THE INVESTMENT ASSOCIATION

INVESTMENT MANAGEMENT IN THE UK 2020-2021

The Investment Association Annual Survey

September 2021

CONTENT ENQUIRIES

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ABOUT THE SURVEY

THE SURVEY CAPTURES INVESTMENT MANAGEMENT UNDERTAKEN BY MEMBERS OF THE INVESTMENT ASSOCIATION (IA) ON BEHALF OF DOMESTIC AND OVERSEAS CLIENTS. UNLESS OTHERWISE SPECIFIED, ALL REFERENCES TO 'UK ASSETS UNDER MANAGEMENT' REFER TO ASSETS, WHEREVER DOMICILED, WHERE THE DAY-TO-DAY MANAGEMENT IS UNDERTAKEN BY INDIVIDUALS BASED IN THE UK. THE ASSET VALUE IS STATED AS AT DECEMBER 2020.

THE FINDINGS ARE BASED ON:

- Questionnaire responses from 74 IA member firms, who between them manage £9.4 trillion in the UK (85% of total UK assets under management by the entire IA membership base).
- Other data provided to the IA by member firms.
- Data provided by third party organisations where specified.
- Publicly available information from external sources where relevant.
- Interviews and roundtable discussions with senior personnel from 15 IA member firms.

THE IA WOULD LIKE TO EXPRESS ITS GRATITUDE TO MEMBER FIRMS WHO PROVIDED DETAILED QUESTIONNAIRE INFORMATION AND TO THOSE WHO TOOK PART IN THE INTERVIEWS AND ROUNDTABLES.

THE SURVEY IS IN SIX CHAPTERS:

1. UK Investment Management Industry: A Global Centre
2. Emerging from the pandemic: Key Themes for the UK Industry
3. Trends in Client Assets and Allocation
4. UK Institutional Client Market
5. UK Retail Funds Market
6. Operational and Structural Issues

THERE ARE ALSO SIX APPENDICES:

1. Summary of assets under management in the UK
2. Summary of data from the UK institutional market
3. Notable M&A deals in the UK investment management sector (2009 – July 2021)
4. Definitions
5. Survey respondents
6. Interview and roundtable participants

A NUMBER OF GENERAL POINTS SHOULD BE NOTED:

- Not all respondents were able to provide a response to all questions and therefore the response rate differs across questions.
- The Survey has been designed with comparability to previous years in mind. However, even where firms replied in both years, some may have responded to a question in one year but not in the other or vice versa. Where meaningful comparisons were possible, they have been made.
- Numbers in the charts and tables are presented in the clearest possible manner for the reader. At times this may mean that numbers do not add to 100%, or do not sum to the total presented, due to rounding.

INVESTMENT MANAGERS OWN NEARLY
40%
OF UK PLC
114,000
JOBS ACROSS THE INDUSTRY
£100
BILLION
INCREASE IN ASSETS MANAGED IN SCOTLAND
£1.7
TRILLION
INVESTED IN THE UK ECONOMY
£4.2
TRILLION
MANAGED FOR OVERSEAS INVESTORS
£9.4TRN
MANAGED BY IA MEMBERS IN THE UK
£1.0
BILLION
A MONTH INTO RESPONSIBLE INVESTMENT FUNDS
WORLD'S LEADING
INTERNATIONAL INVESTMENT HUB
£40
BILLION
INVESTED IN UK INFRASTRUCTURE

SURVEY FOREWORD

ONCE AGAIN, THIS YEAR'S INVESTMENT MANAGEMENT SURVEY SHOWS A RESILIENT AND HIGHLY INTERNATIONAL INDUSTRY AS IA MEMBERS MANAGED A RECORD £9.4 TRILLION FOR UK AND OVESEAS CLIENTS AT THE END OF 2020. BUT THE POST-COVID ENVIRONMENT WILL NOT BE A RETURN TO BUSINESS AS USUAL AND OUR REPORT THIS YEAR CONTINES TO EXPLORE HOW THE INDUSTRY IS ADAPTING TO CHANGING CHALLENGES AND OPPORTUNITIES.

At the time of publication, the outlook in the UK is cautiously improving – children are going back to school, students are heading to their universities and workers are slowly returning to offices. The key difference in 2021 is of course the accelerating roll-out of vaccines internationally and early signs that an unprecedented vaccination drive is helping to mitigate the worst impacts of Covid-19.

For the investment management industry and its customers, the last twelve months have been characterised by less volatility than we saw during the early period of the pandemic when markets gyrated amidst a global economic shutdown. This has enabled firms to develop operational models that will allow for changes in working practices and provide much more flexibility for workforces. The Covid-19 experience has shone a spotlight on the need to continue technological modernisation at every level of the investment management delivery chain in order to deliver the best outcomes for customers. The operating model is also increasingly focused on the importance of the Diversity and Inclusion (D&I) agenda.

Sustainability, and responsible investment more widely, emerges as the standout theme since the Covid-19 pandemic began, reinforced by a series of adverse climate events through summer 2021. As the recovery gets under way, this extends well beyond environmental issues and includes a broader series of social and governance questions that are pushing the boundaries of investment management interaction with the wider economy.

Our report this year explores the challenges and opportunities that lie ahead in this area. Extraordinary global environmental conditions have helped to drive very detailed regulation, notably the EU's Sustainable Finance Disclosure Regulation (SFDR) and the framework developed by the Taskforce for Climate-Related Financial Disclosure (TCFD). Getting this right – both in spirit and in letter – will be a significant journey for investment firms, customers, government and regulators. It is clear that there is an ever-stronger commitment from within the investment management community to ensure that we do so.

At the same time, the shape of the UK economy, and other national economies, is changing. While public markets remain incredibly important for investors and companies, private markets are surging in significance. It is unclear how much this is structural as opposed to cyclical, but there is a strong appetite from customers to access these markets. In the UK, we have been working at pace on a new fund vehicle – the Long-Term Asset Fund (LTAF) – to facilitate access more widely as part of the industry's role in serving customer needs and channelling productive capital to the economy.

The last twelve months also saw the end of the Brexit transition period at the end of the year, with our industry continuing to be vigilant about the longer-term outlook for the cross-border delegation that remains at the heart of our worldwide operating model. Alongside this vigilance, the IA and the industry continue to put forward a clear agenda for the UK to remain an agile, inter-connected and world-class investment management centre. Again, technology is a key part of that agenda alongside other priorities, including access – and attractiveness to talent, both home-grown and international.

This year's report shows an industry operating in an era of extensive challenge, but one which has shown itself able to adapt to the most difficult of circumstances. I hope you find the Survey interesting and informative and I welcome any thoughts on aspects of the industry you would like us to explore in future editions.

Chris Cummings
CEO

IA MEMBERS MANAGED A RECORD

£9.4TRN

FOR UK AND OVESEAS CLIENTS AT THE END OF 2020

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.

1 UK INVESTMENT MANAGEMENT INDUSTRY: A GLOBAL CENTRE

KEY FINDINGS

SIZE OF THE UK INDUSTRY

- As at December 2020, IA members' UK-managed assets reached £9.4 trillion, an 11% increase since 2019. Growth in total assets were buoyed by strong global capital market performance, particularly in the last quarter of 2020.
- In the UK retail market, UK authorised and recognised funds experienced similar growth, increasing 10% in 2020 to reach £1.4 trillion in total assets.
- Outside of London, where the majority of investment management activity is concentrated, Edinburgh remains the second largest hub of investment management in the UK. Total assets managed in Scotland reached £690 billion, an increase of £100 billion on the previous year. In relative terms this remains unchanged at 7%.
- Looking beyond the IA's membership, there is a broader ecosystem of investment management services which includes private equity funds, hedge funds, wealth management and UK commercial property. Total managed assets within the wider industry reached £11.0 trillion in 2020, up from a revised £10.0 trillion in 2019.

UK INVESTMENT MANAGEMENT INDUSTRY IN A GLOBAL CONTEXT

- Global assets under management surpassed the $100 trillion mark in 2020. The UK hosts the largest investment management centre in Europe and the second largest globally behind the US.
- While the US industry serves a largely domestic market, the UK investment management industry is a leading international centre. In 2020, UK managed assets on behalf of overseas clients grew for the second year in a row and are now responsible for just under half (44%) of total assets, a one percentage point increase over the last year. The majority (58%) of these assets are managed on behalf of European clients.
- The UK also serves as a global hub for portfolio management expertise. Total UK managed assets in investment funds reached £3.7 trillion in 2020. Over three fifths (63%) of these assets sit within funds domiciled overseas where the portfolio management is delegated to a UK based investment manager. This has increased eleven percentage points since 2015.

This chapter looks at the growth of the UK as a pre-eminent global investment management centre and considers the importance of the industry, both to the UK economy and to investors around the globe.

FIGURE 1: WHO ARE THE IA'S MEMBERS?

Full members of the IA can be broken down into five broad groups:

1. **Large investment management firms** (both UK and overseas-headquartered), which may be independent or part of wider financial services groups such as banks or insurance companies. They undertake a wide range of investment management activities across both retail and institutional markets and manage substantial amounts for overseas client in the UK. Such firms will typically be managing >£100 billion from the UK, but a number of international firms have a smaller UK footprint.
2. **Small and medium-sized investment management firms**, primarily focused on UK and/or European clients, which undertake a diverse range of activities, of which investment management is a constituent part.
3. **Fund managers**, whose business is based primarily on authorised investment funds.
4. **Specialist boutiques and private client managers** with a smaller asset and client base and, typically, a specific investment or client focus.
5. **Specialist pension scheme managers,** both Occupational (OPS) scheme managers running in-house investment management services for a large scheme, and Local Government Pension Scheme (LGPS) pools, supporting the LGPS investment process.

ROLE OF INVESTMENT MANAGEMENT

The investment management industry has a central role in the economy, channelling savings into long-term investments in order to deliver returns for a wide range of clients, whether these are individual savers or institutions such as pension schemes. These two aspects are illustrated in Figure 2.

Services to clients involve wide expertise in areas such as risk management and giving access to a wide range of assets that would normally be out of reach for individual investors. The ultimate goal is to provide customers with a basket of shares, bonds and other assets such as property, which can deliver returns over many years without exposing them to undue risk.

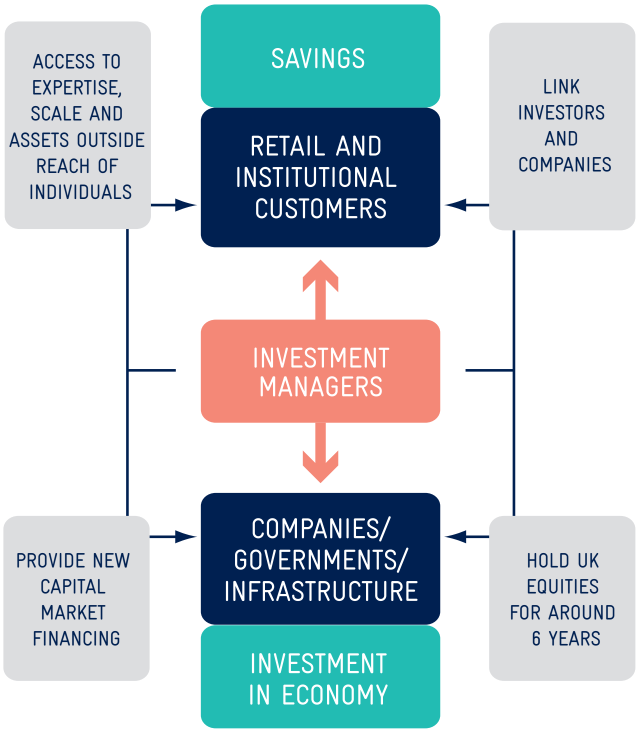
The industry's role goes beyond the actual investment in different asset classes. Investment managers help to ensure that capital markets work effectively for this investment to take place. In doing so, investment manager activity contributes to efficient markets which price information correctly and allow buyers and sellers to transact. This facilitates both primary issuance when companies or governments are trying to raise money, and secondary trading of different instruments. Without efficient markets, market economies cannot grow effectively or may even destabilise.

Investment managers are not unique in this as other financial institutions and individuals contribute to capital market efficiency, but the industry has historically been at the heart of long-term capital allocation, whether through shares, bonds or other assets. As long-term holders of investments, UK investment managers hold UK equities over many years.[1] The industry therefore has an important responsibility to undertake stewardship activity over the companies they invest in to protect the value for their clients.

As we discuss in other parts of the Survey, the role of the industry increasingly extends to broader issues such as combating climate change and executive remuneration policies. This wider role is expected to become even more important in future years as part of the focus on responsible and sustainable investment.

[1] A study undertaken for the IA found that investment managers hold UK equities for an average of six years. See *The contribution of asset management to the UK economy*, July 2016, Oxera.

FIGURE 2: THE ROLE OF INVESTMENT MANAGERS IN CHANNELLING SAVINGS TO INVESTMENTS



SIZE OF UK INDUSTRY

IA members managed £9.4 trillion in the UK, as of the end of 2020, an increase of 11% on the previous year (see Chart 1). This growth comes on the back of a very volatile year in global capital markets, and is in line with the annual growth rate over the last five years. Industry assets under management (AUM) stood in £8.5 trillion in December 2019 and had risen to £8.6 trillion by June 2020, which tells us that most of the growth in assets occurred over the last six months of 2020.

Total funds under management (FUM) for UK investors in UK authorised and recognised funds have seen a 9% increase year on year, reaching £1.4 trillion in 2020. This is marginally lower than the 10% annual growth rate recorded over the last five years.

GLOBAL CAPITAL MARKET PERFORMANCE IN 2020

2020 was characterised as a year of extreme movements in capital markets. This was in large part due to the Covid-19 pandemic which caused a total shutdown of large sectors of the global economy and was the source of major uncertainty. Though most markets recovered by the end of the year – even reaching record highs –markets suffered one of the quickest declines on record in March. Table 1 shows the annual total return of selected indices.

Pandemic related jitters emerged in equity markets in late January following the lockdown in Wuhan, though this was short lived and many markets reached record or near record highs in February. By late February the virus was spreading quickly through Europe and the lockdown in Northern Italy initiated a flurry of activity in markets. The initial dip in equity markets in late February was driven by a flight to safety as investors sold off equities in favour of less risky assets which resulted in a sharp fall in bond yields as strengthening demand caused bond prices to rise.

By 12th March when the WHO declared Covid-19 a global pandemic, the UK had reported its first Covid-19 death, and crude oil prices had collapsed triggering trading circuit breakers. Governments were faced with difficult decisions regarding containment measures. The next ten days or so saw a 'dash for cash' as investors continued to sell off assets across asset classes in order to build up their liquid reserves. Bond yields rose sharply in the dash for cash and large scale redemption requests from Money Market Funds (MMFs) caused severe strains in the commercial paper market. When the market bottomed out in late March 2020, global equities were down 20% from the start of the year. Substantial intervention from central banks around the world using a combination of quantitative easing, interest rate cuts and emergency monetary policy measures, were critical in restoring stability to global markets.

Overall global stock markets rebounded strongly through the rest of 2020. Much of the clawback in returns was immediate with global equities returning 20% in Q2. There were dips across markets at the start of Q3 and Q4, in response to the imposition of renewed lockdown measures but these were short lived as investors acclimatised to weathering Covid-19 related announcements. Investors' confidence improved as Pfizer BioNTech announced the results of its successful vaccine trial in November, which offered hope that the virus could be contained, and economic restrictions eased. This contributed to an annual total return of global stocks of 13% in Sterling terms in 2020, in spite of the market correction in March.

Similar to other markets, UK equities tumbled in Q1 with the FTSE 100 experiencing the second largest single day loss (-10.2%) on record in March. The initial rebound in UK equities, though strong, was not as pronounced as the bounce back in other markets. Growth stagnated in Q3 despite the Bank of England pumping an extra £100 billion into the UK economy. News of the vaccine saw UK equities return 11% in the last quarter of 2020, however this was not enough to make up for the losses in March as total return for the year closed out at -10%. Dividends are a larger component of total returns in the UK equity market compared with the other m ajor equity markets. In 2020, two thirds of UK companies cut or cancelled dividend payments with total dividends for the year almost half the level they were the previous year.[2]

The other equity markets posted double digit returns in 2020, with the exception of European equities which ended the year with returns of 9%. The US equity market weathered 2020 well, reaching 15% returns by the end of the year recovering very strongly from March losses. The sharp recovery rates are attributed to the Federal Reserve's rates cuts and the newly elected Biden administration's announcement of a $2 trillion stimulus package at the end of 2020.

Asia Pacific equities returned 18% by the end of the year, with market resilience mainly attributed to a swift and strong response to the pandemic, which helped Asian economies return to growth earlier than in the West. Japanese equities were amongst the top performing equity markets despite a difficult Q1, ending the year with 18% returns. Emerging market equities bounced back in Q2 and recorded strong quarterly returns. Emerging markets equities ended the year with 12% returns.

In the bond markets, yields fell sharply as demand rose between late February and early March. However, as asset values plummeted in the middle of March, and the demand for cash rose, investors began selling out of fixed income markets resulting in some severe strains, including stale prices. Central bank rates cuts and bond repurchase programmes have been the driver of price stabilisation and growth in the bond market. Global bonds ended the year with 6% returns, higher than the 3% return in 2019. UK gilts and non-gilts (primarily made up of corporate bonds) outperformed global bonds returning 9% and 8% respectively.

TABLE 1: TOTAL RETURN OF SELECTED BOND AND EQUITY MARKETS IN 2020

UK equity	-10%
Global equity	13%
Europe (ex UK) equity	9%
Asia Pacific (ex Japan) equity	18%
Emerging market equity	12%
Japan equity	18%
US equity	15%
Global bonds	6%
UK Gilts	9%
UK Non-Gilts	8%

Source: Morningstar

[2] UK Dividend Monitor, Link Group.

Growth in industry assets is a function of market performance and flows. Market performance in 2020 was incredibly volatile as the coronavirus pandemic unfolded and expectations regarding future growth were adjusted. The initial impact in March 2020 was extreme but short lived, with most equity markets recording double digit growth over 2020 *[See Review of global markets 2020 overleaf]*.

We do not collect comprehensive flow data across the £9.4 trillion of industry assets, however, we do collect very detailed flow data for the UK funds market and flow data for UK institutional clients. This data would suggest that most of the remarkable growth over the last decade has been driven by very strong capital market performance. Based on total funds under management and cumulative net sales over the last decade, market movements account for approximately 70% of the growth in total FUM. We have collected flow data for UK institutional clients since 2018 and again, market movements have been responsible for approximately 75% of the growth in the UK institutional market over the last three years.

CHART 1: TOTAL ASSETS UNDER MANAGEMENT IN THE UK AND IN UK FUNDS (2006-2020)

Source: IA, ONS

The size of the industry relative to GDP (as illustrated by the right hand side of Chart 1) has increased to almost five times the size of the UK's economy. This is an indication of the growth of industry assets during a period of significant economic strain. UK GDP contracted 10% between 2019 and 2020, the largest year on year fall on record.

By comparison, the latest data available for Europe excluding the UK indicates that in Europe, the average size of the domestic investment management industry is just over double the size of local GDP. This gives a helpful way to compare the scale of investment management activity internationally and reflects the ongoing importance of the UK as a global centre.[3]

SCOTLAND AS A MAJOR CENTRE

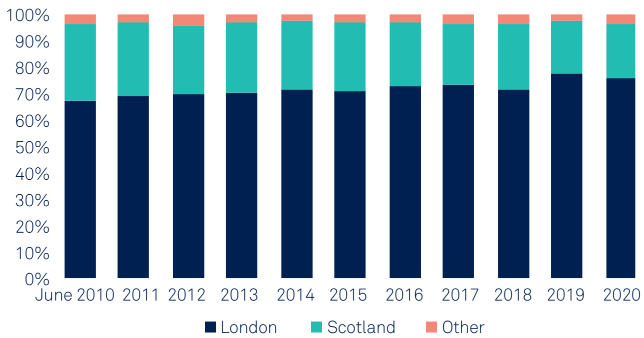
The majority of investment management activity takes place in the City of London, but Edinburgh is the second largest hub for investment management in the UK. Our latest estimate puts assets managed in Scotland at £690 billion, equivalent to 7% of total assets. In nominal terms, this represents a £100 billion increase year on year, but is unchanged as a proportion of total assets. By way of comparison, the proportion of assets managed in Scotland in 2010 stood at 14%. The fall in the proportion of assets over the last decade is a reflection of faster relative growth elsewhere in the UK rather than a fall in Scottish managed assets in absolute terms.

[3] IA analysis of EFAMA data.

Among UK-headquartered investment managers, one fifth (21%) of assets are managed by firms with headquarters in Scotland. Chart 2 shows how the regional split has evolved over the last 10 years. UK managed assets have become increasingly dominated by firms headquartered in London, a trend that has accelerated in 2019 due to M&A activity in Scotland.

The difference between the proportion of assets managed in Scotland and the proportion of assets based in UK regional headquarters is a reflection of the fact that a firm can be headquartered in Scotland, while some of their portfolio managers are located elsewhere, most likely in London.

CHART 2: UK-MANAGED ASSETS BY UK REGIONAL HEADQUARTERS (JUNE 2010-2020)



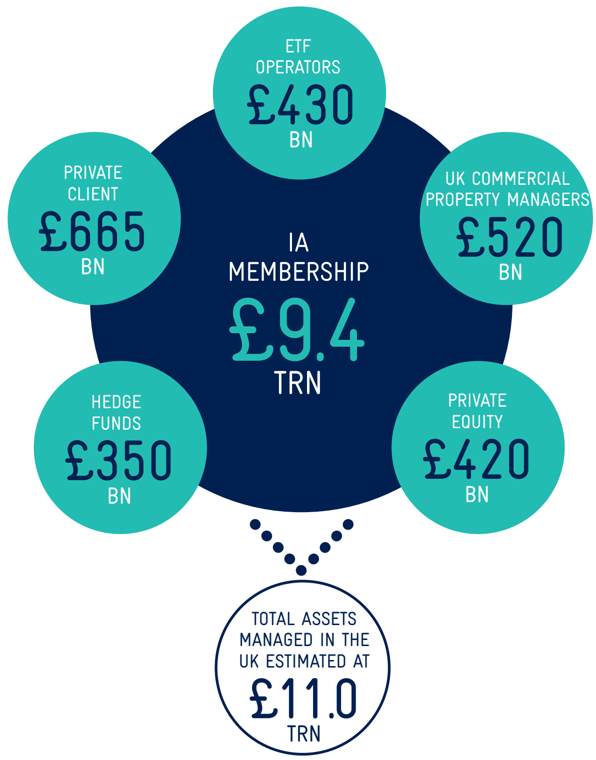
SCALE OF WIDER INDUSTRY

IA members represent the majority of the UK investment management industry in asset terms (85%). Firms not covered in detail in this report can be broadly split into the following categories:

- Hedge funds
- Private equity funds
- Commercial property management
- Discretionary private client management
- A small number of dedicated ETF operators
- Firms who are not members of the IA for reasons not noted above[4]

Figure 3 provides estimates to show how these wider parts of the industry contribute to total assets under management in the UK. Many IA members are also active players in the areas of investment management outlined in the list above. There is therefore some overlap in the figures presented in Figure 3 below. As of December 2020, we estimate the size of the wider industry at £11.0 trillion up from a revised £10.0 trillion in 2019.

FIGURE 3: WIDER INVESTMENT MANAGEMENT INDUSTRY



Source: ComPeer, Morningstar, Preqin, Investment Property Forum, IA estimates

[4] This last group is more difficult to size as there is no consistent third party data available.

UK INVESTMENT MANAGEMENT IN EUROPEAN AND GLOBAL CONTEXT

The UK is the second largest investment management centre in the world behind the United States. The US accounts for just under half of the £75 trillion ($103 trillion) of global assets under management and most of the £33.0 trillion in US AUM is managed in the US. This puts US AUM higher than the total assets under management across all European nations combined (Table 2). Outside Europe and the US, Japan is a notable investment management centre with total assets under management of about £5.0 trillion.

TABLE 2: GLOBAL ASSETS UNDER MANAGEMENT

	Assets under management (local currency)	Assets under management (£ equivalent)
US	$45 trillion[5]	£33.0 trillion
Europe	€27 trillion[6]	£24.4 trillion
Japan	¥700 trillion[7]	£5.0 trillion

Figure 4 looks at the size of the UK investment management industry compared with other European countries. Net assets are estimated based on the most recent market share data available (December 2018). The UK is by far the largest investment management centre in Europe with a market share of 37%.[8] This proportion has remained fairly stable over the last decade. Looking at the rankings in Figure 4, the UK's share of the European market is larger than the combined total of France, Germany and Switzerland.

FIGURE 4: ASSETS UNDER MANAGEMENT IN EUROPEAN COUNTRIES (DECEMBER 2018)

Country	Net assets (€bn)	Market share
1. UK	8609	37%
2. France	4072	18%
3. Germany	2190	10%
4. Switzerland	1912	8%
5. Italy	1315	6%
6. Netherlands	1207	5%
7. Denmark	387	2%
8. Spain	369	2%
9. Belgium	287	1%
10. Austria	131	1%
Other	2617	11%
TOTAL	**23,069**	

Source: EFAMA

[5] Estimate based on North America Data. Global Asset Management 2021: The $100 Trillion Machine, BCG, 2021.
[6] Provisional estimates for Asset Management in Europe, 12th Annual Review, EFAMA.
[7] Financial Services in Japan 2019/2020, NRI.
[8] This is based on December 2018 EFAMA data.

OVERSEAS CLIENT MARKET

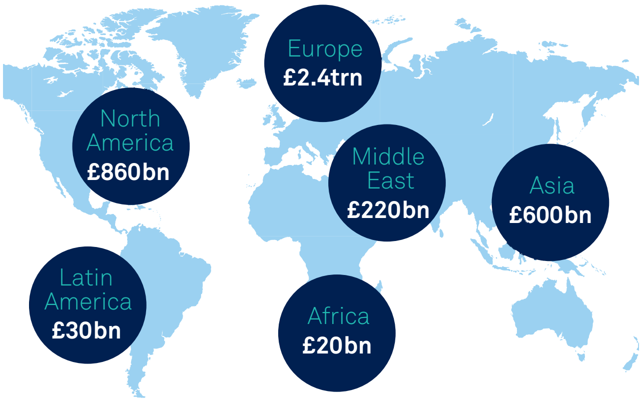
The UK has long been regarded as a leading centre of excellence for investment management and as we discuss in more detail in chapter 2, has many competitive advantages that make it an attractive investment hub for overseas investors. That remains true, despite the UK's departure from the European Union on the 31 January 2020. As of the end of 2020, overseas client assets account for 44% of total AUM (equivalent to £4.2 trillion), a one percentage point increase year on year. Until 2019, total assets had fluctuated at the 40% mark for a number of years. 2019 marked a step change with total assets reaching 43% and this growth continued in 2020, reaching a new high.

Figure 5 shows the distribution of overseas clients' assets across the world. European clients continue to make up the majority (58%) of the overseas client base, with UK based investment managers overseeing £2.4 trillion on their behalf. The European share of the overseas market has remained fairly stable over the last five years. European client assets are managed predominately for clients in the EEA (about £2.2 trillion) with Swiss clients accounting for 80% of the Non-EEA European assets.

Assets managed on behalf of North American clients reached £860 billion in 2020, an increase of 22% on the previous year. This growth means that North American clients now account for 21% of the overseas client market, up from 17% in 2017. Much of the growth in 2020 is a result of improvements in data and reporting by our member firms.

Growth in Asian clients' assets slowed in 2020, but Asia still maintains a 14% share of overseas client AUM. Client assets outside Asia, North America and Europe tend to experience more fluctuation each year. Middle East and African client assets dipped in 2020, each experiencing falls of about £10 billion. Assets managed on behalf of clients in the Middle East have remained fairly stable in absolute terms over the last five years as assets managed on behalf of other markets have grown and so its proportion of the overseas market has fallen three percentage points to 6% since 2016.

FIGURE 5: ASSETS MANAGED FOR OVERSEAS CLIENTS



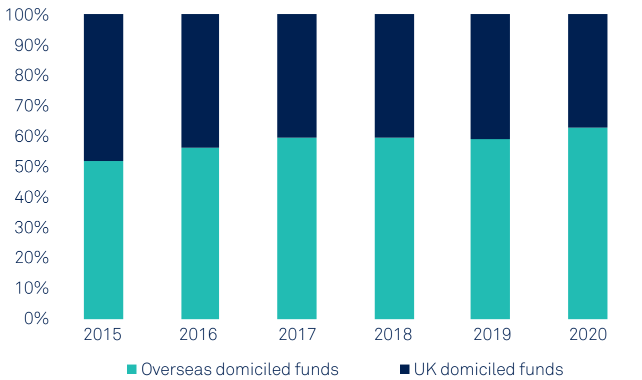
SERVICES TO OVERSEAS FUNDS

The attractiveness of the UK as a centre for investment management is reflected in the volume of assets within funds domiciled overseas that are being managed by IA members from UK offices. The delegation of these assets from overseas funds to UK based portfolio managers allows UK investment management expertise to be accessed from around the world.

