

THE
INVESTMENT
ASSOCIATION

A POCKET GUIDE TO INVESTMENT MANAGEMENT

Investment management in the UK, 2019-20

September 2020



ABOUT THE IA

The Investment Association is the trade body that represents UK investment managers, whose 250 members collectively manage over £8.5 trillion on behalf of clients.

Our purpose is to ensure investment managers are in the best possible position to:

- Build people's resilience to financial adversity
- Help people achieve their financial aspirations
- Enable people to maintain a decent standard of living as they grow older
- Contribute to economic growth through the efficient allocation of capital

Our members help to grow people's savings in a wide range of ways, including through authorised investment funds (schemes where several investors 'pool' their assets and invest in a professionally managed portfolio), pension funds, and stocks & shares ISAs. The UK is the second largest investment management centre in the world and manages over a third (37%) of investments across Europe.

Investment Association (IA) members hold in total over one third (36%) of the value of UK publicly listed companies. We use this collective voice to influence company behaviour and hold businesses to account.

More information can be found at

www.theia.org

INVESTMENT MANAGEMENT TODAY

The UK stands at a crossroads where we must decide what sort of country we wish to be, what sort of economy we should work to build, and what role we play in the world.

At the turn of the year we knew the decisive general election result meant the UK would without doubt be leaving the EU and 2020 would be a year of transition towards a new relationship with our nearest neighbours and greatest economic partners.

What we could not have foreseen was the extent to which a virus would disrupt our way of life and potentially change forever the way we all live and work, not just in the UK but across the world.

This year's pocket guide provides a snapshot of the way the investment management industry was at the start of 2020. It shows an industry which is, and will continue to be, a jewel in the crown of the UK's world-leading financial services industry. An industry which looks after money for three quarters of UK households, manages £8.5 trillion for savers in this country and worldwide, and which puts that money to work across the globe.



THE UK INVESTMENT
MANAGEMENT
INDUSTRY MANAGES

£8.5 TRILLION

FOR SAVERS IN THIS
COUNTRY AND WORLDWIDE





This guide also demonstrates the existence in the UK of an industry which is as resilient as it is possible to be to face the challenges we expected, and those we did not, in 2020. It is an industry which is working to contribute to a country which can be bold, open and innovative as it plans for its economic recovery after Covid-19 and in pursuing a future which is both global in attitude and inclusive of the needs of everyone on our islands.

The UK is the world's second largest centre for investment management, and this means that we stand at the forefront of those industries ready to help the UK seek new global opportunities. As providers of patient capital, we are ready to support businesses in public and private markets who need support to see their way through this crisis. So far in 2020, our members have provided over £14 billion to listed companies seeking to raise new capital.

As an industry which thinks of the long-term, we are ready to take the lead on tackling climate change and furthering the UK's position as the leading centre of expertise for responsible and sustainable investment.

I hope you find this pocket guide a useful snapshot of the role and importance of investment management today. Much more detailed insight and information about the roles of the industry can be found in our new 2019/20 Investment Management Survey, at www.theia.org.

Chris Cummings
CEO, The Investment Association





INVESTMENT MANAGERS OWN
A THIRD
OF UK PLC

AUM
DOUBLED
IN THE LAST
10 YEARS

113,000
JOBS ACROSS
THE SECTOR

A FIFTH
OF UK ASSETS
MANAGED BY
SCOTTISH-
HEADQUARTERED
FIRMS

£1.6
TRILLION
INVESTED IN THE
UK ECONOMY

£3.6
TRILLION
MANAGED FOR
OVERSEAS
INVESTORS

£1.3
TRILLION
INVESTED FOR
UK SAVERS

LARGEST
EUROPEAN
INVESTMENT
HUB



£8.5 TRN
MANAGED BY
IA MEMBERS IN
THE UK

AT LEAST
£45
BILLION
INVESTED IN
INFRASTRUCTURE

PART ONE: LOOKING AFTER OTHER PEOPLE'S MONEY

Investment managers exist to deliver good outcomes for their clients, whether these are individual savers or institutions such as pension schemes which manage money on behalf of pension savers.

