

6 OPERATIONAL AND STRUCTURAL ISSUES

KEY FINDINGS

REVENUE AND COSTS

- » Total average industry net revenue stood at £22.9 billion in 2019, equating to 28bps of total assets.
- » Total operating costs in 2019 were £15.8 billion, representing 20bps of total assets under management.

INDUSTRY EMPLOYMENT

- » Around 113,000 jobs are supported by the UK investment management industry, either directly or indirectly. This number has changed little from 2018.
- » The UK investment management industry directly employed an estimated 40,000 people at the end of 2019, almost unchanged from 2018.
- » Jobs in the investment management industry vary by location, with the largest proportion in London being employed in investment management and operations and fund administration being of greater importance in Scotland.

INDUSTRY CONCENTRATION

- » The UK investment management industry remains relatively unconcentrated. Assets managed by the top five and the top ten firms stood at 43% and 58% of total assets respectively. Both were one percentage point higher than in 2018.
- » The industry continues to comprise a small number of very large firms but a long tail of medium- and small-sized organisations. The median figure for assets managed by IA member firms was similar to 2018, at £10 billion, compared to a mean figure of £51 billion.

ASSET MANAGER OWNERSHIP

- » Over the past decade the proportion of UK asset managers owned by a parent headquartered in the US has increased from 40% to 46%, though the proportion has been relatively stable for the past five years.
- » The number of independent asset managers now stands at 42%, ten percentage points higher than it was a decade ago. This in part reflects the high levels of M&A activity seen in the industry over that period.

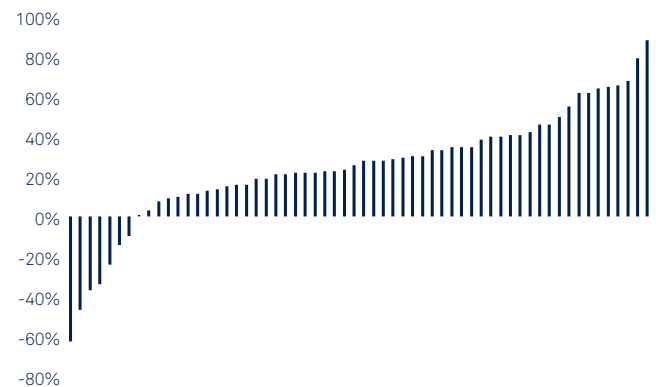
REVENUE AND COSTS

Aggregate revenue and cost figures for the industry cover both in-house and third party business. 2019 figures reflect a change in methodology. In addition to returns from members, the dataset for 2019 utilises publicly available data obtained from submissions to Companies House where available. This has enabled access to substantially more data than would otherwise be possible. Due to some omissions or delays in submission due to the Covid-19 pandemic in 2020, we would expect to be able to make further improvements to this dataset in future reports. It should be noted that this change in methodology means that numbers may not be directly comparable to previous years, although the data indicate that there has been a gradual fall in profitability from around 35% to 31% over the past five years.

- Total average industry net revenue stood at £22.9 billion, representing 28 bps of total assets.
- Total operating costs in 2019 were £15.8 billion. In basis point terms this represented 20bps of total average assets under management.
- Profitability based on headline data stood at 31%³¹

The average profitability figure is a useful measure for monitoring year on year changes in the overall industry. However, it can hide the fact that investment managers operate in a very diverse environment and there is significant variation in profitability between individual IA member firms. Chart 77 shows the distribution of profitability of respondent firms in 2019 covering a very broad range, from -63% to 89%.

CHART 77: DISTRIBUTION OF ASSET MANAGER PROFITABILITY (2019)



³¹ Calculated as net revenue less costs divided by net revenue. Figure not directly comparable to previous years due to change in methodology in 2019

