

# 6 OPERATIONAL AND STRUCTURAL ISSUES

## KEY FINDINGS

### REVENUE AND COSTS

- » In 2020, total average industry net revenue after commission was £22.9 billion, equivalent to 26 basis points (bps) of total assets under management and up from a revised £21.7 billion reported in 2019.
- » Total operating costs were £16.4 billion in 2020, equivalent to 18bps of total assets, up from a revised £15.1 billion the previous year.
- » Profitability was down three percentage points year on year in 2020, falling from 31% to 28%.

### INDUSTRY EMPLOYMENT

- » As of 2020, the UK investment management industry supports approximately 114,000 jobs, of which 42,200 are directly employed by the industry. This is up from 40,000 direct employment jobs in 2019, an increase in line with the average annual 10% growth in direct industry employment observed over the past ten years.
- » Distribution of staff by activity for those directly employed by the industry sees little change year on year. One standout development in 2020 was the proportion of those in investment management activities, which increased by three percentage points to now account for over a quarter (27%) of jobs.
- » Jobs in the investment management industry also vary by location. London remains the city with the highest concentration for employment in investment management, though the past year saw an increase of jobs in investment management outside of London and Scotland.

### INDUSTRY CONCENTRATION

- » The industry continues to consist of a small number of large firms and a long tail of medium- and small-sized organisations. This is evidenced in the difference between the median figure for assets managed by IA member firms which stood at £11 billion at the end of 2020, and a mean figure of £55 billion.
- » The UK investment management industry remains relatively unconcentrated. Assets managed by the top five and the top ten firms reached 44% and 59% of total assets respectively. This represents a slight increase (1%) on the previous year.
- » Firms managing less than £15 billion in assets continue to account for the majority (56%) of IA membership. In 2020, the number of boutique investment managers fell from 22 firms in 2019 to 15 firms in 2020. For the most part, this has been driven by merger and acquisition activity.

### INVESTMENT MANAGER OWNERSHIP

- » Over the past ten years, the most notable change in the ownership of investment management firms has been an increase in the proportion of UK companies headquartered in the US to 47%, which represents a five percentage point increase over the past ten years. Over the same period, the share of UK-headquartered parent groups has decreased seven percentage points, down to 40% at the end of 2020.
- » Data on firm ownership by parent type from the past decade show that the proportion of standalone investment managers has increased by five percentage points, now representing 42% of UK assets under management. Assets managed by firms with insurance company and retail bank parents have fallen over the last ten years to 25% (down from 29% in 2010) and 2% (down from 5%), respectively.

This chapter focuses on investment managers as firms, covering three broad themes: industry revenue and profitability, employment and M&A activity.

## REVENUE AND COSTS

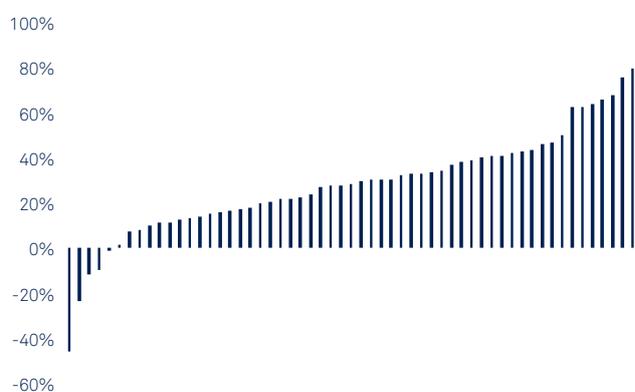
Each year, the IA reports the aggregate revenue and cost figures for the industry, covering both in-house and third-party business.<sup>38</sup>

- Total average industry revenue after commission stood at £22.9 billion in 2020, equivalent to 26 basis points (bps) of total assets under management and up from a revised £21.7 billion reported in 2019.
- Total operating costs in 2020 were £16.4 billion, representing 18 bps of total average assets under management up from a revised £15.1 billion.
- The above data suggests operating margins stood at 28%, which is down three percentage points from 2019.

