



THE

INVESTMENT

ASSOCIATION

TRADE AND INVESTMENT:
EMBRACING GLOBAL
OPPORTUNITIES FOR
GROWTH IN UK INVESTMENT
MANAGEMENT

WHAT IS INVESTMENT MANAGEMENT?



About The Investment Association (IA)

The IA champions UK investment management, supporting British savers, investors and businesses. Our 240 members manage **£6.9 trillion** of assets and support **93,500 jobs across the UK**. Our members manage the pensions of millions of UK households and are a major source of capital market financing for UK businesses to invest and grow.

Every day, households, pension funds, insurers, and other investors from across the world rely upon UK-based investment management firms to put their money to work, both in the UK and overseas.

Investment managers act as stewards for this money – by deploying their professional analysis, judgment and diligence to generate long-term returns for savers. They invest savers' money through a wide variety of investment vehicles including authorised investment funds, pension funds and stocks and shares ISAs.

The services offered by UK investment managers benefit people in all parts of the country, from all backgrounds. Approximately three-quarters of all UK households have some form of pension provision, making millions of UK savers, directly or indirectly, into investment management clients.

HOW INVESTMENT MANAGEMENT CONTRIBUTES TO THE UK ECONOMY

The UK is at the centre of global investment allocation – turning the cumulative capital of millions of savers into investments in companies and infrastructure that drive long-term growth in the UK and beyond.

Investment managers invest in companies, providing the funding for them to grow. They also help hold to account company boards, ensuring that company performance is sustainable over the long term.

Investment managers also provide funding for housing and infrastructure to be built. As banks have reduced their lending since 2008, investment managers have become an increasingly important source of capital. For example, since 2012, housing associations have raised over £14.4 billion, nearly 60% of total funds raised, from capital markets rather than banks.

In 2013 and 2014, UK-based investment managers provided £119bn of the £200bn (60%) raised on UK capital markets, accounting for 65% of new bond issuance and 40% of IPOs.¹

Investment managers make a significant contribution to the UK's service exports representing, on average, 6% of total net service exports over the past 10 years. The UK investment management industry supports around 93,500 jobs in the UK directly and indirectly, providing high value jobs across London, other financial centres such as Edinburgh and in every region of the UK.



A SCOTTISH SUCCESS STORY



Edinburgh plays a key role in UK investment management. Almost a quarter (24%) of the assets managed by UK-headquartered investment managers are represented by managers with headquarters in Scotland.



Assets managed in Scotland represented 9% of total assets managed by IA members at the end of 2016, accounting for £620 billion of total assets.