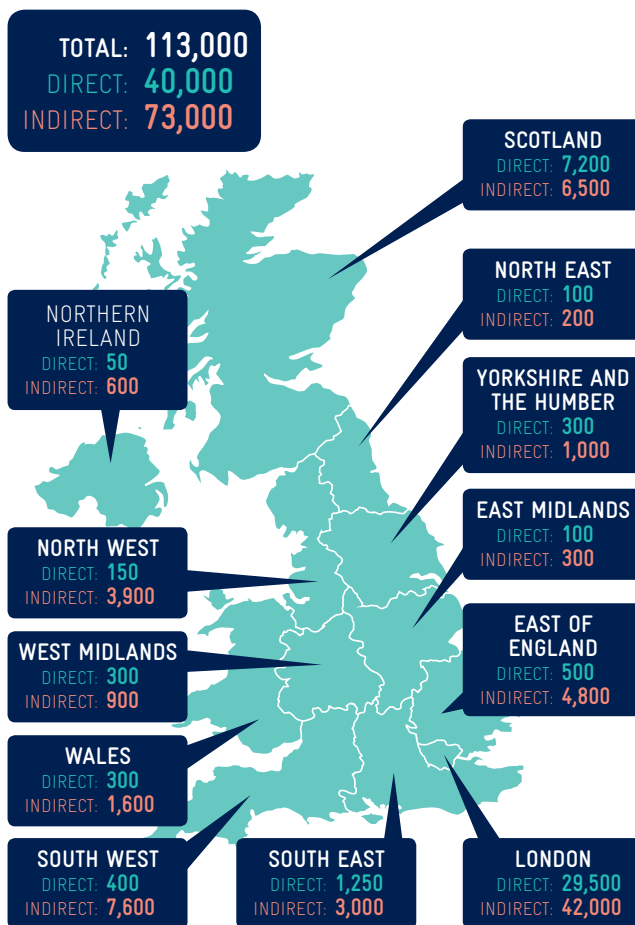
EMPLOYMENT IN THE INVESTMENT MANAGEMENT INDUSTRY

The IA has been monitoring direct employment numbers in the investment management industry since 2006. In recent years this has been broadened to include an estimate of the level of employment in supporting industries such as custodian banks, transfer agents and wealth managers. Data also now includes those employed by the IA's affiliate members, notably legal firms providing services to the investment management industry.

The IA estimates that the UK investment management industry supports around 113,000 jobs in the UK. Nearly 40,000 people are employed directly by investment management firms. The remainder are employed in IA affiliate members and in fund and wider administration services and securities and commodities dealing activities. These numbers are broadly unchanged from 2018.³²

The bulk of this resource is concentrated in London and South East England, with a broader regional footprint, particularly seen in a strong Scottish industry. Figure 13 shows this in more detail. Specifically, IA members have offices across the UK. Locations include: Bristol, Birmingham, Bournemouth, Cardiff, Chester, Chelmsford, Guildford, Harrogate, Henley, Leeds, Manchester, Norwich, Oxford, Peterborough, Southampton, Swindon and York.³³ In addition, a number of firms have offices in other parts of the British Isles, notably the Channel Islands.

FIGURE 13: DIRECT AND INDIRECT EMPLOYMENT IN INVESTMENT MANAGEMENT IN THE UK



Source: IA estimates from information provided by members and publicly sourced information. All regional numbers have been rounded to the nearest 50 and therefore may not add to exact total

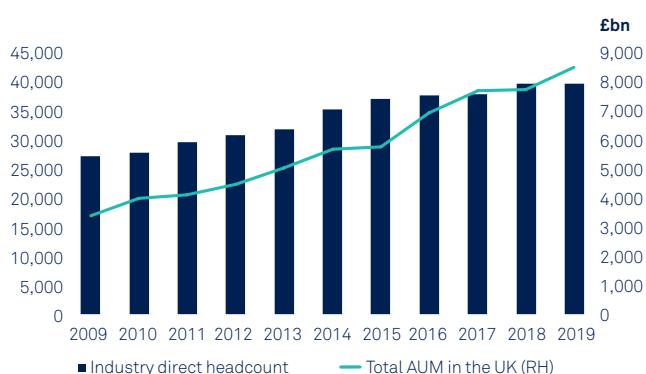
³² Our figures do not include the estimated 26,000 financial advisers in the UK, who provide a distribution point for a wider variety of financial services alongside funds and/or discretionary wealth management (e.g. insurance).