The data in Chart 3 includes UK managed assets in open ended funds, investment trusts, ETFs, hedge funds and money market funds (MMFs). Total assets in UK managed investment funds at the end of 2020 stood at £3.7 trillion. The majority (63%) of these assets sat within funds domiciled overseas, primarily within funds domiciled in Ireland and Luxembourg.

Chart 3 shows that overseas funds have seen an eleven percentage point increase since 2015 when total assets in overseas domiciled funds stood at 52%. Much of this trend has been attributed to IA members transferring European clients to overseas domiciled funds as part of their Brexit preparations. Most of these transfers were complete by the end of 2017 at which point the trend towards the growth of assets in overseas funds stagnated. However, in 2020 based on a matched sample,[9] total assets in overseas funds recorded growth of 22% year on year while assets in UK domiciled funds increased 8%.

CHART 3: CHANGE IN PROPORTION OF ASSETS MANAGED FOR UK AND OVERSEAS FUNDS (2015-2020)

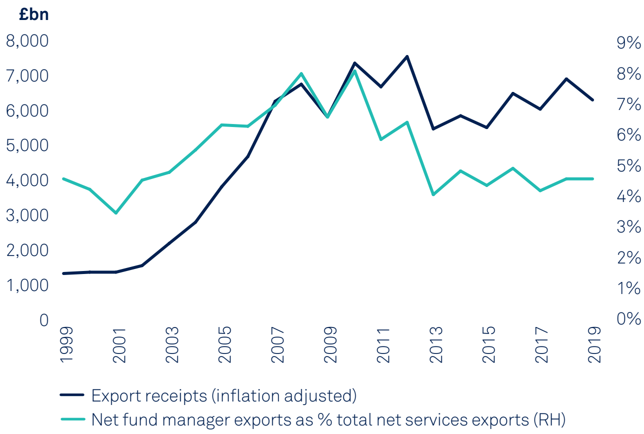


IMPORTANCE TO UK SERVICE EXPORTS

The growth in assets within overseas domiciled funds and the increasingly international client base presents an opportunity for UK investment management to export their services globally. Chart 4 looks at the investment management industry's contribution to the UK's total export earnings over the last two decades. Once adjusted for inflation, this contribution has increased from £1.2 billion in 1999 to £6.3 billion in 2019.[10]

The right hand side of Chart 4 indicates fund manager contribution as a proportion of total net exports stood at 4.5% in 2019. The proportion of fund manager exports peaked at 8.0% in 2010, largely driven by the slowdown in the growth of other services exports following the global financial crisis. It remained volatile for a few years after the crisis but has remained fairly stable, averaging 4.5% over the last five years.[11]

CHART 4: EXPORT EARNINGS OF FUND MANAGERS AND CONTRIBUTION TO SERVICES EXPORTS (1999-2019)



Source: ONS

[9] The matched sample consists of data from firms who have supplied both 2019 and 2020 data.
[10] Chart 4 uses the latest reported data by the ONS (December 2019).
[11] The data in Chart 4 captures earnings by independent investment managers but is likely to understate earnings from investment managers that are part of a wider financial services group such as an investment bank or insurer. As such, this estimate is conservative and the actual contribution of investment management overall to service exports is likely to be higher.

2 EMERGING FROM THE PANDEMIC: KEY THEMES FOR THE UK INDUSTRY

2

KEY FINDINGS

Our analysis sets out five key themes that are shaping investment management industry activity both in the UK and internationally.

1. INVESTING RESPONSIBLY AND SUSTAINABLY

- Responsible investment has seen significant growth in 2020, with the Covid crisis providing further impetus in this area. Data collected based on the IA's framework illustrates that almost half (49%) of the £9.4 trillion in assets were integrating ESG in their investment processes in 2020, up from the 37% reported in last year's report. Assets managed within sustainability focused strategies have more than doubled, albeit from a much smaller base, to 2.6% of industry assets.
- Investment managers recognise they are to play an important role in the global initiative for a transition to net zero emissions and have published seven industry commitments to realise this ambition.
- As part of these commitments, there are industry-wide efforts underway to develop a consistent set of definitions and classifications around RI products with a view to improving disclosure and customer understanding of a rapidly-evolving product set.

2. WIDENING SOURCES OF INVESTMENT RETURN

- Interest in private markets has grown in the last few years, driven both by the growth of market-based finance outside public markets and by investors looking to further diversify their investment portfolios.
- Proposals for a new fund structure in the UK, with wide investment powers and the ability to use long notice periods, aims to give DC pension and retail investors broader access to illiquid assets. This will also help to address broader regulatory concerns about liquidity mismatch in investment funds, which have been wider expressed in the aftermath of the market experience during the first months of the Covid crisis in 2020.

3. TRANSFORMING THE OPERATING CULTURE

- IA member firms remain committed to embedding an operating culture within firms that ensures the delivery of good outcomes for customers. This combines a focus on oversight, communication and transparency with an accelerating priority to ensure Diversity and inclusion (D&I) and wider cultural issues are addressed.
- D&I has been a high priority theme for the industry for a number of years, but the pandemic has focused firms' minds on the issue even further. Firms are increasingly looking beyond gender diversity and adopting a more holistic approach which looks at the intersectionality of different aspects of a person's identity.
- A primary focus emerging as a result of the pandemic is around staff mental health and wellbeing. Core to the discussions on the future world of work is how to establish this as a longer-term component of firm culture moving forward.

4. EMBRACING TECHNOLOGICAL CHANGE

- Remote working has accelerated the adoption of, and investment in, new technology across the industry at every level, including idea generation, investment operations and fund delivery. Some firms are focusing on utilising technology for mass customisation while others have developed innovative ways to communicate with customers.
- A recent IA roundtable discussion with financial advisers, investment platforms, and fund research houses highlighted the importance of technology and digital delivery in engaging a new generation of investors. One particular area of focus is the need to promote trust in the industry in order to persuade younger generations to embrace fund management, building on an evident interest in trading and cryptocurrency among many.

5. ADAPTING TO THE POST-BREXIT LANDSCAPE

- The UK investment management industry is adapting to a new post-Brexit environment and remains vigilant to the potential threats to UK competitiveness regarding the future treatment of delegation and the appropriate balance between convergence and divergence with EU regulation and international standards, more broadly.
- Looking ahead, the industry has outlined three key elements to maintain a competitive landscape for fund delivery internationally: opportunities for innovation, improving the operating environment, and support for competitive delivery.

This chapter provides a broad overview of the key wider themes shaping current industry activity in the UK. In most cases, they are also highly relevant internationally. We provide further commentary and data on some of the areas - eg. responsible and sustainable investment - in other parts of the report. As always, our analysis is intended to identify the areas of overriding importance, rather than provide a comprehensive account of the broader environment.

"I know our industry is often portrayed as though we put our interests in front of our clients, but we have learned during this process that everybody went the extra mile, the extra hour, stayed late, started early in order to ensure that the client got the good outcome."

LOOKING AHEAD FROM THE 2020 CRISIS

As the global pandemic accelerated through 2020, resilience was a critical theme for the industry and featured heavily in last year's report. Firms we spoke to this year for our Survey emphasise that the investment management industry in the UK and internationally was able to adapt very quickly to the unprecedented challenges, both from an operational and investment perspective. Certainly, there are lessons to learn, but overall firms stress the speed of adaptation, level of staff commitment and extent of continuity in customer delivery. There is also clear acknowledgement of the important role played by policymakers, both on the fiscal and monetary side.

"The robustness and resilience of people, systems and firms came to the fore. The other lesson was how the policy response was very coordinated and very effective. Whether it was central banks cutting rates or the Treasury organising the furlough scheme, using fiscal and monetary weaponry at their disposal to sustain the economy until we get back onto a more even keel was helpful."

FIGURE 6: DEFINING INDUSTRY THEMES 2020-2021

How does the industry **deliver for customers**...

and for the **wider economy and society**...

in an **exceptionally challenging operating environment**?

Five defining themes for the industry in the UK and internationally

1. **Investing responsibly and sustainably** in a policy context characterised both by accelerating concern about the environment and an evolving social agenda that is challenging political and economic orthodoxies.
2. **Widening sources of investment return**, providing greater access to private markets and additional funding for economic growth.
3. **Transforming the operating culture** both in terms of customer delivery (alignment, transparency and value) and the future world of work, with a particular emphasis on diversity and inclusion.
4. **Embracing technological change** at all levels of delivery: product evolution; distribution and operations.
5. **Adapting to the post-Brexit landscape** both in terms of continuity of delivery and the future competitiveness of the UK.

In the summer of 2021 amid positive signs of stabilisation in the pandemic and international economies, we focus particularly on five themes as outlined in Figure 6. None of these are new and have been clearly flagged in previous editions of the Investment Management Survey. However, the salience of some of the themes has clearly increased as a result of the Covid-19 experience. For example, the pandemic has provided a unique opportunity to accelerate the 'transition' to a green economy, while the 'future world of work' brings together themes around both culture and technology.

"As we reflect on the Covid-19 period in the summer of 2021, there are differences with previous crises. The focus on "building back better" signals that there has been a shift in terms of sustainability considerations. There is also a clear pivot [by the Government] towards the investment management industry as we come out of the crisis and look to rebuild the economy."

At the same time, the UK industry continues its adaptation to what is now a post-Brexit environment following the end of the transition process in December 2020, and there is close engagement with the UK competitiveness and regulatory reform agenda. This in turn creates an important set of challenges and opportunities, notably:

- The ongoing importance of maintaining delegation[12] as an organising principle for the delivery of products and services.
- The appropriate balance between convergence and divergence with EU regulation and more broadly, international standards.
- The future shape of the UK regulatory architecture to ensure both effective domestic delivery and facilitate international competitiveness.
- The scope for the UK to develop further as an investment and fund management export centre.

Putting all of this together, firms are facing an intensely demanding change process on multiple levels, and this is resulting in some concern about the scale of regulatory activity. There is an elevated risk for firms – particularly small firms – that they will not be able to digest in the near term all the issues that will affect their businesses and customers in the long-term.

"With so much change happening at the moment, there is a real challenge that firms simply cannot fully engage to discuss the issues and their implications. We are long-term investors, so I worry about that."

WIDER ISSUES

On the investment and macro-economic side, the return of inflation is a key theme as firms and their clients digest the implications of both Covid-19 and the potential consequences of recent monetary and fiscal policy. Views among those in the investment management industry differ on the extent and duration of any inflationary threat, reflecting the range of opinions seen in the broader economic debate. To some extent, there is an echo of the period ten years ago when quantitative easing and low rates after the Global Financial Crisis led to concern about the potential for rising prices. The other ongoing theme is the 'hunt for yield' as rates have been pushed down further again through Covid-19. As we explore in other sections of the report, this is one factor helping to drive allocation decisions towards private markets. Our analysis of the UK fund market in Chapter 5 offers a detailed look at retail investor behaviour in the context of current economic uncertainty.

[12] The ability to delegate portfolio management is a long-established international norm, which is essential to the efficient functioning of the EU's AIF market, and the investment industry more broadly. It allows savers to access global expertise and investment opportunities, whilst benefitting from increased choice and high levels of investor protection due to strict adherence to EU rules, oversight, and supervision.

1: INVESTING RESPONSIBLY AND SUSTAINABLY

We observed last year that initial expectations that responsible investment (RI) and sustainability commitments might take a backseat in the context of the Covid-19 economic dislocation have been proved wrong. As Chapter 5 shows in more detail, sales to RI funds through the crisis have in fact accelerated significantly. Firms have emphasised a strong interest both in the investment themes themselves and performance. There has also been a rise in expectations with respect to the sustainability credentials of investment management firms delivering RI products, particularly with significant new regulation coming into force. The pace of change will intensify as the government outlines sector-specific pathways to help the wider economy achieve net zero emissions targets.

“A big trend has been the uptick in the interest in ESG, including on behalf of individuals because Covid-19 has really brought the E and the S to the fore. The end investor is starting to think more about how they want their own values reflected in their portfolios and want to choose accordingly. So, they're starting to look for portfolios that are managed towards environmental goals or social goals, but they are also increasingly looking at how the firms that are managing their portfolios are doing with respect to ESG.”

“We have been able to prove through the data that the companies that have done best financially are those with the best ESG scores across all areas. It is good to see this correlation, especially as it reinforces areas of citizenship and stewardship.”

SIZING THE MARKET FOR RESPONSIBLE INVESTMENT

The data presented below is based on the IA's Responsible Investment Framework which was published in 2019. This data comprises assets subject to both firm level and individual fund or mandate level responsible investment approaches. There is often an overlap with firms using a combination of approaches outlined in the framework. Chart 5 shows that the majority (77%) of industry assets are subject to stewardship activity. Oversight goes beyond just voting, and as such, the 77% figure is not restricted to equities and includes holdings across asset classes. ESG integration stood at 49% in 2020, up from 37% in 2019.

Although starting from a low base, assets within sustainability focused strategies have almost doubled from 1.4% of industry AUM to 2.6%. As we will discuss below, the environmental sustainability agenda has come into sharp focus in 2020 and firms are adjusting to large scale regulatory changes which centre on meeting ambitious net zero targets. Impact investing remains a very niche area of investment with a small number of firms managing impact investment strategies. Total assets in impact investment strategies represent just 0.5% of industry assets. Assets subject to exclusions also increased in 2020, reaching a quarter (25%) of AUM, up from 18% in 2019.

CHART 5: PROPORTION OF ASSETS UNDER MANAGEMENT BY RESPONSIBLE INVESTMENT CATEGORY (2020)

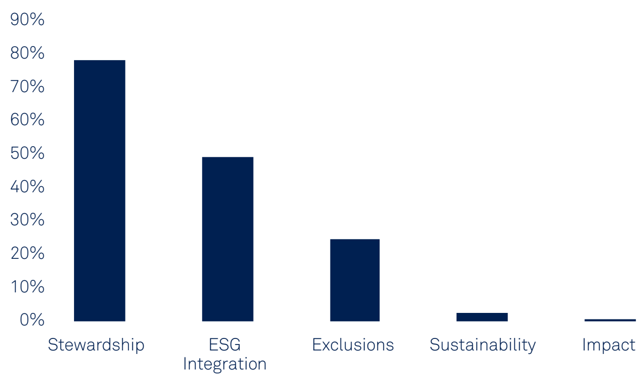


TABLE 3: DEFINITIONS BASED ON IA RESPONSIBLE INVESTMENT FRAMEWORK

Category	Definition
ESG Integration	The systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions. ESG Integration alone does not prohibit any investments. Such strategies could invest in any business, sector or geography as long as the ESG risks of such investments are identified and taken into account.
Exclusions	Exclusions prohibit certain investments from a firm, fund or portfolio. Exclusions may be applied on a variety of issues, including to align with client expectations. They may be applied at the level of Sector, Business activity, products or revenue stream, A company or Jurisdictions/countries. Exclusions determine that a fund or mandate does NOT invest in certain things. It does not constitute an approach that is characterised by proactively allocating capital to specific assets. It may involve excluding investments from a certain sector or investments that derive a portion of their income from the sale of certain specified products.
Impact Investing	Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. There are four key elements: 1. Intentionality: Impact investments intentionally contribute to social and environmental solutions. This differentiates them from other strategies such as ESG investing, Responsible Investing, and screening strategies. 2. Financial Returns: Impact investments seek a financial return on capital that can range from below market rate to risk-adjusted market rate. This distinguishes them from philanthropy. 3. Range of Asset Classes: Impact investments can be made across asset classes. 4. Impact Measurement: A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance of underlying investments.
Stewardship	The responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
Sustainability Focused	Investment approaches that select and include investments on the basis of their fulfilling certain sustainability criteria and/or delivering on specific and measurable sustainability outcome(s). Investments are chosen on the basis of their economic activities (what they produce/what services they deliver) and on their business conduct (how they deliver their products and services).

RISING IMPORTANCE OF CLIMATE CHANGE AND GREEN AGENDA

With respect to the environment, climate change is clearly a predominant concern and the transition to net zero is an initiative supported by governments globally. IA members have made significant corporate commitments to net zero but also recognise that as investment managers, they can play an important role in supporting companies that are currently large-scale emitters in the transition to becoming carbon neutral.

As we move along the path to achieving net zero, the role of investment managers as agents of change in pushing firms to reduce emissions should not be understated. Divesting too quickly from companies with high emissions risks leaving these assets stranded and there is a significant opportunity to invest in companies to support transition and to cement the UK's position as a leader on climate change.

Clear guidance on the nature and speed of the UK's transition to net zero from the government will help the investment management industry to focus on the sector-specific actions necessary to achieve these ambitious targets. The industry is keen to work with policymakers to identify clear pathways to transition for different sectors of the economy and help tackle the gaps between the intention and delivery of the Paris Agreement goals. An appropriate level of detail in these sector-specific pathways will enable companies in all sectors to better understand the trade and investment risks and opportunities which follow from the transition to a low-carbon economy.

In 2020, the IA published an industry climate change position which committed to take action alongside government, businesses, and our clients to realise the ambition of reaching net zero emissions by 2050. The document contained a number of policy commitments by industry, as set out in Table 4, alongside a series of asks of policymakers.[13]

TABLE 4: SEVEN INDUSTRY COMMITMENTS SET OUT IN THE IA CLIMATE CHANGE POSITION 2020

1	Engagement with investee companies on climate- related disclosures	We commit to helping our members to continue to engage with listed companies to improve the quality of climate-related disclosures and to support companies to make an orderly transition.
2	Collaboration with pension fund clients to help them meet their climate-related disclosure requirements	IA members commit to working with their pension fund clients to help them meet their own climate-related disclosure requirements. This includes helping them find solutions to issues on data quality and consistency, including in relation to standardisation efforts and accessibility of data and information.
3	Development of investment managers' TCFD disclosures	The IA will support its members in developing a full set of Task Force on Climate-Related Financial Disclosures (TCFD) at entity level in the 2021/22 reporting round.
4	Support for the improvement of sustainability-related disclosures at fund-level	The IA is committed to supporting its members to improve their sustainability-related disclosures at fund level, finding the best way forward for clients at present, considering the practical implications of providing disclosures that are decision-useful to investors, and based on robust investment data.
5	Link with advanced initiatives to support Disclosure of Paris-Alignment of Portfolios	The IA is convening representatives of initiatives that have progressed work on Paris-alignment methodologies to date in order to identify where the industry can learn from, build on and develop work already undertaken.
6	Support for the FCA-PRA Climate Financial Risk Forum work	The IA continues to actively support the work of the joint FCA-PRA Climate Financial Risk Forum (CFRF) and is committed to sharing knowledge from the CFRF Handbook with our membership and building on its work to date.
7	Support the creation of investable opportunities	We are committed to working together with UK government to create the investable opportunities necessary for the Transition.

[13] Investment Association Position Paper on Climate Change, 2020.

With the UK hosting the COP26 climate summit in November 2021, the industry has closely engaged through 2021 in building momentum in this area.

This has included initiatives to improve company reporting on the climate-related risks they face and to achieve a more coherent and co-ordinated global approach to sustainability-related disclosures. Specifically, the industry is asking for global support of the IFRS Sustainability Standards Board; commitment to implementing mandatory economy wide TCFD reporting; developing common standards on green gilts; and setting out high level sector specific pathways. Ahead of the G7 summit in summer 2021 the industry asked that G7 countries do more to improve sustainability-related disclosures by businesses and investors while ensuring a coordinated global approach.

As the UK government continued its commitment to sovereign green gilts, the industry has set out the features that it would like to see to meet both the needs of those investing in green gilts and the government's funding needs. These focus on seven areas in particular:

- **Strict use of proceeds:** legal documentation for green gilts should explicitly note how the proceeds are used to ensure that financing goes to projects aiming to achieve an environmental and social benefit.

- **Medium to long dated:** green gilts should be medium-long dated, matching the likely timelines of the projects they are invested in. This would also allow investment managers, such as those managing pension funds, to meet the long-term investment needs of their customers.

- **Forward-looking:** gilts should be forward-looking, providing a long-term financing path for future projects.

- **Social impact element:** investment managers support the integration of a social investment element into the green gilt, with funding for environmental projects with social co-benefits. The integration of social impact investing would demonstrate the UK to be a world leader on social and environmental financing.

- **Use of an audit committee:** in line with the ICMA Green Bonds Principles, the government should set out their sustainability objectives, the process for determining eligible projects, the eligibility criteria covering any exclusions and the process for environmental and social risk due diligence. Scrutiny of this process should be carried out by an Audit Committee consisting of market and government representatives.

- **Mandatory verification:** The IA expects verification of green gilts to be mandatory, in line with the requirements of market standards such as the Climate Bond Standard and proposed EU Green Bond Standard.

- **Reporting:** The Government should report annually on allocation of proceeds as well as the impact of investment.[14]

Early in July 2021, the IA was announced as the first supporting partner to the Net Zero Asset Managers initiative (NZAM), along with the latest round of signatories. From a standing start in December 2020, IA member firms with AUM of more than £6.1 trillion (two-thirds of UK AUM) have now signed up to the NZAM. This is a significant commitment to support the goal of net zero emissions by 2050.

IMPROVING DISCLOSURE

With respect to the disclosure agenda, a key sub-theme this year has been the ongoing need for greater clarity around definitions and classifications as the industry, its distributors and customers grapple with the challenges of agreeing on a shared language and set of definitions around RI products. In practical terms, this is playing out in two immediate contexts for UK firms:

- Across the EU, implementation of the Sustainable Finance Disclosure Regulation (SFDR) is raising questions on how funds are classified according to the Article 6, 8 and 9 requirements.[15] Many UK firms and global firms with major UK operational centres have cross-border European business and therefore remain heavily affected by SFDR post-Brexit.

[14] IA Position on Green Gilts, 2021.
[15] EU regulation on sustainabilityrelated disclosures in the financial services sector was published 27 November 2019. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN

- In the UK, the Government has set out an expectation that it will develop a Sustainability Disclosures Requirements (SDR) framework. This will include a new sustainable investment label that will sit alongside the FCA Principles on design, delivery and disclosure of ESG and sustainable investment funds, published in summer 2021. These focus on both disclosure and the alignment of process and disclosure, and were accompanied by a strong message to the UK industry from the regulator about the importance of getting this area right for retail investors.

There is also the separate but related question of specific incoming requirements for reporting on key climate metrics across the investment value chain through the Task Force on Climate-Related Financial Disclosures (TCFD). TCFD will start to be implemented for UK pension schemes from October 2021 and investment managers from January 2022.

As pension schemes invest in assets globally, international adoption of TCFD would be the ideal outcome, as well as adoption across all asset classes and not just equities, so the full impact of portfolios is more accurately reported. This does not look likely in the near term given the variety of approaches currently being taken. However, the impending launch of an International Sustainability Standards Board in the run-up to COP26 may prove critical in the establishment of global reporting standards over the longer term.

"Our hope is that we have a consistent set of disclosures globally to help level the playing field so, for example, you could more easily compare an American cement manufacturer in Iowa with one based in mainland China. A more level playing field should lead to better-informed decision making, which is our priority when it comes to investing on behalf of clients."

FINANCE AND NON-FINANCIAL OBJECTIVES

One of the key definitional distinctions, seen in Article 9 of SFDR as well as classification systems such as the IA Responsible Investment Framework, is between those strategies aiming to make a non-financial impact and those incorporating different forms of sustainable and responsible investment criteria within what is effectively a financial objective.

"I think investors are going to care more and more about what their money is doing. I am also going to call it the impact their money is making, on ESG factors as well as financial. I think you will not see a shift towards impact funds only, funds that particularly care about the impact they are making, but I do think that managers are going to have to start managing money to two metrics: financial returns and the impact they are making on ESG factors."

This raises a series of significant decision points for both customers and investment managers about the appropriate balance between these financial and non-financial objectives, particularly as they are likely to cross over in several areas. This again highlights the importance both of disclosure but also demonstrable clarity of process. Extensive further work on this across the industry is expected in the coming year.

2: WIDENING SOURCES OF INVESTMENT RETURN

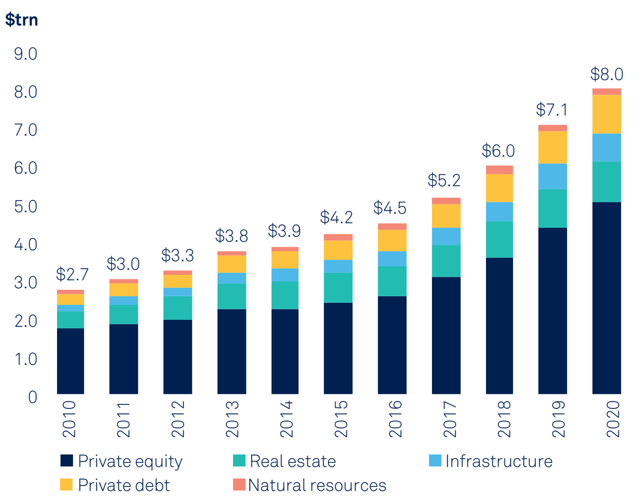
A closely linked theme to responsible and sustainable investment is the way in which investment managers deploy capital across the economy. This is reflected in an increasingly wide-ranging debate about the role of public and private markets. Over the past year, two key themes have emerged at the centre of the debate:

- How capital can be deployed more effectively into private markets on behalf of retail and DC pension customers.
- The relationship between private and public markets, including the role of special purpose acquisition companies (SPACs) and corporate governance standards more broadly.

CONTINUED GROWTH OF PRIVATE MARKETS

Over the past decade, growth in private markets has been a highly significant feature of international capital markets. Chart 6 shows AUM at global level, with assets almost doubling in the five years since 2015 from £4.2 to £8.0 trillion.

CHART 6: GLOBAL ASSETS UNDER MANAGEMENT IN PRIVATE MARKETS (2010-2020)



Source: Preqin

Private market growth has been driven by both supply and demand related factors. On the supply side, there is increasing interest in market-based finance – especially its role in helping to re-build economic and social infrastructure following the pandemic. However, there is a decreasing rate of companies being publicly listed, which has pushed private markets to the fore. Private market finance also appeals to corporates that have concerns over what they see as the complexification of public markets.

Meanwhile, demand is being driven by investors searching for opportunities to further diversify investment portfolios and seeking to achieve solid, long-term returns. Persistently low interest rates have caused bond yields to fall, causing investors to search for different sources of yield, including through private markets. Private markets have long presented an attractive source of investment opportunity for pension schemes and other institutional customers interested in diversified sources of return and income. However, private markets assets can also be less liquid than their public market counterparts, which has restricted access for a broader group of investors. In both the UK and internationally, there is an intensifying debate about how to widen access to private markets, thereby 'democratising' participation.

ACCESSING ILLIQUID ASSETS

The debate over access to illiquid assets has resulted in a range of initiatives both in the UK and EU in recent years. At EU-level, the European Long-Term Investment Fund (ELTIF) was originally intended to allow participation for all types of investors, including retail. Introduced in 2015, the ELTIF is widely seen as requiring optimisation and a review is currently underway.