UK INVESTMENT MANAGEMENT: AN INTERNATIONAL INDUSTRY

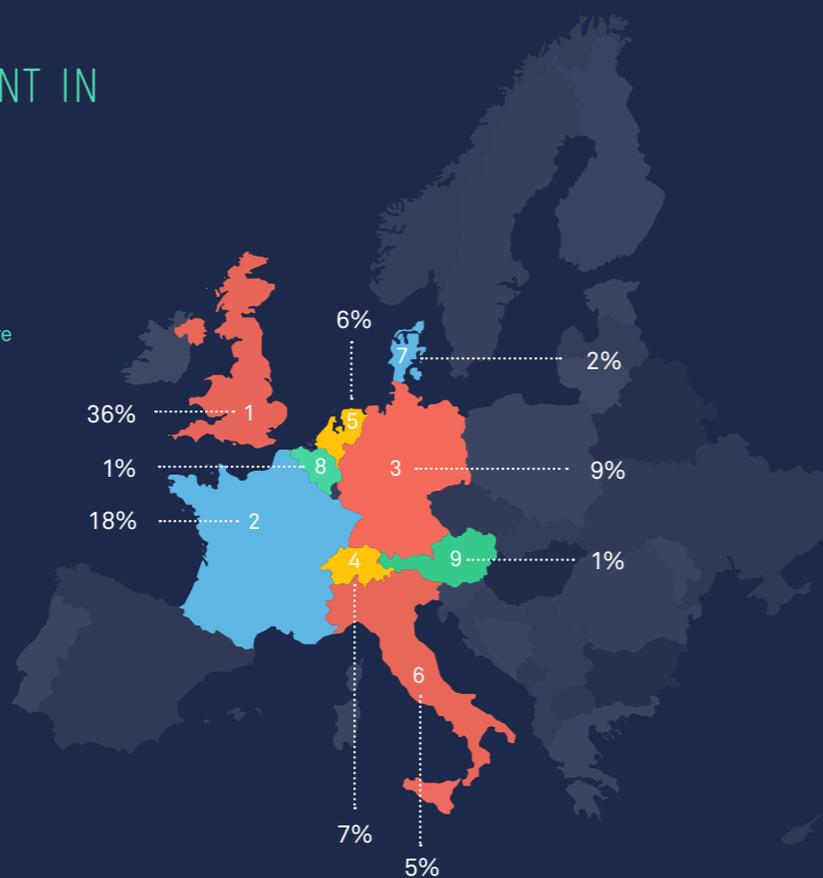
The UK investment management industry is truly international. More than one-third of the investments managed in the UK (£2.6 trn) come from overseas clients, making the UK one of the world's leading centres for international investment management.

The overseas client base is divided fairly equally between Europe (£1.4 trn) and the rest of the world (£1.2 trn).

Maintaining this international focus, accessing new markets, attracting overseas investors and retaining the ability to recruit from across the world will be crucial to the UK's continued success as a global investment management hub.

ASSETS UNDER MANAGEMENT IN EUROPEAN COUNTRIES (DECEMBER 2015)

Country	Net assets (€ billion)	Market Share
1 = UK	7,791	36%
2 = France	3,787	18%
3 = Germany	2,026	9%
4 = Switzerland	1,466	7%
5 = Netherlands	1,244	6%
6 = Italy	1,156	5%
7 = Denmark	367	2%
8 = Belgium	279	1%
9 = Austria	104	1%
Other	3,249	15%
TOTAL	21,469	



UK investment managers employ an international workforce, recruiting talent and experience from around the globe to provide the best possible service to investors.



A survey of IA member firms found that **11%** of the workforce are non-UK EEA nationals

SEIZING GLOBAL OPPORTUNITIES FOR GROWTH

To enhance its global competitiveness against the backdrop of Brexit, the UK investment management industry will need to capitalise on the major trends currently shaping the global investment landscape:



1 Fuelled by a growing global middle class, worldwide assets under management are predicted to continue to rise – to approximately \$100 trillion by 2020, at a compound annual growth rate of nearly 6%.²



2 Demand for those assets is likely to strengthen as banks continue to deleverage and alternative sources of finance are sought. Combined with a growing preference among governments in developed countries to use the private sector to fund investments to fill the infrastructure gap, there is likely to be a rising demand for financing from capital markets.



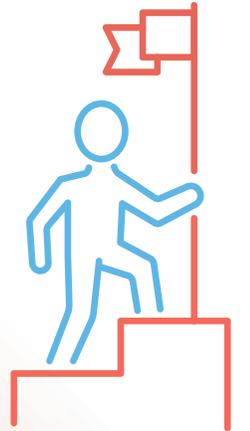
3 Shifting investor attitudes, the growth of financial technology solutions and intensifying global competition will require investment managers to be more innovative and adaptable in order to attract future investors. Clients will demand a broader range of products, a more tailored service and much greater use of technology to give them more control over their investments.

The UK is already well placed to take advantage of these trends. But staying ahead of the global competition will require further inventive and collaborative working between industry, government and the regulatory authorities.

Savers and investors benefit from global supply chains, allowing them to access specialists in different sectors and disciplines no matter where they are based.