³³ It is difficult to identify jobs associated with investment management among firms that have a remit that extends wider than their investment management support, such as consultants, lawyers and accountants. In addition, a substantial number of roles in areas such as IT are outsourced to third party organisations and cannot be discretely measured. The figures provided in this section should therefore be viewed as a conservative estimate of those employed in investment management related roles.

DIRECT EMPLOYMENT

An estimated 40,000 people are directly employed by asset managers in the UK. This figure is almost unchanged since the end of 2018. It is notable that the numbers employed in investment management in the UK did not fall during the year in which the UK left the EU. This suggests that firms have managed to adapt their businesses without the loss of staff numbers. It may also indicate that EU nationals have not on the whole been tempted to leave the UK in order to remain within the EU.

CHART 78: INDUSTRY DIRECT HEADCOUNT ESTIMATE VS. UK ASSETS UNDER MANAGEMENT (2009-2019)



The investment management industry involves significant levels of outsourcing, notably in IT. Consequently, these figures are likely to understate the numbers working to directly support investment management activity.

DISTRIBUTION OF STAFF BY ACTIVITY

Table 5 provides more detail on the number of employees directly employed by asset managers in the UK by function. Around a quarter of directly employed staff were involved in investment management activity.

TABLE 5: DISTRIBUTION OF STAFF BY ACTIVITY (DIRECT EMPLOYMENT)

| Activity | Percentage of total headcount |
|--|-------------------------------|
| Investment Management of which | 24% |
| Investment management (asset allocation and stock selection) | 68% |
| Research, analysis | 25% |
| Dealing | 7% |
| Operations and Fund Administration of which | 18% |
| Investment transaction processing, settlement, asset servicing | 31% |
| Investment accounting, performance measurement, client reporting | 32% |
| Other fund administration (incl. CIS transfer agency, ISA administration etc.) | 37% |
| Business Development and Client Services of which | 18% |
| Marketing, sales, business development | 63% |
| Client services | 37% |
| Compliance, Legal and Audit of which | 8% |
| Compliance | 39% |
| Risk | 32% |
| Legal | 22% |
| Internal audit | 7% |
| Corporate Finance and Corporate Administration of which | 12% |
| Corporate finance | 43% |
| HR, training | 26% |
| Other corporate administration | 31% |
| IT Systems | 14% |
| Other Sector | 6% |

Over the longer term some trends in staffing levels emerge. On a like-for-like basis over the last five years, Chart 79 shows the following changes:

- The proportion of people employed in investment management has fluctuated slightly year on year but has been relatively stable at around one quarter of the workforce (24% in 2019).
- Operations and fund administration roles have seen a four percentage point fall over the same period (from 22% to 18%).
- The proportion employed in Business Development and Client Service has fallen by two percentage points to 18% in 2019.
- The levels of staffing in Compliance, Legal and Audit and in Corporate Finance and Administration has remained stable over the past five years at 8% after increasing from a low of 4% in 2010.
- The proportion of people employed in Corporate Finance and Administration has increased by two percentage points from 10% to 13% in the past five years.
- The proportion of people employed in IT has increased by three percentage points from 11% to 14%.

CHART 79: DIRECT EMPLOYMENT BY STAFF SEGMENT (2014-2019)

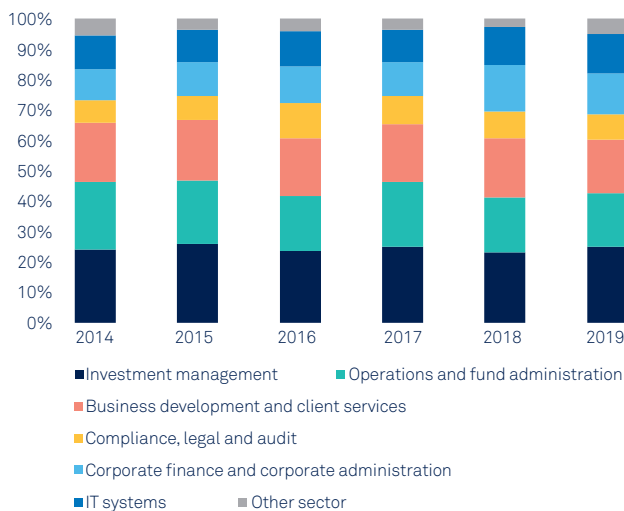


Table 6 shows that the type of activity undertaken in different locations differs widely:

- London is the main centre of investment management activity and business development.
- Operations activities and finance are more important outside London. There is a marked contrast with Scotland in this regard, also seen in IT roles.