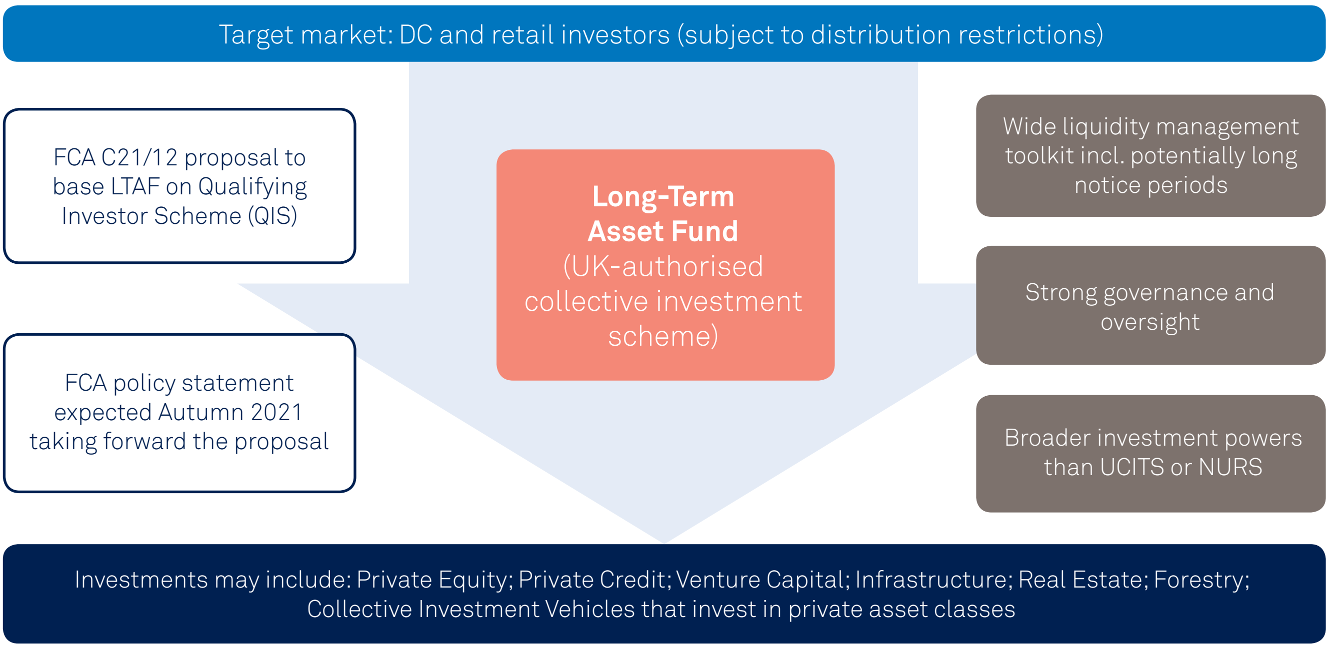
In the UK, a more recent debate has focused on how to facilitate greater access for DC and retail / private wealth investors to private markets. Almost all open-ended funds available to UK retail investors offer daily dealing and pricing, allowing investors to redeem units each day. If redemption requests rise, this can create a significant challenge for funds investing in less liquid assets and could lead to fund suspensions. The proposal for a Long-Term Asset Fund (LTAF) has been developed by the Asset Management Taskforce to provide a different type of fund structure using notice periods that offers wider access to illiquid assets, giving investors more choice.

This will create a broader market, with both LTAFs and closed-ended funds available. Not all investors wish to use listed closed-ended vehicles as their main access point for less liquid assets. At the same time, the LTAF can help to meet a wider policy goal to ensure that more market-based finance is available to fund both companies and infrastructure.

One of the key features of the LTAF is that rules around the buying and selling of units will be aligned to the liquidity of the underlying asset class that the units are invested in. LTAF units can only be sold at set intervals, for example every three or six months, rather than daily. This means that the investment manager has time to make enough cash available to meet the redemption requests, or in certain cases, to sell some assets at a reasonable price. The LTAF is currently subject to consultation by the FCA and is intended to enter into regulation by the end of 2021.

"The crisis has brought together industry, policymakers and wider stakeholders in a positive way. Having the Bank, FCA and Government all thinking about these things all in the same room is a positive thing. Retail investors' ability to save for their pension whilst providing perfect daily liquidity, fantastic returns and never losing money does not exist. So, it is far better to discuss the trade-offs, the relevant protections and the benefits of long-term investing."

FIGURE 7: LONG-TERM ASSET FUND

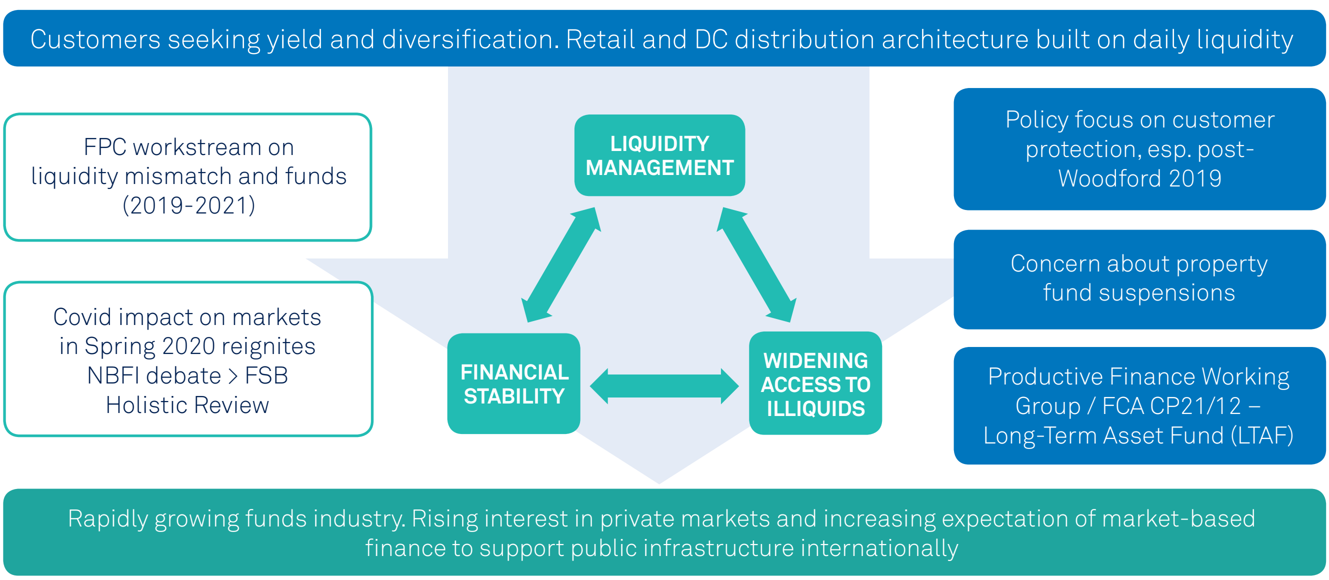


The financial stability debate has been re-ignited by the steep capital market falls in March 2020 causing policymakers to once again look for mechanisms to reduce 'run risk', or first mover advantage, at times of market turbulence. Although industry and regulatory viewpoints about the role of the investment management industry as a threat to financial stability differ in a number of respects, there is agreement on the benefits of seeking to better align the liquidity of underlying assets with the liquidity of the fund itself. Reducing the potential for liquidity mismatch is beneficial to customers and broader confidence in the funds market. The proposed use of notice periods in the LTAF will help to achieve this.

One key element in the LTAF discussion is the prevalence of operational structures that only support daily dealing in both the UK DC pensions and retail markets. As investment platforms gradually move to accommodate non-daily dealing funds, firms also point to the fact that the funds industry collectively – both manufacturers and distributors – has more to do on operational modernisation. On the other end of the spectrum from the LTAF, fund structures such as ETFs are free from the rigidity of a single daily price point and operate intra-day pricing. Different fund structures meet differing investor needs and a more flexible investment architecture is required as markets evolve.

"We all have to step back and say that a daily priced fund model in the context of artificial intelligence, tech changes and quantum computing is that it does not feel very 21st century. One way or another that model needs to move on, both in the sense of having more flexibility in terms of illiquidity and, on the flip side, a daily pricing point does not necessarily feel real time in terms of how markets on the other end work."

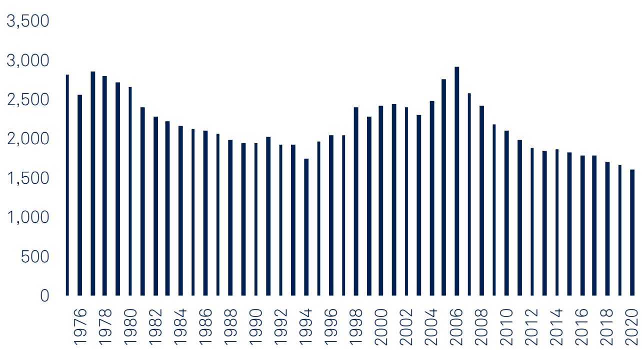
FIGURE 8: FUND LIQUIDITY, AN EVOLVING LANDSCAPE



BROADER ISSUES IN PUBLIC AND PRIVATE MARKETS

The decline in the number of listed public companies has been a distinguishing feature of the past decade internationally, alongside the rise in private market investment. Historic data show that by 2020, the total number of companies listed on UK markets was at its lowest level in almost five decades. However, there appears to be a cyclical dimension to this, with previous lows falling during the economic downturn of the mid-1990s followed by a long period of recovery in the number of listings. As is often the case with trends identified in this Survey, there are some questions about the extent to which we may be in another period of the cycle and the extent to which structural features are increasingly at work.

CHART 7: NUMBER OF COMPANIES LISTED ON UK MARKETS (1975-2020)



Source: World Bank, LSE

In recent years there have been concerted efforts to improve the governance and corporate reporting of private companies in the UK, which is especially important as asset owners are increasingly requesting greater exposure to private markets. A persisting challenge has been the asymmetric requirements on private and listed companies, which can disincentivise listing and hamper the competitiveness of the UK as a place to list. Policy makers are thereby tasked with balancing the flexibility permitted by the unlisted sector, with the need for large private companies to step up to increased expectations on corporate reporting, in line with their significance to the economy and wider society. That is why the IA has supported recent calls to extend TCFD and other corporate reporting requirements to large private companies, as without this there is a danger that the discrepancy between reporting and audit requirements for private and listed companies becomes too large to be bridged.

In November 2020, the *UK Listings Review*, chaired by Lord Hill, was launched by the UK Government, with the objective of strengthening the country's position as a leading global financial centre. The specific focus was to strengthen UK public markets. In March 2021, the Hill Report was published with 15 recommendations to improve the UK listing environment across seven themes:

- Monitoring and delivering results
- Improving the environment for companies to go public in London
- Re-designing the prospectus regime
- Tailoring information to meet investor needs better
- Empowering retail investors and improving capital raising for listed issuers
- Improving the efficiency of the listing process
- Wider financial ecosystem

Addressing these themes, and the wide range of issues they are comprised of, will require an increased commitment from government, regulators, and other stakeholders to provide resources and political support to attract new companies to list and operate in the UK and ensure that the advisory community is appropriately addressing potential demand.

Acting as a bridge between early stage, high growth companies and public capital, SPACs have the potential to support the wider listings eco-system. However, there have been very few SPAC listings in the UK, especially in comparison with other jurisdictions such as the US, where over $80 billion was raised in 2020. Recommendation 6 of the *UK Listing review* calls for a revision of the FCA's Listings Rules to ensure better investor protections and enhance the attractiveness of London as a listing destination. It is hoped that removing barriers to SPAC listings will increase the number of SPACs choosing to list in the UK, thereby providing a route to listing for high-growth UK companies.

Separately, two consultations were issued in summer 2021 taking forward individual recommendations from the Review:

- HM Treasury issued a *UK Prospectus Regime Review* – a consultation which outlines the government's proposals for overhauling the current prospectus regime.
- The FCA issued a consultation: *Primary Markets Effectiveness Review* which focuses on how primary markets can work more effectively for both companies and investors.

3. TRANSFORMING THE OPERATING CULTURE

The past five years have seen an increasing emphasis on culture, both by the FCA and within the industry. While this was initially concentrated on customer delivery – which remains a key focus – the pandemic has increased the attention being given to the change needed in internal operating norms. As part of the future world of work debate, a particular preoccupation for firms is now the urgency of ensuring a committed, energetic and holistic approach to Diversity and Inclusion (D&I).

> *“My personal belief is that if we do not learn anything from what has happened with flexible working and the advantage that it can have, particularly for diversity and inclusion [and] particularly for gender diversity, then we really will have missed a huge trick.”*

CUSTOMER DELIVERY

The focus on customer delivery, whether in the retail or institutional markets, has never been greater. For regulators, there is also a major focus on governance and communication in the wider context of an emphasis on good firm culture as the foundation.

The last three years have seen a number of changes for the industry that are designed to embed a culture within firms that supports good outcomes for customers. These include:

- Requirement for minimum levels of independent governance representation on authorised fund manager (AFM) boards.
- The introduction of the Senior Managers and Certification Regime (SMCR) for all authorised investment managers.

- Value assessment reports, published annually, which set out the AFM's assessment of how funds have delivered for customers according to a number of specific criteria. The first and second editions of the reports have been published through 2020-2021.
- Clearer communication in areas such as fund objectives, use of benchmarks and performance reporting.
- An institutional market cost reporting framework, operated on a pan-stakeholder basis through the Cost Transparency Initiative (CTI), and which is now increasingly established in the DB pensions market.

These changes, combined with wider commercial trends are already apparent in the UK and elsewhere, and are driving an increasing focus on fees and wider value.

FUTURE WORLD OF WORK

Culture clearly extends much more widely than products and services, and diversity and inclusion (D&I) is one of the themes that has come to the fore during the pandemic at a wider societal level. For the past few years, the investment management industry has been increasingly pro-active in recruitment practices, drawing on a number of industry-wide initiatives, most notably Investment20/20. However, Covid-19 has increased the urgency of the challenge and intensified the public spotlight on those parts of UK industry where D&I issues particularly need to be addressed.

"We are so far away from being able to declare victory, we will be carrying on with a massive focus on D&I for the next five years. We have diversity on the agenda in our ExCo meetings every month, so we are tracking every single programme."

There are mixed views within the industry about whether the working experience of Covid-19 for those who are already employed by investment management firms has been positive or negative for D&I. One view is that technology is, to some extent, a leveller, allowing staff to balance personal and professional responsibilities in a way that accommodates family life better than the demands of commuting.

"In some ways, conducting everything over Zoom has forced more equal processes. For example, everyone is in the room when they are on the screen in the same way. These are some of the things that we will seek to maintain when we are back in the office so that particular groups or particular people, such as those dialling in, will not feel at a disadvantage. We will all need to be very thoughtful about some of these hidden changes."

However, there are other views that some groups have been more heavily impacted through successive lockdowns and remote working environments, including those with caring responsibilities and young people with little experience in the workplace. For those with family responsibilities, juggling both personal and professional life, and maintaining some distinction between the two, can be challenging. For younger people, often living in more cramped accommodation, remote working can result in a lack of the kind of professional development and mentoring that office life can bring.

"We talk about inclusion but being a woman and having your kids at home was a challenge. I was a cook, a teacher, a cleaning lady and markets were crazy."

"We have been trying to focus on people who are joining the industry and how they are getting trained. It is really hard to learn on the job when you are remote. We opened up the office quite early and allowed people to come in, and I think that has been pretty helpful."

Perhaps the most important message to emerge from interviews and wider conversations is the need for significant further steps to tackle the challenge of diversity and inclusion across the investment management industry. The Covid-19 experience through 2020 dramatically brought wider societal issues to the fore, issues that in turn have had an impact upon the debate on the future world of work at industry level.

Firms emphasise the need to look at the full range of D&I issues, extending beyond gender into ethnicity and cognitive diversity and are increasingly looking at the significance of intersectionality (i.e. the extent to which aspects of a person's identity, such as gender, race, sexuality, class, might combine to create unique modes of discrimination and privilege). Ultimately, the question of ensuring a strong culture is seen as being able to move beyond individual sets of issues to an environment where all employees feel included.

"To me it is all about wanting to make sure that any person – irrespective of gender, sexual orientation, socio-economic background, or ethnic background – feels that they can join our organization and be successful. My one fear is that we are perhaps at risk of having so many subgroups that you lose sight of the bigger picture, which is really what you want. Everyone should just feel that they can be successful in all these organizations, and that we can attract the best talent."

A standout area of focus that has emerged as a result of the pandemic has been around staff mental health and wellbeing. Regardless of personal circumstances, prolonged periods of lockdown, isolated living and working conditions and increased blurring between working and non-working hours has had a universal impact on employees across the industry. Firms spoke extensively about the resilience of staff over the last eighteen months and the responsibility of firms to provide mental health support to employees that should be embedded in firm culture moving forward.

"The focus shifted pretty quickly to staff resilience and wellbeing. That theme is still with us, there is a huge focus on work-life balance. The word wellbeing is probably now established as one of the key features of mental health."

"The majority of people have found lockdown very challenging. We invested a lot of time and effort into ensuring our employees were safe and secure and that they could continue to do their jobs remotely. Where additional emotional support was required, we mobilised many resources in support of mental health."

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4. EMBRACING TECHNOLOGICAL CHANGE

Technological transformation has been an area of focus within the industry for the last decade, but the Covid-19 pandemic emphasised how vital investment and adoption of new technologies is to the industry. This is partly the result of the shift to remote working, which has concentrated minds operationally on how firms themselves can best utilise technology to deliver for customers. It is also significantly driven by the acceleration of wider trends, including changing customer expectations, investor engagement and patterns of competition in the retail market where the nature of customer experience is evolving at an increasingly high speed.

“The pandemic has turbocharged the need to invest in technology, not just to support the operating environment but also for idea generation. Most people are now completely tech based and are less afraid of using technology in other ways to enhance the client experience.”

IMMEDIATE IMPACT OF COVID-19 ON INDUSTRY OPERATIONS

In terms of internal implications, there is a sense that remote working as a result of the pandemic has helped shift staff perceptions, as well as accelerate the process of technological transformation in front, middle and back office. That transformation is expected to be seen at every level –from ideas generation through to investment operations and fund delivery.

“Our employees have all had to become more tech friendly. People are increasingly using technology in the investment process versus the traditional/non-tech way of evaluating securities in active management. We have made a lot of changes in investment management but that trend is definitely being accelerated. If you are an analyst working at home, with so much information coming at you, you need technology to help filter out the noise and focus on your research.”

At the level of fund operations, one of the most immediate consequences for the industry has been the relaxation of requirements around documentation concerning instructions from investors, moving away from existing practice on use of wet signatures. This is expected to drive broader customer expectations (discussed further below) about the industry’s wider digital delivery footprint.

A number of transitory issues faced by the industry, such as site visits for those with oversight responsibilities (e.g. depositaries) and valuations in the property sector, are gradually resolving as the immediate crisis itself resolves.

2

LONGER-TERM TRANSFORMATION

At the same time, Covid-19 has accelerated the broader conversation about the transformative role that technology will most likely play over the longer term. Although the 'digital fund' – ie. a fund manufactured using infrastructure based on distributed ledger technology – is a reality, the process still has some way to go, as does operational modernisation more broadly in the funds industry.

Just how far the concept of the investment fund will change as the technology evolves is increasingly debated. For some firms, the mutual fund will remain a central organising concept, even as the delivery infrastructure changes. For others, there is a growing interest in the potential offered by mass customisation, whereby an underlying portfolio may be more precisely tailored to customer need at scale using the cost and efficiency advantages brought by developing technology.

"You do not really know where technology is going. I still believe that the mutual fund will be the building block. Technology may change how the fund is delivered, how it is bought, how it is held and how it is sold, but I still fundamentally believe that the mutual fund is going to be the building block of choice."

"There is disruption going on, exacerbated by Covid-19. Nearly everybody has gone digital. Fintechs are on the rise, and they really understand customer personalisation and customisation. There is a lot we can learn from popular takeaway and grocery delivery apps that are designed to offer great customer experience. Mass customisation is something of a Holy Grail for us as an industry."

IMPORTANCE OF CUSTOMER EXPERIENCE

There is a greater degree of consensus around the central importance of customer experience and the need to use technology to communicate and connect differently and more effectively. For many in the industry, the challenge here remains the degree of intermediation between the manufacturer and end customer, particularly in the retail and private wealth markets where investment funds are frequently building blocks for strategies delivered by others in the value chain. Some firms are addressing this by structural means, i.e. corporate activity to build out distribution and/or advice capability. This is also seeing banks re-enter the UK retail fund management space following the pullback experienced about a decade ago. However, even if firms remain primarily manufacturers, much greater efforts are being dedicated to enhancing the customer experience – for example, producing accessible digital content.

"The main source of technological disruption or adaptation is going to be around client engagement. Everyone has been talking about digital delivery for years, and we have accelerated our investment in the digital experience. I actually think the clients have enjoyed it and that trend is going to continue."

ENGAGING A NEW GENERATION OF INVESTORS

The issues of technological long-term transformation and customer experience are particularly relevant to the question of how the industry could engage the next generation of investors. In May 2021, the IA held a roundtable discussion with financial advisers, investment platforms, and fund research houses to reflect on the impact of the pandemic on the retail fund market and the longer-term outlook for retail investing, and in particular how the industry could engage the next generation of investors.

Many younger working adults employed in industries able to work remotely have been able to save more over successive lockdowns. The roundtable discussion highlighted that more young people are investing as a result of the pandemic, attracted by the strength of the growth in asset values following March 2020. The trend to gamified investing has also accelerated, aided by lockdowns as millennials have had more time and more disposable income. A critical question in this context is how the investment funds industry can attract a younger generation, potentially with new-found lockdown savings, to investing.

Promoting trust in the investment industry
Many younger investors were at school when the Global Financial Crisis hit and associate financial institutions with the economic austerity that ensued. Following the crisis, the unemployment rate hovered at around 7% until 2014, six years after the crisis, affecting graduate job prospects and real term wage growth.

By comparison, the peak of the unemployment rate during the pandemic has so far been 5.2% in October-December 2020, as the furlough scheme has helped to preserve jobs. Whilst the investment management industry was less associated with the events of the Global Financial Crisis at the time, there has been long-term reputational damage to the financial services sector. There is still a distrust amongst young people of what is perceived as the 'financial establishment'.

For young adults able to work from home and to save, there are alternatives to mainstream investing through routes such as day trading stocks and shares or cryptocurrencies that can feel more accessible and have common characteristics with gaming. These are a world away from investors buying and holding a balanced portfolio of funds for the long-term.

"What we still see in the younger cohorts is a draw to something that feels more easily accessible. There is a big job to do on that end of the spectrum around educating people about the investment management industry."

The rise of cryptocurrency investing and day trading: challenge or opportunity?
The FCA estimates that cryptocurrency ownership amongst UK adults stands at 2.3 million in June 2021, up from 1.9 million in 2020. The Regulator's consumer research into cryptocurrencies shows that consumers increasingly see them as an alternative or complement to mainstream investments.[16] Half of cryptocurrency owners intend to invest more and some investment managers have even dipped a toe into owning crypto as part of fund allocations. This is in spite of high volatility in cryptocurrency prices in 2021, as the Chinese ban on cryptocurrencies and Elon Musk's announcement that Tesla would no longer accept Bitcoin caused prices to fall sharply.

The median account size for cryptocurrencies is £300, according to FCA data. Given the relatively low sums of money being invested in crypto, neither the threat, nor the opportunity for fund flows looks significant in the short-term but the jury remains out on whether these investors could turn to funds.

"Average conservative investors are at home continuing what they were doing, looking for better funds and rebalancing their portfolios. There is another segment with much smaller balances looking for an easy way to earn profits."

[16] FCA, Cryptoasset Consumer Research, June 2021 – the FCA estimates that crypto asset ownership is 2.3 million (4.4% of the population), up from 1.9 million in 2020. According to the research, consumers are now less likely to cite cryptocurrency as a gamble when considering their reasons for purchase (agreement down 9 points to 38%) and are more likely to see them as an alternative or complement to mainstream investments. Half of the survey respondents that held crypto said that they planned to buy more.

2

In 2020, there has also been a substantial rise in trading activity and some of this represents a new cohort of day traders. Data from Compeer show record trading levels of 48 million trades transacted in 2020, 20 million higher than the previous record. 38 million of these trades were conducted through execution only brokers, which is likely to represent direct investor activity. Day traders can engage in speculating on asset prices to make quick returns, which leads to short-term market volatility. They can also make counterintuitive decisions based on sentiment. In January 2021 day traders drove up the price of Gamestop shares, a bricks and mortar videogame retailer whose business model was seen as obsolete by professional investment managers. Social media channels such as Reddit were instrumental in pushing day traders to buy shares through apps like Robinhood, driving up the value of the shares and causing the hedge funds that were short-selling the shares to lose a lot of money. For some of these traders, the motivation was both anti-establishment and speculative and the long-term buy and hold approach of investing may lack appeal.

“With social media, one tweet can move the prices of a stock or crypto.That kind of volatility is here to stay and not welcome.”

Engaging the next generation

Many of those we spoke to for this year’s Survey believe that there is an opportunity to convert the new cohort of day traders and crypto investors to investing in funds. This generation are being introduced to concepts that are fundamental to investing such as risk and reward. Volatility may be an opportunity for speculation but it could also mean that difficult lessons about risk taking are learnt, which could benefit funds.

“They are starting to get interested in things like risk and reward, things that are actually quite fundamental to their investment choices. Those people are not necessarily lost to traditional investment, they may actually be the people who you could convert .”

The data from platforms and the FCA suggests that this profile of investor has smaller accounts, and it can feel easier to take some risks with small sums that an investor can afford to lose. As the pool of assets grow, there is more at stake and the benefits of diversification and stable, long-term returns become more compelling.

Many day traders are also using the same online trading platforms as non-advised fund investors. These platforms can provide them with more holistic information about investing to help them make better investment decisions. Concepts such as the benefits of diversification or the advantages of collective investment vehicles can be pushed through educational content.

“People were already increasingly moving online to manage their finances and the average age of our customer base was getting younger. Covid accelerated that, so we are trying to put up as much educational content as possible.”

Equally, as we outline in the previous section, there are views in the industry that the nature of funds themselves will also evolve, through processes such as greater customisation. This in turn links to the theme of responsible investing that is another important opportunity to help to engage younger investors.

“If you have the option to invest responsibly, and you see no potential difference in outcome as far as investment returns are concerned, for most people the choice is clear.”

The role that investment managers can help investors to play in re-building economies and societies post-pandemic, as well as the drive to net zero and combating climate change, is a powerful message and a major priority for the industry.

5. ADAPTING TO THE POST-BREXIT LANDSCAPE

The UK investment management industry is a leading centre of excellence in both Europe and globally, second only to the United States in scale (see Chapter One). Figure 9 illustrates how it is one of the most international investment management centres in the world, in terms of both the customers and businesses we serve and the assets that we invest in.

ONGOING IMPORTANCE OF DELEGATION

The end of the Brexit transition has now passed, and firms continue to be vigilant with respect to potential threats to operating norms. Many IA members run global businesses and the ability to delegate portfolio management functions continues to the most critical area in order to serve customers internationally. Delegation is an international norm that allows investors access to global expertise and investment opportunities, whilst also benefitting from significant cost savings. As we illustrate earlier in Chart 3, delegation as a component of European investment fund delivery continues to be incredibly important for the UK industry. However, as the renewed discussion in the context of the AIFMD review has illustrated, the treatment of delegation in EU fund regulation is far from a settled issue.

FIGURE 9: FOUR MEASURES OF A GLOBAL INDUSTRY

CONVERGENCE VS. DIVERGENCE

The industry is also debating the question of continued convergence relative to the benefits of divergences from EU rules and regulation. Here, there are mixed views but many firms see the benefit both operationally and for customers of continuing to align with EU rules where there is not a compelling reason to do so otherwise. As we discussed earlier, there is a particular desire amongst member firms for sustainability standards to be aligned globally.

"Let's avoid divergence for the sake of divergence. The politics of how that all gets agreed between governments, translates down to regulators and ensures people are all operating sensibly to the benefit of all is not easy, but we have to move on. We should try not sleepwalk into non-convergence overnight, because that really is to the detriment of both markets."

UK COMPETITIVENESS AND LOCATION DECISIONS

While certain immutable advantages such as time zone, language, and a stable legal system have helped the UK position itself as a global leader in investment management, it is clear this alone will no longer be sufficient post-Brexit. Some have also warned that in order to ensure that the UK remains a dominant player on the international stage, regulators must create an attractive operating environment that does not place an undue burden on firms. More broadly, firms point to the importance of the wider environment for business, notably around critical points such as tax regime, immigration and broader operating infrastructure.

While the industry recognises the value of robust, customer-focused regulation, there are also examples in recent years of approaches to regulation that have made the UK increasingly unattractive for international firms. Notably, the Financial Services Compensation Scheme (FSCS) serves an important purpose, but its recent funding mechanisms have focused disproportionately on firms with little direct connection to the problems the scheme was designed to address. The result is a growing perception that the UK is a high-cost jurisdiction for international firms who may, in some cases, be primarily exporting products and services from the UK.

VISION FOR THE FUTURE

The investment management industry has continued to set out its own vision of what a competitive landscape for fund delivery internationally looks like, building on the UK's acknowledged strength in portfolio management. This has focused on three key elements:

- **Opportunities for innovation**, particularly in the area of fund vehicles such as the Long-Term Asset Fund (LTAF) and potentially a new regime for professional investors.
- **Improving the operating environment**, with a major emphasis on fund taxation alongside optimisation of regulatory requirements.
- **Support for competitive delivery**, emphasising the importance of a shared agenda between Government, regulators and the industry.

Success would see the UK being able to deploy and harness innovation in the area of investment fund delivery more effectively. Critical areas of focus are likely to be private markets (see earlier section), green investment, and the potential offered by a digital fund delivery infrastructure. The significant effort to develop the LTAF represents one very tangible step forward through 2020-2021 in this space.