Investment firms also benefit by being able to locate their operations in international centres of excellence, enabling them to access the best talent and support services – and to generate the best returns for investors.

Maintaining these supply chains after Brexit will be crucial to the UK's future success.



A BURGEONING GLOBAL MIDDLE CLASS



The rapid growth of the global middle class is predicted to be one of the defining demographic trends of the next decade. At the end of 2016, there were approximately 3.2 billion people worldwide defined as being in the “middle class” – with the figure rising by 140 million people a year.³

On current trends, the global middle class is expected to be more than 5.4 billion people by 2030 – with the vast majority of growth taking place in the Asia-Pacific region.

With more people with increasing levels of disposable income, there will be a growing ability to save; and with higher life expectancy, there will be a greater need to save for future retirement and healthcare needs. As a result, there will be rising demand for skilled professionals to manage and grow savings and retirement funds over the long term – meaning huge growth in an area of UK expertise.



As the world ages and average life expectancy increases, more people will need to save and invest more to fund their future lifestyle, healthcare and retirement needs – creating growing demand for investment management services.



MILLENNIALS DRIVING SUSTAINABLE INVESTMENT

The rising influence of Millennials is likely to have an increasing impact upon future investment strategies and the range of products offered to investors.

75%



Millennials – also known as Generation Y – currently number over 2 billion in the global population and are predicted to account for 75% of the global workforce by 2025.⁴



According to a recent survey, 84% of Millennials cite investing with a focus on environmental, social and governance (ESG) factors as a central goal of their strategy.⁵



This growing influence and interest is helping drive the growth of socially responsible investing – including environmental, social and governance factors into investment decisions.



The value of ESG funds under management in the UK has risen in every year since 2008 and the UK investment management industry is helping to set the standard for asset owners and managers around the world.

THE RAPID GROWTH OF FINTECH



Rapid technological development, combined with the growth in the number and influence of Millennials – the first generation of digital natives – is driving demand for seamless, integrated and tailored financial technology solutions for individual customers.



Active support from government and regulators has enabled the UK to foster a favourable environment for innovation and establish a world-class FinTech ecosystem. The UK's attractiveness for FinTech investors has been supported by a range of policy measures such as the FCA's Project Innovate and regulatory sandbox initiatives.⁶



According to a 2016 report by EY, there were more people working in UK FinTech than in New York FinTech, or in the combined FinTech workforces of Singapore, Hong Kong and Australia.⁷