Most money looked after by investment managers is invested for institutional clients: nearly four out of every five pounds (79%) is managed for institutions including charities, local government, pension funds and insurance companies. Pension funds are the largest of the

institutional clients with two out of those four pounds (43% of all assets under management) belonging to pension savers. The remaining one in five pounds (21%) is managed for individual (or 'retail') clients.

Since the introduction of auto-enrolment in workplace pensions in 2012, pension participation has increased across all age groups. The Pension Freedoms introduced in 2015 give people more choice about what to do with their money when they retire and the current



Segregated mandate

Some clients (usually large institutional clients) instruct investment managers to invest their money using bespoke investment strategies. Over half (55%) of the money managed by investment managers is in segregated mandates.



Pooled investments

Some clients pool their money with other clients in funds which spread risk and create economies of scale. Just under half (45%) of the money managed by investment managers is pooled.



Active strategies

'Active' management means that the investment manager is tracking the performance of their clients' investment portfolio and making regular adjustments to the assets within it in order to get better investment returns.



environment of low interest rates mean that investments offer savers better returns. As a result, investment management has become particularly important for millions of UK savers and households to help them grow their pensions and savings.

Institutional and individual clients choose to use investment managers because they can offer expertise in areas such as managing risk. They can help achieve economies of scale, and give access to a wider

range of investment opportunities than if an individual was investing on their own. The aim is to provide clients with a basket of shares, bonds and other assets such as property, which can deliver returns over many years without exposing clients to unnecessary risk.

Through either a **segregated mandate** or **pooled investments** clients work with investment managers to choose how they would like their money invested.



Index strategies

'Index' management is where the investment manager holds all of the equities or bonds that make up a particular index, like the FTSE100, in the same proportions. The returns will be similar to the overall performance of the chosen index.



Equities

Equity, often referred to as stocks and shares, is the ownership stake a shareholder holds in a company. If a company wants to raise capital, it can issue equity by listing the shares on markets such as the London Stock Exchange.



Fixed income

Fixed income refers typically to bonds, which are investments that pay interest. Governments and companies issue bonds when they need to borrow money from investors. The money is returned to the investor after a specified period of time.

Investing in our future

The UK investment management industry provides high-quality jobs, with more than 113,000 people working across the industry. Over one third of these jobs (nearly 40,000) are directly in investment management firms.

The roles in the investment management industry are varied and while it is a great industry for people with STEM training, jobs in cutting edge areas like financial technology and responsible investment are suitable for people from a wide range of backgrounds.

The Investment Association provides outreach and career opportunities to those looking



for their first jobs in the industry through a training programme called Investment20/20.

Since it was founded in 2013, Investment20/20 has supported over 1,600 trainees to start their careers in investment management, with three quarters of trainees going on to permanent jobs in the industry.



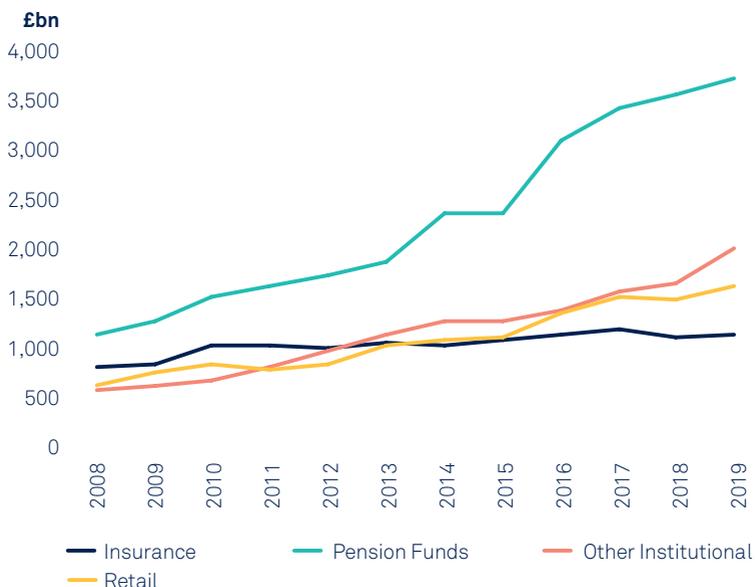
This includes deciding whether they would like their money managed using **active** or **index** strategies, or a combination of the two. Active management remains the most common approach with over two thirds of assets (70%) being managed by IA members on an active basis. Over the last decade we have also seen a growth in the use of index strategies with indexing accounting for nearly a third (30%) of total assets under

management compared to one fifth (20%) a decade ago.