Although total industry assets increased 10% year on year reaching £9.4 trillion in 2020, total revenue increased just 3%. Fee compression has been a key driver in the slowdown in growth of total revenue relative to the growth in assets. At the same time, operating costs increased 7% year on year in 2020. Some of the rising costs in 2020 will be related to the Covid-19 pandemic. Although firms have experienced some cost saving in areas such as office related costs and travel expenses, significant investment in equipment and technology has been needed to ensure that firms were able to maintain operational continuity and to continue servicing clients through successive lockdowns. The pandemic was not the only driver of the fall in profitability in 2020. Growth in operating costs has outpaced the increase in total revenue consistently since 2015. The scale of regulatory activity and the cost of compliance has been cited as a contributor to rising costs. As costs have continued to increase, firms have pointed to the importance of investment in technology. Operationally, technology enables greater automation and more efficient processes, which helps to control costs and deliver savings.

The average profitability across the industry in any given year can mask great underlying variation in individual firm experience. The range of profitability across IA member firms in 2020 is illustrated in Chart 74. Profitability ranged from -46% to 89%. A quarter of firms had operating margins of below 16% and one quarter's margins were above 41%.

**CHART 74: DISTRIBUTION OF INVESTMENT MANAGER PROFITABILITY (2020)**



<sup>38</sup> 2020 figures are comparable to last year's figures, but not to figures pre-2019 due to a change in methodology. 2019's change in methodology consisted of supporting returns from members with publicly available data obtained from submissions to Companies House (where available).

## EMPLOYMENT IN THE INVESTMENT MANAGEMENT INDUSTRY

For the past fifteen years, the IA has been tracking direct employment numbers in the investment management industry. In 2006, an “indirect employment” category was introduced, in order to more accurately assess the value of the investment management industry as a source of employment in the UK. Indirect employment includes an estimate of the level of employment in supporting industries such as custodian banks, transfer agents and wealth managers, as well as employment by IA affiliate members – notably legal firms providing services to the industry.

The UK investment management industry supports approximately 114,000 jobs, of which over 42,000 are employed directly by investment management firms and the remainder (72,000) are employed either by IA affiliate members or in fund and wider administration services, and in securities and commodities dealing activities.<sup>39</sup>

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 14 shows this in more detail.

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.<sup>40</sup> In addition, a number of firms have offices in other parts of the British Isles, notably the Channel Islands.

**FIGURE 14: 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.

<sup>39</sup> 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).

<sup>40</sup> 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 below should therefore be viewed as a conservative estimate of those employed in investment management related roles.

## DIRECT EMPLOYMENT

According to IA estimates, just over 42,200 people are directly employed by investment managers in the UK. Chart 75 shows the growth in direct employment over the last fifteen years. There are a few things to note:

- In the aftermath of the Global Financial Crisis (GFC) in 2008, direct employment numbers fell 10% between 2007 and 2009. The market dislocation in 2020 has not had a similar impact with headcount increasing 4% year on year.
- Growth in employment kept pace with growth in total assets under management until 2016. Since 2016 growth in industry headcount has slowed while overall assets under management have continued to increase strongly.

The industry outsources many functions within the value chain, and so middle and back office functions are likely to be significantly underestimated in our data. However, outsourcing has occurred for decades and so does not explain the slowdown in growth in employment over the last five years. The slowdown coincides with the Brexit referendum in 2016 and it may be the case that firms were waiting to see how the negotiations played out before making significant personnel changes.

Another explanation is that the slowdown in growth is related to the rise in assets, where greater scale does not necessarily need significantly more headcount. This is particularly true in the indexing strategy space, which in order to keep costs low for investors and to maintain a profitable business, focuses on growing AUM to increase scale but does not necessarily require more personnel as the total assets within a particular strategy increase.

