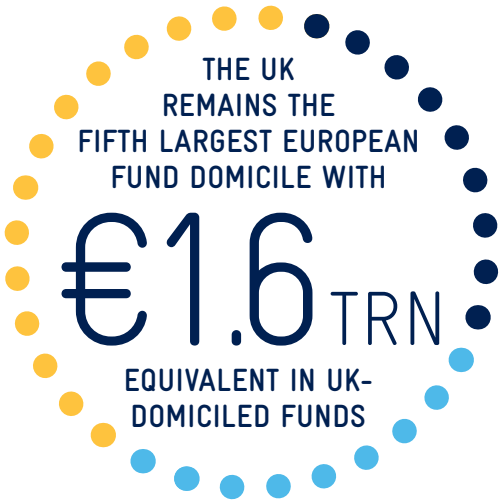
Chart 77 shows the growth in assets of UCITS and AIFS in Luxembourg and Ireland, compared to the UK. Luxembourg and Ireland showed the greatest increase overall, in 2017.

CHART 77: ASSETS IN EUROPEAN UCITS AND AIFS



Source: EFAMA, figures displayed in sterling terms

Nonetheless, the UK experienced the greatest growth in UCITS assets outside of these two centres, suggesting there is no particular appetite among investors to move away from UK-domiciled funds as a result of uncertainty around Brexit.[60]



[60] Quarterly Statistical Bulletin, EFAMA