3 TRENDS IN CLIENT ASSETS AND ALLOCATION

KEY FINDINGS

CLIENT AND MANDATE TYPE

- In 2020, institutional clients continued to account for the majority of investment management industry clients, responsible for 79% of assets under management in the UK.
- Pension funds account for some 55% of total institutional assets, the same proportion as in 2019.
- Data from the last decade shows an increase in the proportion of assets managed on behalf of pension funds from 37% in 2010 to 43% in 2020. Over the same period, insurance client assets have fallen in relative terms from 25% to 12%. The 'other institutional' client category has increased from 16% to 24% with a notable increase in assets managed on behalf of corporate clients since 2010.
- The balance of assets managed within segregated mandates and pooled vehicles has experienced little change over the past ten years. In 2020, 53% of total assets were managed on a segregated basis and 47% were managed as pooled vehicles.

ASSET ALLOCATION

- In 2020, overall asset allocation remained broadly consistent with the previous year. Equity and fixed income allocations accounted for 39% and 32% of total assets, respectively.
- Long-term data shows an overall decrease in the proportion of assets within equities, which has fallen from 45% of total assets in 2010 to 39% in 2020. The majority of assets invested in equities are held within North America, the UK and Europe, together accounting for 71% of UK-managed equity investments in 2020.
- The share of UK equities has decreased over the past ten years, down from 42% in 2010 to 26% in 2020. This suggests a notable further erosion of the historic home bias towards UK equities. Over the same period, the proportion of European equities has increased from 20% to 22%, and the proportion of North American equities has grown from 15% to 23%.
- On average, the proportion of fixed income assets invested in the domestic bond market stood at 64% between 2011 and 2015 but has fallen consistently over the last five years to 45% in 2020. A variety of factors have contributed to this trend, including the globalisation of the investment process, uncertainty around Brexit and a competitive environment for fixed income assets in the UK.

GROWTH OF INDEXING MARKET

- Actively managed assets account for the majority of investment activity in the UK. However, the use of indexing strategies continued to increase in 2020, growing by one percentage point on the previous year, reaching 31% of total assets.
- The rising popularity of ETFs contributed to the growth of index strategies over the last few years. Global ETF assets under management reached a record $7.9 trillion at the end of 2020, an increase of 25% on the previous year. Almost three quarters (70%) of global assets are in US domiciled ETFs.
- Sustainable investment ETFs saw accelerated growth in 2020, rising to 4.4% of global AUM. The majority (73%) of global assets in sustainable investment ETFs sit within ETFs domiciled in Europe.

INVESTMENT IN THE UK ECONOMY

- Total investments across UK equities, sterling corporate bonds, UK infrastructure and commercial property stood at £1.7 trillion in 2020.
- In 2020, £40 billion was invested in infrastructure projects across the UK, which is unchanged from a revised 2019 figure. This includes investments in economic infrastructure (such as railroads and ports) and social infrastructure (such as public buildings) has remained relatively unchanged from the previous year. Within economic infrastructure, we observe a marked focus on renewable energy projects (mainly solar and wind farms or waste/water management facilities).

3

This chapter provides insight into the composition of the UK-managed asset base of IA members, with particular focus on three key dynamics: client groups, allocation across asset classes and geographies, and active- vs. indexed-based investment management styles.

It is important to have a strong overview understanding of the investment management industry, but the institutional and retail market are both dynamic spaces that warrant dedicated analysis and understanding, which is provided in chapters 4 and 5, respectively.

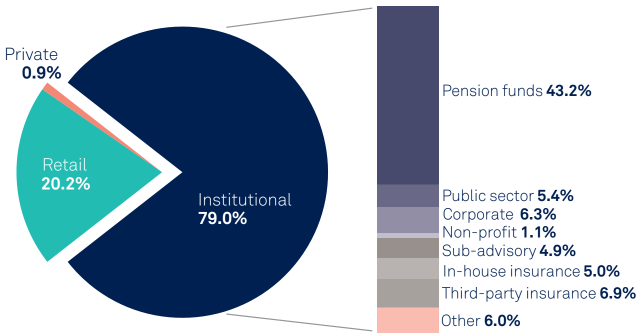
CLIENT TYPES

The investment management industry serves a wide range of clients that are broadly categorised as either institutional or retail clients. The split between institutional and retail clients has remained consistent over the last decade, with very little fluctuation in between.

Chart 8 shows the split of the £9.4 trillion of assets managed in the UK by client type. Between 2019 and 2020, the proportion of retail clients increased one percentage point to 20%, while the institutional client base remained unchanged at 79%.

- By far the largest client group for the investment management industry is pension funds, accounting for 43% of industry assets and 55% of total institutional assets. This was unchanged year on year.
- Among the other institutional client groups, there has been a significant change in the assets managed on behalf of insurance clients. On a relative basis, total assets have fallen once again and now account for 12% of total assets, a 1% decrease on the previous year.
- Corporate client assets increased for the third year in a row, making up 6.3%, up from 4.6% in 2017.
- Assets managed on behalf of various public sector organisations also increased reaching 5.4% in 2020.

CHART 8: ASSETS MANAGED IN THE UK BY CLIENT TYPE (2020)



BLURRING OF CLIENT TYPES

Insurance vs Pension

DC pension assets that are operated via life companies wrapping funds are not included in pension fund assets but are rather reflected in assets managed on behalf of insurance companies. This includes assets managed for personal pension and Group Personal Pensions (GPPs). This blurs the line between pension and insurance assets and means that the allocation to pension funds understates actual pension investment.

Retail vs Institutional

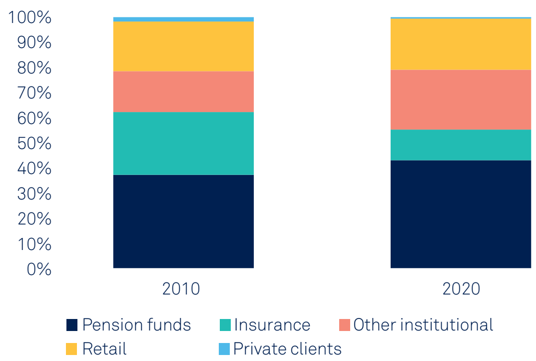
DC is something of a hybrid between retail and institutional. Pension savers in DC schemes receive an income in retirement that is based on the value of the pension pot they have accrued during their working life. Unlike a DB scheme, where their pension is based on their salary and is ultimately guaranteed by an employer, the value of a DC pension is determined by the contributions an individual makes to their plan and the return on assets they achieve on the investment strategies they select. The ultimate investment risk lies with the individual rather than the employer, and in this regard DC pensions are more akin to retail investments than institutional, albeit they will appear in the IA's data either as pension fund or insurance assets.

HISTORIC EVOLUTION OF CLIENT TYPES

There has been very little change in the composition of the industry's client base between 2019 and 2020. However, we can observe some significant shifts when looking at the long-term data. Chart 9 offers a comparison of the distribution of assets managed in the UK by client type over a ten-year period. The most notable trends of the past decade have been:

- An increase in the proportions of assets managed on behalf of pension funds and 'Other Institutional' clients.
- A decrease in the share of assets managed on behalf of Insurance clients.

CHART 9: ASSETS MANAGED IN THE UK BY CLIENT TYPE (2010-2020)



All client types have experienced some growth over the last decade, however reforms in the pension market as well as changing demographics have increased the need for funded pension provision through retirement. The result of these changes has been that the level of pension assets has increased six percentage points from 37% in 2010 to 43% in 2020 though this growth has flattened off over the last few years.

Insurance client assets have decreased thirteen percentage points over the last decade from 25% to 12% in 2020. The decline has been very consistent each year over the last ten years. In nominal terms, assets have remained flat whilst assets from other client groups have experienced strong growth.

The 'Other institutional' category has by far outpaced the growth of all other groups, with total assets growing to more than three times the level they were a decade ago in nominal terms. Assets managed on behalf of 'Other Institutional' clients now account for 24% of assets managed in the UK, up from 16% in 2010.

- The largest growth within 'Other' has been the growth in assets managed on behalf of corporate clients, which have increased from 3% of AUM in 2010 to 6% in 2020.
- Sub-advised client assets and public sector clients have also seen gradual increases over the last decade with each group increasing approximately 1.5% since 2010.

SEGREGATED VS. POOLED

Over the past ten years, the proportion of assets under management within segregated mandates versus the proportion within pooled vehicles has experienced little change. Chart 10 illustrates that between 2010 and 2020, the distribution has changed by merely 1 percentage point (in favour of segregated mandates).

Chart 10 illustrates that the distribution has changed by merely 1 percentage point over the past decade: the proportion of segregated mandates has fallen (from 54% in 2010 to 53% in 2020) but continues to account for the majority of investment strategies.

CHART 10: SEGREGATED VERSUS POOLED INVETSMENT (2010-2020)

ASSET ALLOCATION

In 2008, the global economic downturn resulted in a shift in the proportion of assets across the asset classes with equities falling and fixed income and cash increasing. There were no significant changes in 2020 with proportions remaining broadly consistent with 2019. Equities increased one percentage point to 39% and assets in 'Other' fell by one percentage point to 21%. Fixed income as a proportion of total assets remained unchanged at 32%.

Survey data does not allow us to differentiate between market movements and a genuine reallocation of client assets. We look at the long-term evolution across asset classes over the past ten years in Chart 11, where we see a notable fall in the proportion of assets within equities. Equities fell from 45% of total assets in 2010 to 39% in 2020. Some of this long-term trend will reflect a reallocation of assets but we also observe the impact of market performance, particularly in 2008 and 2018.

Total assets within the 'Other' category have seen the most substantial growth, with the proportion more than doubling over the last decade from 8% in 2010 to 21% in 2020. The majority of these assets are in solutions type strategies, such as Liability Driven Investing (LDI) but as we discussed in Chapter 2, a growing proportion are in private markets as IA members look to further diversify sources of returns and tap into higher yielding, but less liquid markets.

CHART 11: OVERALL ASSET ALLOCATION OF UK-MANAGED ASSETS (2006-2020)

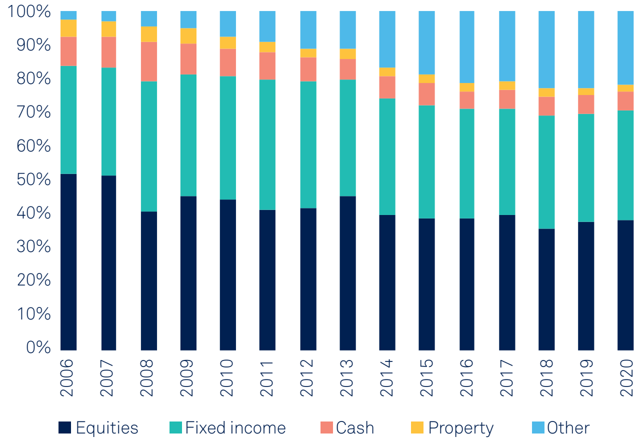


Table 5 looks at the proportion of IA members who manage assets within each asset class. Nearly all members invest in equities and over two thirds invest in fixed income assets. Cash is the most niche category with just under a fifth of members investing in the asset class. Over half of respondents (56%) to the Survey are investing across four or five of the asset classes in Table 5. Just over a quarter (26%) of respondents are specialists, investing in only equities or only in bonds.

TABLE 5: PROPORTION OF IA MEMBERS INVESTING BY ASSET CLASS

	Percentage of firms
Equities	95%
Fixed income	77%
Property	39%
Cash	19%
Other	56%

DETAILED ASSET ALLOCATION

In addition to monitoring the shifts between asset classes, the IA assesses trends within Equity and Fixed Income allocations according to type of exposure. This section considers these changes in more detail.

EQUITY BY REGION

Chart 12 illustrates the continued fall in the proportion of UK equities and the growth of international equities over the last decade. In 2020 the proportion of assets in UK equities fell three percentage points to 26%, this represents a sixteen percentage point fall since 2010 when UK equities accounted for 42% of total equities.

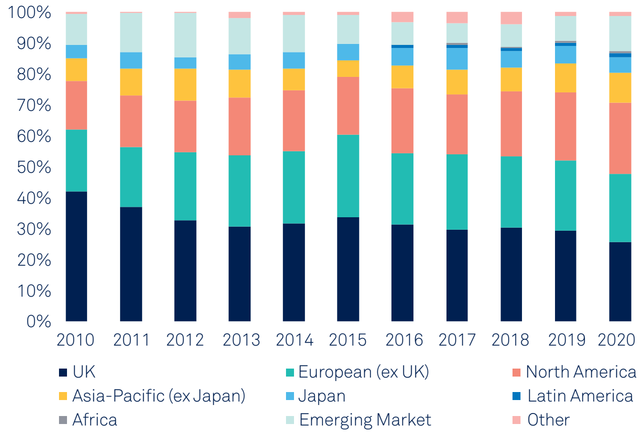
There are a range of drivers for this decline in UK equity holdings by investors. For domestic private sector DB schemes, changing approaches to risk management in the context of evolving liability structures and regulatory and accounting rules are now a longstanding feature of investment behaviour. This has seen a major disinvestment from equities as an asset class over two decades, which has been characterised by the strong erosion of an earlier 'home bias' towards UK equities. The UK retail funds market has also seen a long-term reduction in UK equity holdings as a proportion of total FUM as well as a reduction of total equity (see Chapter 5).

A significant recent driver of the decline in UK equity holdings as a proportion of total equity holdings has been the the uncertainty over the future UK relationship with the EU from 2016-2020, resulting in significant under-performance amid reduced allocations by domestic and international investors.

The majority of equity assets are held within North American, UK and European listed equity markets, accounting for 71% of UK-managed equities in 2020. This number has seen some fluctuation over the last decade, averaging at 74%.

The proportion of equity assets within European equities has remained relatively stable over the last decade, and stood at 22% in 2020. Meanwhile, over the past ten years, North American equities have grown to account for 23% of all UK-managed equities in 2020, up from 15% in 2010.

CHART 12: UK-MANAGED EQUITIES BY REGION (2010-2020)



FIXED INCOME ASSETS BY REGION

The majority (41%) of fixed income assets are invested in UK and overseas government bonds. Just over one third (35%) of assets are held within sterling and non-sterling corporate bonds.

We have seen a shift towards overseas bonds over the last five years. Chart 13 shows that between 2011 and 2015, on average, 64% of fixed income assets were in the domestic bond market. Since then, the proportion of assets in UK bonds has fallen each year, reaching a new low of 45% in 2020. This is a nineteen percentage point fall over a period of just five years.

There are a few factors at play that could be driving these trends:

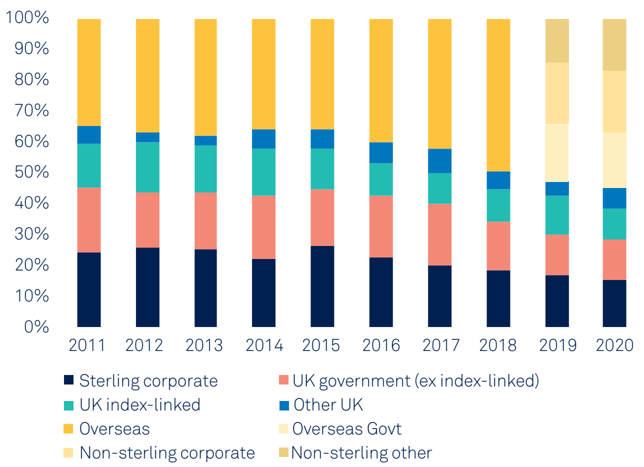
- The first is the increased globalisation of investment processes. We saw the shifts towards increasingly diversified equity holdings in the previous section and Chart 13 is an extension of that trend in the fixed income space.
- The second is a supply side issue. Fixed income holdings have become a core component of many institutional clients' portfolios. Given the nature of the liabilities, DB pension schemes and insurance clients for example, have become heavily invested in fixed income assets (see Chapter 4 for more detail). The market in the UK is fairly concentrated with 50 issuers accounting for almost half the sterling

corporate bond market.[17] As the volume of assets within fixed income has increased, and pension funds balance managing risk through diversification with the hunt for yield, there are not enough investment opportunities in the UK to meet the rising demand.

- The third point is related to performance. Corporate bond yields in market such as the US have been higher than in the UK for a number of years.

- The final point is regarding the impact of Brexit. The fall in the proportion of assets within domestic bonds coincides with the 2016 Brexit referendum. The uncertainty and political instability over the last few years has meant that investors have been looking to reduce their exposure to the UK market. It could be argued that given points one and two above, Brexit was an accelerant to an inevitable shift.

CHART 13: ALLOCATION OF UK-MANAGED FIXED INCOME BY TYPE AND REGION (2011-2020)



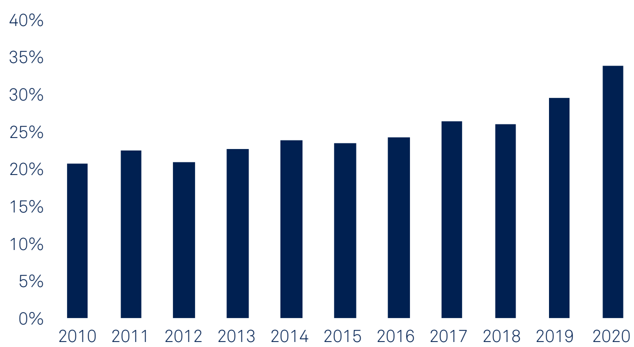
GROWTH OF INDEXING STRATEGIES

Actively managed assets still account for the large majority of activity in the UK. However, as illustrated in Chart 14, we have seen indexing strategies represent an increasing share of UK assets under management over the last decade growing from one fifth (21%) in 2010 to just over a third (34%) of total UK assets in 2020.

Looking at the long-term trend, we observe that the growth was very gradual until 2016 and has since accelerated. This has coincided with the ongoing growth in the ETF market, which has seen both the number of firms providing indexing products and the range of products available increase significantly. Nonetheless, the market for indexing strategies remains very concentrated with four firms accounting for almost 90% of total indexed assets.

Global assets in ETFs, which are largely index tracking vehicles, have experienced remarkable growth over the last few years (see overleaf for more detail). The firms with the largest index strategy offerings are also amongst the largest players in the ETF space and this growth is contributing to the trend observed in Chart 14.

CHART 14: INDEXING STRATEGIES AS PROPORTION OF TOTAL UK ASSETS UNDER MANAGEMENT (2010-2020)



[17] Why we see a golden opportunity in UK corporate bonds, Schroders, 2020.

ETF MARKET

An ETF is an open-ended pooled investment vehicle with shares that, like a 'traditional' fund, will offer investors access to a portfolio of stocks, bonds, and other assets, most commonly aiming to track an index. Unlike a fund, it can be bought or sold throughout the day on a stock exchange, which is why ETFs are effectively a hybrid of a tradeable stock and an index-tracking fund.

Despite the volatility that has characterised the past eighteen months, global assets under management (AUM) in ETFs reached a record $7.9 trillion at the end of 2020, an increase of 25% on the previous year. This growth rate is slightly lower than the rate recorded in 2019 (30%) but still outpaces the 19% annual growth rate over the last decade.

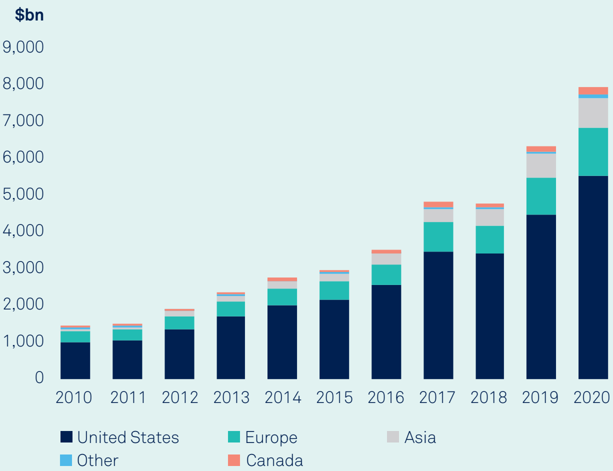
Growth rates remained strong across domiciles in 2020, but slowed down slightly after a bumper 2019. Chart 15 shows that ETFs domiciled in the United States continue to make up the majority of global AUM, again accounting for 70% – or $5.5 trillion – of total assets.

In 2020, European domiciled ETFs represented 16% of total ETFs, equivalent to $1.3 trillion. This was unchanged year on year. The vast majority (83%) of these assets sit within ETFs domiciled in Ireland and Luxembourg, with assets totalling $800 billion and $280 billion respectively. Assets within Ireland-domiciled ETFs in particular had another year of strong growth, increasing 19% year on year.

Assets in Asian domiciled ETFs reached $813 billion in 2020, a 30% increase year on year. This growth outpaces the growth in other regions, though the proportion of global AUM was still broadly unchanged at 10% of global assets.

ETFs are overwhelmingly index tracking funds with 97% of global ETF assets in trackers. Even though assets in active ETFs are starting from a much lower base, total assets have grown over the last decade from 0.4% of total assets in 2010 to 3.3% in 2020.

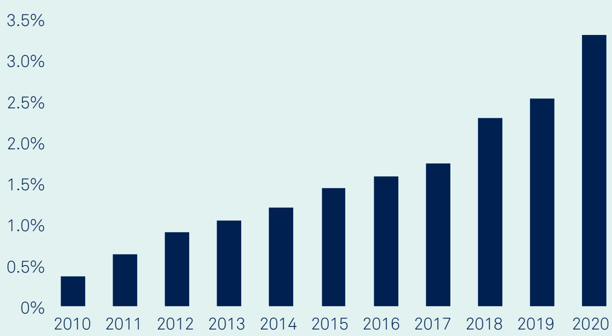
CHART 15: ETF ASSETS UNDER MANAGEMENT BY REGION OF DOMICILE (2010-2020)



Source: Morningstar

Chart 16 below shows that this growth has accelerated in 2020, with total assets in active ETFs increasing 65% year on year. Much of this growth comes from US and Canada domiciled funds, which account for 86% of assets in active ETFs. In fact, one quarter (25%) of assets in Canada domiciled ETFs are in active funds.

CHART 16: ACTIVE ETF ASSETS UNDER MANAGEMENT (2010-2020)



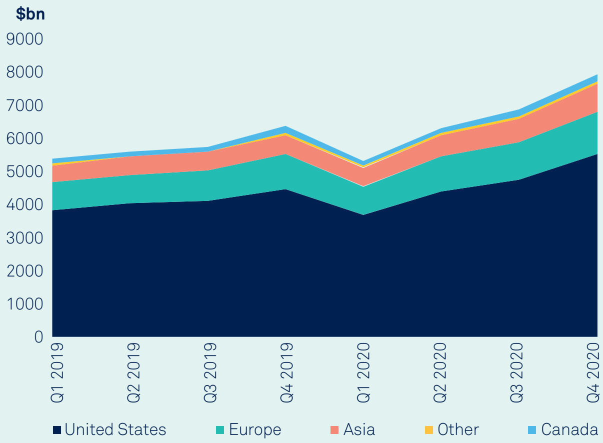
Source: Morningstar

3

ETF PERFORMANCE THROUGH 2020

As news of the spread of Covid-19 began to emerge in early January 2020, Asian markets experienced some volatility. As a result, the first signs of Covid-19 induced stress started emerging among Asian domiciled ETFs in January 2020 as total assets fell 1.1% on the previous month and South Korean domiciled ETFs in particular suffered heavy outflows. In February and March 2020, the volatility had spread across global capital markets and total assets across regions experienced severe declines. Over the first quarter of 2020, total global assets in ETFs had fallen 16%. Chart 17 shows that although the March 2020 downturn was extreme and unprecedented in speed and scale, the bounce back has been equally as remarkable.

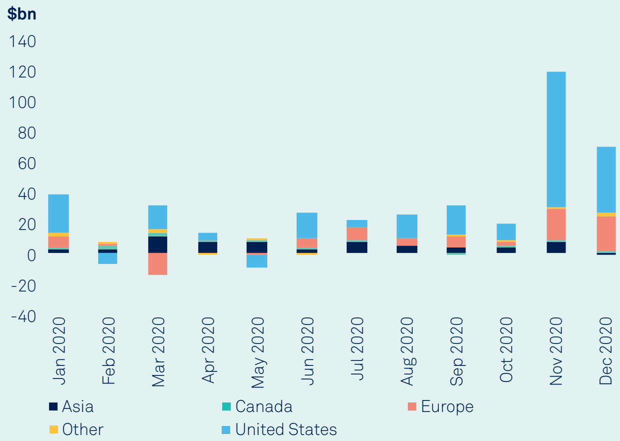
CHART 17: ETF AUM BY DOMICILE (2019-2020)



Source: Morningstar

In the equity ETF space, the falls were primarily driven by asset depreciation as most regions recorded net inflows over Q1. The exception was European domiciled equity ETFs, which saw £15 billion in outflows in March. Most of the March redemptions in European domiciled ETFs were from US, Global and Japan Large-Cap equity and Global Emerging Market equity ETFs. In a sign of investor's home bias during stress periods, European and UK Large Cap equities experienced strong positive inflows in March. By August 2020, as investors began to return to ETFs and markets bounced back, total net assets in European and US domiciled equity funds had fully recovered. Having managed to control the spread of the virus more effectively, AUM in Asian domiciled ETFs recovered more quickly and were back to pre-Covid-19 levels by May 2020.

CHART 18: EQUITY ETF NET FLOWS BY DOMICILE (2020)

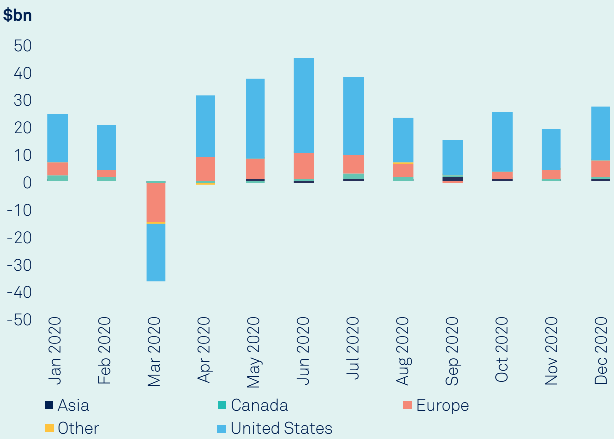


Source: Morningstar

Fixed income ETFs had a much more difficult ride as all regions recorded net outflows in March, which is consistent with the trend seen in the wider funds market. In March, US and European domiciled fixed income ETFs reported £20 billion and £15 billion in outflows respectively. Consistent with the broader industry trend, the majority of European domiciled fixed income outflows were from riskier sectors of the fixed income market, namely Global Emerging Market bond ETFs and EUR/USD High Yield bond ETFs. High outflows were also seen from EUR Corporate Bonds.

During the flight to safety in late February, USD Government Bonds domiciled in Europe were the second highest selling ETFs but suffered amongst the heaviest outflows as the demand for dollars increased in March. The recovery in assets and net flows in the fixed income space was quicker than to equity ETFs with total assets returning to pre-crisis levels by May among US domiciled funds and by June among funds domiciled in Europe.

CHART 19: FIXED INCOME ETF NET FLOWS BY DOMICILE (2020)



Source: Morningstar

ETFs emerged from the crisis as potential sources of liquidity and price discovery during periods of significant market stress.[18] During the height of the crisis that unfolded across markets in March 2020, ETFs remained resilient despite high levels of trading activity on secondary markets. In the fixed income space, investors relied on ETFs as a price discovery mechanism as their prices were seen as a much clearer indicator of the value of underlying instruments than the Net Asset Value (NAV), which reflected stale valuations at the time.

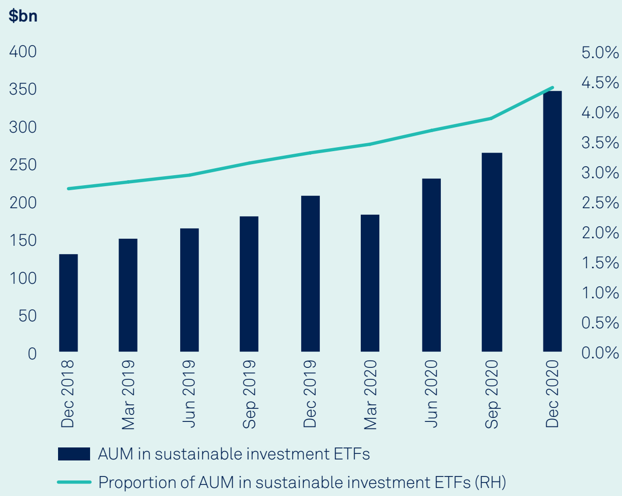
SUSTAINABLE AND RESPONSIBLE INVESTMENT

Sustainable and responsible investment[19] has seen accelerated growth within the industry in recent years. Member firms have expanded their offerings of products with a responsible investment tilt, including in the ETF space. In early 2019, Morningstar developed a classification framework to identify funds that can be considered 'Sustainable Investment' funds. Sustainable investments are then broadly broken down into three main groups: ESG funds, Impact funds and Environmental Sector funds.

