

# EXECUTIVE SUMMARY

## UK INVESTMENT MANAGEMENT INDUSTRY: A GLOBAL CENTRE

- » Total UK managed assets under management (AUM) reached £9.4 trillion in 2020, an increase of 11% year on year, despite the significant turbulence during H1 amid the intensifying Covid-19 crisis.
- » The £9.4 trillion of assets managed by IA members represents around 85% of the wider UK investment management industry which rose to an estimated £11.0 trillion in 2020, up from £10.0 trillion in 2019.
- » The UK remains one of the largest and most diverse centres of investment management in the world. It is second only to the US and remains the largest centre for investment management in Europe.
- » Almost half (44%) of total assets managed in the UK are managed on behalf of overseas clients. European clients continue to account for the majority (58%) of overseas client assets.
- » Total assets in UK managed investment funds reached £3.7 trillion at the end of 2020. The majority (63%) of these assets sat within funds domiciled overseas, marking an eleven percentage point increase since 2015.

## KEY THEMES FOR THE UK INDUSTRY

- » This year's survey identifies five defining themes for the UK investment management industry's activity:
  1. Responsible investment has seen significant growth in 2020 and is reflected in the data throughout the report. The data collected in the Survey this year based on the IA's Responsible Investment Framework found that 49% of total assets apply ESG integration, up from 37% in 2019. The proportion of assets subject to sustainability focused criteria almost doubled in 2020 to 2.6% of total assets. The green agenda has risen in prominence in 2020 and investment managers have committed to support the transition to net zero emissions.
  2. Investment managers engagement in private markets has grown over the last few years, responding both to changing capital-raising trends and customer demand. Proposals for a new fund structure in the UK will broaden access to illiquid assets and also address potential issues around liquidity mismatch in funds.

3. Remote working has accelerated investment in technology over the last eighteen months. Continued investment in technology will be a critical component of firms' success, and will be a key driver of change in how we communicate with investors and how we engage a new generation of investor.
4. A robust operating culture is viewed as a core component in firms' ability to deliver good outcomes for customers and also in their ability to make progress on their diversity and inclusion (D&I) agenda, which remains a high priority theme for the industry.
5. In the post-Brexit era, there remain concerns amongst member firms around preserving international delegation norms and the appropriate balance between convergence and divergence with European, and global, standards.

## TRENDS IN CLIENT ASSETS AND ALLOCATION

- » Institutional clients remain the largest client group, making up 79% of assets under management. Pension scheme assets continue to be the largest institutional client type, accounting for 43% of total assets. Assets managed on behalf of corporate clients have seen consistent rises since 2017, reaching 6.3% of total assets in 2020, up from 4.6% in 2017.
- » Asset allocation has remained broadly unchanged in 2020 with equities and fixed income making up 39% and 32% of total assets, respectively.
- » The global diversification of assets has continued amongst both equity and fixed income regional allocations. The allocation to UK equities has fallen to its lowest level at 26% of total equity allocation (39% of total stock market capitalisation). The allocation to overseas bonds in the fixed income space has increased, once again reaching 55% of total assets, up from 36% in 2015.
- » Indexing strategies account for 31% of the £9.4 trillion of total AUM, a one percentage point increase since 2019. The growth of ETFs is contributing to this trend, with global assets in ETFs increasing 25% year on year.

- » Despite reduced allocations to UK assets as a proportion of total assets, IA members still remain significantly invested in the UK economy holding £1.7 trillion in UK equities, corporate bonds, commercial property and in infrastructure. Total infrastructure investments remained unchanged from a revised 2019 figure at £40 billion.

## UK INSTITUTIONAL CLIENT MARKET

- » IA members manage £4.5 trillion for UK institutional clients in offices around the globe, up from £4.0 trillion in 2019. For the first time, pension fund assets have fallen as a proportion of institutional assets and now account for 64%.
- » Third party assets, which exclude in-house insurance, account for about 86% (£3.9 trillion) of the total, up from £3.4 trillion in 2019. Pension funds remain the largest client type, accounting for 68% of third party assets.
- » Assets managed in liability-driven investment strategies have grown in 2020, reaching an estimated £1.5 trillion, up from £1.4 trillion in 2019. Excluding LDI assets, the trend to growth in multi-asset mandates in the third party institutional market has seen a reversal in the last two years, now accounting for 20% of assets, down from 24% in 2018.
- » Within specialist third party mandates, 2020 saw significantly increased allocation to cash mandates which were responsible for 15% of mandates, a five percentage points increase since 2019. Much of this growth has come from rising liquidity demand from corporates in response to the global pandemic.

## UK RETAIL FUNDS MARKET

- » By the end of 2020, total UK investor funds under management (FUM) in the UK and overseas domiciled funds reached £1.44 trillion, rebounding strongly from the 11% fall in March. Despite a record outflow of £9.7 billion in March, net sales for the year reached £30.8 billion, the second highest year on record.
- » Looking ahead, there is significant uncertainty about whether this strong momentum will be maintained. High levels of household saving during the Covid-19 crisis and record low interest rates

may well drive positive retail fund flows. However, much will depend on the macro-economic and market environment.

- » The accelerating growth in responsible investment (RI) funds is a standout theme in 2020 with total FUM reaching £50 billion at year end, a 60% increase since 2019. RI funds account for just 3.9% of industry FUM, yet net retail sales to RI funds contributed 38% (£11.7 billion) to industry net retail sales in 2020.
- » Sales to actively managed retail funds recovered in 2020, recording £12.4 billion in net inflows following a very difficult 2019 which saw £8.1 billion in outflows from active funds. Net retail sales to index trackers continued to outpace sales to active funds and were responsible for inflows of £18.4 billion, similar to 2019 net sales.
- » Global diversification has been the preference amongst retail investors for a number of years, and the trend towards global diversification was amplified in 2020. Net retail sales to global equity funds reached £6.1 billion in 2019, almost three times higher than the next highest selling equity sector. The global bond sector was also the highest selling sector amongst fixed income funds reaching £4.5 billion.

## OPERATIONAL AND STRUCTURAL ISSUES

- » In 2020, industry profitability fell three percentage points to 28%, with total average industry revenue standing at £22.9 billion. Operating costs were £16.4 billion (18 bps).
- » The UK investment management industry supports approximately 114,000 jobs, of which 42,200 are directly employed. As of 2020, the proportion of those employed in investment management activities accounts for over a quarter (27%) of direct jobs.
- » The proportion of assets managed by the top five and top ten firms have increased by one percent in 2020 to account for 44% and 59% of industry assets respectively. The industry remains relatively unconcentrated, however, as it continues to consist of a small number of large firms and a high number of medium- and small-sized organisations.