Investment in **equity** markets is the most common asset for the majority of investors with nearly two fifths (38%) of investments made in equity markets. **Fixed income** assets are the next most popular source for investment with nearly one third (32%) invested in this asset.

UK savers are increasingly opting to invest in shares and bonds

ASSETS MANAGED IN THE UK BY CLIENT TYPE, £BILLIONS (2009-2019)



from regions outside the UK (see part three) and investments in UK shares fell just below 30% for the first time last year. Nonetheless, 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, infrastructure.

In recent years we have seen a rapid growth in the size of global private markets. Clients are increasingly

able to invest in private markets, meaning the companies, property developments and infrastructure programmes which are not listed on the stock exchange but which can provide significant sources of growth, especially when interest rates are low. While in 2009, \$2.4trn was invested globally in businesses, property and infrastructure which were not listed on stock exchanges. A decade on that figure had tripled to \$7.3trn.

PART TWO: FUNDING THE BRITISH ECONOMY

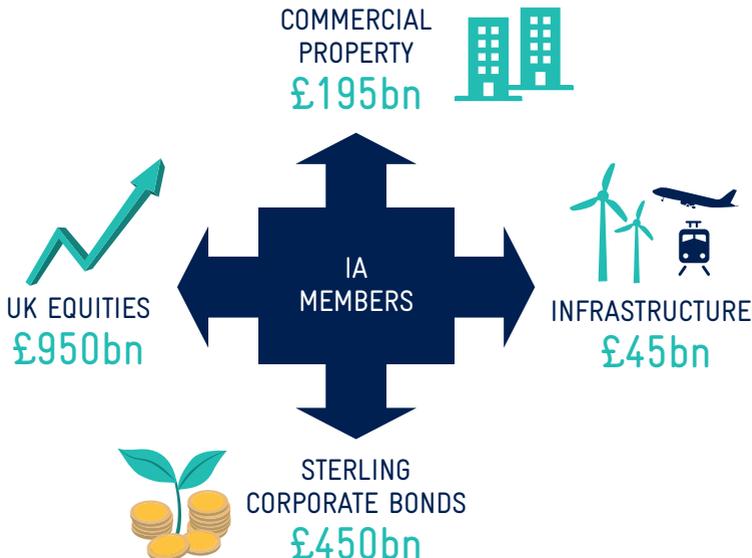
The investment management industry plays a pivotal role at the heart of the UK economy, looking after money belonging to savers in the UK and around the world and investing it in businesses and infrastructure.

Investment managers provide patient capital and take a long-term

view because they are managing money for people who may not need to see the fruit of the returns on their investments for many years, or even decades, from now.

The UK economy is now at a juncture where we must consider and adapt to a changing world. The impact of the coronavirus pandemic

IA MEMBER HOLDINGS IN UK ASSET CLASSES





BETWEEN
MARCH AND SEPTEMBER
2020, 54 FTSE ALL-SHARE
COMPANIES HAVE RAISED OVER

£14 BILLION

OF ADDITIONAL CAPITAL
THROUGH ISSUING
NEW EQUITY

on global markets was extreme with global markets recording the sharpest falls recorded since the global financial crisis in 2008. The initial impact in spring 2020 was short-lived and markets rebounded so strongly that IA estimates put total assets under management in mid-2020 back to the level recorded at the end of 2019, despite the market volatility.