**CHART 75: INDUSTRY HEADCOUNT ESTIMATE VS. UK ASSETS UNDER MANAGEMENT (2009-2019)**



JUST OVER  
**42,200**  
 PEOPLE ARE DIRECTLY  
 EMPLOYED BY  
 INVESTMENT MANAGERS  
 IN THE UK

## DISTRIBUTION OF STAFF BY ACTIVITY

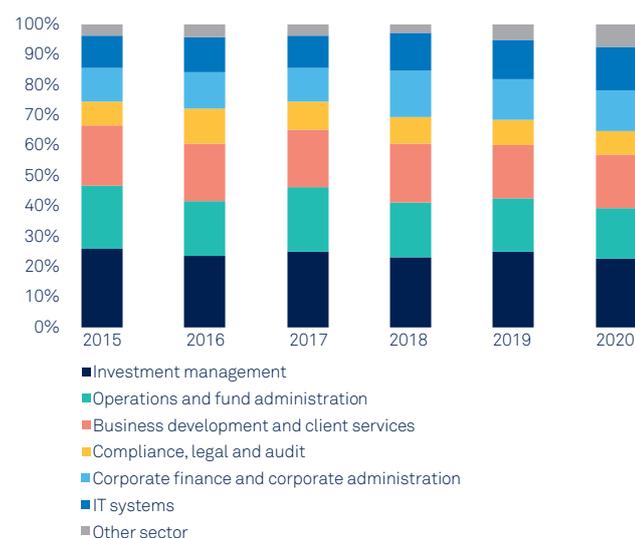
Table 6 provides a breakdown of the proportion of employees directly employed by investment managers in the UK, split by function. Distribution remains similar to what was observed in 2019, with one notable change: directly employed staff in investment management activities increased by three percentage points from last year and now accounts for more than a quarter of employment in the industry.

**TABLE 6: DISTRIBUTION OF STAFF BY ACTIVITY (DIRECT EMPLOYMENT)**

Activity	Percentage of total headcount
<b>Investment Management of which</b>	<b>27%</b>
Investment management (asset allocation and stock selection)	68%
Research, analysis	26%
Dealing	7%
<b>Operations and Fund Administration of which</b>	<b>16%</b>
Investment transaction processing, settlement, asset servicing	27%
Investment accounting, performance measurement, client reporting	33%
Other fund administration (incl. CIS transfer agency, ISA administration etc.)	40%
<b>Business Development and Client Services of which</b>	<b>17%</b>
Marketing, sales, business development	68%
Client services	32%
<b>Compliance, Legal and Audit of which</b>	<b>8%</b>
Compliance	37%
Risk	33%
Legal	23%
Internal audit	7%
<b>Corporate Finance and Corporate Administration of which</b>	<b>12%</b>
Corporate finance	37%
HR, training	18%
Other corporate administration	45%
<b>IT Systems</b>	<b>14%</b>
<b>Other Sector</b>	<b>6%</b>

A closer look at distribution of staff by activity (Table 6) and direct employment by staff segment (Chart 76) over the past five years exposes a number of long-term trends in industry staffing levels:

- Over the past ten years, the proportion of people employed in Investment Management has fluctuated, averaging out at 26%. The increase between 2019 and 2020 of three-percentage points has been the most significant in the last decade and the proportion of jobs in Investment Management is now 27% of the total workforce.
- Since 2010, employment in Operations and Fund Administration averaged at 18%. However, the distribution of staff within Operations and Fund Administration has experienced a major shift as the proportion of staff employed in investment transaction processing, settlement and asset servicing has increased from 12% to 27% over the past ten years.
- Employment in Business Development and Client Services has experienced a small but steady decrease over the past few years, dropping five percentage points since 2016 to 17% in 2020. Regional business development roles have increasingly been centralised by firms.
- The proportion of jobs in Compliance, Legal and Audit increased from 5% in 2010 to 8% in 2016 and has since been stable at 8%.
- The levels of staffing in Corporate Finance and Corporate Administration has increased by two percentage points over the past five years, up from 11% in 2015 to 13% in 2020.
- The proportion of IT Systems roles has fluctuated between 10% and 14% over the past ten years. In 2020, 13% is one percentage point decrease from 2019.

