Asset Management Survey
for the year ended December 2006
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1 Introduction

This is the fifth annual survey undertaken of IMA member firms. It is based on questionnaire responses and eighteen in-depth interviews with senior figures in leading firms, supplemented by internal IMA data. Questionnaire responses were obtained from 69 firms, managing between them £2.8trn in the UK (90% of total assets managed by IMA members), making this the most representative survey of the UK asset management industry.

The IMA would like to express its gratitude to all those firms who provided detailed questionnaire information, as well as to those individuals who gave their time for interviews. A list of respondent firms and of firms interviewed is provided in Appendices 1 and 2 respectively.

The survey presents a snapshot of the UK industry, across both the institutional and retail landscape. The strength of the UK as a centre for asset management activity is clearly in evidence. Assets managed by IMA members in the UK totalled an estimated £3.1trn as at December 2006. While the majority of activity is concentrated in London, seen by interviewees as an increasingly powerful global financial centre, the other major UK financial cluster, Edinburgh, also has a very well established asset management base.

At the same time, it is evident that the UK industry is currently undergoing a period of major change at a number of levels, presenting considerable opportunities for many firms, but also a range of adjustment challenges. Many of the changes are also being seen internationally and are not unique to the UK. Taken together, they are likely to have a significant impact on the future shape and structure of the industry, both in the UK and globally.

In broad terms, we see eight key trends, whose shape and impact we explore further in the body of the survey:

- **Greater polarisation** brought about by alpha and beta separation and the commoditisation of certain beta products.
- **Specialisation/fragmentation** as balanced mandates continue to recede and institutional clients look for high alpha performance in specific asset classes.
- **Diversification** as clients look towards wider sources of return (e.g., property, infrastructure, commodities, private equity etc.).
- **Convergence** in certain areas between the hedge fund environment and ‘mainstream’ asset managers (e.g., increasing demand for absolute return funds; emergence of 130/30 funds) and between the retail and institutional product offering.
- **Liability preoccupations** driving the development of a range of products designed to help defined benefit schemes better manage their funding difficulties.
- **Disintermediation** as new forms of fund distribution and assembly mechanisms emerge, turning asset managers increasingly into manufacturers selling their products through professional buyers in wholesale relationships.
- **Ongoing Europeanisation** of the regulatory and commercial operating environment.
- **Globalisation** as a combination of new client and investment opportunities are provided by the gradual liberalisation of the international economy and by demographic shifts favourable to an enhanced savings culture.
The survey is in four parts:

- The first provides an overview of the UK industry, looking at its general structure, and the nature of the assets managed in the UK by client and asset type.

- The second looks in more detail at the institutional market.

- The third examines the retail market, with an emphasis on the UK authorised funds (unit trust/OEIC) environment.

- The fourth examines a range of operational issues, including profitability, the attraction of the UK as a country in which to do business, UK headcount and interaction with the market.

A number of general points should also be noted:

- Unless otherwise specified, all references to ‘Assets under Management in the UK’ refer to assets under management by IMA members in the UK as at December 2006.

- Not all respondents have been able to provide information for all questions and not all questions have been answered on the same basis. Response rates have therefore differed across questions.

As in the past, the survey has been designed with comparability to the previous survey in mind. However, even where firms replied in both years, some may have responded to a question last year but not this year or vice versa. Where meaningful comparisons are possible, they have been made.

Assets managed by IMA members in the UK totalled an estimated £3.1trn as at December 2006.
2 Overview of UK Asset Management Industry

Key Findings

1. Overall size
- Assets managed by IMA members in the UK totalled an estimated £3.1trn as at December 2006.
- Including a range of funds run by other firms who are not IMA members, it is estimated that total assets managed in the UK exceed £3.4trn.

2. Client type
- Some 77% of assets managed in the UK are invested on behalf of institutional investors (primarily corporate pension funds and insurance companies). The retail market accounts for 21% of total assets, although the distinction between institutional and retail is becoming increasingly blurred.

3. International dimension
- The industry is highly international, with clients and asset management activities across the world. Assets managed globally by IMA member firms, or by the groups of which they are a part, totalled an estimated £13.9trn as at December 2006.
- Assets managed in the UK on behalf of overseas clients represent 27% of the total, a sizeable increase on last year. There is a clear contrast between a large group of predominantly UK-client oriented firms and a smaller, but significant, number of firms whose client base is predominantly international.

4. Industry concentration and ownership patterns
- The UK industry as a whole remains relatively unconcentrated. The share of the ten largest firms is unchanged at 48%.
- In terms of firm ownership (as measured by UK management activity), insurers are still the single largest parent group, followed by groups whose sole business is asset management.

5. Overall asset allocation
- Matched samples show only modest change in the position of equities as a proportion of total assets under management since December 2005. However, taking account of market movement, this suggests the overall trend away from equities and into bonds is continuing.
- A significant feature of current investor behaviour is increased interest in ‘alternatives’, notably hedge funds, private equity, commodity and infrastructure funds.
- Despite signs of moves away from UK equities by certain UK institutional clients, IMA member firms continue to account for a sizeable proportion (47%) of UK domestic market capitalisation.

1. Overall Size

The survey covers a representative sample of 137 IMA member firms, who manage £3.1trn in the UK. Chart 1 shows the progression since 2002, with ongoing correlation to market movements.

Chart 1: Assets Managed in the UK by IMA Members, 2002-2006

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1 This figure is calculated using a complete internal IMA data set for assets under management as at June 2006 and adjusting it based on survey questionnaire responses for December 2006.
As in last year’s survey, respondents fall into five general categories:

- Asset management firms with a sizeable global footprint themselves, or which are part of firms with such a footprint (44% of respondents by assets under management in the UK). Such firms undertake a wide range of asset management activities across the institutional and retail market space.

- Large and medium-size firms, whose business is primarily UK/European-focused and which offer a diverse product range (50%).

- Smaller asset management firms, which may be specialist boutiques or focused on the private client market (1%).

- Occupational Pension Scheme (OPS) managers running in-house asset management operations (4%).

- Fund companies or firms whose business is primarily based on mutual funds and who manage assets in-house (1%).

In terms of overall investment industry size, IMA member firms operate across both the mainstream and alternative asset management spectrums. Chart 2 gives a profile of survey respondents in this respect. Almost all respondents have equities, bonds and cash within portfolios, with almost half having property as well, and 20-30% managing the assets of private equity vehicles and hedge funds out of the UK. Commodity and infrastructure funds are not yet widespread.

While one would not necessarily expect a large proportion of respondents to be managing property and alternatives, the chart is also indicative of two key points about the industry and the survey:

- The IMA membership base consists principally of the ‘mainstream’ part of the industry, and has less representation among firms managing solely alternative assets. Including property, hedge fund and private equity investments not managed by IMA members and not covered in this survey, we believe that the total figure for assets under management in the UK exceeds £3.4tn.

- A number of large players in the hedge fund industry, who are also IMA members, are running sizeable parts of their hedge fund operations – both asset management and fund domicile – outside the United Kingdom. This is making hedge fund activity difficult to capture.
2. Client Type

A general overview of assets managed in the UK by client type is given in Chart 3:

- Institutional assets under management account for 77% of the total, with the largest segments being corporate pension funds (28%) and insurance funds (27%). Retail assets account for 21% and private client money 2%.

- The insurance segment (which counts both in-house and third party mandates) is markedly lower than last year – 27% compared to 31% in December 2005. A matched sample confirms the fall, but is smaller in magnitude – from 31% to 29%.

- After pension fund and insurance mandates, retail continues to represent the third largest client type.²

- The ‘Other Institutional’ category includes a range of clients: for example, sovereign wealth funds, corporations, and asset gatherers.

Both the institutional and the retail parts of the industry are analysed in more detail in parts three and four of the survey. The international dimension to the client base is discussed in the following section.

3. International Dimension

The UK asset management industry is highly international in a number of quite distinct ways:

- Assets are managed in the UK on behalf of a wide range of international clients.

- Assets are managed outside the UK on behalf of UK and international clients. While some firms centralise their asset management, many have the reverse philosophy (ie. portfolio management and trading being located in the region of the asset rather than the client). The latter will delegate to overseas offices in the relevant region: for example, regardless of client domicile, a firm might manage its UK and European equities out of the UK but run its US equities out of North America or its Asian equities out of Tokyo, Singapore or Hong Kong.

- A considerable proportion of funds are domiciled overseas (for example, in Dublin or Luxembourg), with the asset management taking place in the UK. However, it may also be the case that funds managed on behalf of a UK client are both domiciled and managed overseas.

² The survey does not collect retail market data on the same basis as the IMA monthly statistics. It focuses on assets under management in the UK, regardless of where the fund or client is domiciled. In consequence, it picks up a wider range of retail funds, which will explain why the percentage share here is larger than implied by the IMA monthly data. See p30.
This survey captures only those assets managed in the UK (i.e. where the day-to-day management of assets is handled by asset managers based in this country). Looking globally, we estimate that IMA members, or the groups of which they are a part, managed £13.9trn as at December 2006.3 A discussion of the comparative attraction of the UK as an asset management centre, as well as data on the fund domicile of UK managed assets, can be found in the final part of the survey.

Data this year suggests that 27% of total assets managed in the UK – over £800bn – are managed on behalf of overseas clients, either directly contracted with the UK management firm or contracted with an overseas office of that firm, which delegates the management to the UK. This is a considerable increase on last year’s survey (which showed 20%), and is in part due to the wider participation among international firms. However, matched samples, which show a four percentage point rise, confirm a marked upward movement.

Table 1: Proportion of Assets Under Management Accounted for by Overseas Clients

<table>
<thead>
<tr>
<th>% of UK AUM for Overseas</th>
<th>Number of Firms</th>
<th>Total UK AUM (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-10%</td>
<td>33</td>
<td>1,171</td>
</tr>
<tr>
<td>11-25%</td>
<td>4</td>
<td>149</td>
</tr>
<tr>
<td>26-50%</td>
<td>7</td>
<td>594</td>
</tr>
<tr>
<td>51-75%</td>
<td>11</td>
<td>471</td>
</tr>
<tr>
<td>75%+</td>
<td>4</td>
<td>116</td>
</tr>
<tr>
<td>Total Sample Size</td>
<td>59</td>
<td>2,501</td>
</tr>
</tbody>
</table>

The overseas client data also illustrates quite a degree of polarisation within the UK asset management industry between a comparatively large number of firms, for whom overseas clients constitute less than 10% of assets under management, and a smaller, but nonetheless significant number, for whom such clients are a key part of their UK business. This is illustrated in Table 1. For fifteen firms, managing between them £587bn in the UK, a total of two thirds of this is managed for overseas clients. While we do not split out client types by client domicile in the survey, interview information and other sources suggest that this client base is wide-ranging, across both the institutional and retail space.

Data this year suggests that 27% of total assets managed in the UK – over £800bn – are managed on behalf of overseas clients...
For those firms with a more international focus, opportunities are seen across the globe. While Europe is an obvious market, a number of firms are also seeing substantial new business in other regions, for example, Asia, the Middle East, Latin America and Australia.

Such international opportunities are arising for a number of reasons, including:

- **Diminishing international regulatory barriers**, accelerating the development of the cross-border funds market. The growing success of UCITS is a key element here. UCITS funds are now selling successfully beyond the European marketplace, particularly in parts of Asia and also in Latin America. A recent PricewaterhouseCoopers report has pointed to over 5,000 UCITS funds being registered for sale outside their domicile by the end of 2005, with around 36,000 registrations across more than 50 countries. This figure is expected to have exceeded 43,000 during 2006.4

- **The trend towards open architecture**, which, while particularly advanced in the UK, is also an increasing feature of overseas markets.

- **The creation of new government asset pools**, which draw on the expertise of external asset managers, for example the National Pension Reserve Fund (NPRF) in Ireland, the Fonds de réserve pour les retraites (FRR) in France or China’s National Social Security Fund (NSSF). The UK Parliament is currently considering Government legislation to establish Personal Accounts from April 2012.

- **The gradual increase in individual savings pools** as the emphasis shifts to personal responsibility for pension saving beyond first pillar state schemes, with such saving often taking place within some form of defined contribution pension scheme.