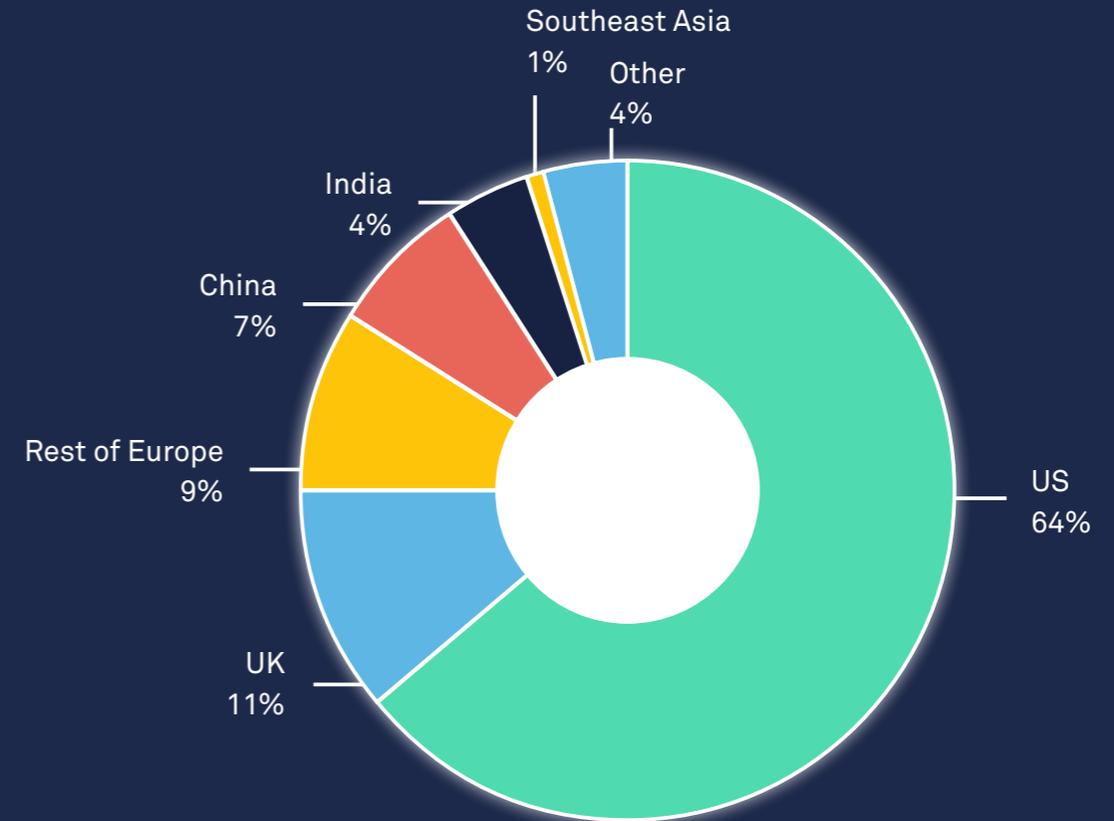
Technology hubs are emerging around the UK. Whilst London takes the lead, locations such as Bristol and Bath, Manchester and Reading also account for significant proportions of digital employment.⁸



Leveraging the UK's FinTech advantage will be vital for accessing and serving new, digitally-enabled investors in growing overseas markets.

THE UK ACCOUNTS FOR 11% OF GLOBAL FINTECH INVESTMENT ACTIVITY

Share of global FinTech investment (cumulative investment, 2010-mid 2015)⁹



THE BREXIT FACTOR AND NEW TRADE AGREEMENTS

The nature of the UK's new relationship with the EU will be a major driver of future change. The terms of that relationship must safeguard the interests of the savers and investors – in the UK and throughout the world – who make use of Europe's pre-eminent investment management centre.

That means ensuring that UK investment managers can continue, after Brexit, to manage investment portfolios in the EU by securing regulatory cooperation agreements with national regulators in the EU27.

The discussion of a future UK-EU trade and investment agreement also provides a once-in-a-generation opportunity for the UK to respond to emerging global trends, review national priorities, and re-think its policies from first principles, ensuring they remain fit for the challenges of the 21st Century.

Maximising the opportunities afforded by ministerial overseas visits and business delegations will help develop the international links between investment managers and overseas investors, thus boosting inward investment and overseas exports.



36% of assets managed in Europe are managed from the UK, more than are managed from the next three largest countries (France, Germany, Switzerland) combined



ACCESSING THE BEST TALENT:

Investment managers currently benefit from being able to attract staff from the EU and around the world, as well as from the UK's world class talent pool. Continuing to nurture our domestic talent as well as bring in specialist expertise from abroad will be vital in maintaining the UK's competitive advantage in the future.

CORE COMPONENTS OF A FUTURE TRADE AND INVESTMENT STRATEGY

The overall aims of the UK's future trade and investment strategy can be summed up as promoting the excellence of its capabilities in targeted overseas markets to boost exports, and identifying and bringing down barriers to inward investment.



