

EXECUTIVE SUMMARY

UK INVESTMENT MANAGEMENT INDUSTRY: A GLOBAL CENTRE

- » Total UK managed assets under management by IA members increased 10% year on year to reach £8.5 trillion at the end of 2019. IA estimates suggest that at the end June 2020, despite the sharp falls in global markets throughout the year, industry AUM was approximately the same level recorded at the end of 2019.
- » This represents around 85% of the wider UK investment management industry, with total assets under management rising to an estimated £9.9 trillion in 2019, up from a revised £9.0 trillion.
- » 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 in Europe, where it is responsible for 37% of total assets under management
- » Overseas clients account for 43% (£3.6 trillion) of total assets managed in the UK. Of this, European clients account for 58% (£2.1 trillion) of the total. 2019 has seen notable increases in assets managed on behalf of clients in North America and Asia.

LESSONS FROM 2020 AND CHALLENGES AHEAD

- » In a year of pandemic and the end of the Brexit transition period, we set out initial lessons learned and the challenges ahead.
- » From an operational perspective, the financial instability of March in particular has reinforced the importance of risk management processes within firms. Liquidity management, already a theme of significant focus for industry and regulators, has been under a particular spotlight.
- » Technology has played a pivotal role in the industry's overall operational resilience, amid an unprecedented transition to working from home (WFH) as a result of global lockdowns. Continued investment in technology will be a critical component of firms' success.

- » Diversity and inclusion (D&I) was already a high priority for the industry, but rising further in importance as firms point to the importance of a workforce that better reflect their customers and wider society. Gender diversity has been high on the agenda for a number of years but there will be increasing focus on ethnic diversity.
- » Looking to broader challenges and opportunities, the industry is looking to ensure it can play a full role in the recapitalisation and economic recovery from Covid-19, while delivering value for its customers in a difficult investment and savings environment. In this context, and reflecting longer-term trends, responsible and sustainable investment emerges as the standout theme in 2020 across customer markets.
- » As we get closer to the end of the Brexit transition period, attention is keenly focused on the future of the UK as a European and international centre, with particular emphasis on the importance of delegation. Firms have identified strong city clusters and continued access to talent as key features of the UK investment management industry's attractiveness, but have cautioned that some aspects of UK regulation may affect its attractiveness to international firms.

TRENDS IN CLIENT ASSETS AND ALLOCATION

- » Institutional clients remain the largest client group accounting for 79% of assets under management. Pension schemes (43% of total assets) continue to be the largest institutional client type.
- » Strong capital market performance through 2019 saw equities increase as a proportion of total assets from 36% to 38%, while bonds fell slightly to 32% (from 33%). Although slowing, the stand-out trend over the last decade remains a shift beyond mainstream asset classes, reflecting a range of drivers, including greater allocations to alternatives and the strong growth of LDI strategies.
- » Within equities, the UK allocation fell below 30% to 29% for the first time, down 18 percentage points from ten years ago. The allocation to overseas bonds in the fixed income space remained unchanged year on year at 50% of total fixed income allocation.

- » Some 30% of total assets under management is now managed based on indexing strategies. This four percentage point increase on 2018 is an acceleration of the very steady growth in indexing over the last decade.
- » 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. Total infrastructure investments reached £45 billion, a £10 billion increase since the end of 2018.

UK INSTITUTIONAL CLIENT MARKET

- » IA members manage £4.0 trillion for UK institutional clients, primarily from the UK but also in offices around the globe, unchanged from 2018.
- » Third party assets account for about 85% (£3.4 trillion) of the total, unchanged from 2018. Pension funds account for 72% of total 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. Multi-asset mandates account for just under a quarter (24%) of mandates in total asset terms once LDI mandates are excluded.
- » Within specialist third party mandates, fixed income accounts for 40% of all mandates, overtaking equities last year in total asset terms.

UK RETAIL FUNDS MARKET

- » By the end of 2019, UK investor funds under management (FUM) in UK and overseas domiciled funds had reached a record £1.31 trillion.
- » Initial reaction to market downturns in March 2020 were strong with record outflows of £9.7 billion from UK retail funds. These outflows were largely dominated (76%) by outflows from fixed income funds. Global markets and sales both rallied strongly in Q2 2020. Total sales for Q2 reached £11.2 billion and FUM had recovered to £1.28 trillion by June 2020 despite a 14% fall in March.

- » Allocations to UK equity funds have declined substantially as a proportion of total UK investor FUM in the last 15 years falling from 39% of FUM in 2005 to 14% by June 2020. Between January 2016 until June 2020 UK equity funds have seen heavy outflows of £12.7 billion, driven by economic uncertainty and weaker relative performance of the FTSE compared with other global indices.
- » The proportion of UK investor funds under management in indexing funds reached 18% in 2019, up from 8% in 2012. Sales in 2019 were strong and remained resilient in March 2020, with positive net sales of £467 million against an outflow of £10.1 billion from active funds.
- » FUM in responsible investment funds almost doubled between January 2019 to June 2020, reaching £33 billion in June 2020. Net retail sales were £7.0 billion in the 18 months up to June 2020 with sales in the first half of 2020 four times higher than during the same period in 2019. This includes March 2020 where net retail sales remained positive, albeit depressed, at £124 million.

OPERATIONAL AND STRUCTURAL ISSUES

- » Total average industry revenue stood at £22.9 billion in 2019. This equates to 28bps of total assets. Operating costs were £15.8 billion in 2019 (20bps). IA data points to a decline in operating profitability over the last five years.
- » The UK investment management industry directly employed almost 40,000 people at the end of 2019, broadly unchanged on 2018. Around 113,000 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 43% and 58% of total assets respectively. Both were one percentage point higher than 2018.
- » The proportion of assets managed by independent investment managers now stands at 42%, ten percentage points higher than the level recorded a decade ago. This is in large part a reflection of high levels of M&A activity seen in the industry over that period.