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4 See ‘Global Distribution of UCITS: Trends, Challenges and Strategies’ (Mark Evans, PwC, April 2007).
4. Industry Concentration and Consolidation

Industry concentration (as measured by an internal IMA data set from June 2006) is illustrated in Chart 4. As in previous years, the chart shows a steep curve downwards from a comparatively small number of very large firms, and a long tail. While 17 IMA member firms each managed in excess of £50bn (see Table 2), 75 managed less than £16bn, 28 of whom managed less than £1bn.6

Table 2: Assets Managed in the UK by Firm Size (June 2006)

<table>
<thead>
<tr>
<th>Assets Under Management</th>
<th>Number of Firms (June 2006)</th>
<th>Survey Respondents (Dec. 2006)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;£100bn</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>£51-100bn</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>£26-50bn</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>£16-25bn</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>£1-15bn</td>
<td>47</td>
<td>28</td>
</tr>
<tr>
<td>&lt;£1bn</td>
<td>28</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>116</strong></td>
<td><strong>66</strong></td>
</tr>
</tbody>
</table>

1 Internal IMA data is used for this analysis and is not available for December 2006.
2 The IMA membership includes a number of fund management firms who outsource their asset management operations. The numbers provided in this section are therefore a sub-set of the total.
3 The totals in this row reflect IMA member firms and questionnaire respondents who actually manage assets.
Looking at the position of the largest firms (ranked by asset management conducted in the UK) as at December 2006:

- The five top firms accounted for 30% of assets managed in the UK by IMA members, virtually unchanged from a year earlier.
- The market share of the ten largest firms was also broadly unchanged at 48%.
- The firms which dominate the indexing market now occupy the top three positions. This appears to be one consequence of the ongoing trend towards the separation of alpha and beta (discussed later in the survey on p22).

With respect to Chart 5, it should be noted that the ranking by assets managed in the UK means that:

- It will not reflect the scale of the global operations of a number of the top ten firms listed in the chart.
- It will not include in the top ten a number of very large firms who are managing a significant proportion of assets overseas.

For cross reference, Chart 6 shows data on the ten largest global asset managers.

**Chart 5: Assets Managed in the UK – Ten Largest Firms (December 2006, £mn)**

<table>
<thead>
<tr>
<th>Investment Management</th>
<th>Assets (£mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal &amp; General Investment Management</td>
<td>232,969</td>
</tr>
<tr>
<td>Barclays Global Investors</td>
<td>232,039</td>
</tr>
<tr>
<td>State Street Global Advisors</td>
<td>161,582</td>
</tr>
<tr>
<td>M&amp;G Securities</td>
<td>160,284</td>
</tr>
<tr>
<td>Morley Fund Management</td>
<td>151,187</td>
</tr>
<tr>
<td>JPMorgan Asset Management</td>
<td>128,188</td>
</tr>
<tr>
<td>Standard Life Investments</td>
<td>114,099</td>
</tr>
<tr>
<td>Scottish Widows Investment Partnership</td>
<td>101,969</td>
</tr>
<tr>
<td>Insight Investment Management</td>
<td>98,614</td>
</tr>
<tr>
<td>BlackRock Investment Management</td>
<td>92,320</td>
</tr>
</tbody>
</table>

**Chart 6: Assets Managed Globally – Ten Largest Managers by Group (June 2006, $mn)**

<table>
<thead>
<tr>
<th>Manager</th>
<th>Assets ($mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays Global Investors</td>
<td>1,622,714</td>
</tr>
<tr>
<td>Fidelity Investments</td>
<td>1,575,000</td>
</tr>
<tr>
<td>State Street Global Advisors</td>
<td>1,534,000</td>
</tr>
<tr>
<td>Capital Group Companies</td>
<td>1,320,165</td>
</tr>
<tr>
<td>Allianz Global Investors</td>
<td>1,163,926</td>
</tr>
<tr>
<td>BlackRock</td>
<td>1,075,000</td>
</tr>
<tr>
<td>The Vanguard Group</td>
<td>1,050,000</td>
</tr>
<tr>
<td>JPMorgan Asset Management</td>
<td>891,400</td>
</tr>
<tr>
<td>Legg Mason</td>
<td>869,966</td>
</tr>
<tr>
<td>Mellon Financial Corporation</td>
<td>893,966</td>
</tr>
</tbody>
</table>

Source: Adapted from Global Investor Magazine’s GI Top 20 Consolidated Managers, 2007*

**Lack of Consolidation Momentum**

The last year has seen few signs of a developing consolidation momentum in the UK industry. The most notable event was the completion of the merger of BlackRock and Merrill Lynch Investment Managers. At the same time, private equity involvement in the asset management environment has been in evidence, with the management/private equity buyouts of Jupiter from Commerzbank, and of Gartmore from Nationwide Mutual.

* For more details on this survey, see http://www.globalinvestormagazine.com

13
In terms of ownership of the UK industry, insurance-owned asset managers remain the largest single group, with 31% of assets under management. Asset/fund managers are the second largest group (26%). For more detail, see Chart 7.9

Chart 7: Assets Managed in the UK – Ownership of Firms

With respect to the outlook for consolidation, the view among some interviewees in the survey was that the benign market conditions of the last few years have meant that it may take a severe downturn to prompt a major burst of activity:

‘At the moment, this market is floating everyone’s boat. Broadly speaking, these are golden times. If you strip that away and markets had been flat for five years, this conversation would be very different… You are not going to get rationalisation and pain unless you are really under-performing. Interesting times will come when markets correct.’

However, the observation was also made that, given the central value of human capital to the asset management industry, merger and acquisition activity was more complicated than might be the case in other sectors. Organic growth, or growth through the purchase of assets rather than asset management companies, may make more sense to a number of firms.

5. Overall Asset Allocation

With respect to the overall question of what is being managed in the UK, respondents were asked to provide total assets under management based upon asset classes and geographical areas. Chart 8 shows total assets under management in the UK broken down into equities, bonds, cash/money market, property and other (including alternatives). While the hedge fund component (1%) is small given the current well-established move towards alternative investments, the two points made on p8 regarding the capture of alternatives in the survey should be noted.

Chart 8: Assets Managed in the UK – Asset Allocation
In comparison with the December 2005 figures in the last IMA survey, the relative proportion of equities (52.4%) and bonds (31.7%) as measured as a proportion of total assets under management has slightly changed in favour of equities (see Table 3). This is distorted by sampling differences. Using matched samples from firms who replied in both 2005 and 2006 (representing 60% of total assets under management), the proportion of equities and fixed income has fallen by a percentage point.

If one takes into account asset values over this period (December 2005 – December 2006), which saw solid UK growth and a continued, if more muted, rise in the global equity markets (see Table 4), the erosion of the position of equities is further apparent. This aspect is also discussed in the institutional part of the survey (see p21).

### Table 3: Asset Allocation – Headline Data and Matched Samples

<table>
<thead>
<tr>
<th>Equity</th>
<th>Bonds</th>
<th>Cash/Property</th>
<th>Other</th>
<th>Money</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Headline Data</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec-06</td>
<td>52.4%</td>
<td>31.7%</td>
<td>8.7%</td>
<td>4.8%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Dec-05</td>
<td>51.4%</td>
<td>32.5%</td>
<td>7.5%</td>
<td>4.8%</td>
<td>3.7%</td>
</tr>
<tr>
<td><strong>Matched Sample</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec-06</td>
<td>54.3%</td>
<td>29.7%</td>
<td>9.1%</td>
<td>4.8%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Dec-05</td>
<td>55.0%</td>
<td>30.7%</td>
<td>8.4%</td>
<td>4.5%</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

### Table 4: Returns on Selected Indices, December 2005 – December 2006

<table>
<thead>
<tr>
<th>Equities</th>
<th>Capital Return</th>
<th>Total Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE All-Share Index</td>
<td>13.2%</td>
<td>16.8%</td>
</tr>
<tr>
<td>FTSE World (ex UK)</td>
<td>3.5%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>iBoxx Sterling Gilts Overall</td>
<td>-4.4%</td>
<td>0.5%</td>
</tr>
<tr>
<td>iBoxx Sterling Non-Gilts</td>
<td>-4.6%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Overall</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lehmann Global Aggregate</td>
<td>-2.2%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Bond</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Lipper Hindsight
Looking in more detail at equity allocation by region:

- The equity split using a regional breakdown is outlined in Chart 9. As in previous years, UK equities are predominant, with European and US equities the second and third largest components respectively.

- While the proportion of UK equities has clearly fallen in the headline numbers, a matched sample shows little change, which still implies a small net outflow. This may in part reflect the ongoing change in UK pension fund investment strategies, both out of equities in general, but also out of UK equities into non-UK equity exposure, either in the form of regional or global mandates. However, it should be remembered that, given the presence of large global asset management firms in the UK, there will be sizeable UK holdings on behalf of overseas institutional clients (including pension funds).

Chart 9: Assets Managed in the UK – Equity Allocation by Region

In terms of UK equity holdings as a proportion of total UK equity market capitalisation, this year’s survey suggests that IMA members manage some 47% of the total as at December 2006. Table 5 shows the split by client type. Pension funds and insurance clients account for a third of total UK shares.

Table 5: Investment in UK Equities by Client Type (% UK Domestic Market Capitalisation, December 2006)

<table>
<thead>
<tr>
<th>Client Type (incl. overseas)</th>
<th>% Total UK Stock Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate and Local Authority</td>
<td>19.2%</td>
</tr>
<tr>
<td>Pension Funds</td>
<td>14.3%</td>
</tr>
<tr>
<td>Insurance</td>
<td>10.4%</td>
</tr>
<tr>
<td>Retail Clients</td>
<td>2.2%</td>
</tr>
<tr>
<td>Other Institutional</td>
<td>0.9%</td>
</tr>
<tr>
<td>Charity</td>
<td>0.5%</td>
</tr>
<tr>
<td>Other</td>
<td>47.4%</td>
</tr>
</tbody>
</table>

10 For more details on the behaviour of UK pension funds, see ‘WM Annual Review: UK Pension Funds 2006’ (WM Company) and ‘Pension Fund Indicators 2007’ (UBS).
3 Institutional Market

Key Findings

1. Client type

- The institutional market consists of a wide range of clients, based both in the United Kingdom and overseas. However, corporate pension funds and insurance companies account for over 70% of total institutional business.

- Although 80% of insurance company mandates still flow to asset management in-house subsidiaries, a range of factors are allowing third party asset managers to access insurance company mandates. This is seen by interviewees as a significant ongoing trend.

- The considerable size of the ‘other institutional’ channel is a reflection both of international business opportunities in the more traditional institutional arena (corporate non-pension business, governments, central banks etc.) and the way in which many firms see themselves as wholesalers to asset gatherers, such as banks and insurance companies, both in the UK and overseas.

2. Asset allocation

- Asset allocation decisions in the institutional arena continue to be characterised by a movement away from equities and into bonds by pension funds. There is also a greater interest in alternatives, such as hedge funds, private equity, commodity and infrastructure funds.

3. Separation of alpha and beta

- The trend in recent years towards differentiation of alpha (value added by active management) and beta (market return) now sees passive mandates accounting for around a fifth of the institutional market. There continues to be a small number of market leaders in passive management, which operate at a considerable scale.

- At the active end, the trend towards the separation of alpha and beta is seeing increasing use of ‘high alpha’ mandates, with rising demand for absolute return and unconstrained products. In this environment, the distinction between ‘traditional’ managers and hedge funds looks increasingly blurred.

4. Ongoing specialisation

- Some 84% of third party assets managed by survey respondents in the UK are in specialist/single-asset mandates, reflecting the ongoing move away from balanced/multi-asset mandates.

- The move towards specialisation is contributing to a fragmentation of the institutional market. However, certain forms of liability-driven investment (LDI) and targeted return approach illustrate the emergence of ‘new balanced’ products.
5. Segregated mandates and pooled funds
■ Assets invested in pooled vehicles as opposed to segregated portfolios account for close to 40% of third party institutional business. Corporate pension funds are the single biggest institutional client base for pooled vehicles. This appears to reflect the heavy exposure to indexed funds of this part of the market.