TABLE 6: DISTRIBUTION OF INVESTMENT MANAGEMENT JOBS BY REGION

| | London | Scotland | Elsewhere in the UK |
|--|------------|------------|---------------------|
| Investment Management of which | 27% | 17% | 11% |
| Investment management (asset allocation and stock selection) | 67% | 70% | 66% |
| Research, analysis | 26% | 24% | 27% |
| Dealing | 7% | 7% | 7% |
| Operations and Fund Administration of which | 14% | 29% | 34% |
| Investment transaction processing, settlement, asset servicing | 46% | 14% | 14% |
| Investment accounting, performance measurement, client reporting | 32% | 32% | 30% |
| Other fund administration (incl. CIS transfer agency, ISA administration etc.) | 21% | 54% | 55% |
| Business Development and Client Services of which | 19% | 15% | 14% |
| Marketing, sales, business development | 67% | 36% | 73% |
| Client services | 33% | 64% | 27% |
| Compliance, Legal and Audit of which | 9% | 6% | 8% |
| Compliance | 37% | 44% | 47% |
| Risk | 36% | 27% | 26% |
| Legal | 21% | 22% | 23% |
| Internal audit | 7% | 7% | 5% |
| Corporate Finance and Corporate Administration of which | 11% | 14% | 12% |
| Corporate finance | 41% | 46% | 50% |
| HR, training | 26% | 30% | 19% |
| Other corporate administration | 33% | 23% | 31% |
| IT Systems | 13% | 15% | 18% |
| Other | 6% | 4% | 3% |

INDUSTRY CONCENTRATION

Chart 80 illustrates that the investment management industry in the UK continues to comprise a small number of very large firms but a long tail of medium- and small-sized organisations. This can be seen in the difference between the mean value of assets under management by an IA member firm and the median value. The median value of assets under management stands at £10 billion of assets but the mean average value is much higher. This indicates that there is a relatively small number of members managing large volumes of assets under management.

AVERAGE ASSETS UNDER MANAGEMENT AT JUNE 2019

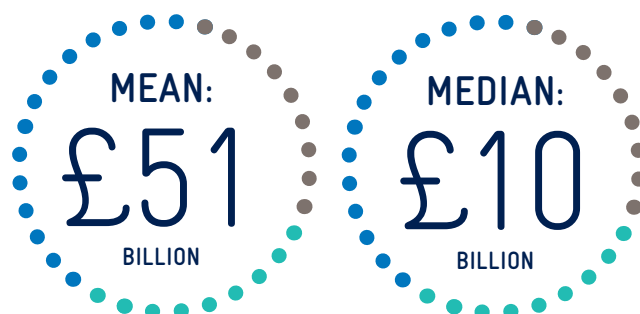
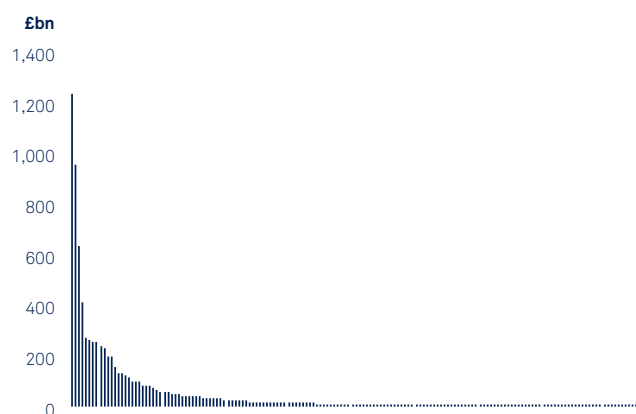

CHART 80: IA MEMBER FIRMS RANKED BY UK ASSETS UNDER MANAGEMENT (JUNE 2019)


Table 7 looks at how the distribution of assets under management has changed over time. As we saw in Chart 80 there is huge difference in scale between the largest firms within the industry and the smallest firms. However, the number of firms with over £50 billion in assets has remained unchanged over the last few years, hence the falling proportions.

