4 UK INSTITUTIONAL CLIENT MARKET

KEY FINDINGS

MARKET OVERVIEW

- IA members manage £4.0 trillion for UK institutional clients in offices around the globe, although the large majority (90%) is managed in the UK. This is unchanged year on year.
- Pension funds are the largest client type, with 65% of institutional assets under management, followed by insurance companies at 22%. The proportion of assets managed for pension funds has increased substantially over the last decade.
- UK institutional customers have generally been taking a limited approach to portfolio change through the Covid-19 crisis, but there has been a greater focus on issues such as income and liquidity.

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.
- The wider pensions market, including individual pensions, drawdown and assets backing the annuity book, is now estimated at £3.8 trillion, with IA members managing a significant part of this through institutional mandates and funds.
- The DC market has not seen significant changes to investment behaviour through the Covid-19 crisis, but clear risks to contribution levels exist given wider pressures on both firms and employees.

THIRD PARTY MARKET

- Once in-house mandates are excluded from the institutional data, assets under management stand at £3.4 trillion, unchanged from 2018.
- Pension funds are even more dominant in the third party market, accounting for almost three quarters (72%) of third party assets.
- Assets managed in liability-driven investment strategies reached an estimated £1.4 trillion in 2019, up from £1.3 trillion in 2018.

MANDATE TYPES

- Multi-asset, or 'balanced' mandates, account for about a quarter (24%) of total mandates once LDI mandates are excluded (down slightly from 2018).

  The breakdown of specialist mandates shows fixed income remaining the largest category at 40%, up one percentage point from 2018.
- Just over two thirds (69%) of assets were managed actively. All institutional client types were more likely to be managed on an active than an indexing basis.
- Almost two thirds (64%) of third party institutional mandates were managed on a segregated basis, down slightly from 2018.

This Chapter looks at the shape of the UK institutional client market. It differs from previous chapters in two key respects:

- It covers all assets irrespective of whether they are managed in the UK or in offices overseas: we estimate that more than 90% of the assets are managed in the UK.
- It 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.

In addition to key data points on client types and the evolution of the third party institutional market, the analysis considers the impact of the Covid-19 pandemic on the DC pensions market in the UK and the effect it might have on the millions of savers automatically enrolled into DC pensions since 2012.

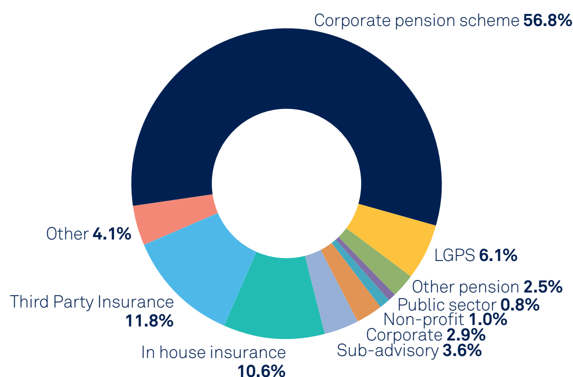
MARKET OVERVIEW

IA members manage £4.0 trillion[13] for UK institutional clients globally, in line with the figure from the end of 2018. There were estimated outflows from UK institutional clients of £40 billion during the year.

CLIENT BREAKDOWN

Chart 20 shows that pension funds and insurance companies (including in-house and third party management) continue to account for the vast majority of UK institutional assets (88%)[14] with pension funds remaining the largest client type.

CHART 20: UK INSTITUTIONAL MARKET BY CLIENT TYPE



[13] Implied figure based on data collected on an estimated 84% of the institutional client base.
[14] 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. One third of this (4%) 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.

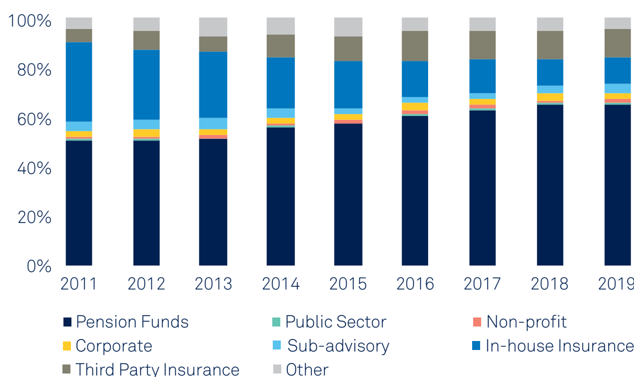
There has been a striking increase in the proportion of assets managed for pension funds since the IA began monitoring this data in 2011. The same period has seen a substantial decrease in the proportion of institutional assets managed for insurance clients, most notably in-house insurance.

The relative fall in in-house insurance assets does seem to be stabilising, with the allocation to in-house insurance assets almost unchanged year on year at 10.6%, but still three percentage points down on two years ago and down from 31% when the IA first collected this data in 2011.

The fall in in-house insurance assets may reflect both a reduction in the proportion of underlying assets managed in house but also assets which move from in-house to third-party as merger and acquisition activity continues to take place in the industry. The proportion managed for third-party insurance has increased from 6% to 12% since 2011.

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 the Chart 21 and the shift in assets towards pension funds is even stronger than is implied.

