4 UK INSTITUTIONAL CLIENT MARKET

KEY FINDINGS

MARKET OVERVIEW

- IA members manage £4.0 trillion for UK institutional clients in offices around the globe. Pension funds are the largest client type, with 65% of institutional assets under management, followed by insurance companies at 22%.
- This represents an increase of £180 billion from 2017. Data provided by IA members suggests that the majority of this resulted from net inflows from institutional clients during the year, with the remainder coming from asset appreciation.

THIRD PARTY MARKET

- Once in-house mandates are excluded from the institutional data, assets under management reduce to £3.4 trillion, up from £3.1 trillion in 2017.
- Pension funds are even more dominant in the third party market, accounting for 71% of third party assets.

EVOLUTION OF PENSIONS MARKET

- £2.6 trillion is managed for UK pension schemes by IA members, with corporate pension schemes representing the greatest proportion of assets, at £2.3 trillion.
- Assets managed in liability-driven investment strategies reached an estimated £1.2 trillion in 2018, up from £1.1 trillion in 2017.

MANDATE TYPES

- Multi-asset mandates, account for about a quarter of total mandates once LDI mandates are excluded (unchanged from 2018).
- In the breakdown of specialist mandates, equities fell by five percentage points to 35%. Fixed income increased two percentage points to 39% to become the most popular type of specialist mandate.
- Global bonds remained the largest category of fixed income mandates increasing to 38%, up from 29% in 2017.
- Over two thirds (69%) of assets were managed actively. All institutional client types were more likely to be managed on an active than a passive basis, but passive is much more widespread in the institutional than retail market.
- Almost two thirds of third party institutional mandates were managed in segregated mandates (66%), again almost unchanged from 2017.

IA MEMBERS MANAGE
£4.0TRN
FOR UK INSTITUTIONAL CLIENTS IN OFFICES AROUND THE GLOBE

This Chapter looks more closely at the shape of the UK institutional client market. It differs from previous chapters as it covers all assets irrespective of whether they are managed in the UK or in offices overseas (however, we estimate that more than 90% of the assets are managed in the UK).

The analysis in this Chapter also focuses on the nature of a mandate rather than on the underlying assets. So a global equity mandate will appear as such, rather than being broken down into the underlying constituent countries.

This Chapter covers aspects including the different client types and their relative importance, the size of the third party mandate market and the long-term trends in mandate types. It also looks at developments in the DC pensions market around consolidation, investing in illiquid assets, and delivering retirement income.

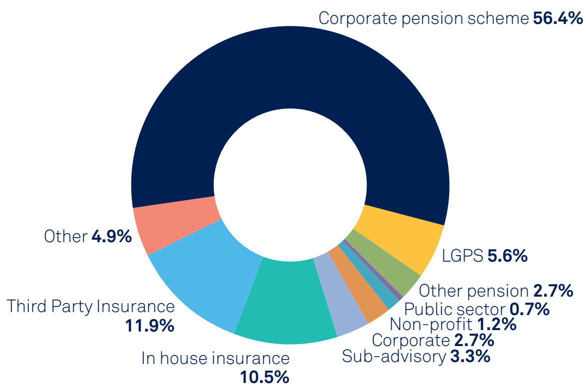
MARKET OVERVIEW

IA members manage £4.0 trillion[21] for UK institutional clients globally. This represents an increase of £180 billion from 2017. Data provided by IA members suggests that around £100 billion of this resulted from net inflows from institutional clients during the year, with the remainder coming from the change in value of the underlying assets.

CLIENT BREAKDOWN

Chart 24 indicates pension funds and insurance companies (including in-house and third party management) account for the majority of UK institutional assets (87%)[22], with pension funds remaining the largest client type.

CHART 24: UK INSTITUTIONAL MARKET BY CLIENT TYPE



[21] Implied figure based on data collected on an estimated 84% of the institutional client base.

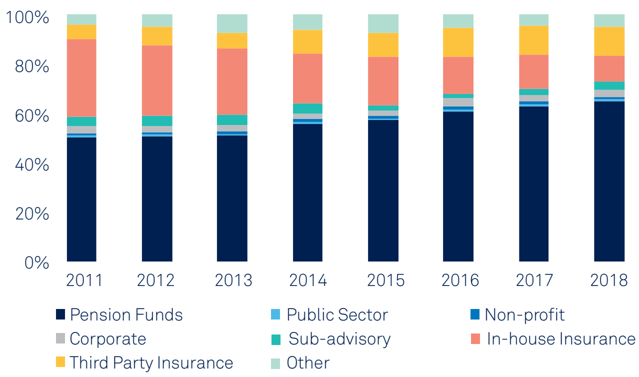
[22] The remaining 12% of assets is made up from mandates managed for corporations (outside of pension assets) sub advisory, not for profit mandates and public sector mandates. Just over half of this (7%) is managed for 'other' client types, which generally refers to a variety of open- and closed-ended pooled vehicles, and investors from the more specialist areas of private equity, venture capital and property.

Since the IA began monitoring the breakdown of the institutional client base in the UK, there has been a marked increase in the proportion of assets managed for pension funds and a decrease in insurance assets, most notably in-house insurance.

Chart 25 shows two notable long term trends in the UK institutional client base: the growth of pension fund assets and the decline in in-house insurance assets. The decline in in-house insurance assets accelerated in 2018 due to merger and acquisition activity.

It should be noted that DC pension assets operated via an intermediary platform through an insurance company are reflected in the IA's insurance assets. Consequently pension assets are actually under-represented in Chart 25 and the shift in assets towards pension funds is even stronger than is implied.

CHART 25: UK INSTITUTIONAL MARKET BY CLIENT TYPE (2011-2018)



EVOLUTION OF PENSION MARKET

IA pension fund data includes DB and DC schemes where the investment manager has a relationship with the pension fund rather than it being distributed via a wrapped product through an insurance company. In 2018, pension funds continued to account for almost two thirds of the institutional client base (£2.6 trillion).

The IA divides pension scheme assets in three categories:

- Corporate pension funds, which at £2.3 trillion represented the majority of UK pension fund assets in 2018. This category includes a number of in-house Occupational Pensions Scheme (OPS) managers, which we estimate manage around £155 billion in assets.
- The Local Government Pension Scheme (LGPS) which accounted for £220 billion of assets in 2018, indicating that IA members manage around 90% of LGPS assets.
- Assets managed for pension schemes that do not fit into either of these categories, such as those run for not-for-profit organisations, representing £110 billion.