6. Liability-driven investment
■ Although liability-led strategies currently account for a modest share of the pension fund market (6% according to respondent data), the issue of whether and how to use LDI is by far the most important theme in the current pension fund marketplace.

■ On the supply side, the asset management industry is seeing both a deepening (i.e. greater number of firms venturing into the LDI market) and a widening in terms of product available, with increasing availability of pooled LDI products.

■ Asset management firms interviewed for the survey point to changes in distribution patterns as pension fund sponsor company involvement in deficit resolution leads to the possibility of more direct contact between the industry and sponsor companies than would previously have been the case.

7. Defined contribution pension products
■ The asset management industry is faced with strategic choices regarding DC provision: to go down the bundled product route (providing both investment services and administration), to provide investment services, or to do both. While many firms will probably opt for investment services only, there are very mixed views as to how to proceed.
1. Client Type

Chart 10: Institutional Assets Managed in the UK – Client Types

Respondents were asked to provide mandate information for institutional investment based upon assets managed in the UK on behalf of both UK and overseas domiciled clients. A number of firms manage sizeable mandates in the UK for a wide international institutional client base.

Institutional mandates split by client type are shown in Chart 10. Insurance companies and corporate pension funds were the largest client components in the sample, followed by local authorities. A large majority of insurance client assets (80%) are in-house funds (managed by asset management subsidiaries on behalf of parent groups that are insurance companies or have a large insurance component within the group). This ongoing dominance of insurance owned firms in running insurance assets can be seen in Chart 11 which analyses client type by parent type of the asset management firm.

However, as noted in last year’s survey, the dynamics of the insurance market are changing:

- Third party asset managers account for 20% of total insurance assets, with 32 survey respondents identifying third party insurance mandates.

- A number of larger insurer-owned asset managers are increasingly building up sizeable third party institutional and retail business from outside their group. Taken together with Chart 12, Chart 11 shows the extent to which a number of insurance owned asset managers are particularly significant players in the pension fund part of the institutional market.

The ability of third party asset managers to win insurance mandates is seen by interviewees to be the result of a number of factors:

- The advance of open architecture on insurance platforms is allowing the life and pension product offering to move beyond in-house managers to third party product offerings.

- There are a number of insurance companies, notably at the smaller and medium-size end of the market, who may have in-house asset management firms, but who are looking hard at core competences and outsourcing some of their mandates related to core insurance business.

- New insurance companies (e.g., Paternoster, Synesis, Pension Insurance Corporation) are emerging to buy out pension funds and are expected to be a source of asset management mandates.
The significant size of the ‘other institutional’ channel (19% of total institutional assets) is a reflection of two key factors:

- International business in the more traditional institutional arena (corporate non-pension business, governments, central banks etc.). Here, there is also a sizeable cash management component (illustrated in Chart 13).

- The way in which many firms see themselves as wholesalers to asset gatherers both in the UK and overseas. This is part of the trend towards the blurring of retail and institutional that we discuss in the retail section of the survey (see p32).
2. Asset Allocation

Chart 13: Asset Allocation (Institutional Assets)

In looking at asset class allocation, there are two major current themes:

- **Ongoing pension fund adjustment.** The headline figures from the overall sample this year show public and private sector pension funds holding 31% of their assets in bonds and 62% in equities (compared to 31% bonds and 60% equities last year). For more detail, see Chart 13. However, matched samples suggest a small fall in the proportion of equities held by pension funds and a rise in bond exposure, an unsurprising development given some of the current pressures on pension funds (see section on Liability-Driven Investment, p26).

- **Greater interest in alternatives.** There is growing interest in the use of alternatives, particularly hedge funds and private equity vehicles. We estimate that hedge fund assets managed in the UK by IMA members for institutional clients constitute 0.5-1.0% of total institutional assets, with private equity accounting for around 0.5%. While the survey data itself indicates that the use of alternatives is still relatively limited, it is important to re-emphasise that several structural factors discussed earlier (see p8) will make usage appear under-weighted, certainly compared to what is being seen in institutional client behaviour according to member firms interviewed.
3. Separation of Alpha and Beta

“The desire by clients to come into an organisation and find genuine alpha capabilities is becoming extreme. And in that quest for alpha, you’re seeing an increasing separation of beta… these trends are here to stay.”

Chart 14: Use of Passive and Active Management (Institutional Assets)

Any discussion of asset allocation has to take account of the growing trend in asset management over the past few years to make a clearer separation between alpha (value added by active management) and beta (market return). In this polarising environment, index tracking products have enjoyed considerable success and there have also been a number of innovations, such as exchange traded funds (ETFs), which have been growing rapidly in popularity and also in diversity.

We asked last year about the use of passive management,¹¹ across both segregated and pooled mandates. Responses suggested that 20-25% of total institutional assets may be managed passively. Based on a larger sample, results this year suggest the figure is closer to a fifth of total institutional assets with most extensive use among corporate pension funds. Chart 14 illustrates this across institutional client type. The results also confirmed a further previous observation: the passive space remains the preserve of a small number of firms. While sixteen respondent firms had some institutional assets under passive management, only six firms have significant scale (total assets managed on a passive basis above £5bn), and three firms dominate the market (87% of total passive assets identified in the survey).

In terms of trends within the indexing environment, interviewees felt that there was still sustained demand for ‘pure’ indexing, as well as substantial growth in enhanced index products. However, the point was also made that the passive market is itself evolving, with this evolution linked in part to trends in liability driven investment (see p26):

“A lot of people think the indexing market is not doing that much, and then all of a sudden you have wealth-weighted indexing and other developments. We widen that out to involve beta generally, and think of ourselves as beta providers. If you want the FTSE All-Share, that’s one beta. If you want 30 year inflation exposure, that’s another beta.”

‘The desire by clients to come into an organisation and find genuine alpha capabilities is becoming extreme. And in that quest for alpha, you’re seeing an increasing separation of beta… these trends are here to stay.’

¹¹ Defined as non-discretionary stock and securities selection (excluding enhanced index products).
At the active end of the market, a consistent theme is the pursuit of high alpha, with institutional clients also increasingly looking to absolute return and unconstrained strategies:

‘A few years ago, plus 2 [ie. 2% above a benchmark such as the S&P or FTSE] was seen as being high alpha, plus 1 was seen as standard. Now, plus 2 is seen as standard, plus 1 is seen as quant plus. Plus 3 and above is high alpha in equity space. So the trend towards high alpha is clear and one that is expected to continue, but in conjunction with de-risking other parts of the portfolio.’

‘As long as you are performing and doing well, the difference is that 50-100bps will keep your business, but it won’t win you new business. Everything is drifting… Most of the mandates we pitch for in the UK are plus 2. There are very few plus 1 mandates out there anymore. That’s why you are seeing hedge funds enter the institutional arena… Everyone has become a real return investor.’

‘Firms are looking for best in class alpha first and foremost. It’s quite simple really. They want to understand the persistency of the delivery process. For large pension funds, they are looking for you to deliver high alpha specialist mandates, which typically means plus 3 relative to benchmark, but increasingly unconstrained.’

‘I think if you look at what is happening, the negative news for the manager of traditional equities is that this is not a growth area… So, if you’re a core UK equity fund manager, there is going to be significant over supply…I do think that you will be moving much more to absolute return, non-correlated performance.’

A part of this theme is the diversification of alpha as institutional clients begin to look more critically at where they can achieve satisfactory levels of market out-performance:

‘In the old days, you’d have a firm who would run your balanced mandate for you, and you would have 50% in UK equities and you’d tell them to do plus 1. Essentially, in your fund the active management was half of it, targeting UK equities to plus 1 – in the US, it would be S&P 500 plus 1. Then, lo and behold, you have people saying it’s a bit difficult to beat the S&P 500, but look at all these investors in Japan or emerging markets who can suddenly do 300-400bp over these indices. So, clients are looking to access higher alpha pools… and you have got an increasing focus on diversifying alpha and also, where you find it, concentrating it. They are saying, if we can’t find it in the US, we’ll index. If we can’t find it with reliability, we’ll enhanced index and we’ll use our firepower in attractive markets.’

Finally, the techniques used to manufacture return are increasingly eroding established distinctions between traditional (long only) management techniques and hedge funds: for example, the current emphasis on new kinds of long/short funds (130/30, 120/20 etc.), which are also emerging in the retail market.12

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12 130/30 funds, and variations thereof, refer to an approach whereby 100% long exposure in a portfolio of stocks could be combined with 30% of short selling, with the proceeds of the short selling reinvested in long exposure.
4. Ongoing Specialisation

“You are buying few bundled products, you are buying the component parts. And that trend is continuing.”

Alongside the separation of alpha and beta and the growing interest in alternative products, there has been a sustained and marked move away from balanced mandates since the 1990s. Within the overall institutional space, survey responses indicate that specialist mandates account for 72% of total institutional assets managed in the UK (excluding in-house corporate pension fund assets). This figure rises to 84% for all third party business. The responses are analysed across client type in Chart 15.

Chart 15: Use of Specialist and Multi-Asset/Balanced Mandates (Institutional Assets)

This move towards specialist mandates is contributing to the growing fragmentation of the institutional market, which is creating a range of opportunities as well as adjustment challenges for asset managers. One feature identified by interviewees is that a number of firms who have previously been concentrated on the retail market and/or found it difficult to win significant institutional mandates are finding that there is greater interest in managers and products that would in the past have been seen as predominantly ‘retail’ oriented:

‘If I go back to the early 1990s, entering the institutional business was a complete nightmare. You were categorised as a retail manager. Now since then, of course, the recognition of alpha and beta separation, alpha generation – all of those concepts have descended on the consultant community in particular. Plus it has just been recognised that if a particular portfolio manager can run money in the retail space, they can surely run it in the institutional space.’

‘The institutional market is looking attractive for active fund managers, whereas in the old days, you were in the balanced business, low margin, not very persistent… the rise of the specialist mandate, with clear alpha and performance fees, is going to be a plus for us.’

This change in the institutional environment is also linked to the decreasing distinction between institutional and retail business more generally (see discussion on p32).
However, there are signs of a revival of the balanced mandate under a different guise – ‘new balanced’:

‘The days of having a billion pound portfolio that could move up and down with the markets are gone – the impact on the P&L is so massive that the quest for stable performance over and above interest rates and cash is driving demand. There’s a part for everyone in that. Whether it’s the fixed income piece, the swap over the top, the advice, the UK equities or international equities. But if you’re a house that can aggregate and provide a more dynamic, balanced solution, you’re in an interesting spot.’

‘New balanced’ generally takes two forms, both of which move the mandate away from more traditional forms:

- The first is a type of LDI mandate – discussed further on page 26 – where the manager is providing a strategy for long term out-performance alongside a solution to deal with inflation/interest rate risk.

- The other area is a ‘targeted return’ strategy, using a multi-asset class portfolio that is run against cash or inflation.

Although interviewees suggest these approaches remain a small part of the overall market at present, this is for some firms a fast growing area.

5. Segregated Mandates and Pooled Funds

The use of pooled funds may be considered by institutional investors for a number of reasons, for example, where small portfolios make segregated management an unviable option; where specialised pooled funds (eg. pensions) are convenient for those with similar investment goals; where market exposure through index tracking is desired; or where pooled funds offer accessible sources of geographical diversification.

Pooled funds may be unauthorised vehicles open only to institutional investors or authorised funds accessed by institutional investors. Indeed, in terms of product structure, regulatory and tax issues have led to quite a variety of pooled vehicles within the institutional market, depending on the nature of the client. In particular, UK pension funds are often served using life vehicles. While these are deemed to be very efficient compared to trust-based arrangements, it is seen as something of an oddity for the asset management industry. As one interviewee commented: ‘almost every asset manager has to jump through hoops and pretend they are a life company to run pooled vehicles for UK pension funds.’