CHART 21: UK INSTITUTIONAL MARKET BY CLIENT TYPE (2011-2019)



EVOLUTION OF PENSION MARKET

In 2019, pension funds continued to account for more than half of the institutional client base (£2.6 trillion). The IA defines pension funds as DB and DC schemes where the asset manager has a direct relationship with the pension fund rather than it being distributed via a wrapped product through an insurance company.

The IA divides pension scheme assets in three categories:

- Corporate pension funds, which again represented the majority of UK pension fund assets in 2019, at £2.3 trillion. This category includes a number of in-house Occupational Pensions Scheme (OPS) managers, which we estimate manage around £175 billion in assets.
- The Local Government Pension Scheme (LGPS) which accounted for £245 billion of assets in 2019, indicating that IA members manage around 85% 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 £100 billion.

Corporate pensions are still dominated by DB schemes, which accounted for a total of £2.1 trillion in corporate pension assets at the end of December 2019[15].

[15] Includes assets in the PPF 7800 index plus an estimate of assets in crown guaranteed schemes. This figure is not a direct subset of the £2.3 trillion managed for corporate pensions by IA members as some DB assets will be managed by non-IA members.

INSTITUTIONAL CLIENT BEHAVIOUR THROUGH COVID-19

The extreme market volatility in March 2020 triggered a very sharp sell-off in the retail funds market. On the institutional client side members reported that on the whole, selling activity was limited. Institutional clients tend to not react to this sort of news in the short term or make major changes to their asset allocation. Pension assets in particular, where investment horizons are typically between 20-30 years, have not reacted significantly compared with the record outflows from fixed income funds observed in the retail market. Participants in our roundtable discussion on DC pension scheme members' behaviour during the pandemic on pages 60 to 63 also acknowledged the fact that generally member activity has been limited.

"We have not seen much investor action at this point. The performance itself has been a bit up and down but our relative performance has been quite good which helps retain clients. We had one or two investors that needed some liquidity for issues in their portfolio elsewhere but we haven't see a wholesale change in terms of taking money out. Interestingly, some are coming back to talk about equity because now may be the time to be investing in more actively managed mandates again."

IA members reported that some institutional clients were more focused on liquidity than others. For example those managing assets on behalf of charity clients saw higher demand for liquidity in the portfolios as charities saw their incomes fall during a period of time when their expenditure rose considerably supporting those affected by Covid-19. A number of firms also reported outflows from insurance clients who were building reserves to pay claims, including substantial business interruption claims.

"We saw some of the regulated/life insurance type clients de-risking for capital reasons. If you're in equities and risky credit, it has a higher capital charge, so when capital is tight there is a tendency to want to de-risk. This has the unfortunate effect that you're selling risky assets at the worst possible time and that is something we've seen in every single crisis sadly."

"Since the immediate crisis we have seen quite substantial inflows into investment grade credit. It is quite hard for us to gauge whether that is people switching out of more risky credit into investment grade or if it is coming from cash and sovereigns into IG."

Member engagements with institutional clients have been broadly optimistic. Many made comparisons with the conversations they were having with clients during the GFC where many institutional clients were concerned about the long term viability of companies. This time round institutional clients have been focusing on the operational resilience of companies and building more sustainable portfolios.

"On the institutional side, this crisis has been very different from the GFC. In the GFC there were more questions on how we build financially safer and more secure businesses to avoid these worries. In this crisis the debate and engagement with sophisticated investors has been around how we build better and greener strategies, what are the different investments, how are supply chains coping, overall resilience and oversight as a fund manager."

SIZING THE MARKET

The IA estimates the size of the UK pension market to be £3.8 trillion at the end of December 2019. The total includes all assets in DB and DC / personal pensions, as well as those assets in some form of drawdown arrangement, plus assets backing annuities, which will be part of insurance company balance sheets. IA members firms are therefore managing indirectly far more than the £2.6 trillion connected to pension scheme business.

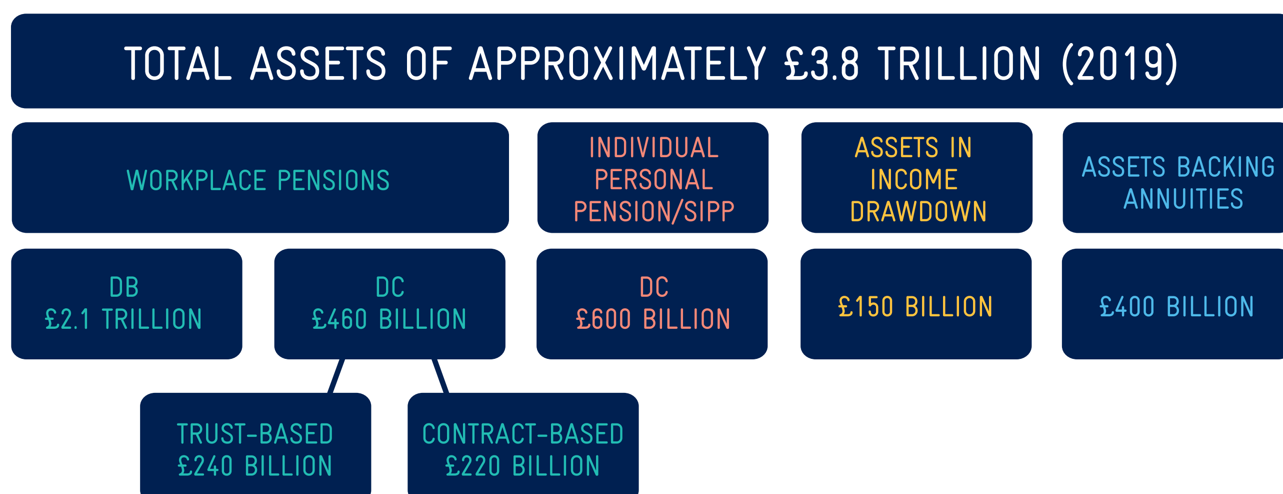
This year's total figure of £3.8 trillion is not directly comparable to previous years as the overview this year includes data from new sources, enabling us to include an estimate for assets in SIPPs in the individual personal pensions estimate, and to provide an improved estimate for assets backing annuities.