Based on this framework, Chart 20 shows that total global assets in sustainable investment ETFs stood at over $340 billion at the end of 2020, more than double the level recorded at the end of 2018. Almost all of these funds are categorised as ESG funds with a smaller proportion with an additional Impact or Environmental flag. The growth has outpaced the growth in ETF assets overall thereby increasing the share of sustainable investments from 2.7% of global assets to 4.4%. The last quarter in 2020 in particular saw this growth accelerate. Environmental sector ETFs have seen the highest growth rates in 2020 with assets in renewable energy ETFs increasing eightfold from $3.9 billion in 2019 to $24.5 billion in 2020.

As we saw in Chart 15, US domiciled ETFs account for 70% of global assets, however amongst sustainable investment funds, US domiciled funds make up just 21% of assets, with the majority (73%) of sustainable investment assets sitting within ETFs domiciled in Europe.

CHART 20: AUM IN SUSTAINABLE INVESTMENT ETFs (2018-2020)



S ource: Morningstar

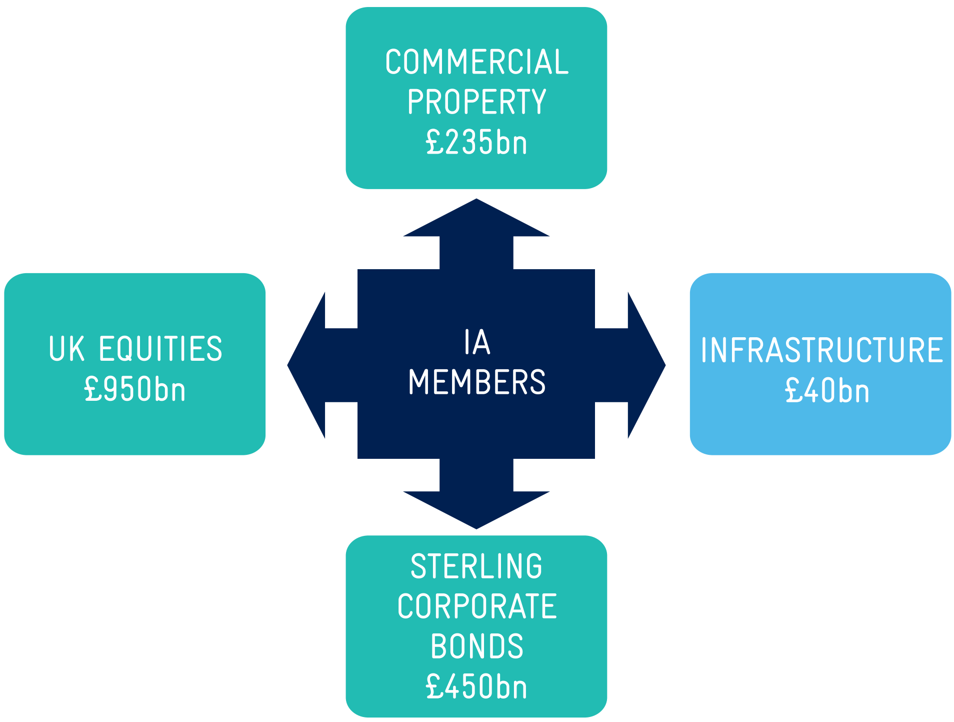
[18] IA Briefing Paper: ETF Performance During the Coronavirus Crisis, 2020.
[19] Morningstar defines a strategy as a "Sustainable Investment" if it is described as focusing on sustainability; impact; or ESG factors in its prospectus or other regulatory filings.Impact funds refer to strategies where financial return goals are aligned with global (value-driven) goals, such as the United Nation's Sustainable Development Goals; Environmental Sector funds consider investment in environmentally oriented industries.

INVESTMENT IN THE UK ECONOMY

The investment management industry is a key source of funding for the UK economy, as it channels savings to capital markets and provides financing through a range of asset classes. The political and economic challenges of the past year – prompted or exacerbated by the pandemic – serve as a reminder of the importance of investment in local economies. In the past, investment managers have invested in the UK economy through the traditional asset classes, namely listed equities and bonds. Increasingly, the reliance on market-based finance since the global financial crisis has seen the investment management industry expand into alternative asset classes within the private markets, which includes investment in infrastructure projects.

Although both UK equities and sterling corporate debt have fallen as a proportion of total assets in 2020, in absolute terms total assets have remained broadly unchanged year on year. As seen in Figure 10, assets managed by IA members in UK equities account for 39% of total market capitalisation in 2020. Total infrastructure assets remained unchanged, though commercial property assets increased 20% in nominal terms to £235 billion. Total assets invested in the UK economy across property, corporate bonds, equities and infrastructure stood at £1.7 trillion in 2020.

FIGURE 10: IA MEMBER HOLDINGS IN UK ASSET CLASSES[20]



[20] The majority of property investment is in commercial property, however a small amount may be allocated to residential accommodation, notably student housing. The majority of infrastructure investment is UK-based but there are some investments located overseas.

INVESTMENT IN UK INFRASTRUCTURE

As we emerge from the Covid-19 pandemic, there is an increasing focus on "building back better". While Covid-19 was economically, politically and socially destabilising, the crisis presents us with a window of opportunity to re-evaluate financial, political and social systems. One of the ways in which investment managers can contribute to this is through investment in infrastructure projects. In 2020, UK investment managers held an estimated £40 billion in infrastructure projects, unchanged from the revised 2019 figure.

Figure 11 presents how we categorise infrastructure investments. There are two broad categories- economic or social. Economic infrastructure includes investments in renewable energy, utilities, transport and telecommunications, and accounts for the majority (70%) of infrastructure projects in the UK. Social infrastructure mainly involves public health, education and building, construction and maintenance. Social infrastructure investments make up 30% of total infrastructure investment in the UK.

Though limited to a selection of projects, Figure 12 illustrates the types of infrastructure projects facilitated by IA members on behalf of their clients. These investments span across the UK, though notable clusters of investments in public buildings can be seen around major cities. Renewable energy projects make up a significant proportion of investment in UK infrastructure projects, which mainly consist of offshore and onshore windfarms.

Increasingly, members are also investing in nationwide initiatives which prohibits their inclusion on this map – this includes regional waste and water management services, national grids for the provision of fibre broadband and international transportation networks.

FIGURE 11: INFRASTRUCTURE INVESTMENT BY IA MEMBERS

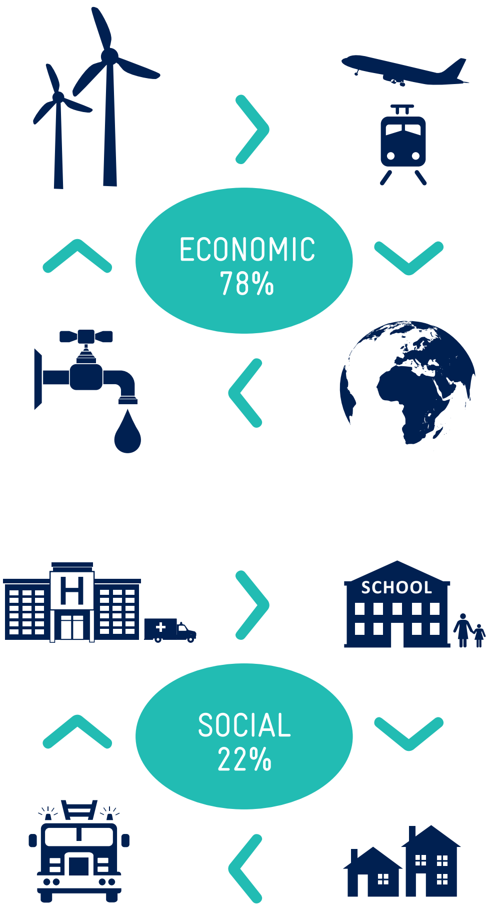
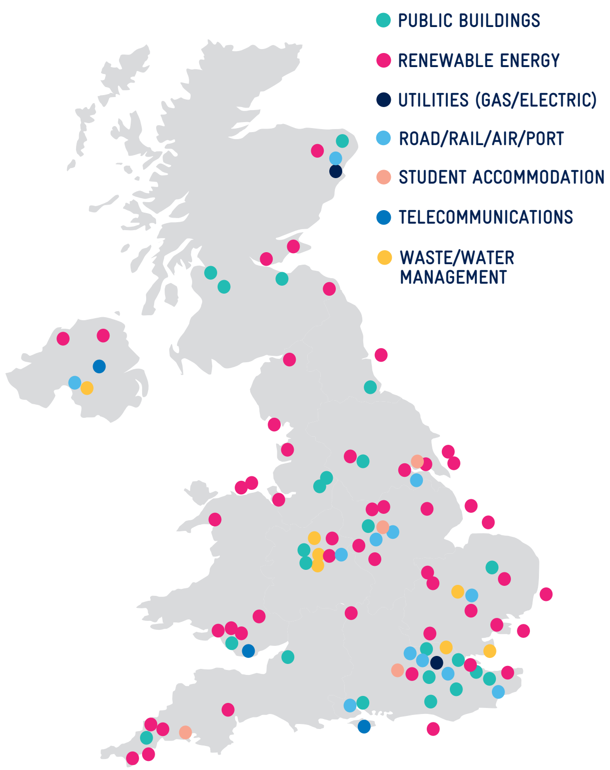


FIGURE 12: SELECTION OF UK INFRASTRUCTURE INVESTMENT FACILITATED BY IA MEMBERS



4 UK INSTITUTIONAL MARKET

KEY FINDINGS

MARKET OVERVIEW

- IA members manage £4.5 trillion for UK institutional clients from their global offices, which is up from £4.0 trillion in 2019. We estimate that the vast majority (90%) of these assets are managed in the UK.
- Members reported over £100 billion of net inflows from institutional clients in 2020, a large proportion of which was inflows into cash mandates.
- The UK institutional market is dominated by assets managed on behalf of UK pension funds. In 2020, the proportion of pension fund assets fell for the first time in almost a decade to 64%, a one percentage point fall from 2019.
- Assets managed on behalf of corporate clients saw a substantial increase in 2020, with assets more than doubling in nominal terms to £230 billion, equivalent to 5.1% of total assets.

EVOLUTION OF PENSIONS MARKET

- In 2020, pension funds accounted for more than half of the UK institutional client base (64%), with assets totalling £2.9 trillion. The majority of pension funds were managed by corporate pension funds schemes, responsible for £2.4 trillion.
- The IA estimates that the wider pensions market – including individual pensions, drawdown and assets backing the annuity book – reached £4.0 trillion at the end of 2020, with IA members managing a significant proportion of this through institutional mandates and funds.

THIRD PARTY MARKET

- At the end of 2020, assets under management stood at £3.9 trillion once in-house mandates are excluded, which is up from the £3.4 trillion recorded in 2019.
- In the third party market, pension funds represent an even greater share of total assets, accounting for 68% of third party assets.
- In 2020, assets in LDI mandates accounted for 38% of total mandates, equivalent to an estimated £1.5 trillion and which is up from £400 billion in 2011.

MANDATE TYPES

- When LDI mandates are excluded, there is a growing preference among institutional investors for specialist mandates which make up 80% of assets. Multi-asset mandates account for 20% of total mandates, which is down one percentage point on the previous year. The last two years have marked a shift away from the trend towards multi-asset strategies observed between 2011 and 2018.
- Within specialist mandates, the breakdown by asset class has fluctuated over the past nine years. The most pronounced trend has been a fall in specialist equity mandates (from 43% in 2011 to 36% in 2020).
- 2020 saw a notable increase in the proportion of assets within cash specialist mandates, increasing five percentage points year on year to 15% of total third party assets. Much of this growth has come from corporate clients who have faced liquidity pressure in 2020.
- Nearly three quarters (72%) of assets were actively managed in 2020 – an approach favoured by all institutional client types. Index strategies are most prevalent amongst pension scheme clients where 35% of assets are managed on an index basis.
- Two thirds (67%) of third party institutional mandates were managed on a segregated basis in 2020, which is up from last year's 64%.

This chapter takes a detailed look at the UK institutional client market. It differs from previous chapters in two key respects:

- It covers all assets irrespective of whether the asset are managed in the UK or managed from offices overseas: we estimate that more than 90% of the assets are managed in the UK.
- It focuses on the nature of a mandate rather than on the underlying assets. So a global equity mandate will appear as such, rather than being broken down into the underlying constituent countries.

MARKET OVERVIEW

As of 2020, IA members manage £4.5 trillion[21] for UK institutional clients globally, this is up from £4.0 trillion in 2019. Data provided by IA members suggest that over £100 billion of the growth in assets in 2020 was a result of net inflows from institutional clients over the year. We do not collect monthly flow data on the institutional market but several firms that we spoke to in 2020 and 2021 described a considered response from institutional clients compared with a more reactive response from retail clients through the steep market declines in March 2020. Many spoke about the lessons learned from 2008, which saw institutional clients de-risking during the market turbulence and moving away from equities. In 2020, rather than selling out of equities or bonds, members reported that a more agile institutional client market was ready to take advantage of falling markets by purchasing undervalued securities.

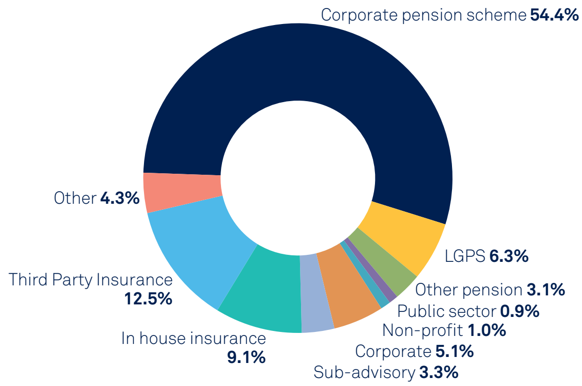
CLIENT BREAKDOWN

The breakdown of the UK institutional client base in Chart 21 shows UK pension funds dominate the market, accounting for 64% of total institutional assets in 2020. This is down one percentage points from the previous year and marks the first time in almost a decade that the pension fund share of the institutional market did not increase year on year. In absolute terms pension assets increased 8% in 2020, but were outpaced by growth in assets held by other clients.

The second largest client group in the institutional market are insurance companies, which make up just over a fifth (22%) of total assets. In-house insurance assets have been declining for some time and fell another two percentage points in 2020 to 9%. Third party insurance assets have been fairly stable as a proportion of total assets for the last few years but saw a one percentage point increase to 12.5% in 2020.

The corporate client category saw the largest increase in assets with AUM more than doubling in absolute terms to £230 billion. Corporate client AUM now accounts for 5.1% of total assets (up from 2.9% in 2019). Much of this growth reflects inflows into cash or cash like assets from corporate clients as the demand for liquidity rose through 2020 as a result of the global pandemic.

CHART 21: UK INSTITUTIONAL MARKET BY CLIENT TYPE (2020)



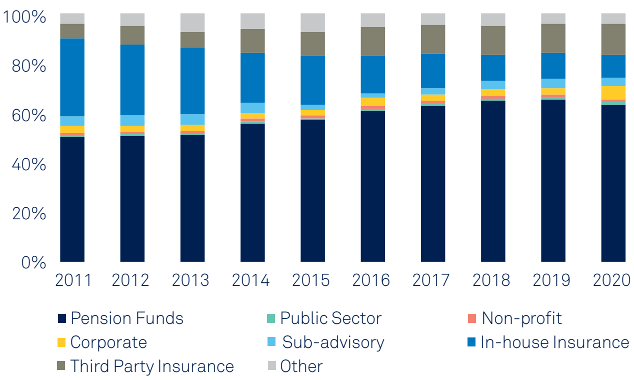
[21] Implied figure based on data collected on an estimated 83% of the institutional client base.

Chart 22 looks at the long-term trend in the proportion of assets broken down by client type. Two notable trends can be observed:

- The first point is around the dominance of assets managed on behalf of UK pension funds, which have increased from 50% in 2011 to 64% in 2020. Until 2020, this growth was consistent year on year.

- The second point is the significance of the fall in the assets managed on behalf of insurers, which accounted for 37% of total assets in 2011 and has dropped fifteen percentage points to 22% in 2020. This fall in assets reflects a number of factors, including a changing product focus within the insurance industry and corporate restructuring. However, within the insurance category, third party insurance assets have increased from 6% in 2011 to 13% in 2020. This is the result of increasing outsourcing of investment management by insurers, which can occur for reasons that include overall business model (eg. life and pension asset aggregators) or targeted approaches to external specialist investment mandates.

CHART 22: UK INSTITUTIONAL MARKET BY CLIENT TYPE (2011-2020)



EVOLUTION OF PENSION MARKET

Given that pension funds make up such a large part of the industry's client base, this section takes a deeper dive into the UK pensions market and utilises third party data. The IA defines pension funds as DB and DC schemes where the investment manager has a direct relationship with the pension fund rather than it being distributed via a wrapped product through an insurance company.

As we saw in Chart 21, pension funds accounted for more than half of the UK institutional client base in 2020 with assets totalling £2.9 trillion. The IA divides pension scheme assets into three categories:

- **Corporate pension funds** (CPF) account for the majority of UK pension fund assets at £2.4 trillion. Occupational Pension Scheme (OPS) managers, who manage an estimated £215 billion in assets, are also included in the category.

- **The Local Government Pension Scheme** (LGPS), accounted for £280 billion in assets, which indicates that IA members manage the majority of these assets.

- **Other** assets managed for pension schemes that do not fit into either category listed above, such as pension schemes run for not-for-profit organisations, account for £140 billion of total UK pension scheme assets.

Defined benefit (DB) pensions still make up the bulk of corporate pension assets and at the end of 2020 accounted for £2.2 trillion of pension assets.[22]

[22] Includes assets in the PPF 7800 index plus an estimate of assets in crown guaranteed schemes. This figure is not a direct subset of the £2.8 trillion managed for corporate pensions by IA members as some DB assets will be managed by non-IA members.

SIZING THE MARKET

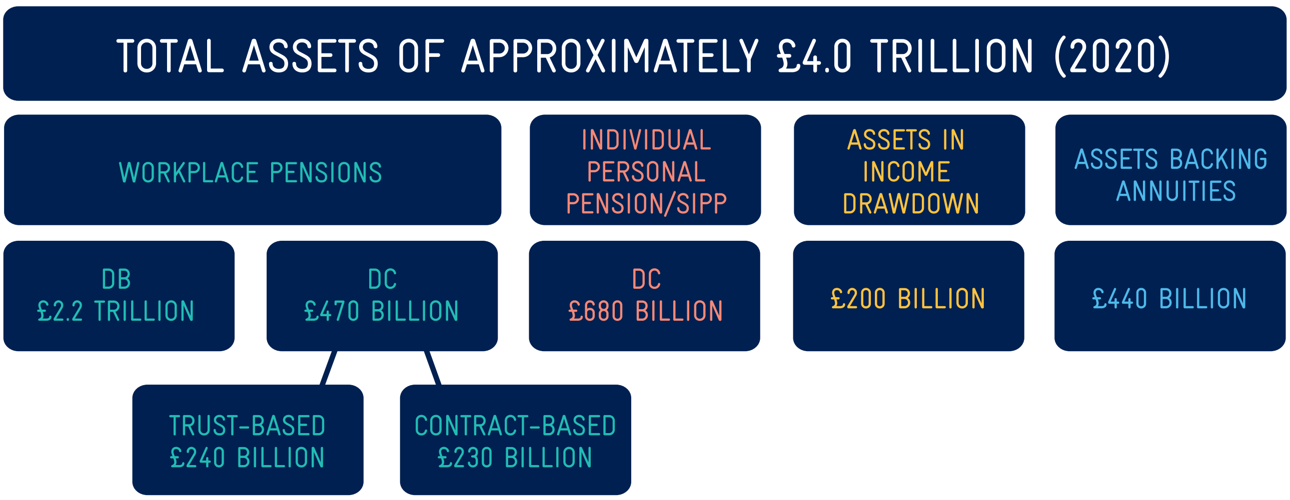
When we look across the landscape of pension provision, the IA estimates that the size of the UK pensions market stood at £4.0 trillion at the end of December 2020. This figure includes all assets in DB and DC workplace pensions and personal pensions as well as assets in income drawdown and assets backing annuities. Assets backing annuities sit on insurers' balance sheets and so our categorisation of pension fund assets is likely to underestimate total pension assets managed by IA members. Figure 13 provides an overview of how the £4.0 trillion is broken down across the different arrangements.

As shown in Figure 13, DB (funded) assets continue to account for the majority of pension assets. DB schemes which are still open to new members are largely in the public sector, most private sector DB schemes have closed to new members and accruals. In 2012, the UK Government introduced a phased rollout of automatic enrolment which would eventually require every employer to enrol eligible employees into a workplace DC pension scheme and make minimum contributions of 3%.

Chart 23 looks at the split between DB and DC pension provision in the private sector since the introduction of automatic enrolment. The chart illustrates that DB pension participation amongst private sector employees has remained constant but automatic enrolment has resulted in the rise of pension participation rates overall. Pension participation increased from 32% in 2011 to 67% in 2017 when the initial rollout was complete and has remained constant at 72% since 2018.

In April 2019, minimum contributions for employees automatically enrolled in a DC workplace pension were increased from 5% to 8%. Initial opt-out rates remained low at 8% as of early 2020. The global pandemic and subsequent lockdowns in 2020 have placed significant pressure on employees in many sectors. Early signs from 2020 suggested that pension contributions held up well through the crisis, though this was largely aided by the Government furlough schemes which covered contributions as part of the financial support offered to employers. Faced with higher contributions and economic uncertainty, data from Nest shows member opt out rates between April and September 2020 had risen from 8% to 11%.

FIGURE 13: OVERVIEW OF THE UK'S PENSION LANDSCAPE[23]



Source: ONS, FCA, PPI, IA, DCLG, MoretoSIPPs.

[23] Estimates are provided on a best efforts basis.

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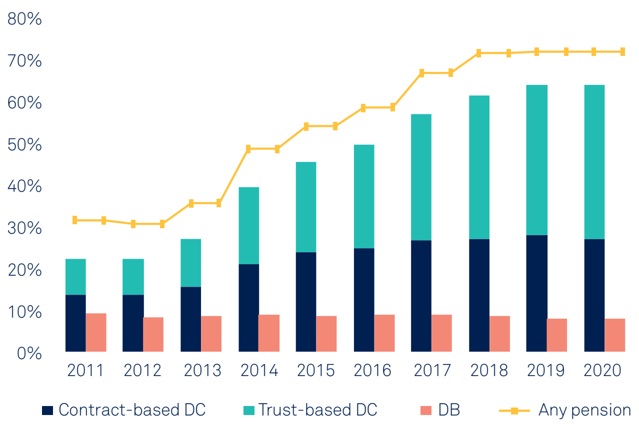
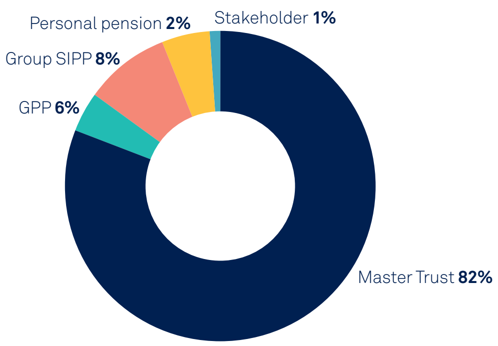
CHART 23: PENSION PARTICIPATION FOR PRIVATE SECTOR JOBS (2011-2020)



Source: ONS

Many of these new savers have been enrolled into master trust arrangements. The low cost master trust Nest has a public service obligation to accept all employers that wish to use it to auto enrol employees, and will have enrolled significant number of savers in the final stages of auto-enrolment when small and micro employers were phased in. There are 38 authorised master trust schemes in the UK, down from 90 before authorisation was required by The Pensions Regulator, representing 16.6 million DC pension savers. A recent survey of pension providers showed that 81% of DC scheme members are in a master trust arrangement (Chart 24).

CHART 24: DC MEMBERS BY SCHEME TYPE (2020)



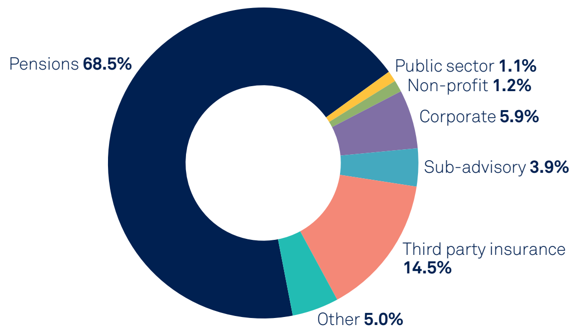
Source: Pensions Policy Institute

TRENDS IN THE THIRD PARTY INSTITUTIONAL MARKET

Full details of the asset allocation and investment strategy for the entire institutional market are available in Appendix 2 of this report. The remainder of this chapter looks more closely at IA data from the institutional market that is available to third parties, that is, excluding mandates managed in-house by insurance parent groups and occupational pension schemes, as at the end of 2020.

Assets under management stand at £3.9 trillion, up from £3.4 trillion in 2019, once in-house insurance mandates are excluded from the institutional data. In Chart 25, we see that pensions dominate the market even more once in-house mandates are excluded, though if the proportion of in-house insurance assets continues to fall, Chart 21 and Chart 25 will become more closely aligned.

CHART 25: THIRD PARTY UK INSTITUTIONAL CLIENT MARKET BY CLIENT TYPE (2020)



MANDATE BREAKDOWN

Chart 26 breaks the institutional market down into three categories of mandate:

- **Single-asset**, or 'specialist' mandates, which focus on a specific asset class or geographical region. In 2020, 49% of mandates were managed on this basis which is up four percentage points from the previous year, a testimony to the popularity of specialist mandates among institutional investors.

- **Multi-asset**, or 'balanced' mandates, which cover a number of asset classes and regions. At the end of 2020, balanced mandates were employed for 12% of assets managed by third party clients. Stripping out the LDI mandates from the data, the balance between specialist and multi-asset is 80% single asset versus 20% multi-asset.

- **LDI mandates** are specifically designed to help clients meet future liabilities. These mandates frequently make greater use of derivative instruments and are therefore included on the basis of the notional value of liabilities hedged, rather than the value of physical assets held in the portfolio. Assets in LDI mandates accounted for 38% of total mandates in 2020, equivalent to an estimated £1.5 trillion.

CHART 26: UK THIRD PARTY INSTITUTIONAL CLIENT MANDATES INCLUDING LDI (2020)

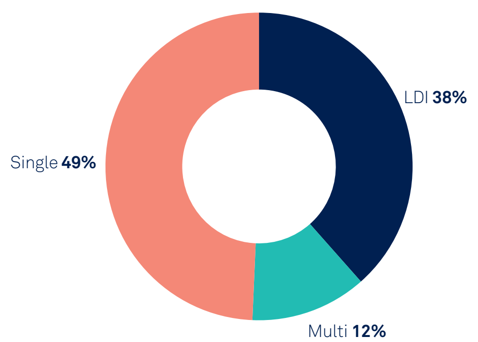
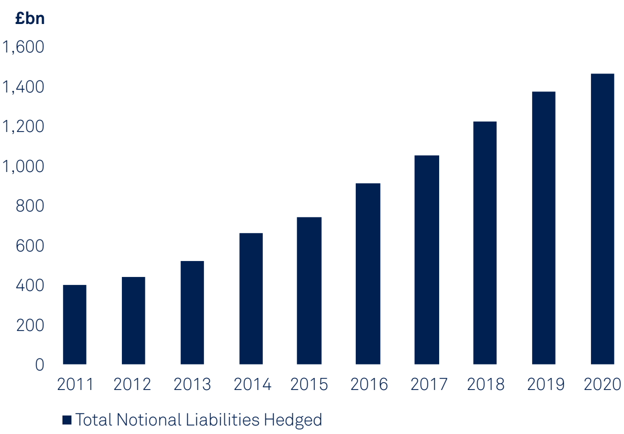


Chart 27 illustrates the growth in the notional value of LDI from £400 billion in 2011 to almost £1,500 billion in 2020. LDI mandates are used almost exclusively by pension fund clients and more specifically by defined benefit pension schemes seeking LDI strategies to manage their future liabilities. Regulatory changes around the DB funding regime in the UK have reinforced this shift towards liability management and growth in LDI mandates will likely continue in the near future. Growth in LDI is also a reflection of a broader trend, which is mirrored in the retail market, away from specialist offerings towards solutions type products.