**CHART 76: DIRECT EMPLOYMENT BY STAFF SEGMENT (2015-2020)**

As well as varying by staff segment, employment in the investment management industry varies by location. Table 7 offers a breakdown of direct industry employment by location. Job distribution in London, Scotland and other regions ('Elsewhere in the UK') has remained relatively stable. London remains the city with the highest concentration of employment in investment management.

**TABLE 7: DISTRIBUTION OF INVESTMENT MANAGEMENT JOBS BY REGION**

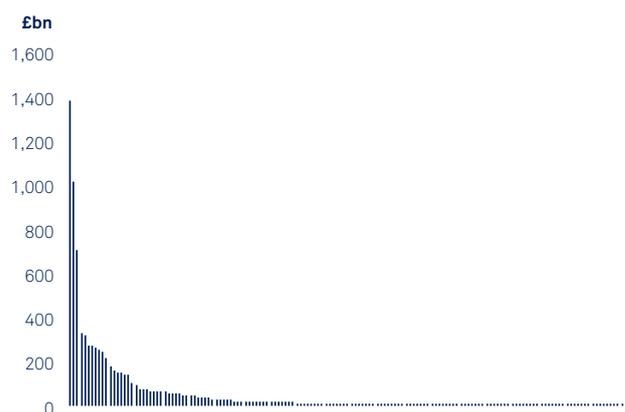
	London	Scotland	Elsewhere in the UK
<b>Investment Management of which</b>	<b>28%</b>	<b>21%</b>	<b>37%</b>
Investment management (asset allocation and stock selection)	64%	71%	71%
Research, analysis	28%	23%	24%
Dealing	8%	6%	4%
<b>Operations and Fund Administration of which</b>	<b>15%</b>	<b>19%</b>	<b>24%</b>
Investment transaction processing, settlement, asset servicing	32%	20%	5%
Investment accounting, performance measurement, client reporting	30%	40%	25%
Other fund administration (incl. CIS transfer agency, ISA administration etc.)	38%	40%	70%
<b>Business Development and Client Services of which</b>	<b>19%</b>	<b>16%</b>	<b>10%</b>
Marketing, sales, business development	70%	47%	72%
Client services	30%	53%	28%
<b>Compliance, Legal and Audit of which</b>	<b>8%</b>	<b>7%</b>	<b>8%</b>
Compliance	34%	48%	33%
Risk	37%	26%	34%
Legal	23%	16%	32%
Internal audit	6%	10%	1%
<b>Corporate Finance and Corporate Administration of which</b>	<b>12%</b>	<b>15%</b>	<b>10%</b>
Corporate finance	30%	46%	63%
HR, training	16%	22%	5%
Other corporate administration	54%	32%	32%
<b>IT Systems</b>	<b>12%</b>	<b>21%</b>	<b>10%</b>
<b>Other</b>	<b>7%</b>	<b>2%</b>	<b>2%</b>

## INDUSTRY CONCENTRATION

Chart 77 ranks IA members by total UK managed assets under management. The chart shows a steep downwards curve starting from a small number of very large firms to a long tail of medium- and small-sized organisations.

This is evident in the difference between the mean value and median value of assets under management by IA member firm. The median value of IA member firms' assets under management stands at £11 billion but the mean value is much higher at £55 billion, which indicates that there is a relatively small number of members managing large volumes of assets under management.