Corporate pensions are still dominated by DB schemes, which accounted for around £2.0 trillion in corporate pension assets at the end of December 2018[23].

[23] Includes assets in the PPF 7800 index plus an estimate of assets in crown guaranteed schemes. This figure does not directly relate to the £1.8 trillion managed for corporate pensions by IA members as some DB assets will be managed by non-IA members and some DC pension assets will be directly managed by IA members.

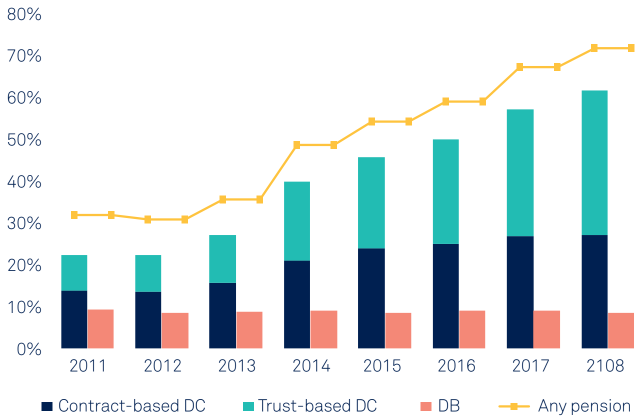
SIZING THE MARKET

The IA estimates the size of the UK pension market to be £3 trillion at the end of December 2018. This includes all assets in DB and DC pensions, as well as those assets in some form of drawdown arrangement, plus assets backing annuities.[24] Figure 11 provides an estimate of how these assets are broken down across the different scheme types.

DB (funded) assets continue to make up the majority of the UK pension market. However, the policy of automatic enrolment introduced in 2012 has had a major impact on pension saving in the UK. The number of savers into DC schemes now exceeds those actively saving into DB schemes. The majority of defined benefit schemes that remain open to new members are linked to jobs in the public sector. Therefore when only private sector pension saving is taken into account the shift from DB to DC is even more evident (see Chart 30).

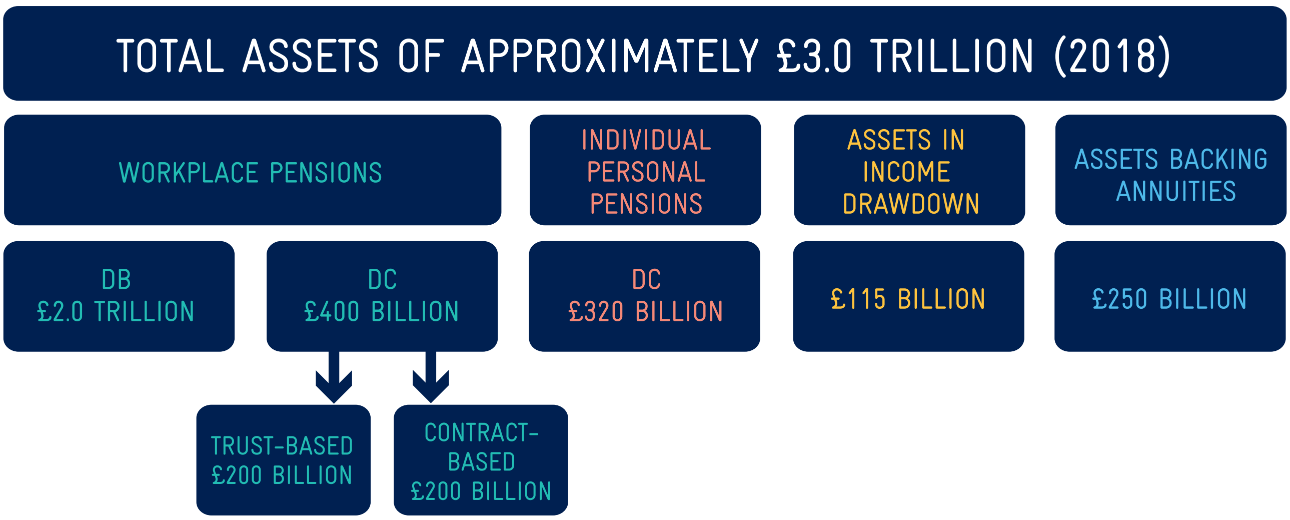
In April 2018 the minimum employee contribution under automatic enrolment increased from 1% of qualifying pay to 3%. So far there is no indication that the phased increase in contributions is having an adverse effect on participation rates. However, in April 2019 there was a further increase in employee contribution rate from 3% to 5%. The ultimate success of automatic enrolment will depend on whether participation rates remain at the high levels they have reached as contributions increase.

CHART 26: PENSION PARTICIPATION FOR PRIVATE SECTOR JOBS



Source: ONS

FIGURE 11: OVERVIEW OF THE UK'S PENSION LANDSCAPE[25]



[24] The assets of DB schemes are reported in figure 11. The liabilities attributed to these schemes would result in higher figures as funding levels currently average around 85%.
[25] Source: ONS, FCA, PPI, IA, DCLG. Due to changes in regulatory reporting, some data has not been updated since 2015. Estimates are provided on a best efforts basis until alternative sources are found.

CURRENT AND FUTURE TRENDS IN DC PENSION PROVISION

The UK pensions market – like many around the world – has seen significant change in the past 20 years, with the shift from Defined Benefit (DB) to Defined Contribution (DC) schemes. This has been reinforced by Automatic Enrolment since 2012 (see Chart 26), and the introduction in 2015 of the pension freedoms, which ended what was a de facto requirement to annuitise DC pension savings.

While the DB system continues to form an important part of the UK market, with its own developments and innovation, the DC market is now starting to develop along its own distinct lines. We asked a number of firms specifically about what they see as the key emerging themes and their implications for investment managers and customers.

1. CONSOLIDATION AND COMMERCIALISATION OF DC PENSION PROVISION

The workplace DC pension market is increasingly characterised by commercial pension providers – master trusts and contract-based schemes – to whom employers outsource provision, including responsibility for critical areas such as default investment strategy design. This is in marked contrast to the DB model, characterised by employers running their own trust-based schemes, although even here opportunities for consolidation are starting to emerge.