Figure 12 provides an estimate of how these assets are broken down across the different scheme types.

DB (funded) assets continue to be the dominant presence in the UK pensions market. However, the policy of automatic enrolment introduced by the UK Government in 2012 has had a major positive impact on pension saving. Although assets in DC schemes remain lower than those in DB arrangements, the number of savers into DC schemes exceeds those actively saving into DB schemes. Most private sector DB schemes are now closed to new members, with UK DB provision now mainly a public sector phenomenon. Therefore, when only private sector pension saving is taken into account the shift from DB to DC is even more evident (see Chart 22).

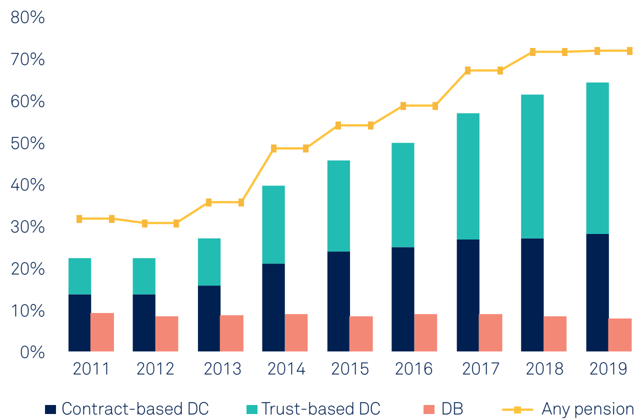
Pension participation increased steadily as automatic enrolment was rolled out. Since the completion of the initial rollout in 2017 participation has stabilised and there is no indication thus far that employees have subsequently opted out of occupational pension saving in significant numbers. However, the lockdown of 2020 has placed significant pressure on employees in many sectors, the full impact of which will not be known until the government furlough scheme ends in October. Many thousands of employees are likely to lose their jobs, which may lead people to re-consider their ability to save for their retirement at the expense of their standard of living today. If this happens, it has the potential to interrupt the success of automatic enrolment, at least in the short term (see discussion on pages 60 to 63).

FIGURE 12: OVERVIEW OF THE UK'S PENSION LANDSCAPE[16]



[16] Source: ONS, FCA, PPI, IA, DCLG, MoretoSIPPs. Estimates are provided on a best efforts basis.

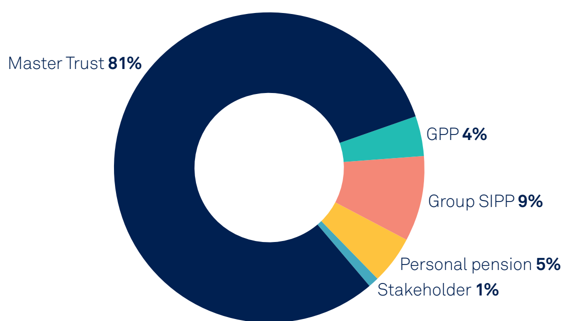
CHART 22: PENSION PARTICIPATION FOR PRIVATE SECTOR JOBS



Source: ONS

Many of these new savers have been enrolled into master trust arrangements. A recent survey of pension providers showed that 81% of DC scheme members are in a master trust arrangement.[17]

CHART 23: DC MEMBERS BY SCHEME TYPE



Source: Pensions Policy Institute

THE IMPACT OF COVID-19 ON THE DC PENSIONS SECTOR

The immediate impact of Covid-19 on DC pension schemes in the UK came via the volatility in markets following the spread of the virus around the world and the subsequent lockdowns imposed by governments. By summer 2020, markets, and scheme portfolios, had recovered to a significant extent, notwithstanding the continued depressed levels of economic activity.

However, given the uncertainty around the future shape of the economic recovery and its impact on the economy's structure, the medium to long term impact of Covid-19 on the DC pensions sector remains uncertain. There are clearly significant risks, particularly in areas such as contribution levels if economic conditions continue to be stressed, affecting both employers and employees.

We asked a number of firms for their views on the impact of the pandemic on the DC pensions sector as well as the implications for investment managers serving DC pension schemes.

ACCUMULATION: SAVINGS AND INVESTMENT BEHAVIOUR

In the short term, pension contributions had held up well, as Government furlough schemes had covered these as part of the financial support offered to employers. However, any rise in unemployment as these schemes were withdrawn would likely result in an associated fall in pension contributions.

