

EXECUTIVE SUMMARY

UK INVESTMENT MANAGEMENT INDUSTRY: A GLOBAL CENTRE

- » Against a backdrop of volatile markets, total assets managed in the UK by the IA's members were relatively resilient in 2018, ending the year unchanged at £7.7 trillion. This represents around 85% of the wider UK investment management industry which was also unchanged at an estimated £9.1 trillion in 2018.
- » The UK remains one of the largest centres of investment management in the world. It is second only to the US and is the largest centre of investment management in Europe, where it is responsible for 37% of total assets under management.
- » Overseas clients account for 40% of total assets managed in the UK. Beyond immediate preparations for Brexit, the industry is looking ahead to identify how the UK can maintain its global competitive edge. Co-location of investment managers and fintech firms is seen as a significant new dimension for UK financial services city clusters.
- » The Survey identifies a range of challenges ahead to ensure future success, notably continued access to international talent, and maintaining access to overseas markets in a potentially more protectionist world with associated regulatory divergence.

WIDER REGULATORY, POLICY AND OPERATIONAL ENVIRONMENT

- » A confluence of factors, including a rapidly widening customer base and the ongoing consequences of the Global Financial Crisis, is resulting in the investment management industry being increasingly in the public spotlight. A very broad set of domestic regulatory and policy interventions are underway.
- » A unifying theme is the delivery of customer value, and an associated emphasis on alignment of interest, transparency and oversight. This in turn links to a focus on broader culture. The industry is also the subject of rising expectations regarding its role in the domestic economy, particularly as a steward and allocator of capital.

- » The responsible investment agenda is being strongly embraced by the industry. This year, we found 26% of total assets under management subject to a responsible investment approach. A key challenge is how to communicate different approaches to customers in a clear and consistent manner.
- » A further significant evolution is the growing importance of private markets. On the supply side, market-based finance has been more widely used since the Global Financial Crisis and there has also been a decline in the proportion of listed companies. In a persistently low interest rate environment, demand for alternative assets has been strong, particularly in the institutional market.
- » Across the investment management and capital markets landscape, technological change is accelerating and will be a fundamental driver of industry transformation, leading to greater efficiency and reducing costs.

TRENDS IN CLIENT ASSETS AND ALLOCATION

- » Institutional clients remain the largest client group accounting for 80% of assets under management. Pension schemes (45% of total assets) continue to be the largest institutional client type.
- » Equities as a proportion of total assets fell from 40% to 36%, possibly reflecting the poor performance in global markets in the last quarter of 2018. Within equities, the UK allocation remained unchanged at 30%, but down from 46% ten years ago.
- » The fixed income allocation to overseas bonds increased by 7% to 49% in 2018, up from 34% in 2011 when data was first collected.
- » Despite reduced allocations to UK assets as a proportion of total assets, IA members remain significantly invested in the UK economy holding £1.6 trillion in UK equities, corporate bonds, commercial property and, increasingly in recent years, in infrastructure and direct lending.
- » Across the £7.7trn total assets under management, some three quarters (74%) of assets remain managed on an active basis, down from 84% a decade ago.

UK INSTITUTIONAL CLIENT MARKET

- » IA members manage £4.0 trillion for UK institutional clients in offices around the globe. This represents an increase of £180 billion from 2017, with the majority of the increase estimated to come from net inflows.
- » Third party assets account for about 85% (£3.4trn) of the total, slightly increased from 2017. Pension funds remain the largest client type, accounting for 71% of third party assets.
- » Multi-asset mandates account for just under a quarter (24%) of mandates in total asset terms once LDI mandates are excluded. Assets managed in liability-driven investment strategies reached an estimated £1.2 trillion in 2018, up from £1.1 trillion in 2017.
- » Within specialist third party mandates, equities account for 35% (down from 40% in 2017). Fixed income increased two percentage points to 39% to become the most popular type of specialist mandate.

UK RETAIL FUNDS MARKET

- » The UK retail funds market has grown significantly over 10 years and is more focussed on meeting investor demand for investment solutions and outcome-oriented funds.
- » Investor demand for outcome-oriented and mixed asset funds is a long-term trend, suggesting a permanent shift in investor expectations and increasing the role of retail fund managers as asset allocators.
- » Following extremely strong growth in 2017, net retail sales were relatively weak during 2018, particularly in the second half of the year. Although this volatility is making the outlook for flows unclear, average five year retail inflows since 2008 remain significantly higher than in the period preceding the global financial crisis.

- » The proportion of UK investor funds under management in passive index-tracking funds has grown gradually to 16% in 2018. Although slow, the pace of growth has accelerated since 2013 when the retail distribution review was implemented.
- » FUM in funds pursuing dedicated 'responsible investment approaches' was £69 billion, equivalent to 6% of UK investor FUM. Net sales to these funds reached £1.08 billion in 2018.

OPERATIONAL AND STRUCTURAL ISSUES

- » Total average industry revenue after commission stood at £21 billion in 2018. This equates to 27bps of total assets (28bps in 2017). Consistent with findings in recent years, costs increased at a higher rate than revenue during 2018. As a consequence profitability stood at 29% (from 30%)
- » The UK investment management industry directly employed almost 40,000 people at the end of 2018, up 4% on the 2017 figure. Around 115,000 jobs are supported by the UK investment management industry, either directly or indirectly.
- » The UK investment management industry remains relatively unconcentrated. Assets managed by the top five and the top ten firms stood at 42% and 57% of total assets respectively. Both were one percentage point lower than 2017.
- » The proportion of assets managed by independent investment managers now stands at 44%, more than double the level in 2008 (21%). This is in large part a reflection of high levels of M&A activity seen in the industry over that period.