CHART 27: NOTIONAL VALUE OF LDI (2011-2020)

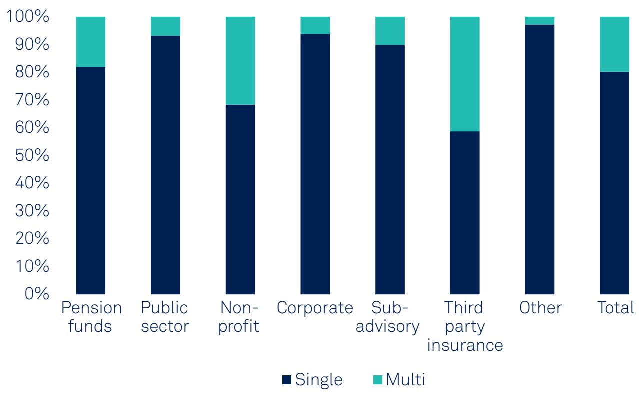


Source: IA/KPMG LDI Survey

Since 2016, the proportion of assets in LDI mandates has increased from 29% in 2016 to 38% in 2020. Although DB pension schemes remain a significant proportion of the institutional market, the fact that they have very specific requirements means that their LDI allocations can mask trends that might otherwise be observed in the market. For that reason we exclude the value of LDI mandates from the asset allocation analysis on pages 61 to 65 and focus purely on whether clients are favouring multi-asset or specialist solutions other than explicit liability management.

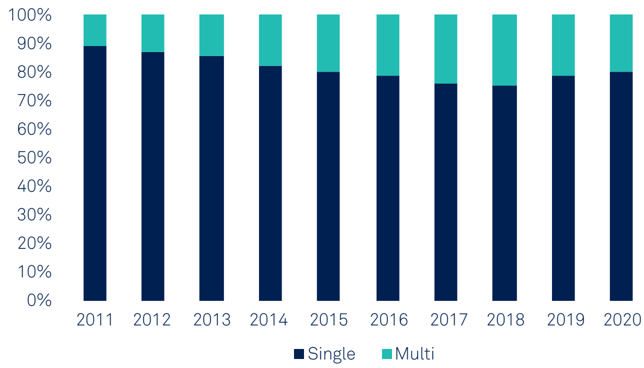
Chart 28 shows the balance between single and multi-asset mandates, excluding LDI. This increases the proportion of specialist mandates to 80% but this preference varies by client type. For instance, multi-asset mandates account for around one third (33%) of non-profit client assets and four fifths (42%) of third party insurance assets. Once you strip out LDI, pension funds rely more heavily on specialist mandates. As the definition of pension funds in this report reflects mainly defined benefit and larger defined contribution schemes, it is not surprising that they are more likely to have both the level of assets and the expertise to appoint specialist managers.

CHART 28: UK THIRD PARTY INSTITUTIONAL CLIENT MANDATES: MULTI-ASSET VS. SPECIALIST (2020)



Looking at the long-term trend of multi-asset versus specialist mandates (Chart 29), we can observe that between 2011 and 2018 the proportion of third party multi-asset mandates increased from 11% to 24%. Revised 2019 data and the latest data show that this trend reversed over the last two years with multi-asset mandates making up 20% of total third party assets. Driving the reversal of the trend appears to be the significant movement of some large multi-asset mandates that are possibly being restructured now.

CHART 29: UK THIRD PARTY INSTITUTIONAL CLIENT MANDATES: MULTI-ASSET VS. SPECIALIST (2011-2020)



In past reports it was suggested that the growth in multi-asset strategies between 2011 and 2018 shown in Chart 29 was a reflection of increased pension contributions through the automatic enrolment scheme, where default strategies tend to be medium risk balanced strategies. However, external data show the use of multi-asset funds remains limited in default strategies (see Chart 33). Pension schemes and/or consultants are increasingly controlling the allocation directly, building strategies based on segregated mandates and/or component funds.

INVESTMENT TRENDS WITHIN SPECIALIST MANDATES

Chart 30 looks at the long-term trend in the breakdown of specialist mandates by asset class and shows some volatility year on year, though there appears to be a small fall in the proportion in specialist equity mandates:

- Specialist equity mandates in 2020 account for 36% of the total third party institutional market, a one percentage point fall year on year.
- Fixed income mandates remain unchanged at 40% of the market in 2020.
- Perhaps most indicative of the impact of Covid-19 has been the substantial increase in the specialist cash mandates, which increased by five percentage points year on year to 15% of total third party assets.

This is borne out in the institutional net flow data collected in this year's Survey which shows net outflows of £10 billion from specialist equity mandates while fixed income and cash specialist mandates attracted net inflows of £15 billion and £30 billion respectively.

CHART 30: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS (2011-2020)

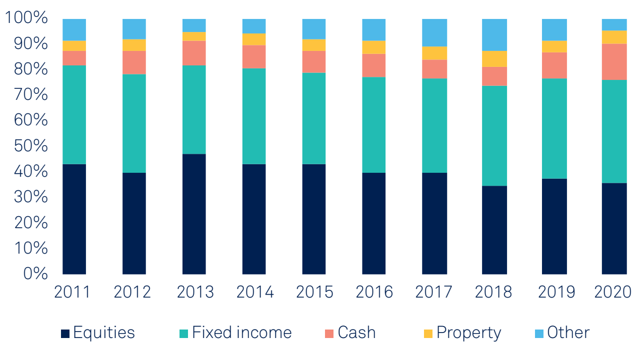
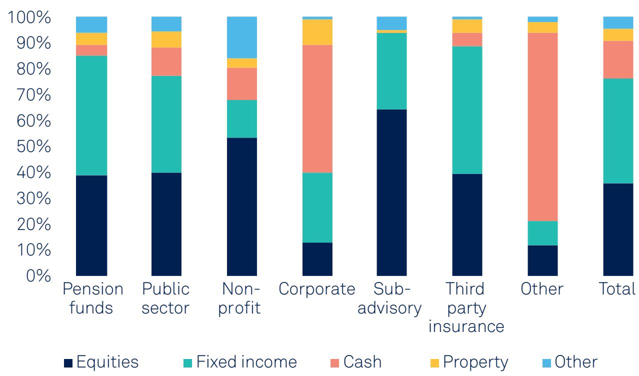


Chart 31 provides an indication of the client groups driving the 2020 shifts in demand for certain asset classes. As we saw, corporate client assets have grown considerably in 2020, more than doubling over the year. Much of this growth has come from the demand for liquidity from corporate clients who were faced with an extremely challenging business environment in 2020. The global lockdowns caused a severe hit to corporate balance sheets. Faced with mounting liabilities and severely restricted revenue growth prospects, corporates increased their investment in liquidity strategies. In 2020, half (50%) of assets managed on behalf of corporate clients were in specialist cash strategies compared with a fifth (20%) in 2019.

Other notable trends include increasing allocation to fixed income mandates from pension funds, up four percentage points to 46% of assets. Total assets in specialist fixed income mandates on behalf of third party insurance clients fell as a proportion of the total from 57% to 49% while the proportion of assets in specialist equity mandates rose from 31% to 39%.

CHART 31: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS (2020)



The asset allocation of DB schemes (Chart 32) has seen

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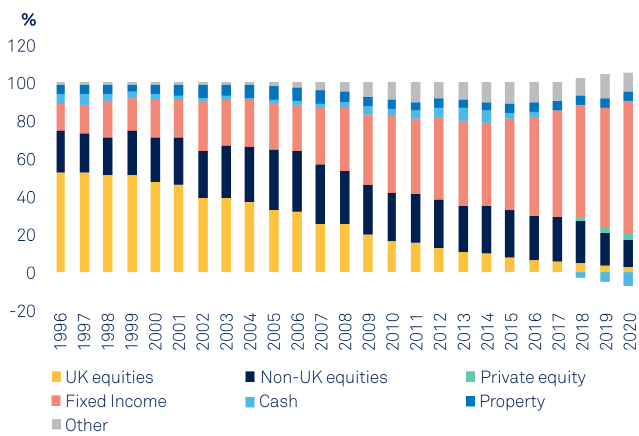
a dramatic shift since the move away from traditional scheme-specific asset allocation benchmarks toward strategies such as LDI, which matches their assets to their liabilities more closely and manages deficit volatility.

Reflecting on trends that we have seen throughout the report, a typical DB scheme is now likely to hold a much smaller proportion in equities overall, but a significantly small proportion of domestic equities. Equities account for just 21% of DB scheme investments compared with 75% twenty five years ago. In particular, the allocation to UK equities has fallen dramatically since 1996 from 53% to just 3% of the overall asset allocation in 2020.

Over the same period, pension funds have adopted aggressive de-risking strategies which have resulted in a considerably larger allocation to fixed income assets (69%) compared with what we saw over two decades ago (14% in 1996). The proportion of assets held in cash and deposits has turned negative. This is likely related to investments such as swaps and repurchase agreements.

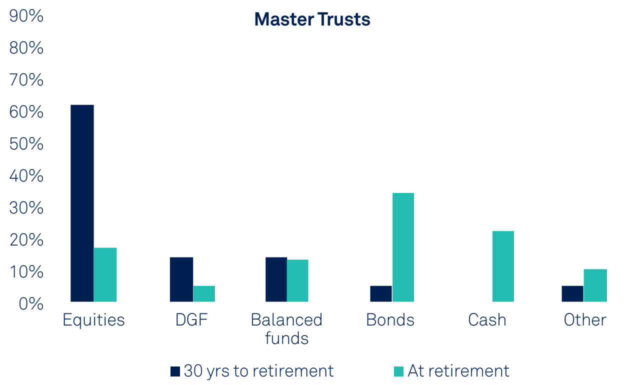
CHART 32: UK DB PENSION FUND ASSET ALLOCATION (1996-2020)

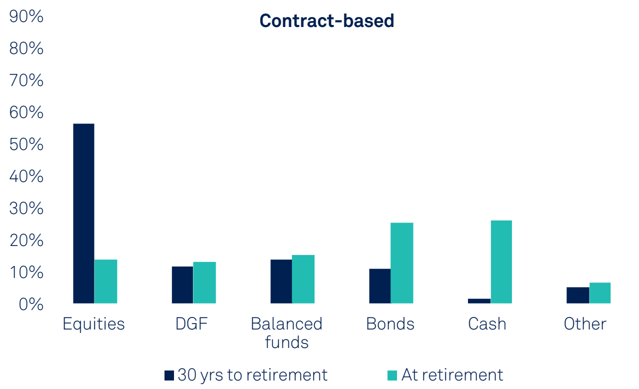


Source: UBS, PPF/TPR Purple Book

In contrast to DB schemes, Chart 33 shows that both contract based and master-trust DC schemes have a much higher allocation to equities, but this is considerably higher during the accumulation phase than at retirement. They also have a significantly lower allocation to fixed income both at retirement and in the accumulation phase compared with DB schemes.

CHART 33: DC ASSET ALLOCATION, 30 YEARS PRIOR TO RETIREMENT AND AT RETIREMENT[24]





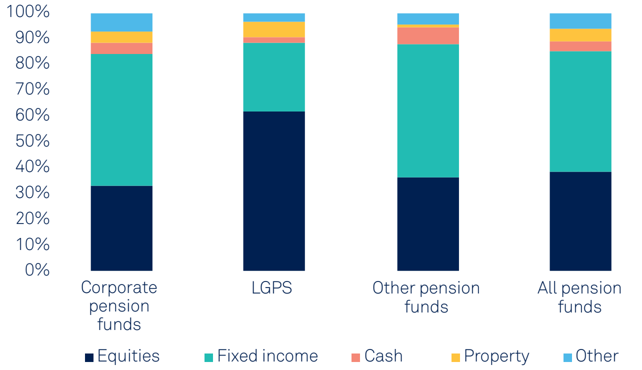
Source: Willis Towers Watson FTSE 350 DC pension survey

[24] Asset allocation in DC varies by age cohort, reflecting the principle that members' capacity to bear investment risk reduces as they age. So we tend to see investment risk in DC strategies reduced over time through shifts out of equities and into bonds and other diversifiers.

The LGPS is a public sector scheme that is one of the few DB schemes still open to new members. Most corporate DB schemes that have closed to new members have a more mature membership and so have a very different investment approach to the LGPS schemes whose members continue to build up entitlements. LGPS schemes are investing over longer time horizons and operate under a less restrictive regulatory framework and therefore have different asset allocation approaches.

Chart 34 looks at the pension fund asset allocation across corporate pensions, LGPS and other types of pension fund. We observe that given the points raised above, LGPS have higher allocation to return-seeking strategies and so the proportion invested in equities (61%) is almost double that of corporate pension funds, which are predominantly DB assets (34%). Greater de-risking and older scheme members among DB pensions also results in a significantly higher allocation to fixed income among corporate pensions compared with LGPS (50% vs. 27%).

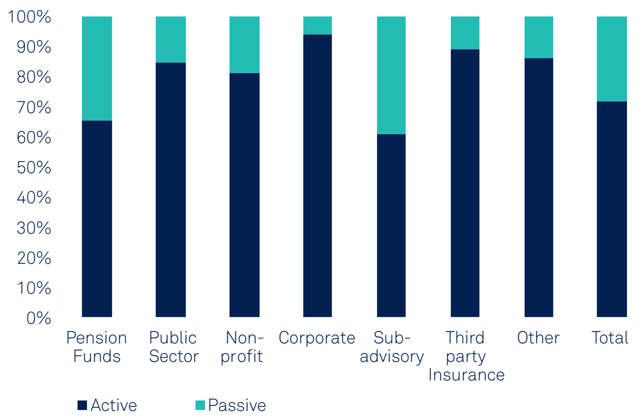
CHART 34: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS AMONG UK PENSION FUNDS (2020)



ACTIVE VS. INDEXING

Almost three quarters of institutional client assets (72%) were managed by IA members on an active basis, which is three percentage points higher than in 2019. Pension funds account for the largest use of index strategies, which make up 36% of pension fund assets. Indexing strategies are used extensively by both DB and DC pension schemes.

CHART 35: ACTIVE AND INDEX THIRD PARTY MANDATES BY CLIENT TYPE (SAMPLE-ADJUSTED) (2020)



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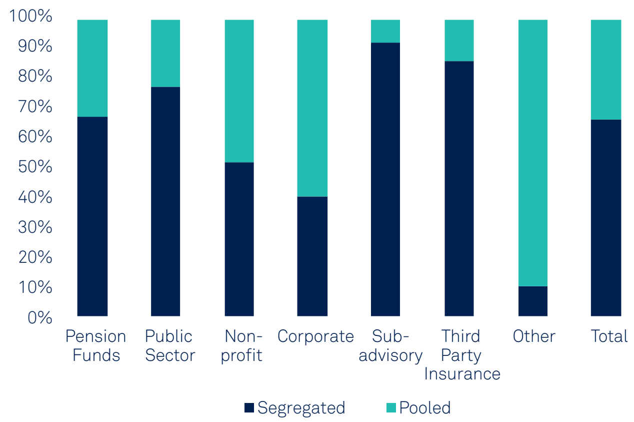
SEGREGATED VS. POOLED

Chart 36 shows that segregated mandates represented two thirds (67%) of assets managed for third party institutional mandates at the end of 2020, up three percentage points from 2019. Third party insurance clients and sub-advised clients typically prefer segregated mandate arrangements with 86% and 92% of assets in mandates. Corporate clients are most likely to utilise pooled investment vehicles with 60% of assets in these types of arrangements. One third of pension client assets are within pooled arrangements, perhaps a reflection of the greater use of indexing through pooled vehicles.

CHART 36: SEGREGATED AND POOLED MANDATES AMONG THIRD PARTY PENSION FUNDS (2020)



5 RETAIL FUND MARKET

KEY FINDINGS

2020 FUND SALES REBOUNDED FOLLOWING A RECORD MARCH OUTFLOW

- Q1 2020 was a tumultuous start to the year for the retail funds market as Covid-19 took hold. Capital markets suffered a significant correction in March, leading to a record monthly outflow of £9.7 billion from retail funds, equalling 0.76% of FUM.
- However, fund sales rebounded strongly. The year ended with annual inflows of £30.8 billion, making 2020 the second highest year on record for net retail sales after 2017. High savings rates over lockdown and record low interest rates supported a sustained sales recovery. The rally included a record monthly inflow in November (£8.3 billion) as markets rose on the news of successful vaccine trials.
- Quick and decisive Bank of England intervention in March proved critical to a swift market recovery. Comparing the Global Financial Crisis and Covid-19 shows that Central Bank intervention in 08/09 had an even greater effect on stimulating fund sales. Annual net retail sales of £29.8 billion in 2009 were 8% of FUM, compared with sales in 2020 of £30.8 billion - equivalent to 3% of FUM.
- Despite the steep falls in capital markets in March, which led to an 11% drop in FUM, UK investor funds under management recovered as markets rebounded, reaching a record £1.44 trillion by the end of the year, up by 9% from £1.32 trillion in 2019.

RESPONSIBLE INVESTMENT FUND SALES ACCELERATED THROUGH THE PANDEMIC

- The growth in FUM and net retail sales to responsible investment (RI) funds is one of the standout developments of 2020 as the pandemic brought social concerns to the fore and strong fund performance attracted investors.
  - Net retail sales to RI funds reached £11.7 billion in 2020, making up 38% of total net retail sales.
  - FUM increased by £20 billion over the year, reaching £55 billion by the end of December 2020. This represents a 60% increase in FUM to RI funds, compared to a rise of 9% for industry FUM overall.
- The percentage of UK investor FUM in RI funds remains small at 3.9%, but this is up from 2.6% at the beginning of the year.
- RI has also been an active area for new fund launches, swelling the number of funds in IA data through 2020 by 17%, from 193 to 226.

SALES TO ACTIVE FUNDS RECOVERED IN 2020

- The inflow to active funds in 2020 marks a shift in the near-term pattern of sales. In 2019, outflows from active funds reached £8.1 billion as sales to index tracking funds dominated with inflows of £18.1 billion. However, in a strong year for net retail sales overall, sales to active funds recovered in 2020 to £12.4 billion.
- Investor appetite for low cost index tracking funds has not been dented through the pandemic, in spite of the rise in active fund sales, and both sales and FUM have grown steadily since 2012.
- Inflows to index trackers in 2020 remained consistent with the previous year at £18.4 billion, and in March index funds recorded an inflow of £469 million in an exceptionally challenging month for fund flows.

5

UK INVESTORS MAINTAIN A PREFERENCE FOR GLOBAL DIVERSIFICATION

- Investor preferences over the last 15 years have shifted in favour of an allocation or outcome investment objective, where investors opt for an investment solution. This pattern held fast in 2020 - 42% of net retail sales were to outcome and allocation funds. The return to active inflows also boosted sales to equity growth funds, which were the highest selling category by investor objective (£9.9 billion).
- At the asset class level, investors continue to show a preference for globally diversified funds. Net retail sales to Global equity funds of £37.3 billion are the highest of any equity sector over the last ten years.
- In 2020, globally diversified funds recorded inflows of £6.1 billion through the sales rebound over the last three quarters. This is nearly three times higher than North America, the next highest selling equity region.
- Strong sales to Global Bond funds suggest a similar preference for global diversification in fixed income. Since 2010, inflows to the Global Bonds sector account for nearly a third (31%) of total fixed income sales and were the highest of any fixed income sector in 2020 at £4.5 billion.
- The erosion of the UK equity home bias continues. The proportion of total FUM in UK equities has dropped from 39% in 2005 to 14% in 2020. UK equities have seen £16.5 billion in outflows since the Brexit referendum in 2016 and sustained £2.8 billion in outflows in 2020 as the FTSE continued to underperform its global peers.

PLATFORMS REMAIN THE DOMINANT DISTRIBUTION CHANNEL

- UK Platforms have been the lead distribution channel every year for the past decade and remain the dominant channel for UK investors in 2020 with a net £16.3 billion inflow.
- The Direct channel is in outflow in 2020 for the seventh consecutive year, showing the long-term shift away from direct investor distribution by fund managers. Discretionary Managers also show a third year of net outflows, suggesting that more money is being managed by discretionary managers on platforms.
- Net retail sales to the 'Other UK Intermediaries including IFAs' channel jumped in 2020, reaching £15.2 billion, up from £3.0 billion in 2019. Half the yearly inflow came in the last quarter as capital markets surged. Annual inflows from the off-platform IFA channel are typically modest compared with platforms but spike in exceptionally strong years for net retail sales, including 2017 and 2009.

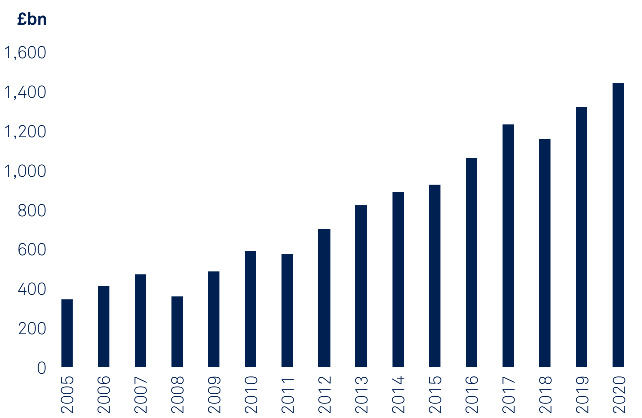
This chapter focuses on UK retail investor behaviour looking at flow data for both UK and overseas-domiciled funds that are sold in the UK. It also examines the evolution of the UK fund market, based on total funds under management (FUM) for UK-domiciled funds, which constitute the large majority of UK retail investors' holdings.

We continue to look closely at the impact of the pandemic on the retail fund market as well as a range of long-term trends, including the growth of responsible and sustainable investment funds. We also set some of our analysis in the context of patterns since the Global Financial Crisis, when monetary policy intervention was also decisive in shaping the recovery.

UK INVESTOR FUNDS UNDER MANAGEMENT

At the end of 2020, UK investor funds under management reached a record £1.44 trillion, growing by 9% from £1.32 trillion in 2019 (see Chart 37).

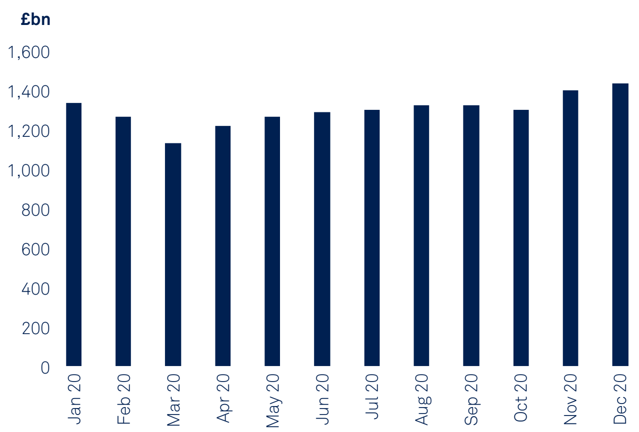
CHART 37: TOTAL INDUSTRY FUNDS UNDER MANAGEMENT (2005-2020)



Although UK investor FUM ended 2020 at a record level, FUM fluctuated throughout the year. The steepest decline was seen in March 2020 as FUM dropped by 11% over the month to £1.14 trillion, as Chart 38 shows. Although FUM started to fall at the beginning of 2020, declining by 5% between January and February, the impact on markets of the effective economic shutdown imposed by lockdown was severe. Between the 4th and the 23rd of March 2020, the FTSE All-Share reached its lowest valuation,[25] losing 28% of its value (Chart 39).

As markets recovered in 2020, FUM rose to exceed pre-Covid levels, increasing by 8% between October and November 2020. FUM growth at the end of 2020 was boosted by strong equity market performance following the announcement of a successful vaccine trial by Pfizer BioNtech. The FTSE All-Share returned 12.4% on a capital return basis over November as the major global equity markets rose sharply in value over the month.

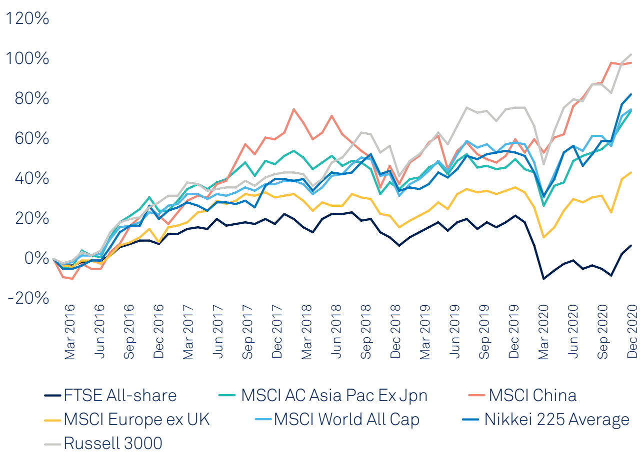
CHART 38: UK INVESTOR FUM THROUGH 2020



[25] London Stock Exchange data records that the FTSE All-Share valuation on the 23rd of March 2020 was 2727.86, down from 3795.38 at the beginning of March 2020.

The swift and decisive action of Central Banks in implementing large-scale quantitative easing programmes was critical in supporting the recovery of markets. The global stock market rally extended from the March floor through 2020 as sectors such as technology and healthcare benefited from the conditions created by the pandemic.

CHART 39: PERFORMANCE OF THE MAJOR EQUITY INDICES ON A CAPITAL RETURN BASIS (2016-2020)



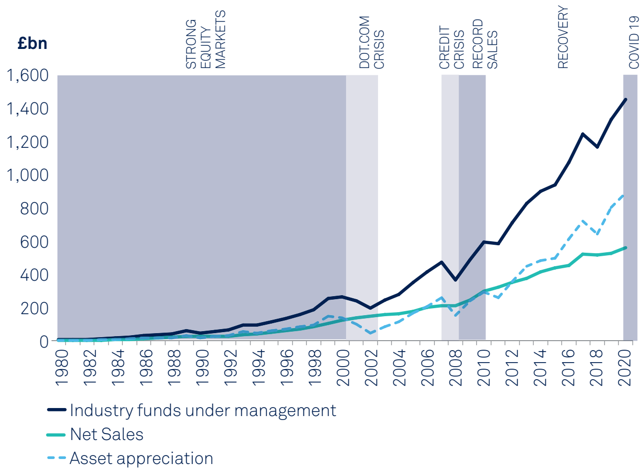
Source: Morningstar

THE IMPACT OF ASSET APPRECIATION AND DEPRECIATION ON UK INVESTOR FUM

A capital market correction of the magnitude of March 2020 was last seen during the Global Financial Crisis. The FTSE All-Share lost 29% of its value between the 6th of September and the 18th of October 2008, when the All-Share reached a credit crisis low. This led to a fall in FUM of 11% over two consecutive months in September and October 2008, a similar level to March 2020.

Indeed, asset appreciation and depreciation have been a more significant factor than net sales in the level of total funds under management over the last 15 years (see Chart 40). In the last quarter of 2018, the most recent significant market correction pre-Covid, FUM declined by 8% over the quarter as a result of asset depreciation. The net outflow from funds[26] over the quarter were equivalent to 0.7% of total FUM. In 2020, net outflows from funds accounted for just 1% of the 14% decrease in FUM between the last quarter of 2019 and the first quarter of 2020.

CHART 40: DRIVERS OF INDUSTRY GROWTH (1980-2020)



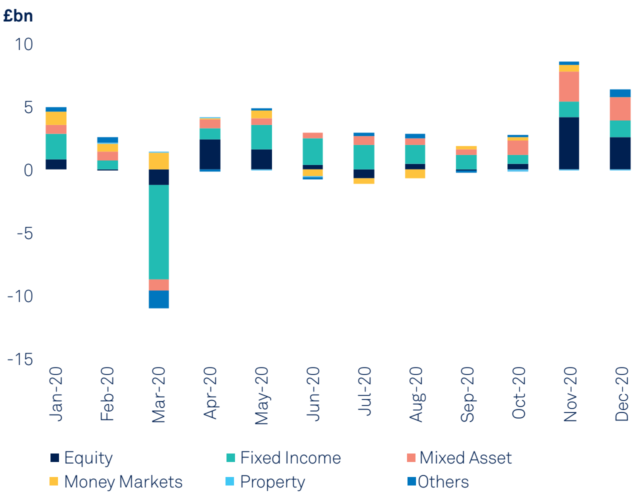
[26] Chart 40 shows combined net sales to retail and institutional funds. In all other charts in Chapter 5, sales data denotes net retail sales.

THE PATTERN OF NET RETAIL SALES THROUGH THE PANDEMIC

In March 2020, as capital markets plummeted, the record outflow from retail funds reached £9.7 billion, just £200 million less than total net retail sales in 2019 (Chart 41). By November 2020 net retail sales had shifted to a record monthly inflow of £8.3 billion, as markets responded to the announcement of successful vaccine trials.

Following March, the return to inflows from April through to December has been significant and sustained: total net retail sales over this period were £33.1 billion. Annual inflows of £30.8 billion for the year make 2020 the second highest year for net retail sales recorded. Here we explore the drivers behind the trends in net retail sales in 2020.

CHART 41: MONTHLY NET RETAIL SALES BY ASSET CLASS IN 2020



March's record outflow

March's net retail outflow of £9.7 billion is the highest ever seen in a month, the next highest being £2.5 billion in June 2016 following the Brexit referendum.