The majority (45%) of IA members fall in the £1-15 billion of assets under management category, though this proportion has fallen in 2019. There is still significant competition and demand for smaller firms, which might be more likely to offer specialist investment services. 2019 saw an increase in the proportion of firms with less than £1 billion under management reaching 13%. There was also a relatively significant increase in the proportion of firms in the mid-sized category of £15-25 billion reaching 12%, a four percentage point increase on 2018.

The investment management industry in the UK remains relatively unconcentrated. The five largest firms represented 43% of assets and the ten largest firms represent 58% of industry assets. Both figures are marginally up year on year, though still slightly lower than the highs of 2017. A figure of less than

1,000 on the Herfindahl-Hirschmann Index, a standard measure of competition, represents low concentration. The value for the investment management industry stands at just 542 (see Chart 81). As we saw in Table 7, we continue to see increases in the small and mid-sized firm categories.

CHART 81: MARKET SHARE OF LARGEST FIRMS BY UK ASSETS UNDER MANAGEMENT VS. HHI (JUNE 2009-2019)

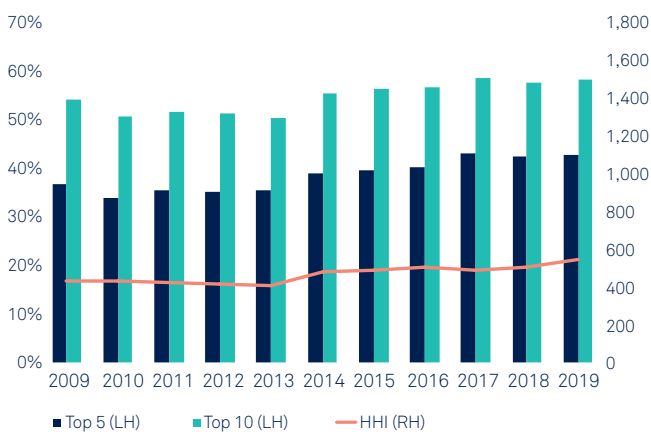


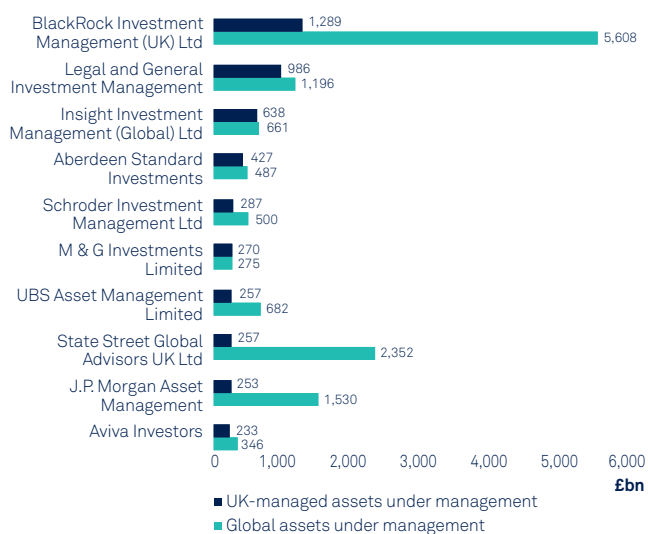
TABLE 7: ASSETS MANAGED IN THE UK BY IA MEMBERS BY FIRM SIZE

| AUM | No. of firms (June 2014) | No. of firms (June 2015) | No. of firms (June 2016) | No. of firms (June 2017) | No. of firms (June 2018) | No. of firms (June 2019) |
|--------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| >£100bn | 8% | 10% | 11% | 12% | 12% | 11% |
| £50-100bn | 10% | 10% | 9% | 9% | 8% | 7% |
| £25-50bn | 10% | 10% | 11% | 10% | 14% | 11% |
| £15-25bn | 10% | 10% | 8% | 10% | 8% | 12% |
| £1-15bn | 48% | 50% | 51% | 47% | 49% | 45% |
| <£1bn | 15% | 11% | 10% | 13% | 10% | 13% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% |

Chart 82 shows the ten largest firms in the UK, measured by UK assets under management supplied to the IA in response to the Survey questionnaire.³⁴ The top ten includes a mix of active managers and those also offering indexing. There is a wide variety of group types in the top ten, including independent asset managers, as well as managers that are part of a larger insurance group, or bank. Unsurprisingly, with institutional clients representing 80% of assets under management, the assets of the top ten managers are dominated by institutional assets.