ACCESS TO MARKETS

- Identifying priority target countries
- 21st Century trade and investment agreements with countries around the world
- Agreeing reciprocal UK-EU future market access will also be crucial



SOUND REGULATION

- Maintaining the balance between rigorous but proportionate domestic regulation
- Driving international regulatory coherence and development of global standards
- Identifying barriers to trade



COMPETITIVE TAXATION

- Maintaining recent progress in reducing the headline corporate tax rate
- Further enhancing the business and financial services tax environment



INTERNATIONAL MARKETING

- Actively marketing UK investment management industry's services around the world
- Leveraging ministerial visits and business delegations
- Partnering with economic development bodies



OPERATIONAL EFFICIENCY

- Innovating in product design and back office processes
- Maximising the use of cost/time-saving technology
- Increasing the efficiency of investment management operations



ACCESS TO TALENT

- Growing the pipeline of domestic talent, including increasing diversity
- Recruiting expertise from across the globe

PRIORITISING TARGETS FOR TRADE AND INWARD INVESTMENT

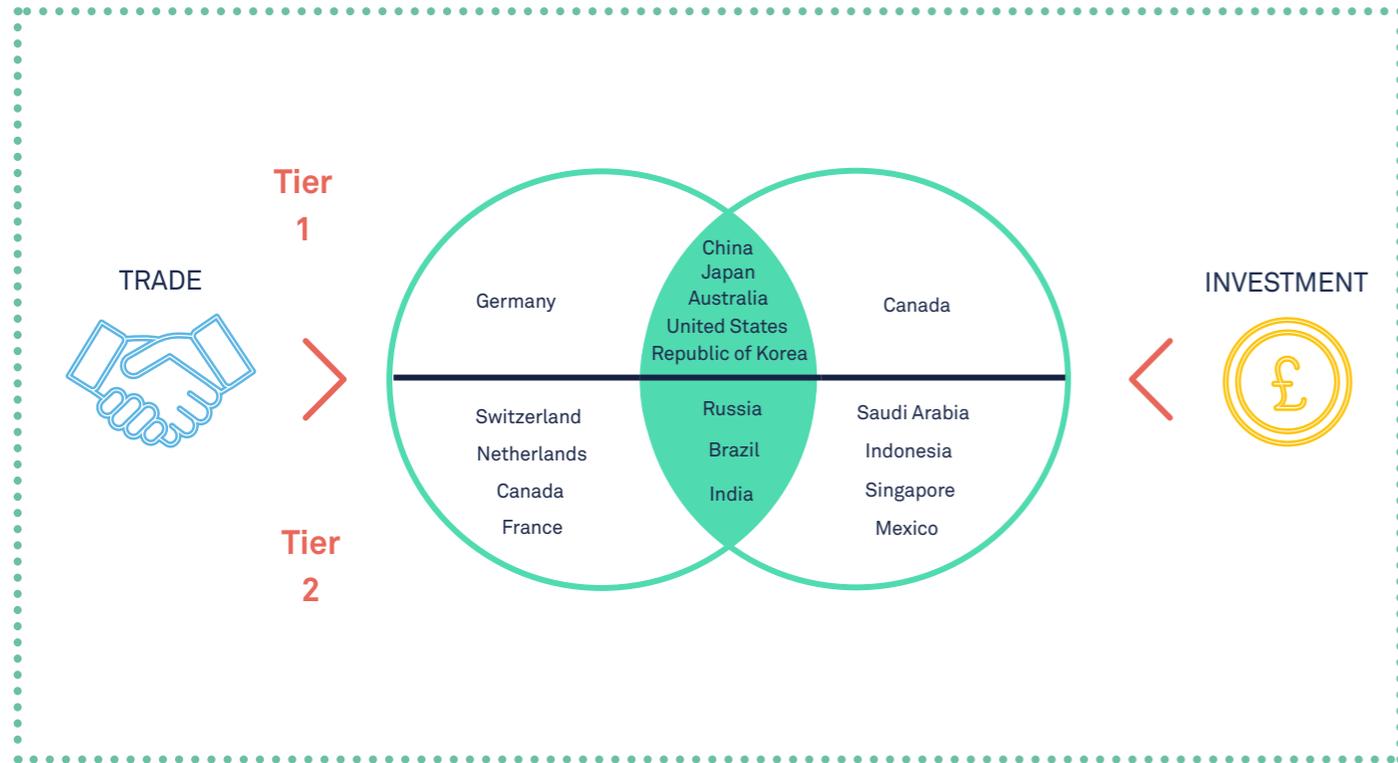


To maximise the potential for future export and inward investment opportunities, the UK needs to focus its efforts on priority markets – countries with the highest levels of gross domestic savings and / or private pension assets.