Acceptance of pooled funds has grown rapidly in the UK, particularly as a means of gaining low cost beta exposure through passive vehicles. However, with respect to actively managed funds, several managers we interviewed did point to lingering resistance among some clients to pooled vehicles, particularly among overseas clients. The concern in part reflects a desire for something personalised, but also relates to the other people’s behaviour within the pool:

‘One of the biggest issues in pools is people’s suspicion about how they are treated getting in and out of them. There is a suspicion of how they might be affected by other people’s behaviour. Am I going to get stuck with a load of illiquid assets? Am I going to find that there are lots of people coming in and out of this pool, generating transaction expenses? I’m going to be picking them up. If I’m too large a portion of the total pool and want to redeem my money straightaway, how am I going to get it out?’
Table 6: Distribution of Third Party Segregated and Pooled Mandates

<table>
<thead>
<tr>
<th></th>
<th>Number of Firms</th>
<th>% of Total Third Party Institutional AUM by these Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segregated</td>
<td>24</td>
<td>95%</td>
</tr>
<tr>
<td>Pooled</td>
<td>12</td>
<td>94%</td>
</tr>
</tbody>
</table>

The survey data suggests that in terms of total third party institutional business (i.e. excluding in-house assets and those run by OPS firms), the proportion of assets in segregated funds is 62% compared to 38% in pooled funds. This is broadly comparable to last year, where a smaller sample meant that this finding was more tentative. The survey also confirms our other findings about the dominance of larger scale players in the pooling market:

- Of 45 respondents managing total third party pooled funds of £465bn, only twelve firms manage more than £5bn each, but account for 94% of the total (see Table 6). While some are active houses, the impact of the indexing players is considerable in this area.

- The shape of the segregated market is rather different. Out of a total of 48 respondents managing £775bn, the number of firms managing more than £5bn doubles to 24.

- Looking at the composition by client type of segregated and pooled third party business identified in the survey, corporate pension funds have a particularly strong position in pooled funds, and this appears to reflect the higher exposure to indexed funds (see Chart 16). However, not all indexed exposure is run on a pooled basis.

6. Liability-Driven Investment

‘Funds have shifted their objectives. They started out with peer group. Then they went to strategic benchmark. That was fine until strategic benchmark massively underperformed the liabilities. Then people said, “What we really need is an understanding of our risk related to our liabilities”.

The dominant theme of the moment remains the issue of pension fund deficits and the way in which schemes can be better assured of meeting future liabilities. While meeting liabilities has always been what defined benefit pension schemes are designed to do, a range of developments over the last few years – particularly regulatory and accounting standard changes – have combined to put pressure on them to address the question in a far more precise manner. The issue is not unique to the UK and a comparable debate can be seen elsewhere, for example the Netherlands and Japan.

13 As a proportion of total assets under management, the figure is 46% pooled.
In essence, LDI is an approach which responds to this need more precisely to match the asset allocation of a pension scheme with its future liabilities. While some have argued (controversially) that the nature of pension fund liabilities means that a bond based portfolio is the most natural solution for a pension fund, the payment profiles of funds, combined with inflation and interest rate risk, mean that more sophisticated approaches are generally required than simply shifting a pension fund portfolio away from equities and into fixed income securities. These approaches lie at the heart of LDI strategies and are considerably varied depending upon the nature of the pension scheme’s funding position, the size of the scheme and the risk tolerance of its trustees. In terms of the design of LDI products, interviewees were agreed that the market had moved quite a way since early LDI solutions, which often focused more on immunisation, towards what some described as ‘LDI plus’ which incorporate a greater emphasis on alpha gathering (see previous comments on ‘new balanced’ mandates). These products, as one interviewee put it, may also “blur the edges on active and passive management” since mandates could include both a passive cash flow matching product and some form of alpha capacity around the edge. The LDI market also now offers a wider range of pooled products, both passively and actively managed.

Chart 17: Pension Fund Investment Objectives

This year’s survey has more complete LDI data than last year and shows this approach now accounting for 6% of total pension fund assets under management (see Chart 17), although parts of LDI strategies are also likely to be caught in the ‘index benchmark’ and ‘absolute return’ categories. While some interviewees were cautious about the pace of current asset growth in LDI products (contrasted with the high level of interest), the general consensus was that LDI is here to stay.

The main question is the extent to which it grows within the pension fund marketplace:

‘The debate on LDI reminds me a lot of the debate ten years ago on passive, which was: “Is it going to happen? Are they going to do it?”… I think a significant amount of assets will go into LDI. The big open question in my mind is whether it becomes more 15-20% of the asset base, or whether it becomes the majority of the asset base.’

‘The dog might be barking, but it’s not barking that loudly. There’s not that big a flow. It’s very fragmented. It’s a double-edged sword at the moment. With interest rates going up, some people think: ‘Well, the deficit problem is not so bad. I don’t need to do this anymore.’ Alternatively, you can say, people would like to do it, but they were worried about low yield. But now that yields are better, they can lock in at better terms...’

At the same time though, there was a degree of concern expressed in some quarters about the limitations of LDI, and the extent to which its application would still need to evolve:

14 To measure the true extent of LDI usage, it would also be necessary to survey investment banks, which provide competition for the asset management industry in this area.
‘LDI… doesn’t actually do everything that it says on the tin. One of the liabilities is longevity and it doesn’t touch longevity. So, it’s only a partial solution anyway and I think that people have realised that pension funds are dynamic things. The maturities and the profile of the fund change over time, and the inflation outlook and the interest rate outlook change over time, so it’s a constant source of management. I suspect that as trustee bodies have come to do more work on liability strategies, they realise that they are not quite the panacea… That’s not to say it won’t remain on the agenda, but I think it will look rather different. It will be more dynamic and flexible than the first iteration.’

Changing Client Relationships

The impact of LDI is not just being seen in terms of the restructuring of pension fund strategies and asset allocation, it is also evident in the way in which that restructuring is taking place. Although none of the interviewees we spoke to felt that there was yet a significant shift in terms of product distribution, many commented that the LDI process is creating more opportunities for asset managers to interact directly with both trustees and plan sponsors:

‘The traditional relationships are breaking down. We are working with clients in areas that historically they would only have been working with consultants on – so acting as a second pair of eyes for them.’

‘Our liability led offering is a two-pronged attack. Obviously, we’re well plugged into the consultants, but more often than not we’ll go in via the plan sponsor. Our proposition is much more a bespoke, tailored consultancy approach, working with a client, understanding what their issues are, and coming up with a solution.’

However, asset managers also point to the influence of investment banks in this area, facilitated by existing relationships and by specific resources at their disposal:

‘In terms of strategy for some of the larger clients, consultants are becoming less influential at the expense of investment banks in particular, rather than asset managers. Although asset managers have a seat at the table, those driving investment decisions at corporates are more likely to listen to investment banks offering risk management solutions that are perhaps more comprehensive. Investment banks have a lot more firepower than investment consultants or asset managers when it comes to certain kinds of analysis, for example, the accounting effect of different investment strategies. We are seeing reverse enquiries, where an investment bank has gone to a sponsor where there are longstanding relationships proposing a solution. The solution then needs a manager to implement and they then go to consultants or managers directly.’

Overall though, while LDI means a change in the quadrilateral relationships around pension funds (plan sponsor, trustee, consultant, asset manager), and also sees the involvement of investment banks, it does not mean that asset managers believe that the role of consultants has necessarily diminished:

‘Even if it is becoming more direct either to the CFO or to the Trustees, at some point the consultants still have some say in the strategy and the appointment, so it’s important for us to continue to maintain the excellent service and relationships we have with the big consultants.’

‘The way that we position ourselves is that we are not substitutes for the investment consultant… As long as you are seen to be engaging with both sides, and not trying to cut out the consultant, then it works… Frankly, the complexities of modern fund management are so great and growing that trustees, consultants and asset managers have to work together on the solutions.’

‘All the institutional players will tell you that they see the institutional business becoming more and more of a direct game – the ability to go to a client direct. However… investment consultants are clearly going to remain incredibly important.’
7. Defined Contribution Pension Products

While assets under management for defined benefit (DB) schemes remain by far the largest part of the pension fund market, it is clear that long-term saving will increasingly be carried out in the context of defined contribution (DC) schemes and products. The DC market splits primarily into trust-based and contract-based – stakeholder, Group Personal Pension (GPP) schemes, with the personal pensions market effectively the non-employer part of the DC environment. In the latter, the rise of the Self Invested Personal Pension (SIPP) has been a key recent feature of the landscape.

Traditionally, few non-insurance owned asset management firms have operated in the pension product environment. Although the regulatory and tax environment now makes it easier, it is far from clear how asset manager involvement with the DC environment will develop. Broadly speaking, there are two routes to go down, although they are not mutually exclusive:

1. Develop as product provider. A number of firms offer a bundled DC product, although residual tax and regulatory advantages mean that the funds tend to be run through life company vehicles, created for the express purpose, rather than the more familiar OEIC or unit trust structures seen in the funds industry (see also the comments on p25). The central issue with the bundled approach is whether sufficient scale can be reached with an efficient administrative system to make the proposition commercially viable in the long term.

2. Provide investment funds. With the move to open architecture and with most firms seeing themselves essentially as wholesalers, fund provision into pension platforms, whether trust-based DC, stakeholder, GPP or SIPP, is already the norm. Within this area, there are already products, notably lifestyle ‘target date’ retirement funds, that are more specifically addressing the needs of the pensions market.

Firms are reaching different conclusions at present:

‘We think that DC represents for a very limited number of players a huge opportunity and we hope to be one of those. The key is the linking of administration and asset management, which is why it’s a big firm activity. And it’s frankly why you’ve had many competitors pull out of it – pull out of administration, pull out of DC altogether.’

‘We prefer the bundled approach. It should be stickier money. Investment only, you live or die with your performance. It’s where we perceive we can add value for the customer with the material we provide them. We can provide a better service and differentiate ourselves from the competition in that area.’

‘We’ve had pension consultants look at it for us, and their strategy is that you have to go in and wait 15 years. So, at the moment, provision of investment services, yes. If we can find a profitable model for pension services, then we’d look at it… you need the sort of platform that an insurance company has, and it may not be worth building it as an asset manager.’

‘I don’t think you’ll ever see us providing a fully bundled DC plan. I don’t think we’ll make the investment. However, we are quite interested in new SIPP opportunities as they are just another wrapper that should sit alongside and complement retail investors’ longer term savings and investing strategies.’
4 Retail and UK Funds Market

Key Findings

1. Retail assets managed in the UK
   ■ Retail assets identified in the survey account for 21% of total assets – some £650bn. These include UK managed unit trusts, OEICs, investment trusts and other retail products.

   ■ We estimate that £230bn of this total is domiciled in Luxembourg, Dublin and other overseas locations, of which some £20bn is accounted for by sales into the UK.

   ■ Asset managers see an increasing blur between the institutional and retail markets. This is seen at a number of levels, principally the general (although not universal) shift towards ‘manufacturing’ as opposed to distribution capabilities.

   ■ The increasing blur between the ‘traditional’ asset management world and the hedge fund environment can also be seen in emerging product offerings for the retail market, such as 130/30 funds and other variations of long/short strategy.

   ■ On the regulatory front, firms were very clear that while they took their responsibilities towards retail end investors seriously, disintermediation meant that the role of distributors and intermediaries was of key importance in ensuring that customers are treated fairly.

2. UK authorised unit trust and OEIC market
   ■ As at December 2006, UK authorised funds under management totalled £410bn, breaching the £400bn level for the first time. The top ten firms accounted for 51% of the total.

   ■ During 2006 as a whole, net retail sales of UK authorised funds were the highest in six years, with particularly strong growth in property funds, which made up more than 23% of total net retail sales at £3.6bn.

   ■ Although ISA funds under management increased by 15% year-on-year to £51bn in 2006, the contribution to total funds under management was again below the peak of 13.6% seen in 2004. It remains to be seen whether changes to the ISA regime will rekindle interest in this product area.

   ■ The dominant channel in the gross sale of retail funds in 2006 was the intermediary channel. This continued to be driven by the growing influence of platforms and fund supermarkets, reflecting the ongoing disintermediation of the asset management value chain.

   ■ The asset mix in UK funds continues to be dominated by equity sectors (which include property). Despite the unusually strong growth in property funds, these still only represent some 3% of total funds under management.
1. Retail Assets Managed in the UK

As we showed in Part One, retail clients account for 21% of total assets under management in the UK, equating to £650bn. This figure comprises retail investment in a range of fund vehicles, primarily:

- UK managed authorised funds (unit trusts, OEICs);
- UK managed funds domiciled outside the UK (e.g., Luxembourg SICAVs, Dublin OEICs, and ETFs) marketed to retail investors in the UK and elsewhere; and
- Investment trusts.