- Outflows of £7.4 billion from fixed income funds accounted for 76% of the total outflow and every IA fixed income sector recorded the highest monthly outflow as a percentage of FUM.[27]
- Despite net retail sales of -£1.1 billion in equities, investors showed a contrarian impulse towards UK equities and UK All Companies saw inflows of £965 million.
- Outflows of £1 billion from mixed asset funds ran counter to the long-term trend to consistent inflows.
- In contrast, responsible investment funds (£85 million) and index trackers (£468 million) maintained inflows despite challenging market conditions.
- Widespread property fund suspensions prevented outflows in March (£3 million) and money market fund inflows were £1.3 billion, a sign that investors were managing their risk through cash-like investments.

November's record inflow

In November 2020, net retail sales to funds reached £8.3 billion. The equity markets climbed as successful vaccine trials were announced. A Biden victory in the US, that would bring a $1.9 trillion fiscal stimulus package, also looked increasingly certain. Markets anticipated that these developments would support a faster economic recovery from Covid-19.

- Inflows to actively managed funds of £5.4 billion are the highest ever recorded. Net retail sales to tracker funds were £3 billion, which is also a record.
- £4.1 billion in net retail sales to equity funds is another record monthly inflow.
- Mixed asset fund sales were £2.5 billion, the highest inflow ever and unmatched through the record sales year of 2017.
- Net retail sales to fixed income funds were £1.2 billion, lower than the peak of the bond bounce back in June 2020 of £2.1 billion.

[27] The Global Emerging Market Bonds – Local Currency sector has since seen a higher outflow in June 2020.

COMPARING THE GFC AND COVID CRISES: THE IMPACT ON THE RETAIL FUNDS MARKET

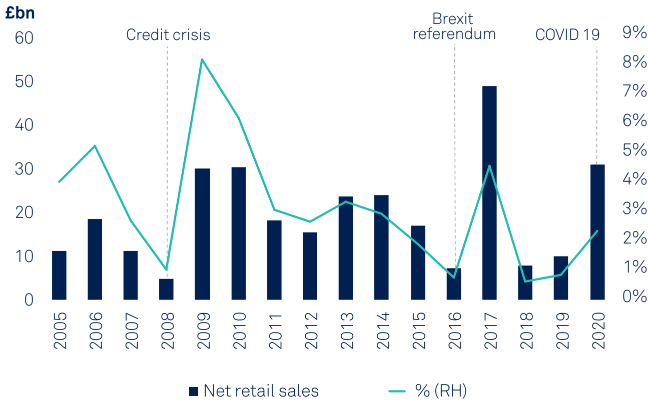
NET RETAIL SALES THROUGH COVID-19 COMPARED WITH THE GLOBAL FINANCIAL CRISIS

Over the past twenty years, the last market correction of the scale seen in March 2020 occurred during the Global Financial Crisis (GFC) in 2008. In both 2020 and 2008, Central Bank intervention through base rate cuts and quantitative easing has proved critical in stimulating the economy and in supporting markets. Since 2008, we are operating in a new era where monetary policy has been one of the defining influences on market performance and asset prices. This in turn has affected the pattern of fund sales and investor sentiment and so we have compared the trends in net retail sales over the two crises.

During the GFC, sharp falls in markets weakened net retail sales to funds and introduced sales volatility through 2008. Chart 42 shows that in 2008, net retail sales fell to £4.8 billion, a decline of 57% on inflows in 2007. The data also show that in 2009, net retail sales rebounded strongly to a then record level of £29.8 billion. The inflow to funds in 2009 was equivalent to 8% of total FUM.

Whilst the new record annual sales of £48.6 billion in 2017 are greater in absolute terms than in 2009, FUM in the UK funds market in 2017 was also three times higher. The 2017 inflow was equivalent to 5% of FUM, as shown in Chart 42, which illustrates the strength of the return to inflows in 2009.

CHART 42: TOTAL NET RETAIL SALES AND NET RETAIL SALES AS A PERCENTAGE OF FUM (2005-2020)

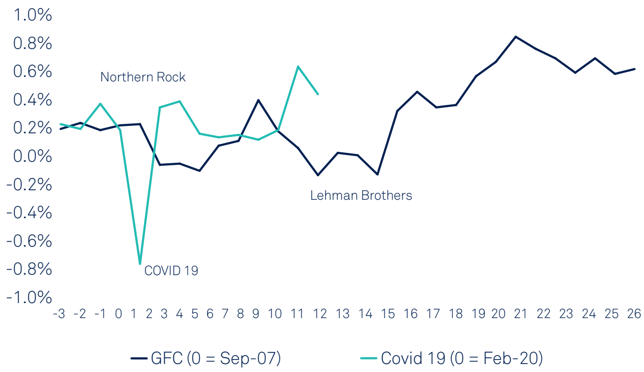


The pattern of net retail sales during the pandemic has some parallels with the trend seen in 2008/2009. A key difference in 2020, however, is the speed of events. The record outflow and the rebound to inflows occur over a much shorter period, as shown in Chart 43.

In Chart 43, to allow a more direct comparison given the difference in the size of the funds market in 2020 and in 2008, monthly net retail sales as a percentage of FUM are compared during the pandemic and the GFC. In 2008/2009, volatile sales are a feature for nearly eighteen months but net retail outflows never exceed 0.13% of FUM. In 2020, at 0.76% of FUM, the March outflow from retail funds is nearly six times higher than the 0.13% outflows seen in 2008 but the shift to inflows from April is immediate and sustained.

However, the net sales recovery from March 2020 never quite matches the highest month of sales in 2009, where sales reached 0.85% of FUM. November 2020's net retail sales of £8.3 billion is a record in absolute terms but is 0.64% of FUM.

CHART 43: NET RETAIL SALES AS A PERCENTAGE OF FUM THROUGH COVID-19 AND THE GFC



Monetary policy compared

Although in both crises, Central Banks deployed quantitative easing (QE), in 2020 they benefited from the lessons of the GFC. Decision-making was far quicker in March 2020 and the scale of QE in 2020 was significant – the Bank of England conducted three rounds of bond buying in March, June and November 2020 totalling £895 billion. The speed of the implementation of QE from the major Central Banks supported a swift recovery in the performance of capital markets, which in turn helped the quick and sustained return to net inflows shown in Chart 43. In the Global Financial Crisis, the Bank of England started to deploy QE in November 2009, over a year on from the sharpest falls in capital market valuations through September and October 2008. Levels of QE reached £200 billion.

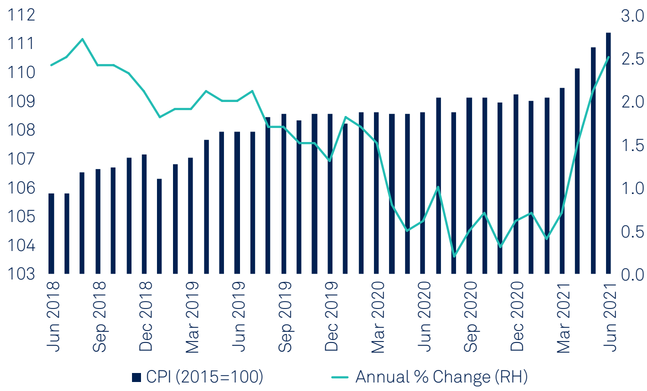
The experience with key policy rates is also different. In 2007, at the beginning of the GFC, the Bank of England base rate stood at 5.5%. It was lowered incrementally on five successive occasions, finally reaching 0.5% in 2008. Cuts to the base rate helped stimulate the economic recovery and to make it relatively inexpensive to repay loans. This had a significant impact on fund flows in 2009 because in a short period of time it severely reduced the return that households could get on cash savings. Confidence in banks to safeguard cash savings was also very low, which benefited retail fund flows.

In 2020, the data suggest that the base rate cut has had less impact on fund flows than in 2008/2009. In March 2020, the Bank of England cut the base rate from 0.75% to 0.25% and then made a further cut to 0.1%. The cuts come after over a decade of low interest rates on cash savings. Net retail sales in 2020 are equivalent to 3% of FUM compared with 8% of FUM in 2009, showing the likely significance of the base rate cut during the GFC.

INFLATION, THE MONETARY POLICY RESPONSE AND THE OUTLOOK FOR ASSET ALLOCATION

Consistent inflows to retail funds through 2020 show the resilience of the fund market through Covid-19, which benefited from decisive Central Bank action. However, rising inflation in 2021 and longer term could pose a challenge for investors and will require the attention of Central Banks. In June 2021, the Consumer Price Index, which is an important measure of price inflation, rose by 2.5% on an annual basis. This is above the 2% target set by the Bank of England (BoE) and is an annualised increase of more than 2% for the second consecutive month.

CHART 44: CONSUMER PRICE INDEX VALUES AND ANNUAL PERCENTAGE GROWTH IN CPI (JUNE 2018 – JUNE 2021)



Source: ONS

If the BoE sees rising inflation as transitory, a symptom of the release of pent-up demand for goods and services as the UK economy opens up, then it may take no action to tighten monetary policy. But if rising inflation is persistent, the monetary policy decisions taken by Central Banks could be decisive in the performance of capital markets. The uncertainty around the outlook for economic growth and inflation over the longer term makes the timing and the degree of the re-calibration of monetary policy a delicate decision.

Rising inflation erodes the value of cash in the near term and this makes cash saving unattractive, which could benefit funds. However, if rising inflation persists, there is a higher probability that the Bank of England will raise the base rate to combat inflation. Although adjustment to the base rate is likely to be incremental, banks and building societies could also raise interest rates on cash savings accounts meaning better returns on cash saving, which could have a negative impact on fund flows.

The Bank of England could also curtail the economic stimulus provided by its £895 billion quantitative easing programme, which would help to stop the economy overheating. The timing of any reduction or curtailment of QE is delicate as markets are sensitive to changes in monetary policy. Sudden announcements have the capacity to move markets. 2013's 'Taper Tantrum' occurred when the US Federal Reserve announced that it was reducing its QE programme, a move that markets were not expecting, causing US Treasury yields to surge. Reducing QE is also likely to affect stock markets as the value of stocks have been supported by QE in the post-March 2020 recovery. This could have an impact on the equity markets.

The implications for asset allocation
Historically, rising inflation has the most negative impact on bond funds but there are wider implications for allocations to equities and alternative asset classes, which can be used as a hedge against inflation:

- If rising inflation is persistent, it could affect investors' allocation to bonds. Bond investors demand a higher yield to offset the negative impact of inflation on future cash flows, and as bond prices move inversely to bond yields, this causes prices to fall. Bonds with longer maturities are most affected as they have a longer period of fixed interest payments before maturing. Investors may seek out inflation-linked bond funds or opt for bonds with shorter duration.

- Investors are also likely to seek out other asset classes that can protect against rising inflation through funds investing in alternative assets such as gold or commodities. Property funds could also benefit because as inflation rises, so do property values and the amount that landlords can charge in rent.

- Certain types of equities should perform better when inflation rises including stocks that have strong current cash flows rather than stocks that are dependent on future earnings growth, which becomes more uncertain. This could benefit UK equities, where industry sectors such as financials and industrials make up a high percentage of the companies listed on the FTSE, compared with higher growth sectors such as technology.

INVESTOR BEHAVIOUR: COVID-19'S IMPACT ON WEALTH, SAVINGS AND INVESTMENTS

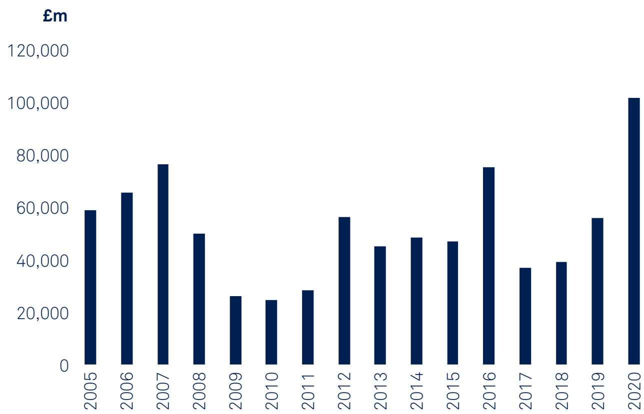
The nation faced a series of lockdowns over 2020 and economic activity was severely restricted. This led to a record decline in UK GDP in the second quarter of 2020, which contracted by 20.4% (in the US, the contraction was even more pronounced at 32.9% at an annualised rate). Sectors less able to move to remote working were hard hit. To combat a severe rise in unemployment, the UK Government introduced the 'Coronavirus Job Retention' scheme in March 2020. By June 2020, 30% of workers in all British industries were on furlough and in the arts, entertainment and recreation industry this figure ran at 71%.[28]

The measures implemented to contain the spread of the virus accelerated the advance of digital commerce and online working – through 2020 some 40% of respondents to the ONS Opinions and Lifestyle Survey consistently worked from home because of Covid-19. Many industries, including the investment management industry, successfully made the transition to operating remotely and weathered the restrictions of lockdown relatively unscathed.

The ONS data illustrates that the impact of the pandemic on the wealth of British working age adults has been uneven. For those able to work remotely, as expenditure on activities such as travel, leisure and retail was constrained by lockdown, there has been a significant uplift in saving. In 2020, Bank of England data show that annual money flows into household deposits in banks and building societies reached £101 billion, an increase of 82% from 2019 (see Chart 45).

"A really big group, which often isn't talked about… is people whose income has stayed high, and their spending dropped dramatically so they have… more disposable income than…in their whole lives."

CHART 45: ANNUAL MONEY FLOWS TO DEPOSITS HELD BY UK BANKS AND BUILDING SOCIETIES (2005-2020)



Source: Bank of England

The money flow from UK households into deposits in 2020 is different from the pattern seen during the Global Financial Crisis, where money flowing into cash deposits dropped by a third between 2007 and 2008 and a further 50% from 2008 to 2009. The cut in the base rate from 5% to 0.5% in 2009 made it far less attractive to save into bank deposits and fund sales benefited as annual net retail sales to UK domiciled funds reached 8% of FUM, as observed earlier in Chart 42. The impact of the base rate cut to 0.1% in 2020 has come as savers are used to over a decade of low interest rates and so have not been deterred from making cash deposits as they were in 2009.

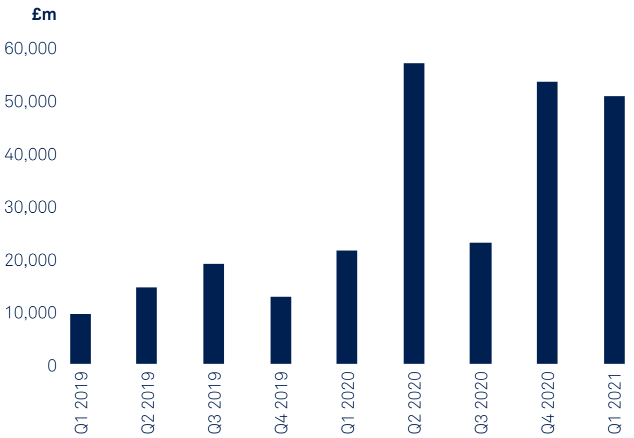
The sharp drop in cash deposits over 2008 and 2009 also reinforces the fact that the credit crunch was seen as a financial crisis by consumers and there were fears for the safety of savings as the government had to bail out some of the largest high street banks: Royal Bank of Scotland and Lloyds/HBOS. The retail funds industry benefited significantly from this distrust in the short-term.

[28] Data taken from the monthly ONS Business Impacts of Covid Survey, June 2020.

Lockdown saving patterns

The impact of lockdowns on driving up the money flow to deposits shown in Chart 46 is striking. The first UK lockdown was imposed from March 26 to June 23 2020. Money flows in 2020 peaked in Q2 during the first lockdown at £57 billion, nearly £40 billion higher than the highest 2019 quarterly inflow. When lockdown restrictions were lifted over the summer of 2020 and the Chancellor introduced the 'Eat Out to Help Out' scheme to stimulate spending, the money flow to deposits drops to £23 billion.

CHART 46: QUARTERLY MONEY FLOW TO DEPOSITS HELD BY UK BANKS AND BUILDING SOCIETIES (Q1 2019 – Q1 2021)



Source: Bank of England

A strong rebound in fund inflows during Q2-Q4 2020 suggests that retail funds were also seeing some flow from the increase in savings (we discuss this in detail in a later section).

Looking ahead, some of the £101 billion added to deposits over 2020 will be spent as the economy opens up and some if it will remain in cash deposits. It remains to be seen what further impact there will be on retail investment. Leaving savings in cash already risks a much poorer long-term return compared with investing in funds but rising inflation could compound this if interest rates remain low.[29]

RESPONSIBLE AND SUSTAINABLE INVESTMENT

The growth in FUM and net retail sales to responsible investment (RI) funds is one of the standout developments of 2020. Investor appetite for environmentally conscious funds has been building over recent years but the pandemic brought social concerns to the fore, as net retail sales to RI funds accelerated through 2020 to reach £11.7 billion.

From January 2020, IA data on responsible investment funds is collected and reported according to the IA's Responsible Investment Framework (See page 27 in the Survey for definitions). The data includes funds operating fund specific exclusion policies, funds with a sustainability focus and impact investing funds.

Funds under management climbed from £35 billion in January 2020 to £55 billion in December 2020. The impact of net sales on growth in industry FUM is slight compared with asset appreciation but for responsible investment funds, rising net retail sales through 2020 have made a significant contribution to the increase in RI FUM. Nevertheless, asset appreciation remains an important driver of growth and the performance of many responsible investment funds in 2020 was strong. Weak returns in sectors such as oil and gas, which most RI funds exclude, combined with strong performance in sectors such as technology and healthcare – core sectors for RI funds – benefited returns. Responsible investment has also been an active area for new fund launches, swelling the number of funds in IA data through 2020 by 17% from 193 to 226.

[29] EFAMA Market Insights 5, Perspective on the Net Performance of UCITS, July 2021: a ten-year investment of EUR 10,000 in a portfolio composed of equity, bond and mixed funds generated a total net performance in real terms of 61%, whereas the value of EUR 10,000 left in a bank account in 2010-2019 fell by 10% in real terms.

As illustrated by Chart 47, the percentage of UK investor FUM in responsible investment funds remains small at 3.9% in 2020 but this is up from 2.6% at the beginning of the year. Assets in responsible investment funds remain largely actively managed. FUM in responsible index trackers accounts for 7% of total RI FUM.

CHART 47: RESPONSIBLE INVESTMENT FUM (2020)

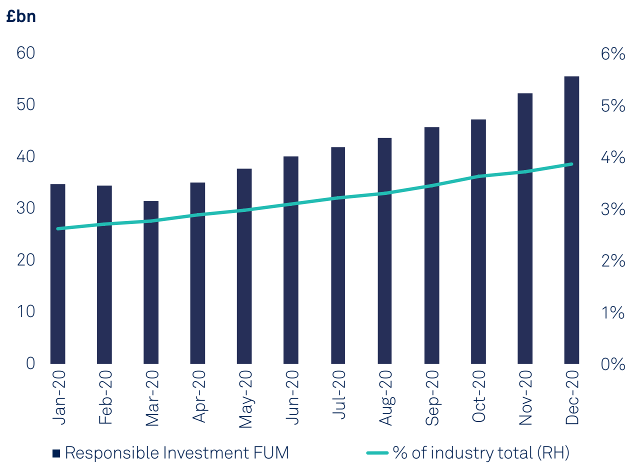


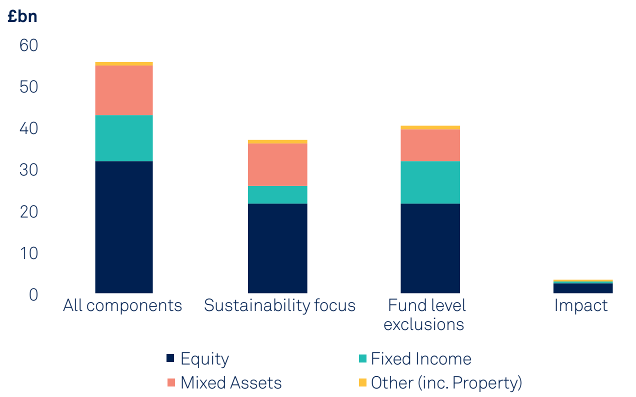
Chart 48 shows FUM in responsible investment funds split by asset class and by IA Framework component. Funds may (and often will) be categorised under more than one component and so the sum of each component's FUM exceeds the overall FUM in responsible investment funds. 2020 is the first year that fund data has been collected according to the IA Framework. It is therefore not possible to show year on year growth.

FUM in responsible investment funds with a sustainability focus (£37 billion) and fund level exclusions (£40 billion) is significantly higher than FUM in funds with an impact investing component with FUM of £3 billion or just 5% of RI FUM.

Splitting the data by asset class shows:

- In 2020, FUM in equities totalled £32 billion, representing 57% of responsible investment funds, a higher share than in the funds market overall. By comparison, equity funds are 52% of total UK investor FUM.
- The share of FUM in mixed asset funds is also greater. £12 billion in FUM represents 21% of RI FUM compared with 17% for the wider industry.
- Fixed income funds account for 20% of responsible investment FUM at £11 billion, which is similar to overall FUM in fixed income of 19%.
- Assets in the 'Other' category are underrepresented amongst responsible investment funds. £1 billion in FUM is just 2% of FUM compared with 7% of assets in the wider retail funds market.

CHART 48: RESPONSIBLE INVESTMENT FUM BY ASSET CLASS AND COMPONENT, DECEMBER 2020

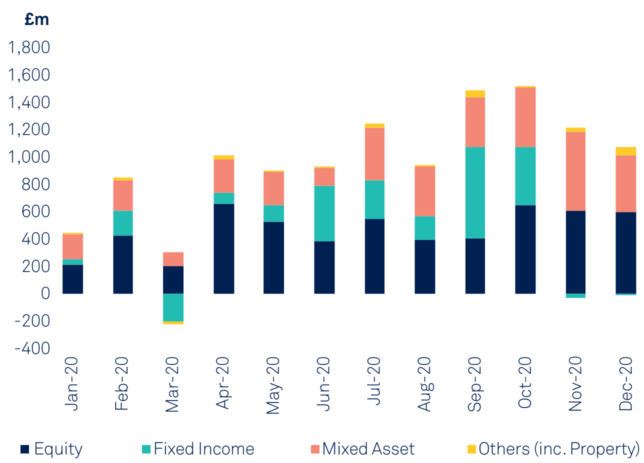


NET RETAIL SALES TO RESPONSIBLE INVESTMENT FUNDS

Chart 49 shows the pattern of net retail sales to responsible investment funds by asset class:

- Equity funds led sales through 2020, with a total inflow of £5.6 billion, just under half of the RI funds net sales total. For context, flows of £10.4 billion to equity funds in the wider IA fund universe were a third of 2020 inflows.
- Mixed asset RI funds received inflows of £3.7 billion in 2020, 31% of the total RI inflow at levels comparable to mixed asset sales overall in 2020 at 29% of total inflows.
- Net sales to fixed income RI funds were £2.1 billion (18%) of the total in 2020.
- Funds investing in assets such as property or pursuing outcome strategies including volatility management are represented by the 'Other' category. RI funds in this asset class are limited in number and are lower by percentage of FUM and sales were just £251 million over 2020. The recent launch of RI funds to the volatility managed sector is likely to result in higher sales to RI funds in the 'Other' category in future years.

CHART 49: RESPONSIBLE INVESTMENT NET RETAIL SALES BY ASSET CLASS, (2020)



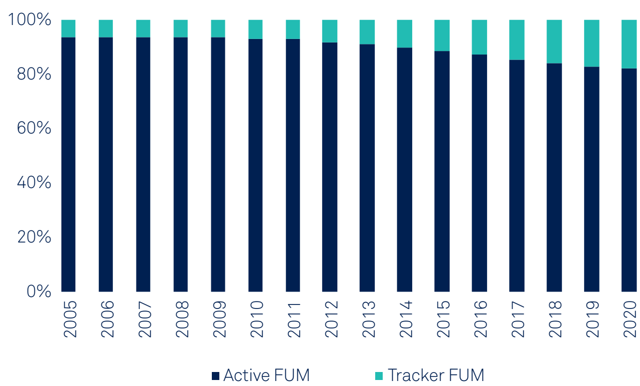
GROWTH PATTERNS IN INDEX TRACKING FUNDS

FUM in funds that track an index[30] was £257 billion in 2020 compared with £41 billion in 2010, giving tracker FUM a compound annual growth rate of 20%, which compares with 7% for active FUM over the same period.

The proportion of FUM managed through index tracking funds has been steadily climbing from 7% in 2010 to 18% in 2020 as shown in Chart 50. Asset appreciation is the most important driver of FUM growth but new fund launches and rising net retail sales have also been contributing factors over the last decade.

In 2020, the growth in tracker funds as a percentage of FUM has started to level off. The proportion of FUM in index trackers has remained consistent between 2019 and 2020 at 18%.

CHART 50: ACTIVE FUNDS AND TRACKER FUNDS AS A PROPORTION OF TOTAL FUNDS UNDER MANAGEMENT (2005-2020)

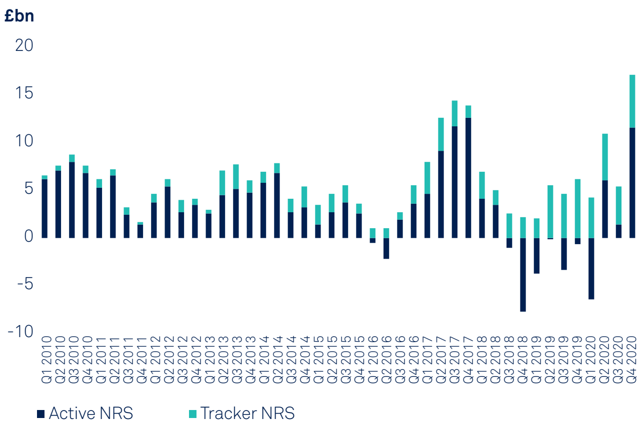


[30] IA fund data on index trackers does not currently include ETFs. Assets in ETFs are included in the AUM data.

As seen in Chart 51, net sales to active funds demonstrate greater volatility than the stable inflows to index trackers. Between 2018 and 2019, there was also a step change in the level of net retail sales to index trackers. Inflows to index trackers rose from £9.2 billion in 2018 to £18.1 billion. 2020's sales to trackers are consistent with the levels in 2019 at £18.4 billion in a strong year for net retail sales overall.

The trend to outflows from active funds has shifted during the pandemic going from an £8.1 billion outflow in 2019 to a £12.4 billion inflow in 2020. This suggests that investors are persuaded that active managers can take advantage of changing market conditions to deliver superior returns.

CHART 51: NET RETAIL SALES TO ACTIVE AND INDEX TRACKING FUNDS (2010-2020)

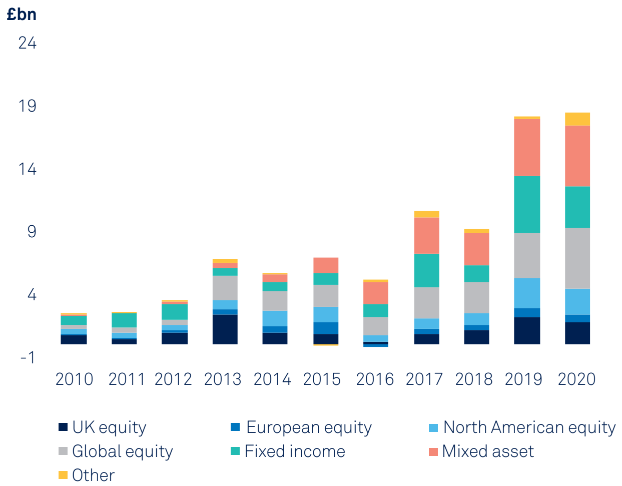


Sales to tracker funds by asset class

Sales to mixed asset (typically funds of index trackers) and global equity tracker funds increased in 2020 to £9.7 billion, up from £8.2 billion in 2019. Combined they represent just over half of all tracker inflows in 2020. Mixed asset and global equity trackers have become popular with investors, offering diversified investments at a low cost.

Sales to fixed income trackers have been increasing, peaking in 2019 at £4.5 billion. After strong sales in 2019, fixed income trackers saw reduced inflows in 2020, declining to 18% of tracker sales. Although equity and mixed asset tracker funds did not see outflows in March 2020, fixed income trackers were not immune to the market conditions that resulted in a £7.5 billion outflow from fixed income funds overall. However, fixed income tracker sales rebounded in the second half of 2020.

CHART 52: NET RETAIL SALES OF TRACKER FUNDS BY INDEX INVESTMENT TYPE (2010-2020)



SALES TRENDS BY ASSET CLASS

Over the last 15 years, retail investors have made a structural shift in preference to funds that provide a mixed asset allocation. Mixed asset funds offer a ready-made investment solution, where the fund manager makes the allocation decisions rather than the investor, and sales to allocation funds have been consistently strong year on year. In contrast, the pattern of sales to funds investing in a single asset class or strategy has been more volatile.