The crisis has meant that otherwise thriving businesses have found themselves in need of fresh capital. Several UK listed companies

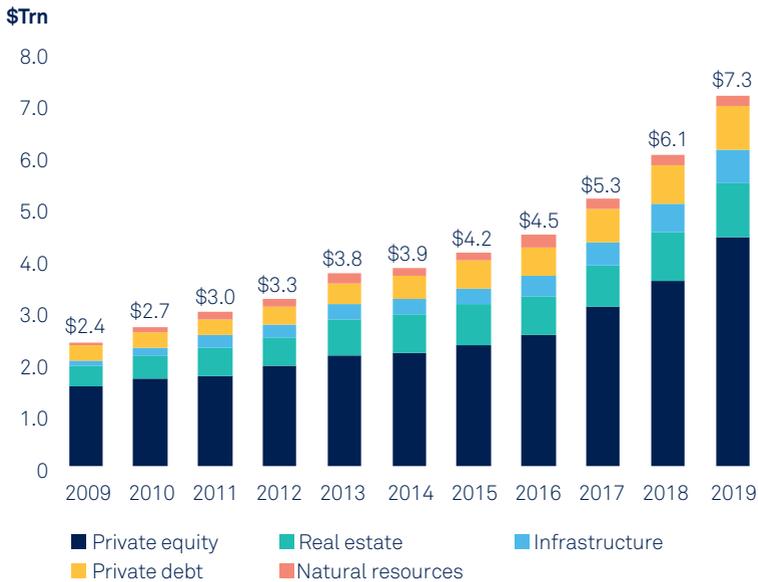
have asked their shareholders for additional capital, to ensure they have sufficient liquidity to continue to operate. Between March and September 2020, 54 FTSE All-Share companies have raised over £14.4bn of additional capital by issuing new equity. The IA has been supporting efforts to provide flexibility and speed up the capital raising process for well-run companies that can generate sustainable value for savers over the long-term.

The investment management industry channels savings to capital markets and is a key source of funding for the UK economy. Investment managers own shares on behalf of clients and in the UK they own roughly one third of the value of shares in UK PLCs. Investment management activity has historically focused on more

traditional asset classes such as shares in listed companies and bonds but there is increasing use of private markets most notably infrastructure and direct lending.

IA members have invested £950bn in UK equities and in 2019 the amounts invested in UK equities and infrastructure increased in value by 8% and 28% respectively.

ASSETS UNDER MANAGEMENT IN PRIVATE MARKETS GLOBALLY



ENGINE FINTECH HUBS

To help create the right conditions for UK FinTech to flourish, in 2018 the IA established a FinTech hub and accelerator, Engine. Engine is boosting the investment management industry's adoption of new technologies and helping investment managers to identify new investment opportunities, work more efficiently and cut costs, ultimately benefiting our customers.

The accelerator brings together FinTech firms with products tailored to investment management and wider buy-side sectors, and with the potential to transform the industry.

In 2019, the IA launched a new FinTech hub, Engine Birmingham to boost the West Midlands' burgeoning FinTech sector, by offering eight growing firms in the region free co-working space and support from the IA, giving them the freedom to innovate and grow.

A SCOTTISH CENTRE OF EXCELLENCE

Financial services in Scotland enjoy a centuries-old heritage which developed alongside London's financial centre. Some of the UK's and the world's largest investment management businesses were established and are still headquartered in Scotland.

Edinburgh in particular plays a key role in UK investment management. A fifth (20%) of all assets managed by UK-headquartered firms are managed by firms with Scottish headquarters. In total, £590bn was managed in Scotland at the end of 2019.

Just under 15,000 people work in investment management in Scotland. Most employment is in Edinburgh's world-class financial services hub, but high-quality jobs are spread across the nation.