Looking more closely at non-UK domiciled funds, a number of respondents have significant retail operations elsewhere in Europe where the assets are largely managed in the UK, but with domicile outside. We estimate that at least £230bn of UK managed retail assets was domiciled outside the UK as at December 2006. Of this, IMA figures for off-shore sales into the UK suggest that only around £20bn is accounted for by UK investors. This relatively small proportion being sold into the UK is one illustration of the scale of the importance of the international funds business for the UK asset management industry.

In terms of asset allocation, a striking feature of the retail market, in contrast to trends seen in the institutional market in recent years, is the high level of exposure to equities (see Chart 18). However, as we have pointed out in the past, retail fund holdings are an imperfect illustration of individual portfolios. Firstly, retail investors may directly own equities and bonds. More importantly, they will often be directly holding other assets, notably cash and property.

Chart 18: Retail Assets Managed in the UK – Asset Allocation
Is ‘Retail’ Still a Meaningful Term for the Industry?

‘In a way, none of us really know where the boundaries are anymore… everything is blurring.’

While the distinction between institutional investment and retail investment is still important in many respects, not least for the product regulatory environment, the distinction is becoming decreasingly relevant to asset managers themselves. This finds expression in several key ways:

1. The structure of the market itself

With one significant exception, interviewees see themselves increasingly as manufacturers, servicing the retail market in wholesale relationships. These wholesale relationships take a wider variety of forms. For example:

- At its simplest, a firm can be selling funds with its own brand through a third party distributor.
- A firm may be marketing funds to a third party on a ‘white label’ basis (ie. under a third party brand).
- A firm will be supplying asset management components for funds of funds or manager of managers products. While the first two examples are essentially about third party fund distribution, this looks more like third party assembly.

The third party distribution route is growing as a consequence of the well-established trend towards ‘open architecture’, which has seen the opening up of previously closed life and bank platforms where, as one interviewee put it, ‘you sold what you made’; and the rise of fund supermarkets/execution-only broker platforms:

‘An institutionalisation of retail investment is taking place. Everything is merging together. The largest part of our business is done through very large wholesalers.’

‘If you structure yourself correctly in asset management, you can position yourself behind two great sets of asset gatherers. One is the investment consultants, who are out there effectively creating demand, which is always an expensive, low probability process. The second is third party because there you have got banks and insurance companies. You are wholesale to them… This is an industrial structure that has further change to go through.’

‘The most economic way of entering the continental marketplace is via the banks and insurance companies who act as gatekeepers in an environment where open architecture is increasingly the norm. Putting a product on their shelf, or managing a portion or all of a product on a white label basis is an efficient way of distributing your product and gaining economies of scale from a London base. So, we would see wholesaling growing because it is a profitable way of adding volume to a fixed cost base.’

‘In a way, none of us really know where the boundaries are anymore… everything is blurring.’
2. Relationships with end-investors

‘Open architecture’ and the rise of platforms has not, in the view of a number of survey interviewees, substantially re-defined the relationships between distributors and retail end investors in the UK. Advised sales still play a key part in the process:

‘In some senses, I view it as a change in administrative platform, rather than a totally different form of distribution… if you’ve got your average member of the public, how are they going to evaluate these funds. They are going to be led by an IFA.’

‘I’ve been in this business 30 years, and every year there is talk of the death of the IFA. However, they are a really robust group. As people become wealthier, more asset rich, but more time poor, I think the independent sector will go from strength to strength.’

However, where the relationships are felt to be different is between retail end investor and fund managers, as clients become more remote:

‘We are being disintermediated, so we don’t own the customer. Did we own the customer anyway? It was probably a more direct relationship.’

‘The disadvantage [of disintermediation] is that you lose control of the process in a way that you don’t if you’re dealing directly with a small group of IFAs or dealing directly with a client.’

‘Now, between us and the client, you have a platform provider and an IFA. And you’re two stages removed from the client. So you do feel a bit remote, and you don’t have ownership of the client in the way that you do in our pension fund business, but nor would you want to. So as a fund manager, you’re a bit like Heinz selling beans to a supermarket. You can concentrate on selling your beans to the wholesalers.’

This change is felt particularly by some firms with a traditionally strong retail focus:

‘It is a little bit about identity, transparency, knowing who we are, knowing where we can go to… We’re just one stage divorced. You do like to send out the report and accounts. I feel there is an obligation. They own your product.’

3. Convergence of product offering

A wider trend, discussed earlier in the survey, is the degree of convergence between the ‘traditional’ asset management world and the techniques more publicly seen in hedge funds. Regulatory changes under UCITS3 – notably the ability to operate strategies such as 130/30 – mean that this is also affecting the kind of product that will be available to retail investors in the UK and internationally. For many firms, this is a welcome development, which is seen as a logical extension of portfolio management techniques already used in the conventional institutional space:

‘We’re absolutely delighted with the UCITS3 changes. At the end of the day, what it means is that you are allowing retail investors to access some of the proven strategies that have led to some of the more publicised successes of hedge funds.’

‘I wouldn’t regard it as adventurous. I think we can deploy some of the sophisticated portfolio construction techniques that we use with in-house and institutional money to the benefit of the retail customer.’
Regulatory Implications of Disintermediation

Disintermediation is also having an impact in a regulatory sense. Firms feel that they do take seriously their obligation to treat customers fairly (TCF). However, they also feel that it is important for both customers and regulators to be cognisant of the limitations of how firms can exercise TCF responsibilities in a new kind of distribution environment where, in many cases, they may not even know precisely what kind of customer is investing in their funds, let alone any detailed information about them:

‘It’s frustrating for the FSA because they want to put a lot of responsibility onto manufacturers, but in many ways it is simply becoming less and less practical. We develop a product because of perceived market demand. We discuss it with professional advisers. They either buy it or they don’t. Yes, they’ve told us we need to do more testing with the end consumer. But the problem is, it’s only relevant if the end consumer has bought that as a product in itself. But often it ends up as part of a managed solution, part of a discretionary portfolio, part of an asset mix. So, in the end, it’s only relevant if you know the whole context of the asset base of that individual… we can’t do that. Actually, it just means that distributors right across Europe need to get much more professional, and more organised about taking responsibility for what they buy. There’s no limit to what we will tell them. We are running a very open and transparent house here. It’s more the capability of the distribution to cope with the complexity of all the products that they buy from different firms. In a way, the FSA want us to regulate that, they want us to be the regulator for those who are distributing.’

‘My biggest problem with TCF is that the focus is on the drug company, and I think the focus needs to be applied to the general practitioner. My sense is that it’s easier to approach the drug company, because we’re better capitalised, than to really spend some time changing behaviour and improving standards around advice in distribution… It’s quite fascinating because the end investor to us is increasingly becoming completely opaque… So, how can I look through a platform, or look through an advised or structured sale or a SIPP, and understand whether the individual has appropriately bought my product? It’s impossible.’

‘It’s frustrating for the FSA because they want to put a lot of responsibility onto manufacturers, but in many ways it is simply becoming less and less practical.’
2. UK Authorised Unit Trust and OEIC Market

IMA collects a set of detailed monthly sales statistics on the UK authorised fund space (unit trusts and OEICs), referred to as ‘funds’ within this section. This data includes both retail and institutional investment in collective investment schemes and we estimate that the split between these two sets of clients at December 2006 was 88% retail investors to 12% institutional investors. The following section evaluates current trends and developments seen in this section of the industry over the past year with a focus on the retail side.

Funds Under Management


Overall funds under management have continued to make a good recovery, once again correlated with UK equity markets which have been in an uptrend since the first quarter of 2003:

- Total funds under management at the end of December were £410bn, an 18% increase over the previous year (see Chart 19), with 113 companies managing a total of 2,033 funds.

- In terms of concentration, the top ten firms in terms of funds under management accounted for £207bn, which is 51% of the total, little changed from 2005.

Retail Sales

While total funds under management have been buoyed by strong markets, this record total of £410bn was helped by net retail sales of £15.3bn which were the highest in 6 years and the second highest level seen, just 14% behind the £17.7bn peak in 2000. As Chart 20 illustrates, this figure was a year on year increase of 80%.

Chart 20: Net Retail Sales (1997-2006)
Net retail sales of funds in equities sectors (which includes property as part of the Specialist sector) continued to outpace bond funds for the third consecutive year and dominated net retail sales in 2006 (see Chart 21). Retail investors invested £8.1bn or 53% of total net retail sales into equity funds compared to just £3.6bn or 24% into bond funds.

The best selling sectors in terms of net retail sales were the Specialist sector at £4.4bn and UK Equity Income at £2.3bn. The worst selling sector was UK Smaller Companies with net outflows of £360mn. This is illustrated in more detail in Table 7.

### Chart 21: Net Retail Sales by Asset Category (1997-2006)

### Table 7: Best and Worst Selling Retail Sectors (2006)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Net Retail Sales (£mn)</th>
<th>Total Funds Under Management (£mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Best Selling Sectors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specialist</td>
<td>4,418</td>
<td>20,271</td>
</tr>
<tr>
<td>UK Equity Income</td>
<td>2,335</td>
<td>50,069</td>
</tr>
<tr>
<td>Cautious Managed</td>
<td>1,773</td>
<td>9,013</td>
</tr>
<tr>
<td><strong>Worst Selling Sectors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK Smaller Companies</td>
<td>-360</td>
<td>9,792</td>
</tr>
<tr>
<td>Europe Excluding UK</td>
<td>-240</td>
<td>34,388</td>
</tr>
<tr>
<td>UK Equity and Bond Income</td>
<td>-145</td>
<td>6,059</td>
</tr>
</tbody>
</table>
One particular trend of interest in recent years has been the emergence of property funds and their impact on net retail sales:

- Net retail sales of these funds made up less than 2.4% of the total in 2002 and only 1% in 2003, but have increased nearly eightfold between 2004 and 2006.

- In 2006, net retail sales of property funds accounted for more than 23% of total net retail sales at £3.6bn (see Chart 22). This alone represented more than 81% of net inflows into the Specialist sector.

**Chart 22:** Property Fund Net Retail Sales as Proportion of Total Net Retail Sales (2002-2006)

The asset mix in UK funds continues to be dominated by equities which accounted for 74.7% of total funds under management at December 2006 (see Chart 23). Alongside the 41.5% of funds in the three main equity sectors (UK All Companies, UK Equity Income and UK Smaller Companies), other equities accounted for 33.2%. In terms of non-UK equity exposure, the three pure European sectors accounted for around 10% of total funds under management, making Europe the single most popular non-UK region.

Despite the spectacular recent growth, property holdings accounted for only 3% of total assets managed in authorised funds.
Looking at longer term trends (see Chart 24), although the UK sector has recently sold well (doubling net retail sales between 2005-2006), there has been a decline in funds under management attributed to the main UK equity sectors over the last decade and to the equity category overall (including overseas equities). At end 1996, UK equity assets in the UK All Companies, UK Equity Income and UK Smaller Companies sectors were close to 50% of the total. Adjusting for market moves over the period, these would have grown to about 53% by end 2006.

However, the investment relative to the starting pool of assets was far greater in all other asset categories outside of equities:

- Bonds were the main beneficiaries with net sales over the period running at seven times the starting level of assets. Bonds increased as an asset class from 4.5% of total assets at end 1996 to a peak of 15.8% of total assets in 2003, driven by the bear market in equities and the large flows into bond funds.

- Since 2003, the proportion of total assets invested in bonds has declined but they have remained the second most popular asset class with a weighting of 14.4% at end 2006 (see Chart 23).

Wrapped Products

In December 2006, of total UK authorised funds under management, 12.5% was accounted for by the ISA tax wrapper, and 9.5% by PEPs. This 22% total is well below the 29.8% which tax wrappers contributed at their peak in 2002 (see Chart 25). Despite the fact that ISA funds under management increased by 15% year-on-year to £51bn in 2006, the contribution to total funds under management was again below the peak seen in 2004 (13.6%).
ISA net sales recovered by 39% to £2.5bn in 2006, from their lowest figure of £1.8bn which was posted in 2005. As illustrated in Chart 26, total tax wrapped business saw a net outflow for the third consecutive year in 2006 of £863mn as PEP redemptions continued to outpace net ISA sales. (Reregistrations, where an investor reregisters their holding from a firm to a fund supermarket, may cause distortions in the data as some of the data capture may be lost).