Some pension providers had reported a short-term lowering of members' own contributions but this was not a widespread phenomenon. One area of concern was the possibility for members to be given limited early access to their pension pots to help mitigate the loss or reduction of income from earnings in the short term. US 401(k) DC plans already allow for early withdrawal under some circumstances and governments in Australia and Chile had allowed limited early withdrawals in response to the impact of Covid-19 on peoples' finances.

[17] PPI DC Assets Allocation Survey 2019, Pensions Policy Institute. Note some members may have pots in more than one scheme type. A master trust is an occupational private sector DC pension scheme that is used by multiple employers that are unconnected with each other.

While such a policy may clearly be beneficial in the short term, it could have significant effects on future retirement income if saving was not subsequently increased later on. Firms expected that the experience of Covid-19 may result in more pension schemes seeking to follow the NEST 'sidecar' approach and incorporate a ring-fenced liquid savings pot for short-term/emergency access.

With respect to the impact on peoples' investments and associated behavioural responses, there was no evidence of panicked investment behaviour, with most people simply doing nothing and staying in their existing investment strategies.

"Contributions fell because of a loss of income or redundancy but there was no mass-switching of investments in response to losses. Because asset value losses have been so short lived, people don't feel that impacted."

"People are more likely to be inert because they have so many other problems to deal with – the last thing they will do is make a big call in markets. Inertia will reign."

INCOME IN RETIREMENT: MEMBER BEHAVIOUR AND INVESTMENT STRATEGY

The impact on people close to, or in retirement was more significant. Some providers had reported an increase in the rate of cash that people over 55 were taking.

For people seeking an income from their pension, the impact of the pandemic on markets was challenging: central bank actions to support economies suggested that the low interest rate environment was set to continue for the foreseeable future. Annuities, which already looked expensive, would become even more so.

On the other hand, investment strategies that rely on income generation would find it very tough, given the falls in dividends and rises in corporate debt defaults that were already apparent. Although this did provide an opportunity to design income-focused products that did not rely as heavily on dividend and coupon payments. The crisis may also lead to a re-thinking of asset allocation in drawdown strategies, with a greater focus on the degree of risk taken.

Firms also worried about whether people able to access their pensions might perceive pension products as overly risky in the current environment in comparison to savings accounts, causing them to cash out their pensions and put the money into savings accounts.

"Our research has picked up trepidation and concern about approaching the retirement decision and the current situation may make that worse. Savings accounts win out under those circumstances because people understand them."

HOW WILL THE CRISIS AFFECT EXISTING TRENDS IN DC INVESTMENT?

The crisis is also relevant for the further evolution of two trends that were already prevalent in DC investment in recent years: ESG integration into DC defaults and, increasingly, the role of illiquid assets.

(i) Impact of Covid-19 on responsible investment

The focus on responsible investment is widespread throughout the investment chain and the DC market is no exception. However, while there is interest from savers in the pure retail funds and retail pensions markets, demand in workplace DC is being driven largely – for now at least - by trustees, pension providers and investment consultants.

The institutionally-led focus on responsible investment in DC is likely to be due to regulation that has required trustees and providers to demonstrate how they are taking account of financially material ESG factors in their investment strategies, with a particular focus on climate change. These requirements and the interest they have generated predate the onset of the pandemic, but there is evidence that the pandemic has spurred additional interest. One of the notable aspects of this is an emerging focus on different aspects of the 'E', 'S' and 'G' of ESG, particularly the 'S'.

"At the institutional and trustee level there has been more focus on good governance and thinking about how well-managed companies are going to deliver better value for members over the long term . The impact of coronavirus has been that social responsibility is starting to come into the conversation a bit more."

"We have seen a pickup in interest from clients in UK social investment. Particularly with regard to supporting the communities most impacted by Covid-19. That's been a much stronger theme than climate change."

Over time, firms expect there to be an increasingly bottom-up approach feeding into trustee decision-making on responsible investment, with views from members and corporates being taken into account, with some firms already noting that they had observed this in some large schemes they had worked with.

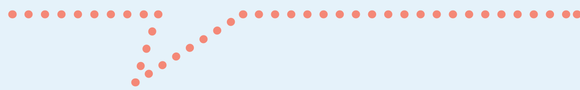
"With some of the very large corporate schemes, members are getting a bit more vocal in going to their pension departments and the trustees and asking for more clarity on what is available from a sustainability perspective."

"When we've seen schemes who have made big decisions in allocating to sustainable strategies, the trustee makes the decision but the corporate has an input. The schemes that have embraced this fully have the corporate standing somewhere quite close to the trustee. Whether that is member driven or aligning it with the corporate's CSR, is less clear."

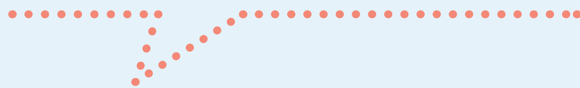
The cause of sustainable investment products had been further helped through the first phase of the crisis by the fact that such strategies had done well, although it was acknowledged that strong conclusions should not be drawn from this and that in general both the investment industry and schemes had to be better in setting out the investment case for ESG strategies. More generally, firms were expecting a greater focus from clients on the reasons for any outperformance of ESG strategies.