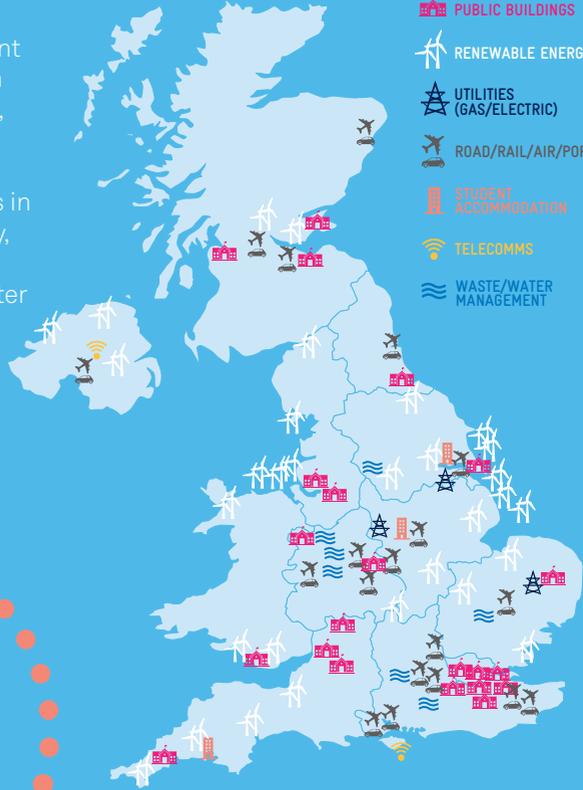
£590_{bn}

was managed in
Scotland at the
end of 2019

Investing in infrastructure

By the end of 2019, investment managers had at least £45bn invested in UK infrastructure, a figure expected to increase in future years. Three quarters of this investment is in infrastructure such as energy, transport and environmental projects. The remaining quarter is invested in projects which provide a social benefit, such as schools, hospitals or social housing.

-  PUBLIC BUILDINGS
-  RENEWABLE ENERGY
-  UTILITIES (GAS/ELECTRIC)
-  ROAD/RAIL/AIR/PORT
-  STUDENT ACCOMMODATION
-  TELECOMMS
-  WASTE/WATER MANAGEMENT



INVESTMENT
MANAGERS HAD
AT LEAST

£45bn

INVESTED IN UK
INFRASTRUCTURE



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PART THREE: GLOBAL REACH

The UK's investment management industry is recognised around the globe as a jewel in the crown of the UK's financial services sector.

A global outlook makes this the natural home for firms to locate international activity. This is influenced by government policy, and expressed in the global experience, skills and mindset of those working in the UK.

The London and Edinburgh financial clusters mean that investment managers work in parallel with banks, and the specialist support services such as lawyers and auditors who are integral to servicing the sector.

Increasingly, UK investment managers are benefitting from working alongside the UK's growing FinTech hub. This will help to drive competitiveness and innovation, leading to better products and services at lower cost.

The £8.5trn in assets which IA members manage make the UK the second largest investment management centre in the world behind only the US. In Europe, the UK is larger than the next three investment management centres (France, Germany and Switzerland) put together.

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**INVESTMENT
MANAGEMENT IS
RESPONSIBLE FOR**

4%

**OF THE UK'S NET
EXPORTS IN SERVICES**

.....



.....

This global reach brings benefits at home. Investment management is responsible for 4% of the UK's net exports in services. Meaning the industry contributes £4.5bn in tax in the UK.

The rest of Europe is the leading market for the services of UK-based investment managers, with £2.1trn managed for European clients. North America (£700bn) and Asia

(£520bn) are the next largest markets and in total £3.6trn is managed for overseas clients.

In turn, UK-based investment managers invest in businesses around the world. Companies in North America account for 22% of the equity UK investors own in companies worldwide while companies across the rest of Europe account for 23%.