The exact reasons behind the lacklustre sales figures of tax wrapped products remain uncertain, but there are clearly now other drivers of sales taking over from ISAs and PEPs. It is hoped that the package of reforms to the ISA regime announced in the 2007 Budget and due to take effect from April 2008 will have a positive impact on ISA sales. These changes include:

- removing uncertainty by making ISAs permanent beyond 2010;
- raising the annual ISA investment limit to £7,200;
- allowing transfers from the cash to the stocks and shares component of ISAs; and
- bringing PEPs within the ISA wrapper.
Funds of Funds

Chart 27 illustrates that funds under management of funds of funds gained another 24% during 2006 to stand at £29bn. Balanced managed funds accounted for £19.7bn, or 68% of this total, whilst equities totalled 19%. At December 2006, the split of funds under management between fettered and unfettered funds of funds stood at 53% and 47% respectively, continuing a general long term trend towards parity.

There was a 33% increase in net retail sales of funds of funds over the year to £2.9bn (see Chart 28), this accounted for more than 19% of industry net retail sales. The most popular sector was the Cautious Managed sector with net retail business of £1.2bn for 2006. The Active Managed sector was second accounting for £193mn.
Tracker and ethical funds continued to remain in a static trend in 2006 again making up 6% and 1% of the total funds under management respectively (see Chart 29). During the year, there was a net outflow of £240mn in retail money for tracker funds whilst ethical funds registered an inflow of £137mn. At year end there were 64 tracker funds and 47 ethical funds.

**Chart 29: Tracker and Ethical Funds Under Management (% Total FUM, 1997-2006)**
**Sales Channels**

In terms of gross sales of retail funds, the dominant distribution channel continued to be the intermediary channel, increasing its share from 77.1% in 2005 to 80.9% by the end of 2006. Sales force/tied agents distributed 7.9% while 7.0% went direct, with both channels continuing their long term decline in market share (see Chart 30).

**Chart 30: Gross Retail Sales by Distribution Channel (2002-2006)**

One of the key reasons behind the rising market share of the intermediary channel at the expense of the others is the growing popularity and influence of fund supermarkets, whose figures are reported within the intermediary channel. Chart 31, which shows gross ISA sales by distribution channel, can better illustrate the growing dominance of fund supermarkets as this data can be disaggregated for ISAs. In tax year 2006, fund supermarkets accounted for more than 38% of gross ISA sales compared to only 17% in 2002 and for the very first time became the leading distribution channel, signalling a marked change from the past.

**Chart 31: Tax Year Gross ISA Sales by Distribution Channel (2002-2006)**
5 Operational Issues

Key Findings

1. Revenue and fee structures
   - Data from the survey suggests that weighted average profitability for UK asset management firms was 30% in 2006, broadly in line with what is being seen in other parts of the international asset management industry.
   - Interviewees noted that fee structures in the industry, particularly on the institutional side, were changing in the context of the rise of commoditised beta and the emphasis on high performance active mandates.
   - Linked to the changing nature of institutional mandates, the use of performance fees is widespread with 75% of respondents to this question indicating usage. Among these, the weighted average proportion of total assets under management subject to performance related fees was 20%.

While firms we interviewed were watchful regarding margin pressure as a result of the current retail disintermediation process, this is not currently causing undue concern. However, there are other commercial implications resulting from the growing involvement of professional buyers, notably fund flow volatility, which are already being felt.

2. Doing business in the UK
   - Firms are generally positive about London and the UK for asset management operations. However, there are a range of concerns, particularly on cost and aspects of regulation and tax.

   - Regulatory and tax reasons play a strong part in determining fund domicile decisions. Just under 40% of assets in UK managed pooled vehicles are domiciled overseas, accounting for £540bn of total assets managed in the UK.

3. Employment
   - Total direct employment is estimated at 25,000, but with numerous activities outsourced to third party providers, the overall level of employment associated with the asset management industry is considerably higher.

4. Execution and disclosure
   - Firms are continuing to put commission sharing arrangements in place for at least part of their business. It is clear that the FSA’s new ‘Use of Dealing Commission’ regime introduced in January 2006 has changed behaviour with regard to the way managers purchase services other than execution.

1. Revenue and Fee Structures

Firms were asked to report cost and revenue numbers:

   - Based on responses from 31 firms who provided data for their UK operations, weighted average profitability at the gross operating level is estimated at 30%.\(^{15}\)

   \(^{15}\) Defined as the net of revenue and costs divided by revenue.

   This is broadly in line with what is being seen in other parts of the international asset management industry. A McKinsey survey in 2005 found that the weighted average was 31%, with a Nomura Research Institute Study reporting a profitability level of over 30% for the Japanese Asset Management Industry.\(^{16}\)


   - Weighted average revenue was 27bp, equating to £8.4 billion. While this appears to represent only a modest increase on last year, sampling changes suggest that last year’s figure of £8bn was an over-estimate.
Chart 32: Revenue by Firm as a Proportion of Assets Managed in the UK – Split by Client Type

Chart 32 shows revenue split by client type. As in the past, many of the higher revenue firms have a large proportion of retail business. To some extent, this is as would be expected given the higher cost base associated with retail activity. However, it is also the case that a number of businesses are running products capable of commanding a substantial fee base.

Indeed, comments from interviewees suggested that the changing product structure of the industry was having a significant impact upon fee structures. This stems broadly from the growing separation of alpha and beta and the ongoing advance of specialist mandates in the institutional arena. Two themes emerge: the commoditisation of beta and the potential for higher fees commensurate with high performance (albeit with greater mandate turnover in the event of client disappointment):

‘Client preparedness to pay a high price for true alpha, I can’t see that coming down. And you don’t see price pressure on hedge funds, or hedge funds of funds. It’s a very pure market. People will pay 2+20 minimum. They just don’t keep their assets there if you don’t produce. So, you either earn nothing or you are earning well. That’s an important trend for us. And in that quest for alpha, you’re seeing an increasing separation of beta, which people don’t want to pay for.’

‘Five to ten years ago, it would have been quite normal for a Dutch or German client to talk about reducing our fees, they wouldn’t talk about performance. Now they don’t talk about fees, they are concerned about performance. People are willing to pay more for performance, but the money will move more quickly – there may be higher turnover of mandates.’

‘People are willing to pay more for performance, but the money will move more quickly...’
‘Clearly, the introduction of new and more sophisticated products provides an opportunity to move pricing structures upwards. One of the surprises has been that, across the piece (retail, institutional, private client), where people have been expecting more prices pressure, we’re not seeing that. What you will probably see is the mix changing. Beta will become increasingly cheap, in fact may become free. And alpha you’ll have to pay for. I think going forward you’re going to see an increasing understanding in the client environment – both retail and institutional – that beta and alpha are different.’

However, while there is clearly a revenue opportunity provided by the high alpha products, for a number of active managers, the changing environment is a considerable challenge:

‘What we are seeing is a collapse of the institutional fee cake. You have a whole slug of assets that goes to immunised bonds, a whole slug that goes to indexation, and the part that goes to active management has shrunk. Everyone says that the fees are a bit higher, but if your assets under management have gone down, it’s not a great help. Whereas in the greater asset management industry, the hedge fund fee cake is exploding, the private equity fee cake is exploding and so on.’

**Performance Fees**

**Table 8: Use of Performance-Related Fees**

<table>
<thead>
<tr>
<th>Proportion of Assets Under Management Subject to Performance Fees (%)</th>
<th>Number of Firms</th>
<th>Total AUM by these Firms (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>14</td>
<td>55</td>
</tr>
<tr>
<td>1-25%</td>
<td>29</td>
<td>1,854</td>
</tr>
<tr>
<td>26-50%</td>
<td>10</td>
<td>272</td>
</tr>
<tr>
<td>51-75%</td>
<td>3</td>
<td>233</td>
</tr>
<tr>
<td>76-100%</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>57</strong></td>
<td><strong>2,427</strong></td>
</tr>
</tbody>
</table>

With charging structures within the industry continuing to evolve, we also asked firms about the extent of the use of performance-related fees and about current trends in their usage:

- A total of 57 firms, managing £2.4tn, responded to the question, with 43 saying that they did use performance-related fees. At this point in time, usage seems more prevalent in the institutional than the retail market. A more detailed distribution is shown in Table 8.

- Among those respondents who do use performance fees, the weighted average proportion of total assets under management subject to performance-related fees was 20%. While this is a lower headline figure than last year, a matched sample suggests that the proportion is slightly higher year-on-year.

- All but 10 of these respondents indicated that the use of performance-related fees was increasing. The general increase in the use of performance fees was confirmed in interviews, and linked very much to the points above regarding the desire to reward high alpha generation.

**Commercial Implications of Retail Distribution Changes**

Earlier in the survey, we described changes in retail distribution patterns that are essentially transforming most asset managers into manufacturers (see p32). These do have a number of commercial implications, in particular potential pressure on manager margins. While firms we spoke to are watchful regarding the longer term prospect of rising distributor pricing power, the general view for now is fairly sanguine:
“There will always be a tension between the manufacturing and distribution platform. Our view is to become an indispensable partner. It’s a little bit of “who blinks first” in this. It’s a part of business.’

“There is a general recognition that if the fund supermarkets want to work with the best managers, there is no point trying to squeeze them too hard.”

“The margin and gross fee can be two different things, so if our cost of acquisition comes down, our margin may go up while our fee comes down. From our point of view that’s fine, I’d like to maximize the percentage we spend on investment management, while outsourcing as much distribution as possible.”

Nonetheless, there was some caution expressed about medium to longer-term consequences, particularly for firms who may not necessarily have significant scale and/or brand recognition:

“In theory, barriers to entry should be removed. You go to the platform, you get access and you don’t need an IFA coverage team. But it’s the scale-margin trade-off. And if platforms continue to gain market share, it will have a margin impact on the asset manager. For those with a strong brand and a really strong investment proposition, unique product or ways of helping the platform charge more, there are lots of ways of resisting margin compression. However, in the medium term, we could see margin compression as a result of the platforms. But you could argue that a retained margin of 10 basis points on £1bn for some non-capacity constrained products is more attractive than 25 basis points on something significantly less with high servicing, but it’s a different sort of manager and you have scale of historic assets to support the brand.”

A number of interviewees also focused on the consequences of the growing power of professional (wholesale) buyers in the funds marketplace – a key part of the current disintermediation process. Their influence is seen as already having a considerable impact, and one that is likely to increase over time:

1. The need for strong performance. Just as weaker performers are starting to be more exposed in the traditional institutional market, the same thing is expected to occur in the retail distribution space:

‘There is a view in the world that as the power of these platforms – including the advent of wrap – increases, that will basically erode some of the value chain for fund managers and there’ll be a net swing in pricing power towards the platforms. Our strategy is quite simple. Create premium product and you can charge a premium price. And our challenge is to keep the performance going, ensure that we have the right degree of innovation that meets clients’ needs in that kind of space. Prolonged periods of median and below median performance will not be deemed as acceptable any more and people will find it’s tough, and that’s quite right.’

‘There will always be a tension between the manufacturing and distribution platform. Our view is to become an indispensable partner. It’s a little bit of “who blinks first” in this. It’s a part of business.’
2. Product development reinforcing fragmentation. The impact of professional buyers is also already being felt on the development of product itself:

“We have consistently found that [they] are the early adopters when we have been developing new products, relative to institutions/pension fund consultants. These are people who will move rapidly if they see a good idea and like the team. From a business point of view, that’s very attractive. You get instant critical mass and credibility… They do a lot more than open architecture. They will give us specific mandates because they are running blend strategies, and will look for teams with specific characteristics. Once you build up a relationship, they will come to you. This demonstrates again the fragmentation.”