"IT LOOKS LIKE A PRETTY POWERFUL TREND AT THE MOMENT. YOU SEE THAT SOME OF THE NAMES THAT HAVE GONE TO MASTER TRUSTS WERE VERY MUCH VIABLE TO RUN AS [INDIVIDUAL TRUSTS] IF THEY WANTED TO, BUT THEY DIDN'T WANT TO."

With the contract-based market already made up of a relatively small number of providers, further consolidation is expected in the trust-based market too.

"ON THE CONSOLIDATION THEME, WE'RE MOVING FROM A DC MARKET OF 2000-ODD SINGLE EMPLOYER TRUSTS TO ABOUT 100 SINGLE-EMPLOYER TRUSTS AND 20-30 MASTER TRUSTS IN 5-10 YEARS."

This tendency towards consolidation is being given additional momentum by regulation: a master trust authorisation framework, which will restrict the number of these schemes in future, is already in place and the Government has recently consulted on proposals to require trustees of small DC schemes to actively consider on a triennial basis whether their members may be better served by transferring into a scheme with significantly more scale.

The impact of this increased consolidation and commercialisation is changing the dynamic of how the investment management industry operates in the DC market. Although firms recognised the importance of strong competition on fees, there is an emphasis on the need to broaden the debate further on value.

"FEES ARE ALWAYS GOING TO BE FRONT AND CENTRE BUT CONSOLIDATION CHANGES THE DYNAMIC OF HOW WE AS AN INVESTMENT MANAGEMENT INDUSTRY OPERATE. LARGER MANDATES, MASSIVE COMPETITION, LOWER FEES."

"AT THE MOMENT, THE FOCUS IS ON PRICE AND IT SHOULD BE MORE ON VALUE, SO WHAT ARE YOU GETTING FOR THAT MONEY, PARTICULARLY WHEN YOU START TALKING ABOUT THE ROLE OF ILLIQUID INVESTMENTS"

It is also seen as likely that the current policymaker focus on price in the accumulation phase will extend more significantly into the retirement phase. For the moment, the emphasis is more on how to ensure that investment pathways are available for what can be a challenging set of decisions (see point 3 below).

2. EVOLUTION OF INVESTMENT PROCESS

A corollary of this consolidation is that the reduced number of pension schemes may be more sophisticated customers of investment management services. While increased size does not automatically mean better governance, larger pension schemes frequently have in-house investment expertise which is deployed in helping schemes develop more sophisticated and diversified portfolios.

"WHETHER YOU'RE IN 5,000 OR 10,000 MEMBER-SCHEMES OR MEGA-CAP SCHEMES, YOU'VE GOT SIZE AND SCALE TO BE ABLE TO DELIVER SOPHISTICATION."

In that regard, the National Employment Savings Trust (NEST), along with a small number of large single-employer trust schemes are very visibly focused on DC investment strategy design. These schemes have the potential to act as 'bellweathers' for the market, with their investment approaches influencing other schemes in future.

Two areas in particular stand out:

- An increasing emphasis on private market investment.
- The growing importance of responsible and sustainable investment, often based on Environment, Social and Governance (ESG) factors.

"ALL THE SOPHISTICATED SCHEMES, PARTICULARLY MASTER TRUSTS, WILL BE LOOKING AT SUSTAINABLE INVESTING MORE AND MORE AND SOME WILL BE LOOKING AT ILLIQUIDS AND ALTERNATIVES BECAUSE THEY HAVE THE SCALE TO DO IT AND IT MAKES INVESTMENT SENSE."

While the benefits of allocating a small portion of the default to illiquids are increasingly appreciated in the market, in practice such allocations have not been significant in UK DC pensions to date. This is due to a combination of demand-side factors and operational challenges that the industry is working to solve.

Incorporation of sustainable investing and ESG integration into DC portfolios has been a major theme in this market, partly driven by regulation on pension schemes that intensifies the focus on sustainable investment, partly also reflecting increasing concern about the reality of how financially material ESG is becoming as climate change concerns accelerate. Further development and discussion that results in a consistent understanding across the investment industry, pension schemes and their members of what is meant by sustainable investment will help to move the debate forward. The Investment Association has been doing extensive work on definitions and labelling, looking to help establish a more common approach, and will publish the results of its work in Autumn 2019.

"IT REALLY IS ABOUT THE DEFINITIONS AND CLARITY AROUND THE SUSTAINABLE INVESTMENT PIECE. THE GOOD THING ABOUT SUSTAINABLE INVESTING IS THAT IT IS HERE TO STAY, BUT WE'VE GOT A LONG JOURNEY ON WHAT IT MEANS."

The DC investment market will be further aided in its development as better information on the performance of default strategies becomes available. Most default strategies are multi-fund constructions with individual investment managers acting as component part suppliers. While performance of these components is the responsibility of the underlying investment manager, accountability for the construction and on-going performance of the default strategy rests with pension schemes and their advisers.

"INVESTMENT RETURNS ARE A DOMINANT FEATURE OF GOOD OUTCOMES, BUT STILL NO-ONE IS REALLY MEASURING THEM PROPERLY [IN DC]. WE KNOW WHAT EACH INDIVIDUAL FUND IS RETURNING, BUT YOU DON'T OFTEN GET THE RETURN OF THE DEFAULT STRATEGY. IT IS SOMEWHAT DRIVEN BY STRUCTURE IN THAT YOU HAVEN'T GOT A DEFAULT FUND, YOU'VE GOT A DEFAULT STRATEGY ON A LIFE INSURANCE COMPANY'S PLATFORM. THE MECHANISM FOR CALCULATING PERFORMANCE [OF THE STRATEGY] CAN BE DONE, BUT IT'S NOT BUILT INTO THE SYSTEM."

Increasing availability of performance information of default strategies by age cohorts, reflecting age-related dynamic asset allocation in DC, will in future be used to compare scheme strategies against the peer group of other defaults with similar risk or asset profiles, thus creating a more value-driven conversation about DC investment.

3. DELIVERING RETIREMENT INCOME

There is widespread recognition among investment management firms of the challenges facing individual savers when they approach retirement. While the new world of Pension Freedoms offers the opportunity for providing access to the right approach at the right time, ensuring the decision-making mechanisms and product sets are available will be a longer-term development process for all players involved in pension scheme delivery.