EY analysed macroeconomic data from the World Bank and OECD on 188 countries with investment management specific metrics to shortlist the top markets for trade and investment prioritisation. They used this data to assess where the opportunities lie today, and where they may reside in the future. The future analysis specifically looked at nations with a demographic shift and a propensity to a burgeoning middle class.¹⁰



The diagram below sets out the Tier 1 and Tier 2 target countries for trade and investment, showing that there are a number of countries that fit into both categories. These countries are examined in more detail in the following pages.



This prioritisation can inform the multi-year promotional activity for UK investment management conducted in partnership with the UK Government.¹¹

TARGET COUNTRY PROFILES¹²

The IA asked EY to look at high level macro-economic data from the World Bank and the OECD and review the 188 countries with an investment management presence. The analysis specifically looked at nations with a demographic shift and a propensity to a burgeoning middle class.

The list includes jurisdictions such as China, Brazil, and India, where the UK Government has substantial, ministerial-led economic and financial dialogues.





Population: 23 million
GDP: £875 billion ¹³
Total AUM: £1.6 trillion

- Robust and well developed regulatory framework.
- Innovative and mature market, with comprehensive product offering.
- A growing Environmental, Social Governance and Infrastructure funds sector.
- Member of the Asia Region Funds Passport initiative.
- Proximity to New Zealand, a smaller market but one with significance for the FTA agenda.
- **Active and early partner for an FTA with financial services, including work on mutual recognition to be looked at in conjunction with the regional passport initiative.**



Population: 207 million
GDP: £1.3 trillion
Total AUM: £910 billion

- Concentrated market with strict standards of controls and regulations.
- The onshore wealth market is difficult to penetrate and very competitive.
- The 10% cap on overseas investment is a challenge and changing the 25% limit on the feeder funds is still a key topic, both areas where external support for reform is welcome.
- **Partner for long-term engagement and partnership through other industry initiatives eg ESG agenda and FinTech.**



Population: 36 million
GDP: £1 trillion
Total AUM: £2.2 trillion

- Canada is one of the world's wealthiest nations.
- The market is mature, competitive and well-regulated.
- Well established mutual fund industry.
- **Major institutional investors in the UK and key player in trade policy with FTAs with the EU and US, including the new EU-inspired investment court.**



Population: 1.379 billion
GDP: £7.9 trillion
Total AUM: £6.0 trillion

- 3rd largest mutual funds market after US and Europe.
- Increasingly supportive regulatory framework, progress in partnership with the UK.
- New cross-border initiatives facilitating industry growth announced in November 2017.
- Accelerating development of China's fund management industry along with financial liberalisation measures will improve returns, drive asset diversification, trigger product innovation and distribution and encourage offshore investments.
- **The relatively low market penetration provides opportunity for development as newly announced reforms are introduced. China's pension industry presents significant growth opportunities as regulations become increasingly supportive of external asset managers and overseas investments.**



Population: 1.282 billion
GDP: £1.6 trillion
Total AUM: £1.84 trillion

- India is expected to be the fastest growing large economy over the next decade which should lead to increased activity in the asset management industry.
- Insurance and pension sectors are currently small, they are expected to grow as India's population increases and ages.
- Mutual fund popularity continues to grow as India's middle class develops and investor interests shift from physical assets to financial assets.
- India has faced some challenges in terms of aligning corporate governance with an evolving business environment, so the UK's experience in this sphere is an area to review.
- Foreign investments into India are governed by a comprehensive foreign direct investment policy but the UK's Bilateral Investment Treaty dates from the 1990s and could be reviewed and modernised as part of the post-Brexit trade and investment relationship.