"People buy performance and generally the more ESG friendly your strategy has been, the better you've done – largely because you tend to overweight health care and tech stocks which have done well."

“We have to explain why saving the environment is going to be good financially and why it is a good investment opportunity. People have to step back and say what is it we’re trying to achieve and what is our belief that will give us the best outcome.”



“There is going to be an increased focus on reporting. How does what we are doing translate to performance, attribution analysis and if there is tilting in portfolios?”

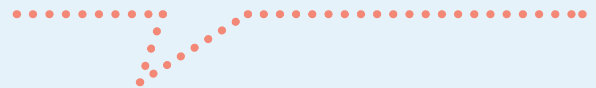


(ii) The role of illiquid assets in DC

The capital market and broader economic experience of 2020 has various ramifications for the debate about the role of illiquid investments. From an operational perspective, firms felt that some of the market events – notably, property funds suspending due to valuation uncertainty and some asset classes becoming less liquid due to a lack of buyers – highlighted more fundamental challenges with the DC model of daily pricing and liquidity.

“People didn’t expect liquidity in investment grade corporate bonds to evaporate overnight at the end of March. Some pension schemes will have high yield exposure in their growth strategies and liquidity disappeared for a few weeks. It shines the light on this obsession with daily liquidity in DC and it’s not just property.”

“You’ve seen DB schemes take advantage of the pricing coming out of high yield and other parts of the credit market. DC can’t do that, they’re stuck with public markets that are very volatile and find it challenging to manage that volatility.”



The issue of illiquids links to the broader question of the role that pension schemes and investment managers could play in the Covid-19 recovery, particularly in areas such as infrastructure and private markets, alongside recapitalisation activity in public markets. We have already explored some of these issues in Chapter Two of this report, including the role that a new Long-Term Asset Fund could play. Firms close to the DC market were also cautious about the different fiduciary responsibilities through the delivery chain and the importance of avoiding any formal direction from the Government to pension schemes in that area.

“It’s difficult to predict if there will be a sea change in the Government’s view on what pension schemes and their asset managers should be doing with pension assets. There will be the message that ‘supporting the British economy is what pension schemes should be doing’. We’ve seen that mentioned in the context of infrastructure investment for a long time.”

Indeed, firms felt that the trends in geographic allocation were moving in the opposite direction, with most pension scheme asset allocation models continuing to globalise, which suggested that the UK economy would also benefit from overseas pensions schemes continuing to look for investment opportunities.

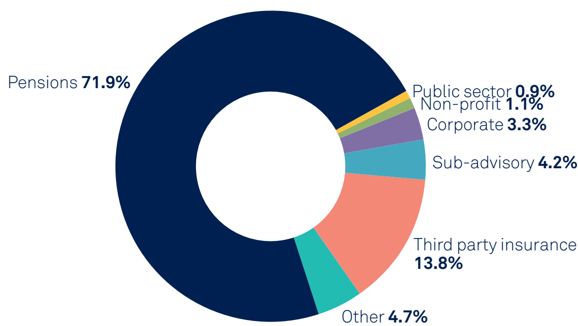
TRENDS IN THE THIRD PARTY INSTITUTIONAL MARKET

Full details of the asset allocation and investment strategy for the entire institutional market are available in Appendix 2 of this report. 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 2019.

Once in-house mandates are excluded from the institutional data, assets under management stand at £3.4 trillion, unchanged from 2018, but above the £3.1 trillion see in 2017.

Pension funds become even more dominant (see Chart 24), representing almost three quarters of third party assets, with the remaining insurance assets representing only 12% of the market.

CHART 24: THIRD PARTY UK INSTITUTIONAL CLIENT MARKET BY CLIENT TYPE

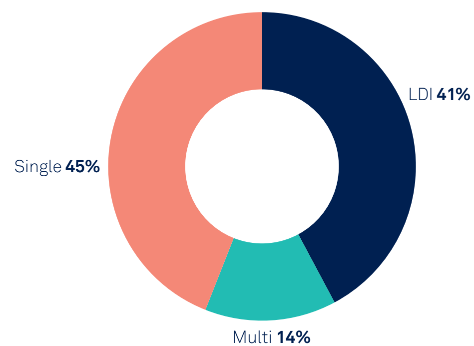


MANDATE BREAKDOWN

Chart 25 breaks the institutional market down into three categories of mandate:

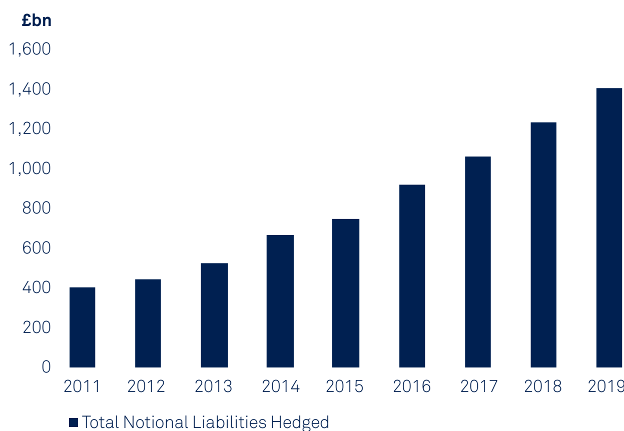
- Single-asset, or 'specialist' mandates, which focus on a specific asset class or geographical region. Specialist mandates remain the most popular form of investment among institutional investors, with 45% managed on this basis.
- Multi-asset, or 'balanced' mandates, which would cover a number of asset classes and regions. These account for 14% 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 now represent 41% of assets managed for third party clients. 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. An estimated £1.4 trillion is now being hedged in LDI mandates.