Direction of travel in workplace DC

For workplace DC schemes, the adjustment to the pension freedoms has up until now been about ensuring default strategy asset allocations are aligned with member preferences for accessing DC pensions. Beyond this there has been little development of in-scheme retirement solutions. This reflects several factors, including employer attitudes to responsibility in this area and the relative immaturity of the UK DC market in terms of scale and number of members retiring with only DC provision. Current practice involves schemes seeking to arrange decumulation options with an external provider. This is particularly true of single employer trust schemes.

Master trusts have the potential to change this by offering in-scheme solutions that take their members 'to and through' retirement. Master trusts will have a commercial incentive to retain assets through retirement and the knowledge of their members' needs required to design appropriate retirement income strategies. In the contract-based market, regulation will increasingly nudge non-advised customers towards the FCA's proposed 'investment pathways'.

"OUR CONSUMER RESEARCH SHOWS THAT PEOPLE COMING UP TO RETIREMENT DON'T WANT TO SHOP AROUND, THEY WANT TO CONVERT THEIR POT TO INCOME, AND IF THEY ARE GIVEN A STRAIGHT-FORWARD PATH TO DO THAT THEN THEY'LL GO FOR IT."

"IN FUTURE IT WOULD BE GREAT IF THE MASTER TRUSTS CAN PROVIDE A 'TO AND THROUGH' SOLUTION FOR INCOME DRAWDOWN SO PEOPLE CAN REMAIN INVESTED IN THE SAME STRATEGIES."

For investment managers, this non-advised mass market may look increasingly like the accumulation stage: investment strategies designed by pension providers and their advisers, with investment managers being component suppliers for these strategies. Assets could be concentrated in investment pathways and master trust in-house strategies with a smaller number of larger mandates, and strong competitive and pricing pressure.

Areas of potential innovation

At the same time, firms do see significant opportunities, particularly in the advised market or for those savers that are more self-directed. To the extent that retirement income (decumulation) is about a combination of asset allocation and income generation, investment managers have the capability to do both. This links to broader patterns of competition - and innovation - within the wider investment and wealth management industry over the provision control of asset allocation services.

"AS AN INDUSTRY WE ARE ASSET ALLOCATORS, PARTICULARLY FOR MULTI-ASSET PRODUCTS. AN INDIVIDUAL HAS ALL THESE DIFFERENT LEVERS TO PULL WHETHER IT IS SAVINGS, INVESTMENTS, PENSIONS, MORTGAGES. MAYBE WE SHOULD BE INNOVATING MORE AROUND HOW WE CAN HELP INDIVIDUALS ALLOCATE THROUGHOUT THEIR LIVES ACROSS ASSET CLASSES."

The industry is also starting to think more about regulatory barriers to innovation at the investment fund level. The UK Fund Regime Working Group, established under the auspices of the HMT Asset Management Taskforce, published its final report in summer 2019, which included proposals in this area. One potential way forward is to look again at how capital and income are treated within funds to allow for strategies that aim to target more specific retirement needs involving how savers draw on their capital to generate an income. This was reflected in a number of comments made by interviewees for this year's Survey.

"THERE NEEDS TO BE MORE FLEXIBILITY GIVEN THE DEMOGRAPHICS OF THE COUNTRY. AN EVER GROWING PERCENTAGE OF THE POPULATION ARE IN DECUMULATION AND THE FUND STRUCTURES DON'T NECESSARILY ALLOW FOR THE DISTRIBUTION OF CAPITAL FROM FUNDS. WE WOULD WELCOME AN IMPROVED STRUCTURE. AT THE MOMENT YOU HAVE TO SELL A PORTION OF THEIR INVESTMENTS TO CREATE INCOME."

Access to advice

A critical theme, especially in the context of the current reviews of the Retail Distribution Review (RDR) and the Financial Advice Market Review (FAMR) is to get the broader advice market right in terms of accessibility. Participants in the Survey strongly emphasised the importance of this point, particularly given the significance – and potential complexity - of the decisions and the consequences in later life of not getting them right.

"THE KEY THING, ESPECIALLY IN TRANSITIONING FROM ACCUMULATION TO DECUMULATION, IS THE ADVICE PIECE. HOW CAN WE MAKE SURE CLIENTS GET THE RIGHT ADVICE AND THEY KNOW WHAT TO DO? IN ACCUMULATION YOU PAY IN MONEY AND ARGUABLY THE MOST IMPORTANT THING IS SIMPLY THAT YOU GET A GOOD RETURN IN THE END. BUT IF YOU'RE NOT GOING TO ANNUITISE OR HAVE THE GUARANTEES, THEN WHAT HAPPENS FROM THAT MOMENT YOU RETIRE? THERE ARE SO MANY FACTORS AND SO MANY DIFFERENT STRATEGIES TO CONSIDER."

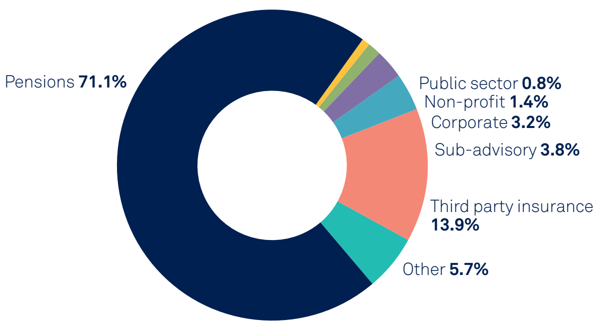
"RDR HAS CREATED A LEVEL OF PROFESSIONALISM IN THE ADVICE INDUSTRY THAT WASN'T THERE BEFORE. WHAT IS MISSING IS HOW DOES ADVICE BECOME MORE ACCESSIBLE? THROUGH RDR AND OTHER REGULATION, ACCESS TO ADVICE HAS BECOME MORE DIFFICULT IN SOME WAYS. YOU COULD ARGUE THAT THOSE WHO ARE GETTING IT ARE GETTING A HIGHER QUALITY OFFERING. HOWEVER, THE ABILITY TO GET GOOD BASIC ADVICE AT A BASIC COST IS NOT THERE."