As the difference between UK and global assets shows, a number of the largest asset managers are primarily UK focused, whereas others have a much wider global footprint.

CHART 82: TOP TEN FIRMS BY UK-MANAGED AND GLOBAL ASSETS UNDER MANAGEMENT³⁵



BOUTIQUES

The IA membership contains a number of boutique managers. The definition of a boutique firm is not based purely on the size of the firm. There are four broad criteria:

- Being independently owned
- Managing assets of less than £5.5 billion
- Providing a degree of investment specialisation
- Self-definition

According to these criteria the number of boutiques within the IA membership remained stable at 22 in 2019.



³⁴ Based on headline data supplied to The IA in response to the Survey Questionnaire

³⁵ Assets under management figures may reflect the value of wider economic exposure managed for clients in addition to securities within segregated or pooled portfolios.

ASSET MANAGER OWNERSHIP

Over the past decade the shift towards ownership by firms with a headquarters in the US has continued although most of the shift occurred in the first half of the decade. In fact since 2014, the proportion of firms by AUM owned by a US headquartered company has remained stable at around 46%. UK-owned asset managers now account for 41% of assets managed in the UK, down from 48% in 2009. Assets managed by European-owned firms remain at a relatively low proportion of total assets managed in the UK, at around 10%.

CHART 83: ASSETS UNDER MANAGEMENT BY REGION OF PARENT GROUP HEADQUARTERS- TEN YEAR COMPARISON

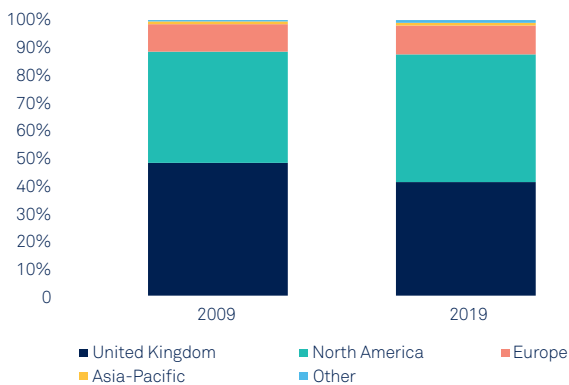
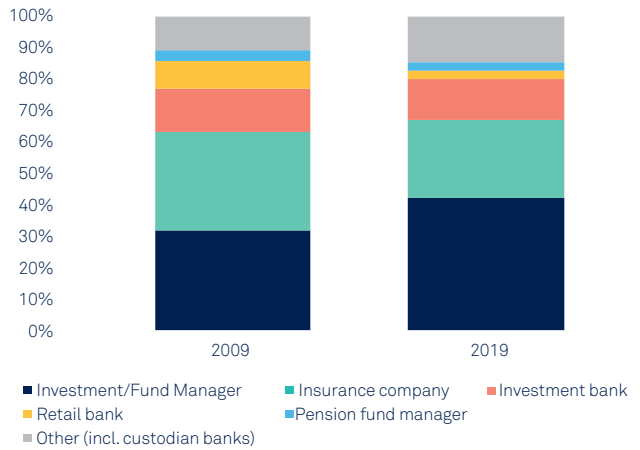


CHART 84: BREAKDOWN OF UK ASSETS UNDER MANAGEMENT BY PARENT TYPE- TEN YEAR COMPARISON



Over the same period, there has been a fundamental shift in the ownership of investment management companies. The biggest shift is the increase in independent asset managers from 32% to 42%. At the same time the proportion of assets managed by firms with an insurance parent has fallen from 32% to 25% and the proportion of assets managed by firms owned by a retail bank has fallen from 9% to 2%.