Population: 126 million
GDP: £3.5 trillion
Total AUM: £2.746 trillion

- Mature market with an ageing population.
- Strong government initiative to facilitate industry growth and market entry.
- Robust regulatory framework.
- Member of the Asia Region Funds Passport initiative.
- **Asset management, with FinTech, is at the centre of Japan's ambition to introduce new, international firms and standards to shake up and increase the size of GDP held by financial services. There is mutual benefit in increasing the industry's presence in both countries.**



Population: 51 million
GDP: £1 trillion
Total AUM: £1.48 trillion

- Supportive regulatory reforms and robust framework, and plans to attract international investment into Seoul.
- Mature market with ageing population.
- Mature funds management market with comprehensive product offering.
- Member of the Asia Region Funds Passport initiative.
- **While a small number of foreign players have entered the market by building brand and distribution channels, there is a large wealth management sector that is still developing with good growth potential, and initiatives like auto-enrolment increase as the pension regime changes.**



Population: 8 million
GDP: £475 billion
Total AUM: £1.4 trillion

- Mature, developed market with ageing population. Developed pensions market and leading position in terms of cross-border client assets.
- Switzerland currently has limited access to the EU markets but hopes that reciprocity of market access will be achieved easier and quicker with post-Brexit UK than with the EU. There is a mutual interest in tearing down the market barriers between two jurisdictions post-Brexit and support for initiatives in that respect.
- **The industry encourages an early agreement between the UK and Switzerland on mutual recognition, similar to the agreement concluded between Hong Kong and Switzerland.**



Population: 327 million
GDP: £13.1 trillion
Total AUM: £24.6 trillion

- US-headquartered firms play a key role in the UK, holding 47% of all the assets managed here. UK-based asset managers handle £450 billion for US clients.
- Mature market with the largest mutual fund industry in the world where it is difficult (if not impossible) to sell a non-domestic fund into the retail segment.
- Highly competitive marketplace with 15,615 registered investment companies.
- Leading regulatory standards and robust framework, reforms to industry and regulations announced in Q4 2017.
- **The US will play a key role in the development of international standards, and has a major stake in the success of the UK-EU negotiations. The industry supports measures to establish either a US-UK financial services regulatory forum or, preferably, a tripartite US-UK-EU forum to be established post-Brexit.**



We are grateful to EY for their assistance in producing this paper and the analysis and prioritisation of overseas target markets for the investment management industry.

ENDNOTES



- ¹ Oxera, The contribution of asset management to the UK economy, July 2016
- ² PwC, Asset Management 2020.
- ³ H. Khara, The unprecedented expansion of the global middle class: an update, February 2017.
- ⁴ Goldman Sachs Asset Management, Investing in the Millennial Effect, September 2016.
- ⁵ Morgan Stanley Institute of Sustainable Investing, Sustainable Reality: understanding the performance of sustainable investment strategies, 2015.
- ⁶ TheCityUK, UK FRPS: Meeting the Challenges and delivering the opportunities, 2016
- ⁷ EY, UK FinTech: on the cutting edge, 2016.
- ⁸ DDCMS, UK Digital Strategy, March 2017.
- ⁹ TheCityUK, UK FRPS: Meeting the challenges and delivering the opportunities, 2016.
- ¹⁰ EY analysis for The Investment Association.
- ¹¹ This list is not intended to be exclusive. IA members are active across the globe and many countries not listed can also provide significant opportunities for individual firms.
- ¹² EY analysis for The Investment Association, 2017.
- ¹³ World Bank national accounts data, 2016.

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ASSOCIATION

The Investment Association

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Camomile Court
23 Camomile Street
London EC3A 7LL
Registration Number: 4343737

 @InvAssoc

www.theinvestmentassociation.org

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