TRENDS IN THE THIRD PARTY INSTITUTIONAL MARKET

Full details of the asset allocation and investment strategy for the entire institutional market are available in Appendix 2. The remainder of this chapter looks more closely at IA data from the institutional market that is available to third parties, that is, excluding mandates managed in-house by insurance parent groups and occupational pension schemes, as at the end of 2018.

Once in-house mandates are excluded from the institutional data, assets under management reduce to £3.4 trillion. Pension funds become even more dominant (see Chart 34), representing almost three quarters (71%) of third party assets, with the remaining insurance assets representing 14% of the market.

CHART 27: THIRD PARTY UK INSTITUTIONAL CLIENT MARKET BY CLIENT TYPE

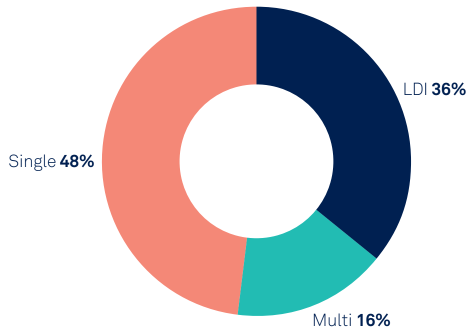


MANDATE BREAKDOWN

Chart 28 breaks the institutional market down into three categories of mandate:

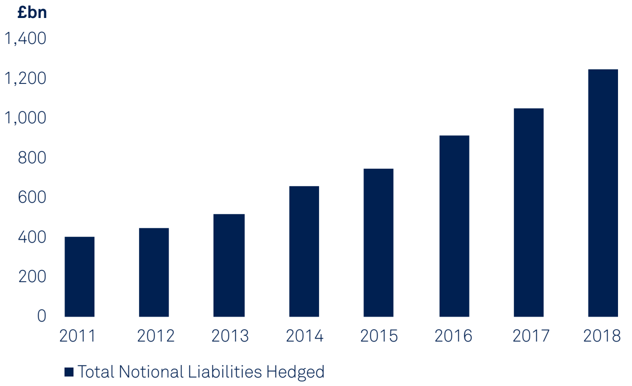
- Single-asset, or 'specialist' mandates, which focus on a specific asset class or geographical region. Specialist mandates remain the most popular form of investment among institutional investors, with just under half of all institutional assets (48%) managed on this basis.
- Multi-asset, or 'balanced' mandates, which would cover a number of asset classes and regions. These account for 16% of total mandates. Stripping out the LDI mandates below, the balance between specialist and multi-asset is 76% single asset versus 24% multi-asset.
- LDI mandates, which are specifically designed to help clients meet future liabilities. These mandates frequently make greater use of derivative instruments and are therefore included on the basis of the notional value of liabilities hedged, rather than the value of physical assets held in the portfolio. Just under a third of institutional assets are now managed in this way. An estimated £1.2 trillion is now being hedged in LDI mandates.

CHART 28: UK THIRD PARTY INSTITUTIONAL CLIENT MANDATES INCLUDING LDI



LDI has seen a three-fold increase in assets since 2011 increasing from £400 billion to £1,200 billion in 2018. This is double the growth rate in single mandate assets and also higher than the growth rate in multi-asset assets over the same period.

CHART 29: NOTIONAL VALUE OF LDI (2011-2018)

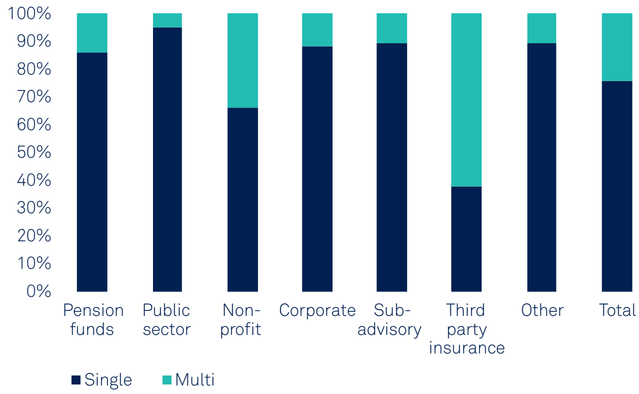


Source: KPMG LDI Survey, IA

Although DB pension schemes remain a significant proportion of the institutional market, the fact that they have very specific requirements means that their LDI allocations can mask trends that might otherwise be observed in the market. For that reason we exclude the value of LDI mandates from the asset allocation analysis on pages 60 to 65 and focus purely on whether clients are favouring multi-asset or specialist solutions other than explicit liability management.

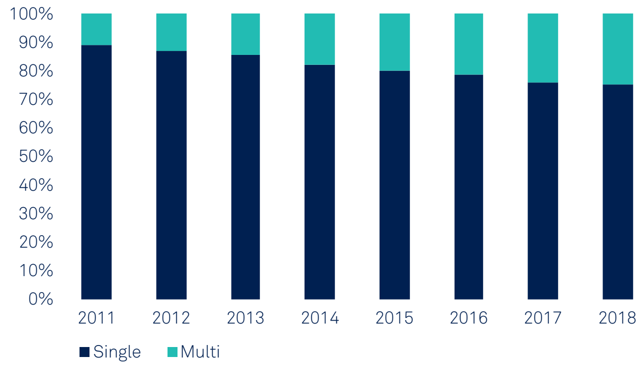
Chart 30 indicates that the preference for specialist mandates remains high, although there is significant variation depending on the type of client. Multi asset mandates are most likely to be utilised by third party insurance (possibly default pension arrangements) and non-profit organisations. The largest client type, pension funds, remains heavily dependent on single asset specialist mandates.

CHART 30: UK THIRD PARTY INSTITUTIONAL CLIENT MANDATES: MULTI-ASSET VS. SPECIALIST



The trend towards multi asset in recent years seen in Chart 31 may partly be driven by the increased use of multi-asset mandates in DC default arrangements, as private sector pension participation continued to increase in 2018 despite contribution levels beginning to rise (see Chart 26).