3. Reduction in loyalty/rise in volatility. Finally, even firms with powerful retail brands are seeing very quick changes in flows as a consequence of decisions made by professional buyers (in part determined by considerations discussed in the two points above):

“With more professional investors, you have a reduction in loyalty… You can win and you can lose. And that’s why you see big net inflows and big net outflows. If your fund manager has left or they think your fund is now too big, they say ‘well you’re now on the sell list.’ Your brand doesn’t protect you then.’

“Our chance of recurring revenue is smallest in this area, and I want several distribution channels so I’m not exposed to any one at any given time… The money can come in pretty fast and it can go out pretty fast.”

2. Doing Business in the UK

In terms of where to base major operations for such international businesses, attitudes towards the UK are positive, both from UK-headquartered firms and international firms with a substantial presence in this country. The success of other cities such as Edinburgh notwithstanding, the general consensus in survey interviews was that London is seen as an increasingly powerful global financial centre, and is attractive for a number of reasons:17

1. Talent pool. A key reason cited by all respondents was the breadth and depth of the talent pool available in the UK:

“In terms of raw material, London has got itself onto a virtuous circle. Bright people work here, so more bright people want to come here.’

____________________________

‘If there is a pan-European marketplace in financial services, it doesn’t exist in terms of retail funds. There are still tax and other barriers. However, it does now exist in terms of talent. The advantage that the United States had for a number of years was that it drew on a talent pool of 300 million people and opened its doors to top graduates who studied at its universities to stay on afterwards. However, the UK was limited to some extent by tradition and culture to UK sourced talent… what’s wonderful about what’s happening in Europe is that that’s just no longer the case. A graduate of INSEAD or of a Spanish business school is as likely to want a stint in London as they are in their own country. So, you now have a pool of over 400 million people, from which the London and UK can draw talent, at a time when the United States is closing the doors.’

“In terms of raw material, London has got itself onto a virtuous circle. Bright people work here, so more bright people want to come here.’

17 For more on general issues raised here, see ‘The Competitive Position of London as a Global Financial Centre’ (OXERA report for IMA/City of London, 2005).
2. Regulatory environment. Despite concerns about aspects of FSA activity (see overleaf), there was a general consensus in the context of a location choice discussion that the UK enjoys a generally benign regulatory environment.

‘Much as we love to criticise, the FSA, if you compare it with other regulators, is actually a benign and helpful structure.’

‘Compared to managing the international dimension, the huge change in the fee cake, the huge shift between alpha and beta, Canary Wharf is not a big issue for us at the moment.’

3. Geo-location and business connections. Supported by a talent pool and favourable regulatory environment, geographical/time-zone location also plays a part, particularly for those firms who are managing their overseas assets out of the UK, as opposed to locally, and/or have a largely European clientele:

‘Time zone is an advantage from both a portfolio and business management perspective. We view ourselves as global investors serving a pan-European clientele. That clientele is within two time zones from London and the global markets in which we invest are accessible during the normal (albeit long) working day.’

‘We’re entirely comfortable in London. Quite a lot of our business is European. The major consultants, to the extent that any are pan-European, are based in London. And our relationship within them in the UK context is actually the cornerstone of then springboarding out into continental Europe.’

However, alongside this positive perception, there are a range of worries, principally:

1. Costs. Almost every interviewee pointed out that London is becoming an extremely expensive place to do business, creating pressure to move middle and back office activity out of the capital and even out of the country. However, a part of the current cost problem also emanates from within the industry, with substantial pressure on compensation structures arising from the need to retain talent:

‘The asset price inflation around our alpha generators is spectacular, and you feel you have to work in a large firm harder and harder to make it a place where great investors [asset managers] want to work. And with the opportunity set that great investors have, that is not a job that is about to get easier.’

‘You can go and work at a boutique tomorrow at significantly more than you can earn here. There’s a huge demand for talent.’

While somewhat unwelcome from a business operation point of view, these compensation pressures are seen by many interviewees as a sign of the underlying strength of the industry in London and the UK, particularly as the boutique end (hedge funds, private equity) continues to expand rapidly. Looking to the future though, one interviewee expressed this in terms of capacity constraints and stated his concern to ensure that these do not hinder the longer term development of the sector in the UK:

‘The asset management industry has got huge growth potential, and the one thing you want to focus on is making sure you have the right infrastructure. That will be the biggest challenge, and the danger is that the industry may outgrow the infrastructure.’
2. Regulatory environment. We mentioned earlier the positive general view of the regulatory landscape in the UK in the context of a wider discussion about location choice. However, despite the general respect with which the FSA is regarded, a number of fairly consistent concerns emerged in the course of interviews:

- A tendency to ‘gold-plate’ European legislation to the detriment of the development of the funds industry.

- Uncertainty in firms about how to manage principles based regulation, particularly when set against a different approach at European level.

- Unease about the extent to which asset manager responsibilities within a changing value chain are fully appreciated (see early discussion on TCF, p34).

- The lack of a level playing field between regulation of the unit-linked life and fund markets.

Other observations about the regulatory environment hinged less on what was happening specifically in the UK. Given the importance of EU level rule making for the financial services industry, IMA member firms are also currently working to conform to a range of European legislation. At this level, there were two general concerns: the lack of a real level playing field across Europe for the funds industry; and the sheer volume of rule making coming out of Brussels aimed at ensuring such an outcome.

3. Tax. A number of interviewees also emphasised that the UK is losing out as a result of fund activity being driven offshore by tax considerations. In addition to identifying specific aspects of taxation affecting certain products, there was also a degree of criticism of the general attitude taken at times by the UK fiscal authorities in their approach to the industry. This mirrors the findings of an IMA/KPMG study on the issue published last year, which explores both the comparative treatment of UK funds in some detail and perceptions of the interaction between Government and industry.18

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18 For a more detailed exploration of this issue, see “Taxation and the competitiveness of UK funds” (KPMG/IMA, October 2006).
Fund Domicile

Tax and regulatory considerations incline firms towards overseas fund domicile in a number of product areas, including UCITS, hedge funds, property funds and exchange traded funds:

- Assets managed in pooled vehicles in the UK are estimated to account for 45% of total assets under management in the UK, equating to £1.4trn. Of this £1.4trn, 39% is in pooled vehicles domiciled offshore.

Table 9: UK Managed Pooled Vehicles Domiciled Overseas

<table>
<thead>
<tr>
<th>Overseas Domiciled Pooled AUM (% of Total Pooled)</th>
<th>Number of Firms</th>
<th>Total Assets Managed in the UK (£bn)</th>
<th>Pooled Assets Managed in the UK (£bn)</th>
<th>Pooled Assets Domiciled Overseas (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>15</td>
<td>114.3</td>
<td>47.2</td>
<td>0</td>
</tr>
<tr>
<td>&lt;1%</td>
<td>3</td>
<td>375.2</td>
<td>251.8</td>
<td>0.1</td>
</tr>
<tr>
<td>1-24%</td>
<td>17</td>
<td>1,013.7</td>
<td>286.0</td>
<td>35.2</td>
</tr>
<tr>
<td>25-50%</td>
<td>5</td>
<td>187.0</td>
<td>34.5</td>
<td>34.5</td>
</tr>
<tr>
<td>&gt;50%</td>
<td>15</td>
<td>658.5</td>
<td>431.7</td>
<td>344.8</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>2,348.7</td>
<td>1,051.2</td>
<td>414.7</td>
</tr>
</tbody>
</table>

* Includes all pooled vehicles, regardless of client type.
As we demonstrated last year, one illustration of the general dynamism of other European centres is the number of fund launches – Chart 33 shows the relative position of the UK, Luxembourg and Dublin. The accelerating dominance of Luxembourg as an attractive centre for fund administration is clearly in evidence, while fund launches in the UK continue to stagnate.

Chart 33: Fund Launches in Ireland, Luxembourg and the UK (2000-2006)

In terms of whether it matters operationally to asset managers themselves, the general view in interviews was that while certainly an issue with respect to jobs and associated activity lost to the UK economy, overseas domicile was not in and of itself a problem for the fund management process specifically. However, a number of respondents did express concern about certain practical challenges and additional cost:

‘If you’re dealing with a predominantly UK client base, it’s easier if you have UK domicile… Dublin and Luxembourg are not on the doorstep. You have to have Boards that physically meet, and you have to deal with another regulator, so it’s more complicated than it needs to be, and it all adds to cost.’

‘It annoys me that we are having to have a whole infrastructure in Dublin to service our European client base… I would love to bring funds back onshore.’

Looking at client attitudes, some asset managers interviewed for the survey detected a residual, albeit declining, tendency in the UK to favour UK domiciled funds, which made it desirable to have a UK range alongside a Dublin or Luxembourg set of products:

‘Historically, it has been difficult to sell European funds into the United Kingdom, but there are signs that this is changing.’

‘Our UK clients still have a natural traction towards locally domiciled products. The actual complications around delivering a sterling hedged share class from a Luxembourg based product is also still considerable.’

The general view though was that clients internationally were not particularly concerned about where a fund is domiciled:

‘Our clients don’t care providing it’s not domiciled somewhere that sounds hugely dangerous. They are more interested in the assets, the promoter and the legal structure. Besides, if you’re buying European funds, there’s no point being xenophobic about where the fund’s located. You’re investing in foreign securities.’

‘London is making great strides. If we haven’t got it in Dublin, a Swiss bank is quite happy to buy the product in London. There’s no issue.’

In international markets, firms felt that what mattered more than domicile was the legal structure of the fund, particularly now whether or not it is a UCITS fund:

‘If it’s UCITS, you’re on the list. That’s the biggest hurdle. If you’re not UCITS, not interested.’
3. Employment

Staff numbers were gathered from 55 respondents representing around 80% of total UK assets under management. These firms employ 19,600 people, with the two major asset management centres being London and Edinburgh. Based on these returns and data from last year’s survey, we estimate direct employment numbers for UK based asset management activity at 25,000, the higher part of the range we estimated last year. The overall distribution is summarised in Table 10.

Table 10: Distribution of Staff by Activity

<table>
<thead>
<tr>
<th>Activity</th>
<th>Survey Findings</th>
<th>Estimated Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing, Sales, Business Development and Client Services of which:</td>
<td>23%</td>
<td>5,700</td>
</tr>
<tr>
<td>Marketing, Sales, Business Development</td>
<td>63%</td>
<td>3,591</td>
</tr>
<tr>
<td>Client Services</td>
<td>37%</td>
<td>2,109</td>
</tr>
<tr>
<td>Fund Management of which:</td>
<td>26%</td>
<td>6,425</td>
</tr>
<tr>
<td>Fund Management (Strategic and Operational) *</td>
<td>70%</td>
<td>4,504</td>
</tr>
<tr>
<td>Research/Analysis</td>
<td>22%</td>
<td>1,426</td>
</tr>
<tr>
<td>Dealing</td>
<td>8%</td>
<td>495</td>
</tr>
<tr>
<td>Transaction Process of which:</td>
<td>6%</td>
<td>1,425</td>
</tr>
<tr>
<td>Transaction Processing, Settlement</td>
<td>93%</td>
<td>1,320</td>
</tr>
<tr>
<td>Custody</td>
<td>7%</td>
<td>105</td>
</tr>
<tr>
<td>Fund Accounting and Administration of which:</td>
<td>11%</td>
<td>2,750</td>
</tr>
<tr>
<td>Investment Accounting, Performance Measurement and Reporting</td>
<td>49%</td>
<td>1,348</td>
</tr>
<tr>
<td>Other Fund Administration (including CIS Administration)</td>
<td>51%</td>
<td>1,403</td>
</tr>
<tr>
<td>Compliance, Legal and Audit of which:</td>
<td>5%</td>
<td>1,250</td>
</tr>
<tr>
<td>Compliance</td>
<td>55%</td>
<td>688</td>
</tr>
<tr>
<td>Legal</td>
<td>35%</td>
<td>439</td>
</tr>
<tr>
<td>Audit</td>
<td>10%</td>
<td>124</td>
</tr>
<tr>
<td>Corporate Finance and Corporate Administration of which:</td>
<td>12%</td>
<td>3,000</td>
</tr>
<tr>
<td>Corporate Finance</td>
<td>33%</td>
<td>987</td>
</tr>
<tr>
<td>HR and Training</td>
<td>20%</td>
<td>585</td>
</tr>
<tr>
<td>Other Administration</td>
<td>48%</td>
<td>1,428</td>
</tr>
<tr>
<td>IT Systems</td>
<td>12%</td>
<td>3,050</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
<td>1,475</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>25,000</td>
</tr>
</tbody>
</table>

* In some firms, the fund management and research roles are combined.