CHART 25: UK THIRD PARTY INSTITUTIONAL CLIENT MANDATES INCLUDING LDI



Assets under management for LDI mandates have increased from £400 billion in 2011 to £1,400 billion in 2019. LDI has seen faster growth than other types of mandate as DB pension schemes have sought to match their future liabilities. Regulatory changes around the DB funding regime in the UK have reinforced this shift towards liability management and will likely continue to grow in the near future.

CHART 26: NOTIONAL VALUE OF LDI (2011-2019)



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 65 to 69 and focus purely on whether clients are favouring multi-asset or specialist solutions other than explicit liability management.

Chart 27 indicates that the preference for specialist mandates continues to be high overall but varies significantly depending on the type of client. Multi asset mandates are most likely to be used by third party insurance, whereas the largest client type, pension funds, remains heavily dependent on single asset specialist mandates. As the definition of pension funds in this report reflects mainly defined benefit, and larger defined contribution schemes (e.g. master trusts) it is not surprising to see this as they are more likely to have both the level of assets and the expertise to appoint specialist managers.

CHART 27: UK THIRD PARTY INSTITUTIONAL CLIENT MANDATES: MULTI-ASSET VS. SPECIALIST

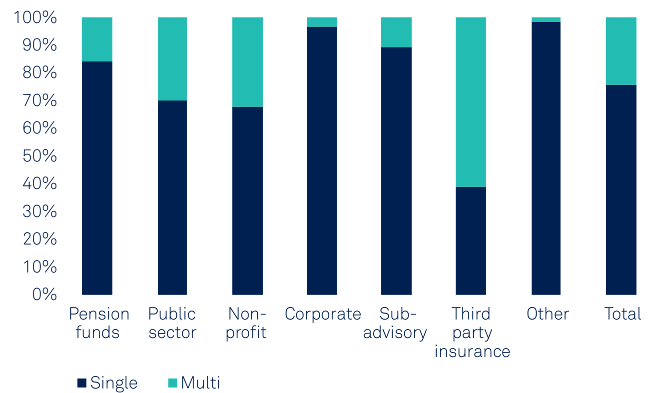
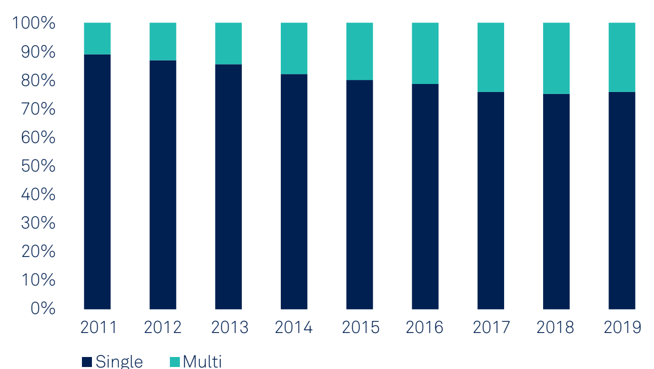


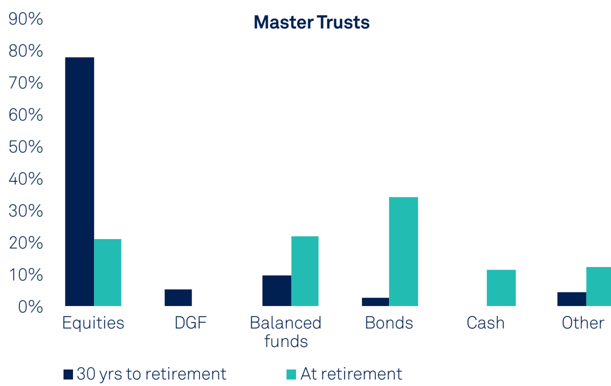
Chart 28 shows that the trend towards multi-asset investment in recent years seems to have stalled as the level of assets managed in multi-asset strategies at the end of 2019 was 24%, slightly down on the previous year. This suggests that the possibility raised in previous reports, that increased contributions through the automatic enrolment scheme would lead to an increase in multi-asset strategies, reflecting the nature of default investment strategies, does not seem to be coming to pass.