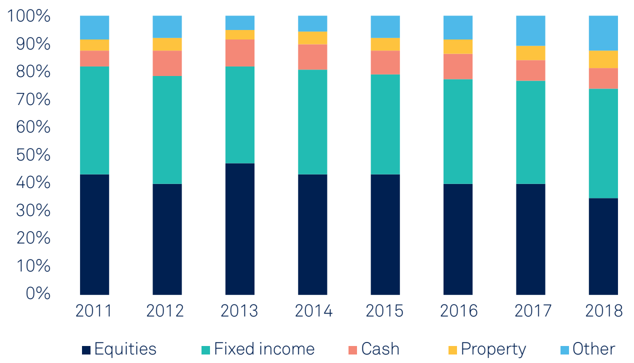
CHART 31: UK THIRD PARTY INSTITUTIONAL CLIENT MANDATES: MULTI ASSET VS. SPECIALIST (2011-2018)



INVESTMENT TRENDS WITHIN SPECIALIST MANDATES

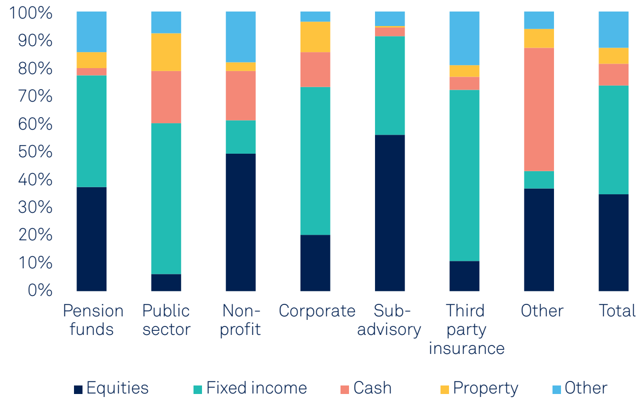
Fixed income overtook equity to become the most popular type of specialist mandate in 2018 with proportion of assets increasing two percentage points to 39%. Reflecting what we saw in Chapter 3, allocations to equity were most severely hit by market volatility falling from 40% of total assets in 2017 to 35% of assets in 2018. Allocations to 'other' assets (13%) saw a two percentage points increase on 2017. Chart 32 shows the progression since 2011 and the most significant development is the growth of 'other' mandates types, which have more than doubled since 2013, consistent with the growth of private assets.

CHART 32: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS (2011-2018)



Different types of institutional client have very distinct requirements and the headline split between single asset classes masks a wide variation in the type of mandate required by each client type. Insurance companies for example have particularly high allocations to fixed income mandates. Pension funds also have higher than average fixed income allocations, led by particularly high allocations among corporate pension schemes (see Chart 33).

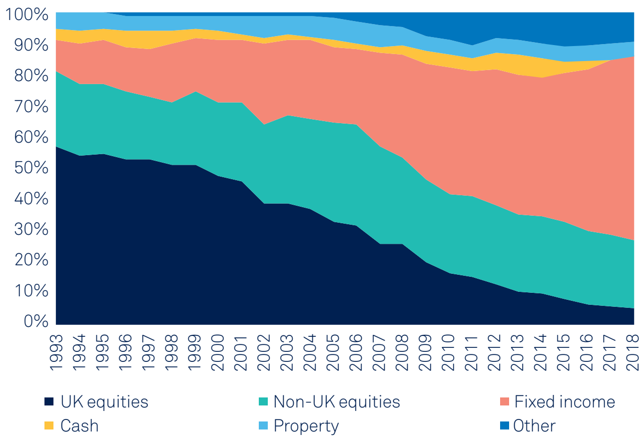
CHART 33: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS



The shift in asset allocation of DB schemes as they move away from using traditional scheme-specific asset allocation benchmarks to strategies which more closely match their assets to their liabilities and manage their deficit volatility is well documented and has been a theme of this Survey for a number of years.

A typical DB scheme is now likely to hold a much smaller proportion of equities (around a quarter) which itself includes more overseas than domestic equities, a considerably larger allocation in fixed income assets (almost 60%) and have a significant exposure to alternatives (10% compared to almost nothing in the mid-1990s).

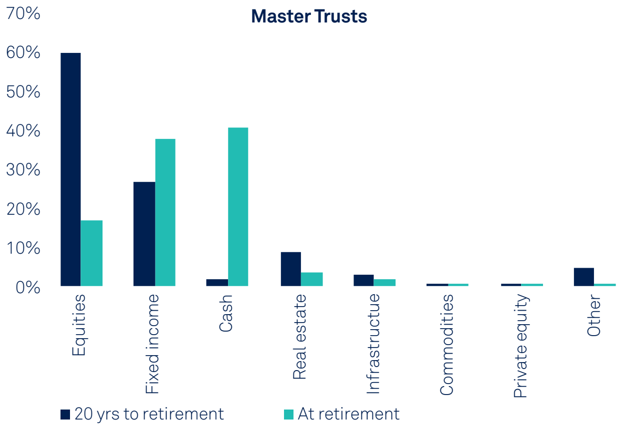
CHART 34: UK DB PENSION FUND ASSET ALLOCATION (1993-2018)

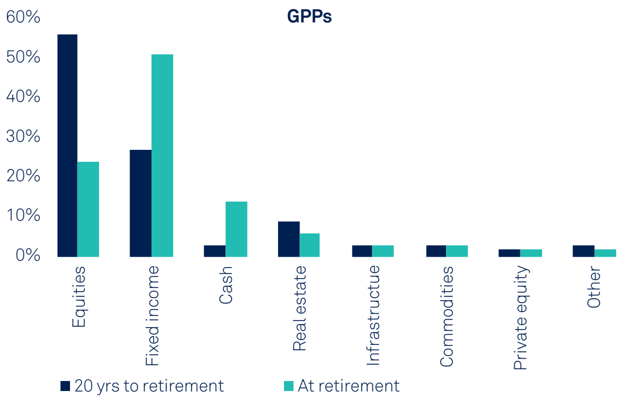


Source: UBS, PPF/TPR Purple Book

In contrast to DB schemes, the asset allocation of DC schemes shows a much higher allocation to equities although there is a significant change in asset allocation between accumulation phase and at retirement. Default strategies will typically reduce their allocation to equities and increase the allocation to fixed income and cash in order to reduce investment risk and volatility for the pension saver approaching retirement.