The data shows core asset management activities (fund management, research and dealing) accounting for just over a quarter of total direct employment, with marketing and client services representing the second largest segment of employment (23%).
The personnel structure of the industry is complicated due to outsourcing of many aspects within the asset management value chain. These directly employed staff numbers therefore significantly understate total employment generated by the sector in the UK:

- Many mutual fund firms outsource a substantial amount of their other activities, notably fund administration and accounting. Such outsourcing extends to larger firms (particularly for the retail aspects of their operations). Outsourced administration is often undertaken by specialist third party administration firms. It may also be undertaken by other asset management firms who offer such services (staff numbers for the latter were excluded in this survey).

- In common with practices in other industries, other activities – notably IT – are widely outsourced.

Total sector employment is also understated due to employment overseas emanating from UK based asset management activity:

- With many IMA firms operating at a global level, some assets are managed outside the UK on behalf of UK-based clients, whose accounts are run from the UK.

- As we discussed in the previous section, with a number of firms domiciling funds outside the UK and selling their products across Europe, middle and back office employment is created in other centres, notably Dublin and Luxembourg.

4. Execution and Disclosure

The survey includes a number of questions on execution, disclosure and compliance arrangements, reflecting issues of ongoing regulatory interest. The following areas are surveyed:

- Extent of execution-only (ie. excluding other broker services) trades
- Extent of commission sharing arrangements
- Member uptake of the Pension Fund Disclosure Code
- Number of brokers used to execute both UK trades and overseas trades
- Use of transaction cost analysis
- GIPS compliance
Execution-only Trades

Respondents were asked what proportion of trading by value was completed on an execution-only basis (including through execution-only brokers, crossing networks and by direct market access (DMA)):

- Of 52 respondents, 11 managing £432bn (17% of total assets under management in the sample) do 100% of their business on an execution-only basis. Despite some mis-reporting in last year’s survey which inflated the number of firms at 100%, this proportion has fallen year-on-year, which suggests that we have in the smaller December 2005 sample already picked up the largest firms operating in this way.

- Thirty two firms managing £1.7trn (70% of total assets under management in the sample) do 1-50% of their business on an execution-only basis, up from 18 firms in 2006 managing £971bn (54% of the sample).

Table 11: Proportion of Business Directed on an Execution-only Basis

<table>
<thead>
<tr>
<th>Proportion of Business Directed on an Execution-only Basis</th>
<th>Number of Firms</th>
<th>Total AUM (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1%</td>
<td>4</td>
<td>£39</td>
</tr>
<tr>
<td>1-25%</td>
<td>25</td>
<td>£1,258</td>
</tr>
<tr>
<td>26-50%</td>
<td>7</td>
<td>£492</td>
</tr>
<tr>
<td>51-75%</td>
<td>0</td>
<td>£0</td>
</tr>
<tr>
<td>76-99%</td>
<td>5</td>
<td>£292</td>
</tr>
<tr>
<td>100%</td>
<td>11</td>
<td>£432</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>£2,513</td>
</tr>
</tbody>
</table>

Commission Sharing Arrangements

Respondents were asked whether they had set up commission sharing arrangements (CSAs) with their brokers and for what proportion of their trading.

- Of 51 respondents, 22 had not set up any such arrangements. See Table 12.

- 29 firms have put CSAs in place for at least a proportion of their business, with 12 firms using CSAs for over 20% of their trading by value.

It is clear that the introduction of the FSA’s new ‘Use of Dealing Commission’ regime introduced in January 2006 has changed managers’ behaviour with regard to the way they purchase services other than execution. As a result of the disclosure requirements managers have more rigorously reviewed what they pay their brokers in order to establish what is paid for execution services and what is paid for research services. The breakdown of commission rates facilitates the purchase of third party research and execution services from bundled commission.

Table 12: Proportion of Trade through Brokers Subject to Commission Sharing

<table>
<thead>
<tr>
<th>Number of Firms</th>
<th>Total AUM (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>22</td>
</tr>
<tr>
<td>1-20%</td>
<td>17</td>
</tr>
<tr>
<td>&gt;20%</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
</tr>
</tbody>
</table>
IMA Pension Fund Disclosure Code

A new question was included in the 2007 survey regarding industry take-up of the IMA's 'Pension Fund Disclosure Code' (Second Edition). The Code was published in March 2005 and was endorsed by the FSA as a suitable standard for disclosure of the split of commission between execution and research services in order to comply with COB 7.18 ‘Use of Dealing Commission’ introduced in January 2006.

Out of 53 respondents, 48, accounting for 98% of assets under management in the respondent group, use the Pension Fund Disclosure Code. See Table 12. It should be pointed out, however, that not all of those assets are subject to the FSA’s disclosure regime.

Table 13: Use of the IMA Pension Fund Disclosure Code

<table>
<thead>
<tr>
<th>Do you use the IMA Pension Fund Disclosure Code?</th>
<th>Number of Firms</th>
<th>Total AUM (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>48</td>
<td>2,408</td>
</tr>
<tr>
<td>No</td>
<td>5</td>
<td>46</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>2,454</td>
</tr>
</tbody>
</table>

Use of Brokers

This question was introduced in last year’s survey in order to monitor changing trends in broker usage as a result of the new regime on the Use of Dealing Commission:

- As Table 14 shows, 18 out of 49 respondents use 5-10 brokers for the majority of trades in UK equities, a similar proportion to last year’s sample. Twenty two respondents use 11-20 brokers, again similar to 2006. Eight firms use more than 20 brokers.

- For the rest of the world, 15 respondents out of 45 use 5-10 brokers and a further 15 use 11-20. These proportions again are similar to last year. Thirteen firms use over 20 brokers, a higher proportion than 2006.

Table 14: Number of Brokers Used for the Majority of Trades

<table>
<thead>
<tr>
<th>Number of Brokers</th>
<th>UK</th>
<th>Rest of the World</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;5</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>5-10</td>
<td>18</td>
<td>15</td>
</tr>
<tr>
<td>11-20</td>
<td>22</td>
<td>15</td>
</tr>
<tr>
<td>&gt;20</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>49</td>
<td>45</td>
</tr>
</tbody>
</table>

There does not appear to be any general discernible trend in the number of brokers used by investment managers over the past year, with the majority using 5-20 for both the UK and the rest of the world. However, the proportion of managers using over 20 brokers for both UK equities and for the rest of the world has increased. We might have expected the introduction of the Pension Fund Disclosure Code and the adoption of CSAs to have led to a reduction in broker numbers as managers are able to focus on those brokers who can provide best execution, while being able to pay for research from a third party. However, several factors may be at play: many firms who have adopted CSAs continue to retain a tail of specialist brokers in order to access liquidity in smaller companies; and pension funds have been diversifying asset allocation away from traditional assets, which may account for the increase in broker relationships in those firms.
Transaction Cost Analysis

Nearly two thirds of respondents, 34 firms out of 53, undertake transaction cost analysis, a similar proportion to last year. Table 15 details the responses of 53 managers, showing the number of clients requesting transaction cost analysis. Thirty eight firms replied that less than 25% of clients required such analysis, a similar proportion to last year. 20% of firms, however, reported that over 75% of clients did require such feedback.

Table 15: Proportion of Clients Requiring Transaction Cost Analysis

<table>
<thead>
<tr>
<th>Proportion of Clients Requiring Feedback (%)</th>
<th>50%</th>
<th>75%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Respondents</td>
<td>38</td>
<td>2</td>
</tr>
</tbody>
</table>

As pension fund trustees engage with the disclosure requirements under the new FSA rules on the 'Use of Dealing Commission', transaction cost analysis may be expected to play a greater role in these discussions. In addition, with the implementation of MiFID (Markets in Financial Instruments Directive) in November 2007, managers may decide to subscribe to transaction cost analysis services in order to demonstrate compliance with some of the best execution obligations under the Directive.

Compliance with Global Investment Performance Standards

Out of 51 respondents, 42 firms reported that they were compliant with Global Investment Performance Standards (GIPS) and of those 41 had their results externally verified (see Table 15). GIPS are a global standard for the measurement of the performance of institutional funds. As the acceptance of the GIPS regime has become more global, in line with the more globalised asset management industry, the uptake of the Standards is seen by many managers as a competitive advantage enabling consistent cross-border comparison of investment returns.

Table 16: GIPS Compliance

<table>
<thead>
<tr>
<th>Are you GIPS Compliant?</th>
<th>Is this Externally Verified?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>42</td>
</tr>
<tr>
<td>No</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
</tr>
</tbody>
</table>
Appendix One: Questionnaire Respondents

Note that data from firms has only been included in aggregate findings where they manage assets in the UK

Aberdeen Asset Management PLC
Aberforth Partners LLP
Aerion Fund Management Ltd
AEGON Asset Management UK Ltd
AllianceBernstein Ltd
Allianz Global Investors (UK) Ltd
British Airways Pension Investment Management Ltd
BAE Systems Pension Funds Investment Management Ltd
Bailie Gifford & Co. Ltd
Barclays Global Investors Ltd
BlackRock Investment Management (UK) Ltd
BP Investment Management Ltd
Capital International Limited
Caenove Capital Management Ltd
CCLA Investment Management Ltd
CIS Unit Managers Ltd
Credit Suisse Asset Management Ltd
Dimensional Fund Advisors Ltd
Edinburgh Partners Ltd
F & C Asset Management PLC
Family Assurance Friendly Society Ltd
Fidelity International Ltd
First State Investments Ltd
Franklin Templeton Investment Management Ltd
GAM (UK) Ltd
Gartmore Investment Management Ltd
Glasgow Investment Managers Ltd
Goldman Sachs Asset Management International
Henderson Global Investors Ltd
Hermes Pensions Management Ltd
HSBC Investments (UK) Ltd
Insight Investment Management Ltd
INVESCO Perpetual
Investec Asset Management Ltd
JPMorgan Asset Management Ltd
Jupiter Asset Management Ltd
Lazard Asset Management Ltd
Legal & General Investment Management Ltd
Liontrust Investment Funds Ltd
Liverpool Victoria Asset Management Ltd
M&G Securities Ltd
Majedie Asset Management Ltd
Manek Investment Management Ltd
Margetts Fund Management Ltd
Martin Currie Investment Management Ltd
Morgan Stanley Investment Management Ltd
Morley Fund Management Ltd
Newton Investment Management Ltd
Nomura Asset Management UK Ltd
Odey Asset Management LLP
Origin Asset Management LLP
Pictet Asset Management Ltd
PIMCO Europe Ltd
Rathbone Unit Trust Management Ltd
Reed Elsevier Pension Investment Management Ltd
Rensburg Fund Management Ltd
Resolution Asset Management Ltd
Royal London Asset Management Ltd
Scottish Friendly Asset Managers Ltd
Schroder Investment Management Ltd
The Share Centre Investment Management Ltd
Singer & Friedlander Asset Management Ltd
Standard Life Investments Ltd
Sovereign Unit Trust Managers Ltd
State Street Global Advisers Ltd
Scottish Widows Investment Partnership
Threadneedle Asset Management Ltd
UBS Global Asset Management Ltd
Appendix Two: Interviews

Senior figures from the firms below were interviewed for the survey. With their agreement, selected quotations have been reproduced on an anonymous basis:

Allianz Global Investors (UK) Ltd
Barclays Global Investors Ltd
BlackRock Investment Management (UK) Ltd
F & C Asset Management PLC
Fidelity International Ltd
Insight Investment Management Ltd
INVESCO Perpetual
JPMorgan Asset Management Ltd
Jupiter Asset Management Ltd
Lazard Asset Management Ltd
Legal & General Investment Management Ltd
M&G Securities Ltd
New Star Asset Management Group PLC
Schroder Investment Management Ltd
Standard Life Investments Ltd
State Street Global Advisers Ltd
Threadneedle Asset Management Ltd
UBS Global Asset Management Ltd