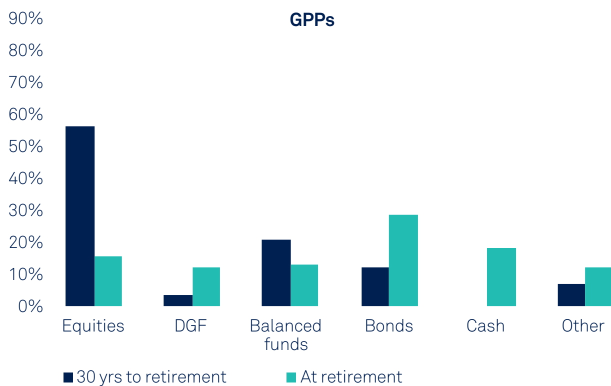
CHART 28: UK THIRD PARTY INSTITUTIONAL CLIENT MANDATES: MULTI-ASSET VS. SPECIALIST (2011-2019)



The major reason for this is likely to be that there are a range of approaches to asset allocation being used across the pensions industry, which mean that pension schemes and/or consultants will frequently be controlling the allocation directly, building strategies based on segregated mandates and/or component funds. Investment managers offering multi-asset strategies will then be competing for a share of this market. Chart 29 suggests that the use of multi-asset funds remains limited in default strategies.

CHART 29: DC ASSET ALLOCATION, 30 YEARS PRIOR TO RETIREMENT AND AT RETIREMENT[18]





Source: Willis Towers Watson FTSE 350 DC pension survey

INVESTMENT TRENDS WITHIN SPECIALIST MANDATES

Chart 30 shows that fixed income continued to account for almost 40% of total assets in specialist mandates. Cash increased to 10%. Looking over the past decade, it is difficult to see marked year on year trends, but broadly equity mandates have tended to fall as a proportion of overall mandates.

CHART 30: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS (2011-2019)

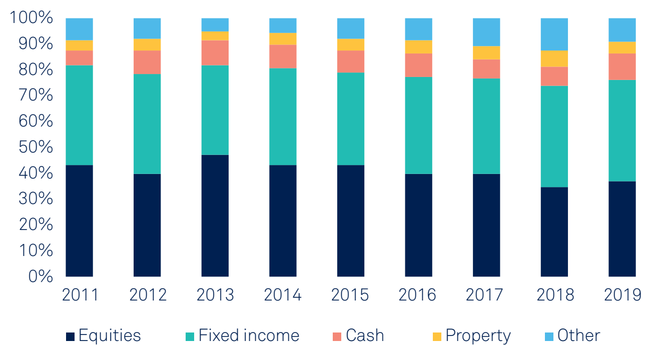


Chart 31 shows that different types of institutional client have very distinct requirements and the headline split between single asset classes masks a wide variation in the type of mandate required by each client type. Insurance companies for example have particularly high allocations to fixed income mandates (58%). Pension funds also have higher than average fixed income allocations (42%), led by particularly high allocations among corporate pension schemes (46%).

[18] Asset allocation in DC varies by age cohort, reflecting the principle that members' capacity to bear investment risk reduces as they age. So we tend to see investment risk in DC strategies reduced over time through shifts out of equities and into bonds and other diversifiers.

CHART 31: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS

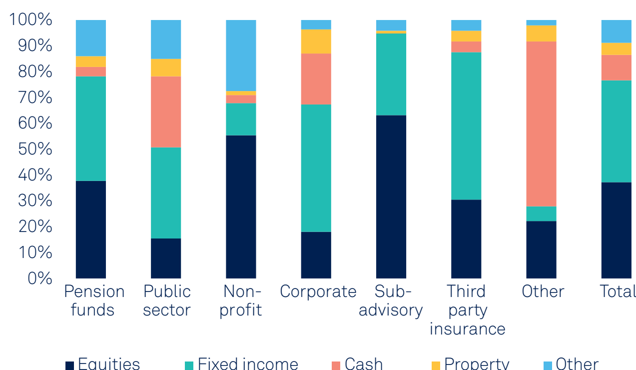
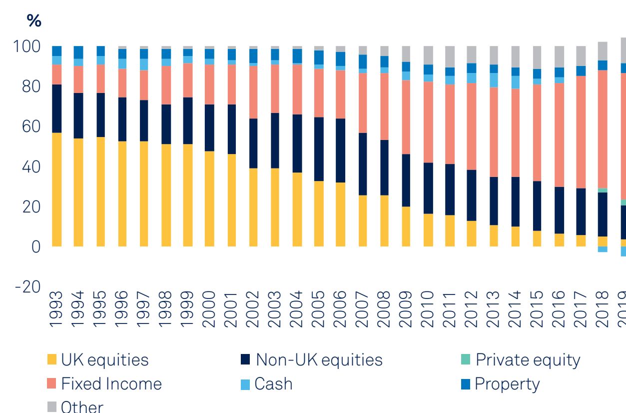


CHART 32: UK DB PENSION FUND ASSET ALLOCATION (1993-2019)[19]



Source: UBS, PPF/TPR Purple Book

Since the mid-1990s, the asset allocation of DB schemes has shifted significantly as they have moved 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, a trend that has been encouraged by evolving regulation of DB scheme funding.

This Survey has documented this change and recent years indicate an interesting shift. The proportion of assets held in cash and deposits has turned negative. This is likely to be related to investments such as swaps and repurchase agreements.

Over the longer term, compared to 25 years ago, a typical DB scheme is now likely to hold a much smaller proportion in equities (just under a quarter), which itself includes more overseas than domestic equities, as well as more private equity. The allocation to UK equities has fallen particularly dramatically over the last 25 years to just 4% of the overall asset allocation in 2019.