ASSETS MANAGED FOR OVERSEAS CLIENTS

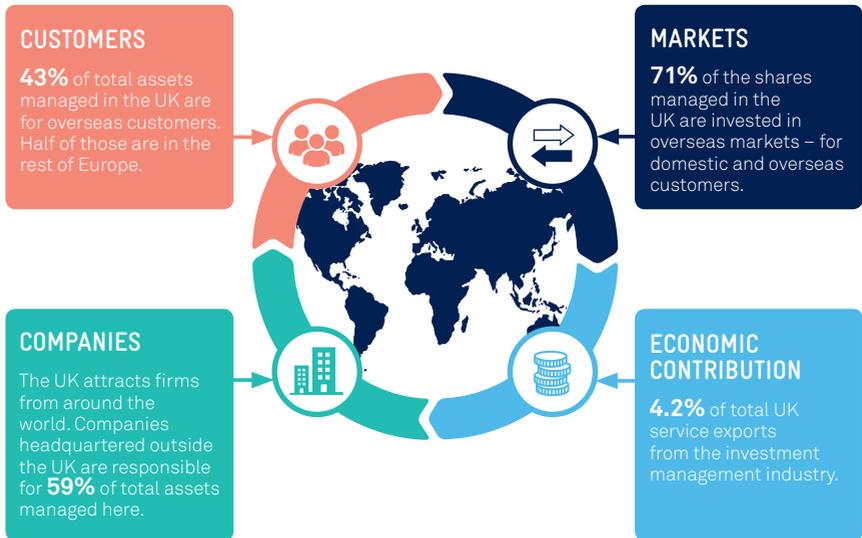


Japan (6%), the rest of the Asia-Pacific region (9%) and emerging markets make up the bulk of the rest of equity investment.

It is this global outlook which makes the UK a popular destination for international money and offers

benefits for savers in the UK. By investing in worldwide markets, investment managers can both identify opportunities for quicker growth and mitigate the risk for savers of having the performance of all their savings linked too closely to the economy of one country.

FOUR MEASURES OF A GLOBAL INDUSTRY

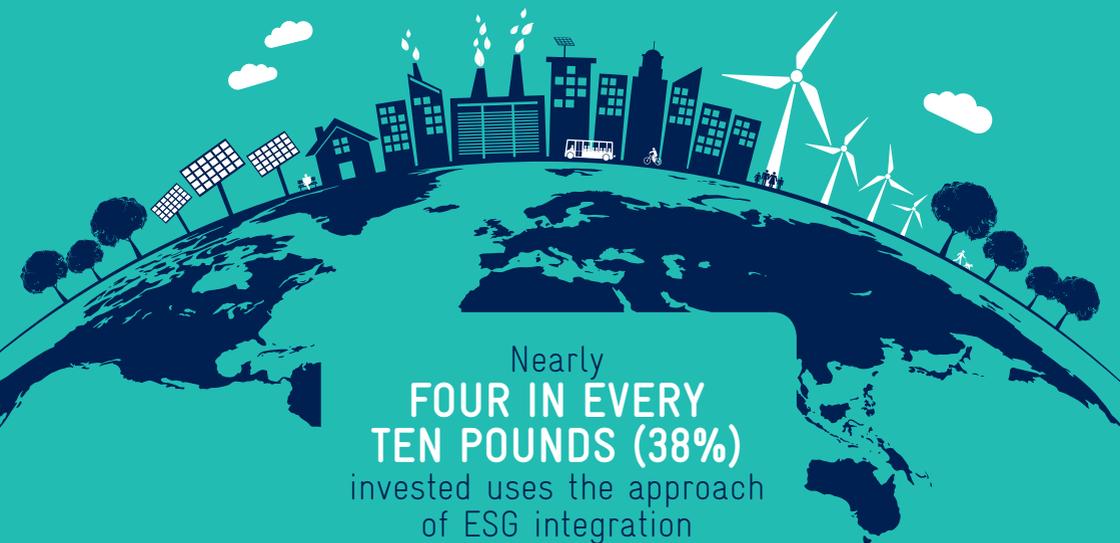


Sustainable and responsible investment



Sustainable and responsible investment is an area of innovation in which the UK investment management industry is world leading. Recent years have seen a rise in the prominence of sustainability issues, with an intense focus on climate change and the need to decarbonise the global economy. This year, the Covid-19 pandemic has also focused attention on the social impacts of business activity.

The most common form of sustainable and responsible investment in the UK is known as ESG Integration. This is where environmental, social and other governance factors are explicitly included in investment analysis and investment decisions. Nearly four in every ten pounds (38%) invested in the UK uses the approach of ESG integration, a considerable increase from 26% in the last year.



Nearly
**FOUR IN EVERY
TEN POUNDS (38%)**
invested uses the approach
of ESG integration



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www.theia.org

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