CHART 35: DC ASSET ALLOCATION, 20 YEARS PRIOR TO RETIREMENT AND AT RETIREMENT

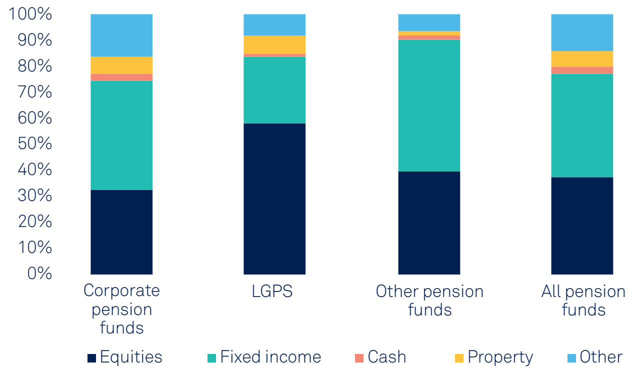




Source: PPI Future Book 2018

Chart 36 shows the change in asset allocation of pension schemes in aggregate. There is a wide variation depending on the type of pension scheme in question. As in previous years LGPS have a higher allocation to equities than corporate pension schemes, though both have fallen since 2017 (58% vs 33%). As with DC schemes, LGPS have a rather different membership makeup than other DB schemes. As a DB scheme that remains open to new members, scheme membership is comparatively less mature than closed corporate DB schemes and the LGPS funds function within a different regulatory framework to corporate schemes and are thus subject to less pressure to implement de-risking investment strategies. Consequently, they can maintain a higher allocation to return-seeking strategies.

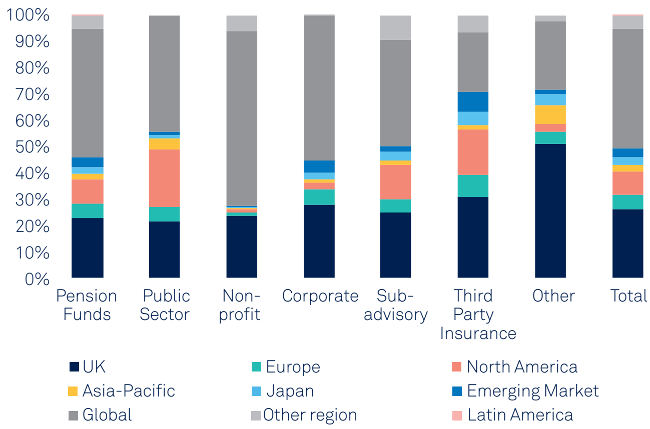
CHART 36: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS AMONG UK PENSION FUNDS



GEOGRAPHIC ALLOCATION

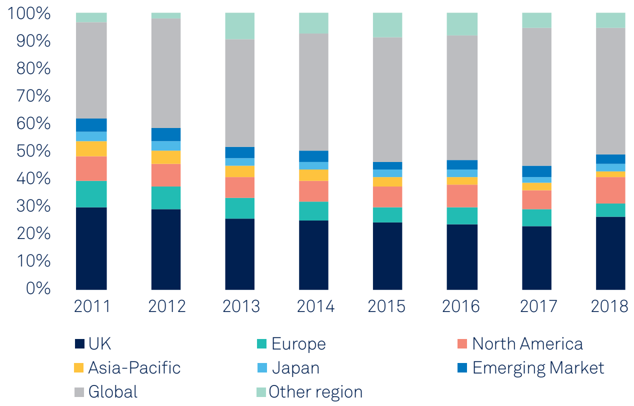
Chart 37 shows the breakdown of specialist mandates in 2018. Global mandates remain the dominant region geographically, continuing the theme of diversification seen in data in recent years.

CHART 37: GEOGRAPHICAL EQUITY ALLOCATION OF SPECIALIST MANDATES BY CLIENT TYPE



Almost three quarters of specialist equity mandates apply to non-UK mandates. Chart 38 shows that 2018 saw something of a shift back towards UK mandates increasing over three percentage points to 26%- the highest level since 2012. This may be another reflection of a 'base level' of home bias, preventing the allocation to UK mandates continuing to fall among UK institutional clients. Allocations to North America also saw a notable increase to 9%, up from 7% in 2017.

CHART 38: GEOGRAPHICAL EQUITY ALLOCATION OF SPECIALIST MANDATES (2011-2018)



Looking at UK pension funds, once again it is evident that there are further significant differences between the LGPS and other schemes. 25% of LGPS specialist mandates managed by IA members at the end of 2018 were UK equity mandates, down one percentage point from 2017 (see Chart 39).

Corporate pension funds held slightly less in UK equity mandates (23%). The LGPS remains more focused on equities and within that, on domestic equities.

CHART 39: GEOGRAPHICAL EQUITY ALLOCATION OF SPECIALIST MANDATES AMONG UK PENSION FUNDS

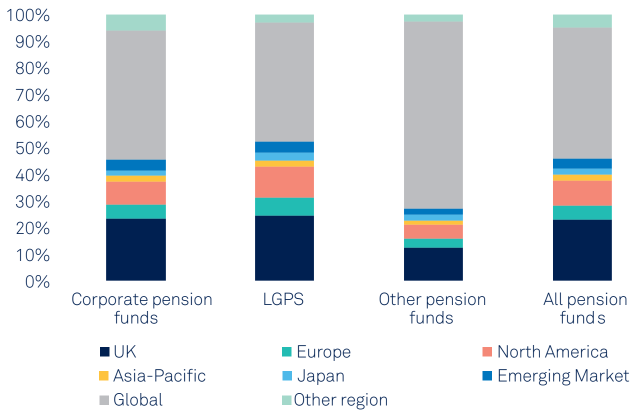
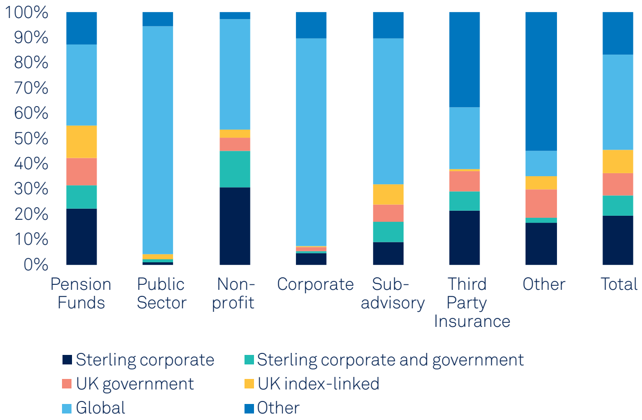