Over the same period pension funds have adopted a considerably larger allocation to fixed income assets (63%) and have an increasing allocation to alternative assets (13% compared with almost nothing in the mid-1990s).

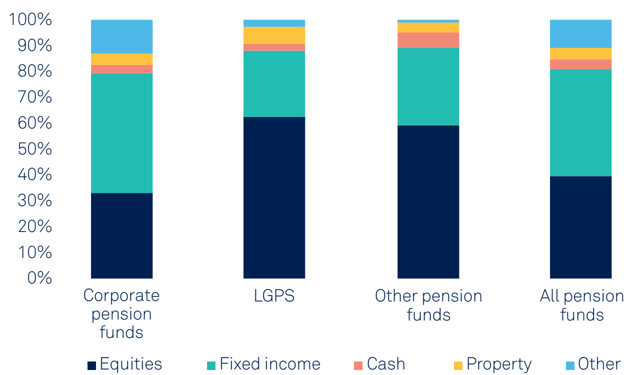
In contrast to DB schemes, Chart 32 showed that the asset allocation of DC schemes has a much higher allocation to equities alongside a significant change in asset allocation between accumulation phase and at retirement.

As with DC schemes, the LGPS has a rather different membership makeup than other DB schemes. As a public sector scheme, it is one of the few DB schemes that remains open to new members. Consequently, scheme membership is comparatively less mature than closed corporate DB schemes and new members continue to contribute and build up entitlements, meaning the scheme has a longer investment horizon than closed DB schemes. The LGPS funds also 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, which have higher equity allocations.

[19] In order to more clearly illustrate the shift to negative cash holdings the format of this chart is different to that used in past reports.

Chart 33 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 the LGPS has a higher allocation to equities than corporate pension schemes (63% vs. 33%).

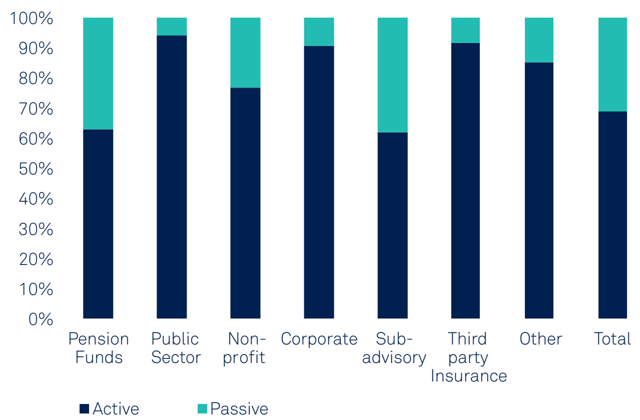
CHART 33: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS AMONG UK PENSION FUNDS

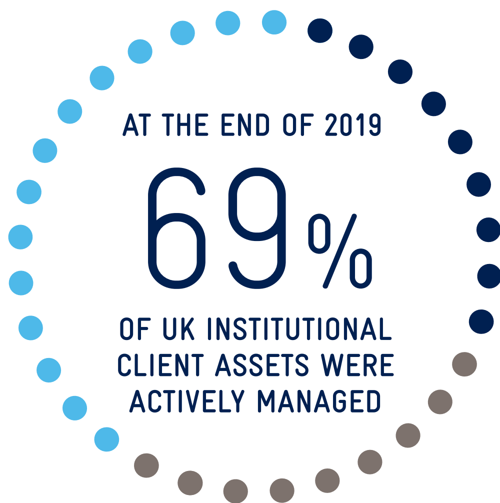


ACTIVE VS. INDEXING

Just over two thirds of institutional client assets (69%) were managed by IA members on an active basis, almost unchanged from 2018. Of the different client groups, pension scheme and sub-advisory were the most significant users of indexing.

CHART 34: ACTIVE AND INDEX THIRD PARTY MANDATES BY CLIENT TYPE (SAMPLE-ADJUSTED)





SEGREGATED VS. POOLED

Chart 35 shows that segregated mandates represented approaching two thirds (64%) of assets managed for third party institutional mandates at the end of 2019. Almost all mandates managed for third party insurance were managed on a segregated basis.

The proportion of mandates managed on a segregated basis 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 than any other type of scheme (65%).

CHART 35: SEGREGATED AND POOLED MANDATES BY INSTITUTIONAL CLIENT TYPE

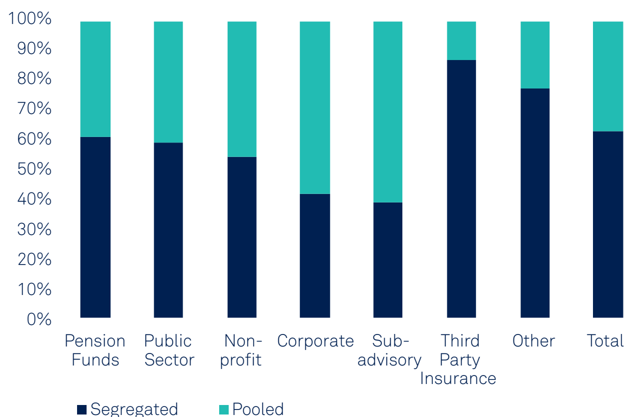


CHART 36: SEGREGATED AND POOLED MANDATES AMONG THIRD PARTY PENSION FUNDS