**CHART 77: IA MEMBER FIRMS RANKED BY UK ASSETS UNDER MANAGEMENT (JUNE 2020)**



## AVERAGE ASSETS UNDER MANAGEMENT IN JUNE 2020

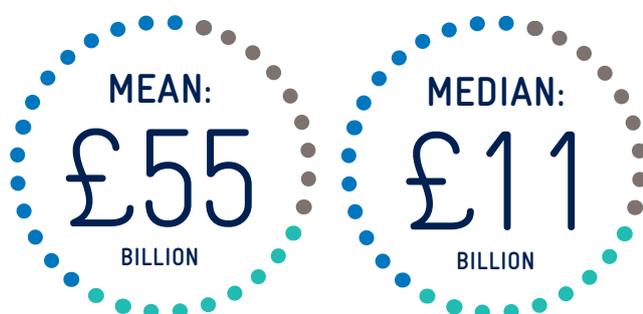


Table 8 offers a breakdown of IA member firms into different buckets based on their total assets under management. In the analysis, we have grouped firms into small firms managing less than £15 billion; medium-sized firms managing between £15 - £50 billion and large firms managing over £50 billion. Firms managing £15 billion in assets or less remain the highest proportion of the IA's membership at 56% in 2020, implying that there continues to be strong demand for the specialised investment services typically offered by smaller firms, including boutique investment managers.

**TABLE 8: ASSETS MANAGED IN THE UK BY IA MEMBERS BY FIRM SIZE**

AUM	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)	No. of firms (June 2020)
>£100bn	10%	11%	12%	12%	11%	12%
£50-100bn	10%	9%	9%	8%	7%	9%
£25-50bn	10%	11%	10%	14%	11%	9%
£15-25bn	10%	8%	10%	8%	12%	14%
£1-15bn	50%	51%	47%	49%	45%	48%
<£1bn	11%	10%	13%	10%	13%	8%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

There has been little fluctuation in terms of the size of firms within the IA's membership over the past five years, but we note the following:

- The proportion of small firms has decreased from 61% in 2015 to 56% in 2020, but still accounts for the majority of IA member firms. Within this category, the proportion of firms managing under £1 billion has fallen from 13% to 8% between 2019 and 2020 which is in part due to M&A activity.
- The proportion of medium sized firms has increased by three percentage points over the same period, accounting for close to a quarter of firms in 2020 with 23%. Between 2019 and 2020, firms managing between £15 – £25 billion increased by two percentage points, whereas the proportion of firms managing between £25 – £50 billion decreased by two percentage points.
- Over the past five years, the proportion of large firms has remained relatively stable, fluctuating between 18% and 21% of IA member firms.

In Chart 78, we see that the slight year on year increase in the proportion of assets managed by the five largest and ten largest firms in the industry – 44% and 59%, respectively – has brought the industry to its highest concentration level in the past ten years. Despite this increase, on the Herfindahl-Hirschmann Index (HHI), which is a commonly used measure of market concentration, the UK investment management industry measures 578 in 2020. An HHI of between 1000 and 2000 indicates moderate concentration, and anything below that indicates low concentration. This puts the industry well below the threshold of moderate concentration irrespective of the increase from 542 HHI in 2019 to 578 in 2020.

**CHART 78: MARKET SHARE OF LARGEST FIRMS BY UK ASSETS UNDER MANAGEMENT VS. HHI (JUNE 2010 – JUNE 2020)**

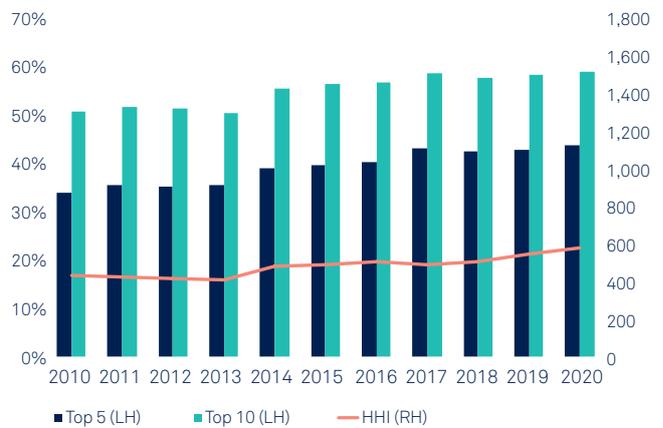


Chart 79 presents the top ten investment management firms in terms of UK-managed and global assets under management.<sup>41</sup> The top ten UK firms are a diverse group ranging from independent investment managers to bank and insurance owned managers. Both active managers and managers offering indexing strategies are represented in the top ten firms.