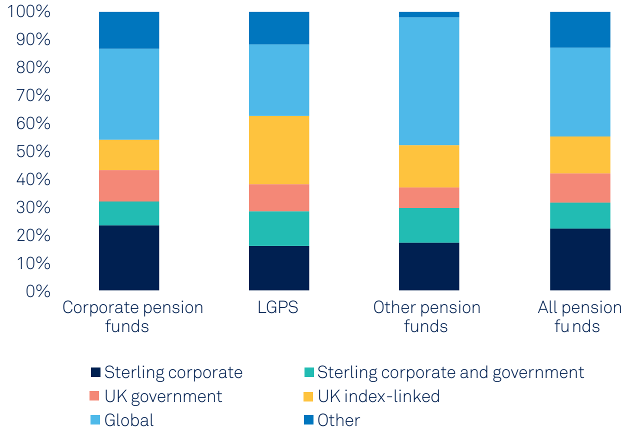
Chart 40 shows that there is significant variation in allocation amongst different client groups. Pension funds have the largest allocations to UK government bonds (24%), more than double the insurance allocation (9%). Global bonds are most widely used for corporate and public sector clients making up over half of total specialist fixed income allocation.

CHART 40: SPECIALIST FIXED INCOME ALLOCATION BY CLIENT TYPE



Pension schemes continued to exhibit significant disparity in their fixed income allocations, notably the LGPS continues to have a significantly higher allocation to index-linked gilts than average and a lower allocation to sterling corporate bond mandates than corporate pension schemes (see Chart 41).

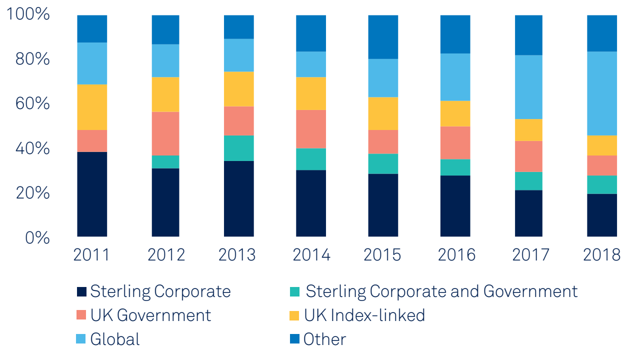
CHART 41: FIXED INCOME ALLOCATION OF SPECIALIST MANDATE TYPES AMONG PENSION FUNDS



Looking at the long-term trend in specialist fixed income allocation, global bonds overtook sterling corporates as the largest specialist mandate type for the first time in 2017 with the gap in allocations widening in 2018 (Chart 42). Sterling corporate bonds are now half the level recorded in 2011 while global bonds allocations have doubled in the same period.

The allocation to overseas bonds has notably increased in 2018 from 29% of specialist fixed income assets to 38%. The allocation to UK government bonds fell again from 24% last year to 18% in 2018. Sterling corporate bond allocations were also down two percentage points at 19%.

CHART 42: SPECIALIST FIXED INCOME ALLOCATION (2011-2018)[26]



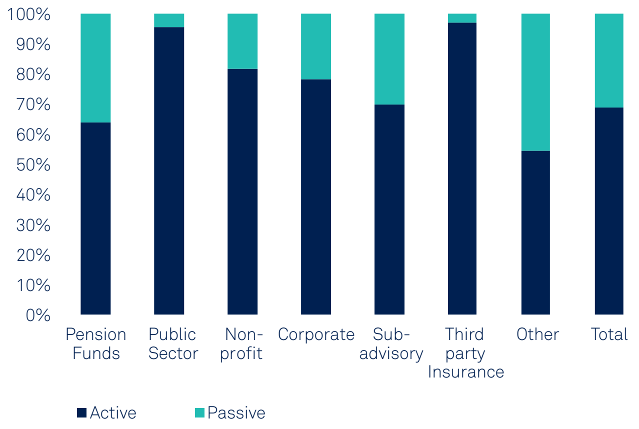
[26] £ Corporate and Government were not separated out in 2011

ACTIVE VS PASSIVE

Over two thirds of assets (69%) were managed by IA members on an active basis, up from 65% in 2017.

All institutional client types this year were more likely to be managed on an active rather than a passive basis (Chart 43).

CHART 43: ACTIVE AND PASSIVE THIRD PARTY MANDATES BY CLIENT TYPE (SAMPLE-ADJUSTED)

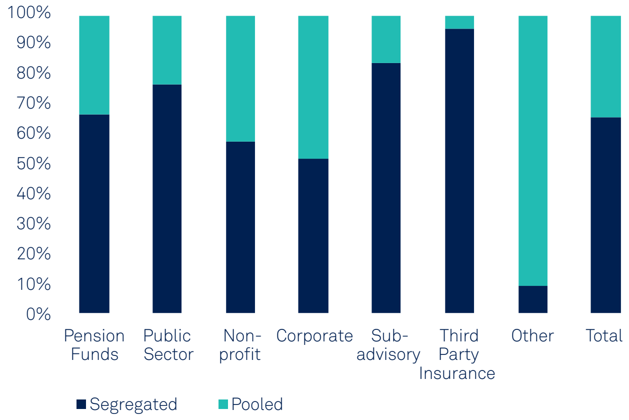


SEGREGATED VS POOLED

Chart 44 shows that segregated mandates represented approximately two thirds (66%) of assets managed for third party institutional mandates at the end of 2018. Once again in 2018 almost all mandates managed for third party insurance and sub-advised mandates were managed on a segregated basis.

Other clients are almost all managed on a pooled basis. These include a wide variety of clients including family offices and private wealth firms which are significantly more likely to opt for pooled arrangements for managing their assets.

CHART 44: SEGREGATED AND POOLED MANDATES BY INSTITUTIONAL CLIENT TYPE



The proportion of mandates managed on a segregated basis has increased slightly from around 62% when the IA began to collect this data in 2011. However, the proportion has been relatively stable since 2015, with little year on year variation.

Among pension schemes corporate pension funds are significantly more likely to be managed on a segregated basis (70%) compared with LGPS (45%).

CHART 45: SEGREGATED AND POOLED MANDATES AMONG THIRD PARTY PENSION FUNDS