Most are UK-focused and UK assets under management account for the majority of their global assets. The three managers in the top ten with a significantly larger global footprint, BlackRock, JP Morgan and State Street, have parent companies headquartered in the US and a wide global reach. Over the last decade, fourteen firms have been listed in the top ten. Movements and new entrants to the list have been the result of merger and acquisition activity amongst some of the top ten firms.

## BOUTIQUES

The IA membership contains a number of boutique management firms. The definition of a boutique firm is based on 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, there are 15 IA members that qualify as boutique investment management firms. This is down from last year, when there were 22. The fall in the number of boutiques in 2020 was driven by merger and acquisition activity which has meant that seven firms no longer meet the criteria outlined above.

**CHART 79: TOP TEN FIRMS BY UK-MANAGED AND GLOBAL ASSETS UNDER MANAGEMENT<sup>42</sup>**



<sup>41</sup> Figures disclosed based on headline data supplied by firms themselves to the IA in response to the Survey Questionnaire.

<sup>42</sup> Assets under management figures may reflect the value of wider economic exposure managed for clients in addition to securities within segregated or pooled portfolios.

## INVESTMENT MANAGER OWNERSHIP

Chart 80 looks at total assets under management based on the location of the parent group headquarters and how this has changed over the last decade. The most notable change has been the fall in the proportion of assets managed by UK-headquartered firms and the rise in assets managed by firms with a North American-headquartered parent company:

- Since 2010, the share of assets managed by firms with a North American-headquartered parent has risen from 42% to 47% in 2020.
- Over the same period, the share of UK-headquartered parent groups has decreased seven percentage points to 40% in 2020.
- Assets managed by European-owned firms continue to make up a relatively low proportion of assets managed in the UK, at 11%.
- Companies with Asia Pacific parents continue to represent just 1% of assets managed in the UK.

**CHART 80: ASSETS UNDER MANAGEMENT BY REGION OF PARENT GROUP HEADQUARTERS (2010-2020)**

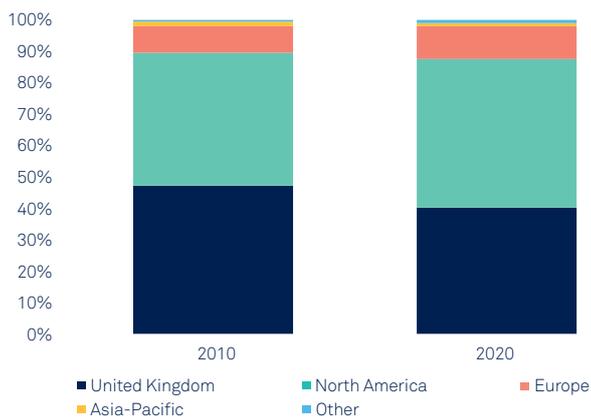


Chart 81 looks at shifts in ownership over the last decade. The most significant change has been the growth of investment managers as standalone businesses:

- In 2010, standalone investment managers accounted for 37% of total assets but now make up 42% of total assets.
- The proportion of assets managed by retail bank and insurance owned groups has fallen from 35% in 2010 to 27% of industry assets in 2020. Going back further to 2008, insurance and retail bank owned firms accounted for over half (52%) of total assets, a significantly different picture from 2020.
- Investment bank owned firms have seen a modest two percentage point increase to 13% over the past decade.
- Pension fund manager assets are unchanged and account for 3% of total assets.

**CHART 81: BREAKDOWN OF UK ASSETS UNDER MANAGEMENT BY PARENT TYPE (2010-2020)**