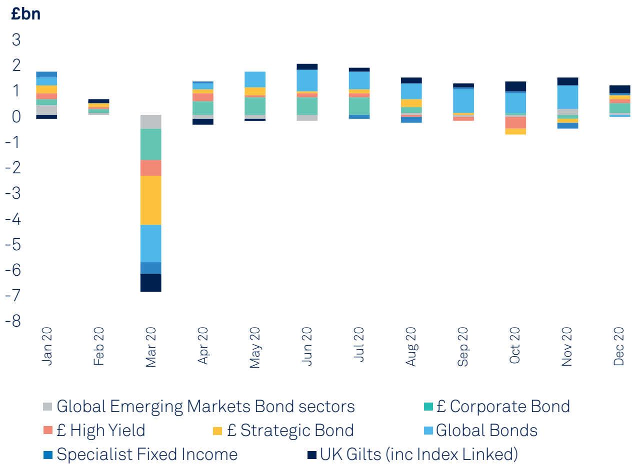
For equity and bond funds, the most consistent inflows have been to funds with a globally diverse allocation. A more diverse exposure to global stocks and bonds provides attractive risk mitigation and is also a reflection of changing investor horizons, as the preference for investing in domestic companies has been eroded over time in favour of access to broader global markets.

In this section we analyse the sales trends by the main asset classes. We take into account how investors have responded to the changing market conditions through the pandemic but also look at the long-term pattern of sales pre-Covid.

NET RETAIL SALES TO FIXED INCOME IN 2020

In March 2020, 80% of fixed income funds in IA data recorded net outflows. At £7.5 billion, the outflow from fixed income was the highest of any asset class. As shown in Chart 53, the largest fixed income outflows in absolute terms were across funds in the £ Corporate, £ Strategic and the Global Bond sectors, the three largest fixed income sectors by FUM.

CHART 53: FIXED INCOME, MONTHLY NET RETAIL SALES BY SECTOR (2020)



Assets have flowed back to fixed income funds through 2020, fully reversing the March outflow by August 2020 and total inflows for the year were £8 billion:

- Sales to the Global Bonds sector were the highest of any fixed income sector in 2020 at £4.5 billion. Many funds hold a mix of government and corporate bonds to diversify holdings. Global Bonds was also the highest selling fixed income sector in 2019 at £2.9 billion.
- Sales of £2.4 billion to the £ Corporate Bond sector made it the second highest selling fixed income sector in 2020. In 2019, the sector sustained an outflow of £426 million.
- Sales to UK Gilts reached £794 million compared with sales of £684 million in 2019.
- Not all fixed income sectors recouped the outflows sustained in March 2020, the £ Strategic (-£468 million), Specialist (-£418 million) and £ High Yield (-£169 million) sectors all ended the year with negative net retail sales.

The drivers of the March 2020 outflows

Chart 54 focuses on the outflows from the IA fixed income sectors as a percentage of FUM. The larger sectors by FUM had higher outflows in monetary terms in March but looking at sales in the context of the size of the overall sector is a better measure of the relative scale of the outflow.

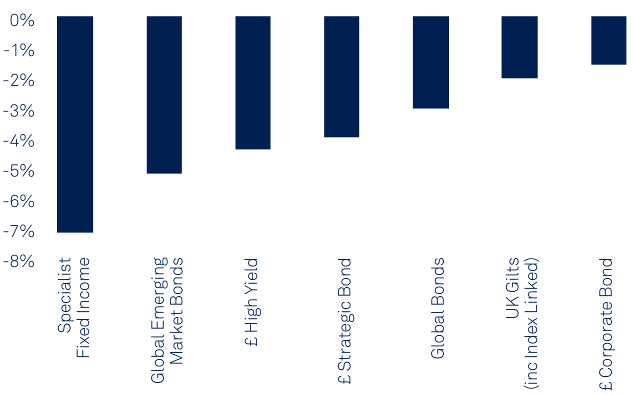
The outflow from the £ Corporate Bond sector was in fact the lowest as a proportion of sector FUM at 1.6%. Although the sector had the third largest outflow of £1.1 billion in March, it is also the largest bond sector by FUM.[31]

The highest outflows as a percentage of FUM were:

- The Specialist Fixed Income sector at 7.2%.
- Global Emerging Bond sectors at 5.2% of combined FUM.
- The 4.4% outflow as a percentage of FUM from £ High Yield.

The £ High Yield sector invests in sterling non-investment grade debt with the promise of higher yields and is therefore more vulnerable to credit defaults. However, the FUM in this sector is just a fifth of the largest sector by FUM – the £ Corporate Bond sector.

CHART 54: OUTFLOWS FROM IA BOND SECTORS AS A PERCENTAGE OF FUM, MARCH 2020



Bonds are traditionally seen as a safe asset class, so at a time of turbulence in markets, the scale of the outflow from bonds was substantial. We see three key drivers of the heavy fixed income outflows in March:

- **Re-balancing portfolios as equity valuations fell:** Equity market valuations dropped between 20% to 30% over a short period of time, reaching a low on the 23rd of March. Portfolios with a 60/40 weighting to bonds and equities shifted to circa 80/20 - a much higher weighting to bonds. In particular, discretionary managers looked to re-balance portfolios in the short-term - outflows from discretionary managers in March were the highest of any distribution channel at £2.4 billion. Selling out of equities when valuations were low would have crystallised portfolio losses, which meant that bonds were sold down. As equity markets rebounded, further adjustments back into fixed income were made.
- **Calls on cash:** Some of the activity in March must represent a need to draw on assets invested to convert them into cash, as the inflow to money market funds in March also suggests. If household income dropped significantly as a result of being furloughed or self-employed and bills or other commitments needed to be paid, drawing on investments may not have been desirable but could have been a necessity. To meet these needs, investors are likely to have sold down more liquid positions first, including mixed asset funds, at the same time as trying to avoid selling equities at low valuations.
- **Short-term risk management:** Volatility was a feature across asset classes, with conditions in both the bond and equity markets becoming exceptionally challenging in mid-March. It is possible that some investors opted to reduce their exposure to bonds in immediate reaction to this. The highest outflows as a percentage of FUM were from Specialist Bond funds, Global Emerging Market Bond funds and £ High Yield – high yield bonds can be less liquid and more vulnerable to default risk than investment grade corporate bonds. Appetite for emerging market debt was also affected by the rapidly strengthening dollar in March.[32] The massive scale of bond buying programmes from the Federal Reserve, the Bank of England and the European Central Bank helped to drive greater liquidity and improve price stability but this pulled through into bond markets at the end of March.

[31] FUM in the £ Corporate Bond sector was £79.6 billion in December 2020.

[32] EM debt is often paid off in dollars. The dollar is the world's reserve currency and strengthened significantly in March as many EM currencies weakened, making it harder to pay down debt and increasing the risk of default on EM bonds.

SALES TO FIXED INCOME FUNDS OVER TEN YEARS

Chart 55 shows the pattern of net retail sales to fixed income funds over the last ten years. In spite of the significant outflow from fixed income funds in 2020, annual sales were the second highest in the past decade beaten only by the £16.1 billion inflow in 2017 in a record year for net retail sales.

CHART 55: FIXED INCOME, NET RETAIL SALES BY SECTOR (2010-2020)

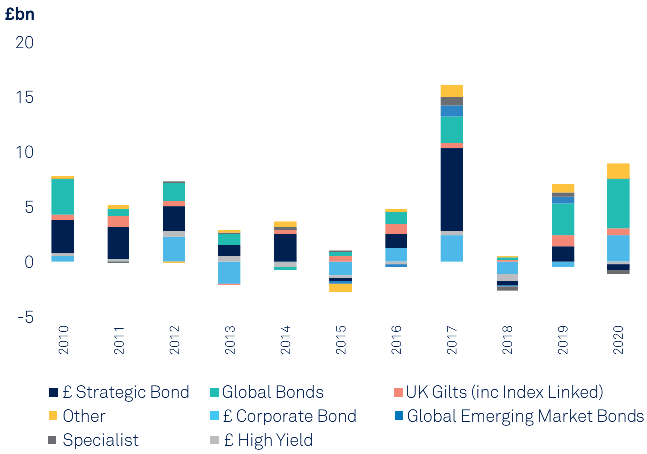
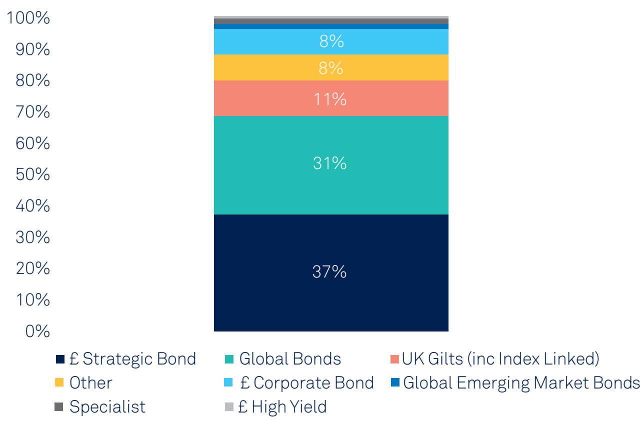


Chart 56 shows the proportion of the 10 year net retail sales to fixed income by type of bond fund, using the IA sectors as fund peer groups:

- Inflows to the £ Strategic Bond sector accounted for over a third (37%) of net sales to fixed income funds in the past 10 years, boosted by the large annual inflow of £7.5 billion in 2017, at the height of the DB transfer market. The rebound in sales to the £ Strategic sector has been comparatively weak in 2020 compared with other sectors, which runs counter to the trend of healthy inflows for most of the last decade.
- Inflows to the Global Bonds sector are 31% of total sales over 10 years. Sales to the Global Bond sector are the highest of the bond sectors in the last two years, peaking at £4.5 billion in 2020. This suggests that investors are increasingly opting for global diversification in bonds as well as equities.
- Although the £ Corporate Bond sector is the largest by FUM, it accounts for 8% of sales over 10 years and flows are less than UK Gilts (11%), where annual inflows have been more consistent year on year compared with higher sales volatility to the £ Corporate Bond sector.
- Inflows to £ High Yield made up just 1% of net retail sales. Sales to this sector have been volatile over the last decade. Inflows have also typically been much lower than the other sterling-denominated bond sectors, the highest annual inflow of £563 million coming in 2012.

CHART 56: PERCENTAGE OF TOTAL NET RETAIL SALES TO FIXED INCOME SECTORS OVER 10 YEARS



5

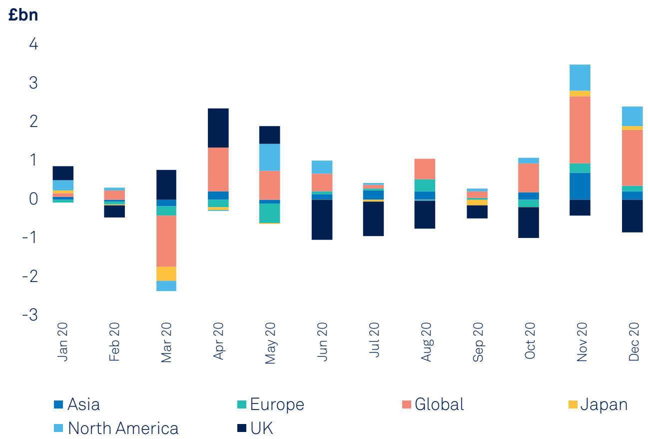
NET RETAIL SALES TO EQUITIES IN 2020

Equities were the highest selling asset class through 2020 with an inflow of £10.4 billion, in a reversal of 2019's £2.9 billion outflow from equity funds.

Alongside other asset classes, equity funds saw large outflows in March 2020 of £1.2 billion, although considerably lower than the £7.5 billion from fixed income funds. Recovering equity prices helped to drive inflows in April and May, followed by a calmer summer. The announcement of successful vaccine trials in November triggered record equity inflows of £4.1 billion as equity valuations surged.

Chart 57 shows that flows to equity funds have been volatile until the last quarter of 2020. Global equity funds attracted the most consistent inflows following the rebound from March.

CHART 57: NET RETAIL SALES BY EQUITY REGION (2020)



Global: Globally diversified funds remained popular with investors in 2020, consistent with the long-term trend to high sales to Global. Net retail sales were £7.1 billion over the last three quarters after a £1 billion outflow in Q1 2020. National governments took differing approaches in implementing measures to halt the spread of Covid-19 meaning that just as the spread of the virus affected different regions at different times, the pace of the recovery in national economies was not even. The geographic diversification offered by global funds helped investors to mitigate risk.

North America: US stocks have seen strong growth in valuations in 2020, with the S&P 500 offering a capital return of 15.8% for the year. The rapid shift to remote working and home entertainment helped drive the growth of the large technology companies, which are listed in the US. Early and decisive stimulus measures implemented by the Trump administration through the $2.2 trillion CARES Act helped smooth out the economic impact of Covid-19 and inspire investor confidence.

Europe: European equity funds saw outflows of £405 million through 2020, concentrated in the first half of the year, as shown in Chart 57. Outflows from European equities have slowed in 2020 compared with net retail sales of -£3.8 billion in 2019. As with UK equities, weak sales to European equities have been a feature following the Brexit referendum in 2016.

Asia: As Covid-19 became a global pandemic, the relative early success of Asian countries in controlling outbreaks allowed for quicker economic recovery, tempting investors back into Asian equity funds with £1.8 billion in net retail inflows since April 2020. This represents 24% of equity inflows in the last three quarters despite Asian equity funds representing only 6% of equity FUM. The Biden victory in the November US election offered some prospects for reduced Sino-US trade tensions, which may also have contributed to improved sales to Asian equity funds at the end of the year.

5

UK EQUITIES: THE EROSION OF HOME BIAS

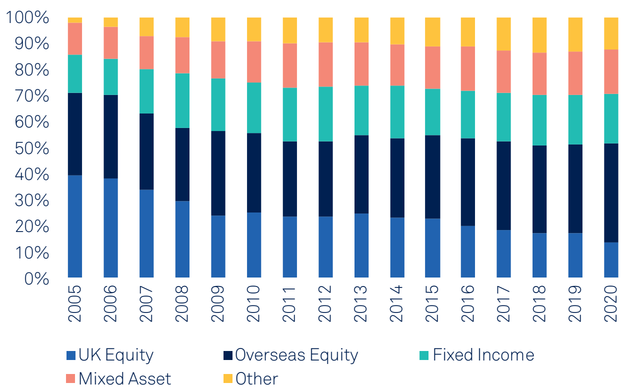
IA data show a long-term trend to overseas equities rising as a proportion of FUM and a shift away from UK equities. UK equity FUM has fallen to 14% in 2020, down from 39% in 2005, a trend that mirrors the decline in the percentage of AUM in UK equities (See Chapter 3). At the same time, assets in overseas equities have risen to account for 31% of UK investor FUM in 2020. This primarily reflects the underperformance of UK equities compared with overseas equities as shown earlier in Chart 39. Returns from the FTSE All-Share have considerably lagged the MSCI World and the equivalent US index, the Russell 3000.

Net retail sales to UK equities are a less significant driver of the decline in the proportion of FUM but have some bearing. UK equity sales have been volatile over the last 15 years, moving to more persistent outflows of £16.4 billion since 2016, the year of the Brexit referendum. Investor sentiment towards UK equities has been broadly negative over the last five years.

Chart 58 shows how the proportion of UK Investor FUM has changed since 2005, illustrating the substantial fall in UK equity FUM.

- UK equities fell to 14% in 2020 from 17% in 2019 as the FTSE All-Share failed to regain the market value lost in March 2020, ending 2020 10% down on 2019. UK equities accounted for some 40% of total FUM in 2005.
- Overseas equities rose to 38% of FUM at year-end 2020, up from 32% in 2005 and an increase of nearly 4 percent from 2019. This is the highest year on year increase in over 20 years, demonstrating the strength of the post-March rebound in global capital market performance.
- The proportion of FUM invested in fixed income ended 2020 on 19%, a small increase on 2019 (18.8%) despite the short period of bond market turbulence in March 2020. This proportion is broadly unchanged over ten years, following significant inflows into fixed income and strong market performance in the aftermath of the Global Financial Crisis.
- Mixed asset as a proportion of FUM is 17% in 2020 consistent with 17% in 2019. In 2005, the proportion of FUM invested in Mixed Asset was 12%.
- 12% of UK investor FUM is in 'Other', a substantial increase from 2% in 2005. Although FUM in 'Other' fell by 1% from 2019, this is more a reflection of the relative increase in the proportion of FUM in overseas equities than a decline in the FUM in the Other asset class, which rose slightly over 2020 in absolute terms.

CHART 58: FUM BY ASSET CLASS (2005-2020)



NET RETAIL SALES TO UK EQUITIES

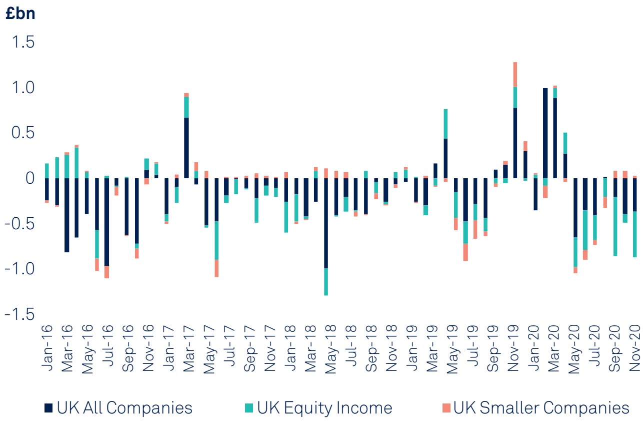
Outflows from UK equities between 2016 and 2020 are £16.4 billion (see Chart 59), suggesting that Brexit has had a broadly negative impact on investor appetite for funds investing in domestic shares. The underperformance of the FTSE relative to other global markets is another factor affecting UK equity funds as investors have looked to build more globally diverse portfolios. The performance of the FTSE through the pandemic has also been hampered by the impact of dividend suspensions on total returns and the pattern of outflows has largely persisted through 2020.

UK equity funds started 2020 on a high with strong inflows following the decisive Conservative election result in December 2019 and the promise of a concrete timeline for exiting the European Union. UK equity funds bucked the trend to high outflows in March 2020 with an inflow of £757 million, likely a reflection of contrarian investors tempted by sharply decreased UK equity prices and the prospect of future growth. Inflows continued into April and May before turning to consistent outflows from June onwards, with a total outflow of £5.1 billion from June to December. The FTSE underperformed other global markets on a capital and total return basis through 2020, in part because of a significant reduction in dividend payments that affected total return.

As shown in Chart 59, outflows from the UK Equity Income sector made up a significant part of UK equity outflows in the second half of 2020 at £2.5 billion. The Prudential Regulation Authority asked for the temporary cessation of dividend payments by banks in March.[33] This move, along with cuts in dividends from energy companies following a drop in oil prices, significantly harmed the income prospects for UK equities. UK dividend payments were cut by 44% in 2020 according to Link's Dividend Monitor.

Aside from reduced dividend payments, UK equities have suffered from the struggles to contain the Covid-19 pandemic and repeated lockdowns. Additionally, the uncertainty around protracted Brexit negotiations weighed upon investor sentiment, with the last minute signing of the EU–UK Trade and Cooperation Agreement coming too late in December to impact 2020 flows and leaving uncertainty around trading relationships going forward.

CHART 59: NET RETAIL SALES, UK EQUITY SECTORS (2016-2020)



EQUITY FLOWS OVER TEN YEARS

Investors have shown a consistent preference for globally diversified funds over the last ten years, as net retail sales to Global reached £37.3 billion for the decade. 2020's sales of £6.1 billion are the highest over this period. The Global sector's consistent inflows mean that net retail sales account for 79% of the £47 billion inflow to equities in the last decade.

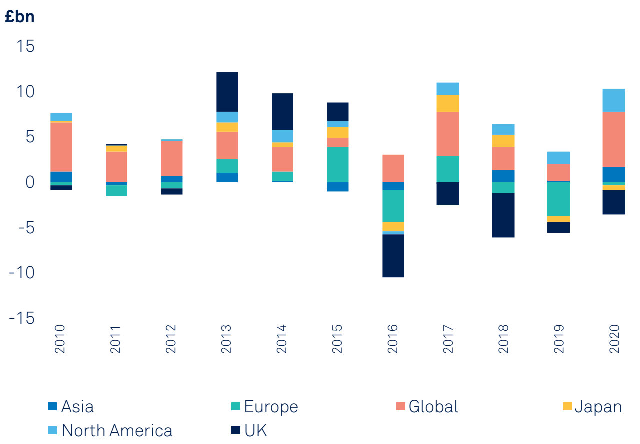
Funds investing in other regions have experienced more volatile sales over the last 10 years as capital market returns have waxed and waned. Strong sales to North American equities in the last four years, with inflows reaching £6.4 billion, have been aided by robust performance from US equities (see Chart 39 showing the performance of equity markets on a capital return basis). The US stock market has benefited from market conditions favouring growth stocks and has a high proportion of technology companies listed on it.

[33] Suspending dividend payments was a precautionary step to preserve capital in case it was needed through a challenging economic period. The PRA did not expect that banks would need the capital preserved to maintain adequate capital positions but wanted to ensure that banks had 'the extra headroom' to support the economy through 2020.

Geo-political factors have also played a part in shaping investor preferences. UK equities have been in constant outflow since the Brexit referendum in 2016 and European equities have seen net outflows in three of the last four years:

- Net retail sales to Global funds are £37.3 billion over 10 years making up 79% of total sales to equities.
- Flows of £10.3 billion to North American equities for the decade mean that the US had the second highest sales of any region. Two-thirds of the sales to North America have been in the last four years.
- Outflows from UK equities for the decade are £7.1 billion. In 2016 following the Brexit referendum, outflows reached £4.6 billion annually.
- European equities have also been in outflow over 10 years with net retail sales of -£1.8 billion over that period.
- Inflows to Asian equities strengthened in 2020 as the economic recovery from Covid-19 was swifter than in the US and Europe – total sales for the decade are £3.4 billion.
- Japanese equities have also seen net inflows overall at £4.9 billion but have moved into outflows in 2019 and 2020.

CHART 60: EQUITY FUNDS, NET RETAIL SALES BY REGION (2010-2020)



SALES TO ALLOCATION AND OUTCOME-FOCUSED FUNDS

Sales to outcome and allocation funds are less affected by the changing cycle of markets, although in recent years, targeted absolute return funds have proved more exposed to negative investor sentiment, leading to consistent outflows. Sales volatility has been a more persistent feature for the other categories of fund over the last fifteen years.

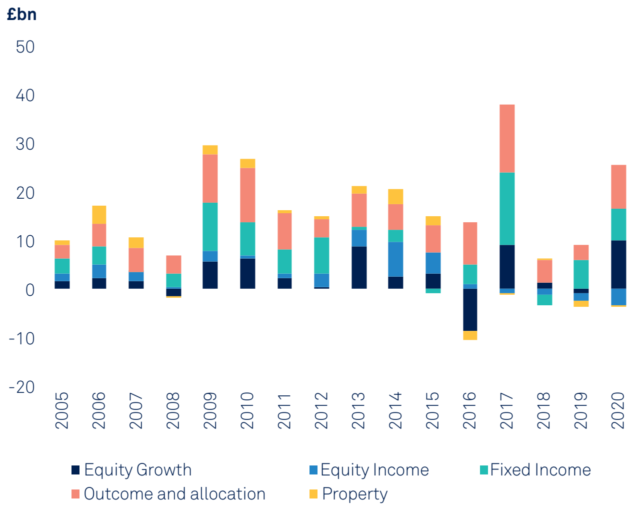
However, for the first time since 2013, equity growth funds have been the highest selling category by investor objective at £9.9 billion, beating the total inflow to equity growth funds in 2017 (£9.1 billion). As equity valuations recovered from the sharp market falls in March 2020, there has been a significant opportunity for investors to benefit from rising equity values through 2020. November's announcement of successful vaccine trials provided a further boost to markets pushing sales to equity growth funds higher in the last quarter of 2020.

- Outcome and allocation funds have maintained positive sales every year for fifteen years with a total inflow of £106.2 billion.
- Fixed income funds have also seen consistent inflows over the period with only two years of net outflows, taking total sales to £70.4 billion.
- The level of inflows to equity growth funds has fluctuated over fifteen years putting sales at £43.3 billion. Despite this, equity growth funds have maintained inflows for twelve of the last fifteen years.

- In the last four years, equity income funds have been in outflow and sales over fifteen years are £22.6 billion. For investors seeking income, fixed income has proved a more consistent choice. Outflows have risen again through 2020 following UK dividend suspensions and reductions.

- Total sales to property funds over fifteen years are £14.0 billion and sales have been weak since the 2016 suspensions.

CHART 61: NET RETAIL SALES BY INVESTOR OBJECTIVE (2005-2020)

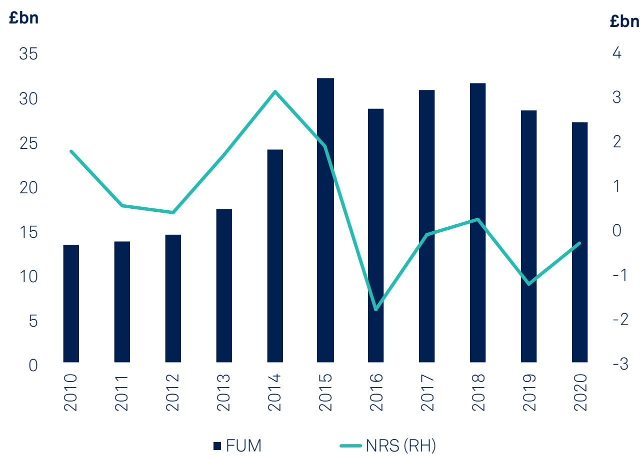


PROPERTY FUNDS

Between January 2016 and December 2020, total outflows from the property asset class were £3.2 billion. In the preceding four years from January 2012 to December 2015, sales to property funds were £7 billion. FUM in property funds in December 2020 was £27 billion. This is nearly double the FUM in property funds in 2010 (£13.2 billion) but a fall of 15% from 2015 (£31.2 billion).

The turning point in the trend to outflows from property funds occurred in June 2016, following the result of the Brexit referendum. Many daily dealing open-ended funds investing directly in UK commercial property had to suspend dealing in units and in some cases to suspend the daily pricing of units. The suspensions occurred because rising redemption requests meant that property assets could not be liquidated quickly enough and at a fair value to meet the requests. There was also valuation uncertainty. In March 2020, direct property funds suspended again but as a result of valuation uncertainty not as a result of liquidity concerns.

CHART 62: PROPERTY FUND FUM AND NET RETAIL SALES (2010-2020)

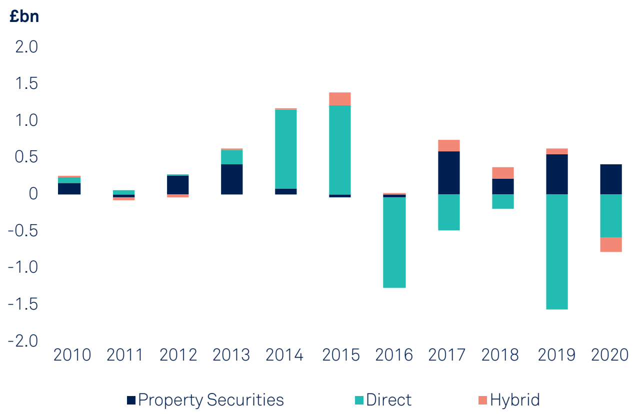


In 2018, the IA split the Property sector into UK Property Direct and Property Other,[34] which contains funds investing in property securities, a hybrid of direct and securities and global direct property funds.

Chart 63 shows that sales to funds investing in property securities, which are more liquid, have outstripped sales to funds investing in direct property since 2017:

- Cumulative outflows from UK Direct property funds between 2016 and 2020 were £4.1 billion. Outflows of £587 million in 2020 were lower than in 2019, but from March 2020 many funds were suspended owing to valuation uncertainty.
- Between 2016 and 2020, inflows of £1.7 billion to funds investing in property securities outstripped net retail sales to direct property. Over 2020, net sales reached £399 million.
- Hybrid funds investing in a mix of securities and direct property saw inflows of £242 million between 2016 and 2020. In 2020, this type of fund moved into outflow for the first year since 2012 at £185 million.

CHART 63: NET RETAIL SALES BY TYPE OF PROPERTY FUND (2010-2020)



2020's suspension of UK funds investing directly in property

The property net retail sales data in 2020 is affected by the widespread suspension of redemptions and subscriptions for daily and quarterly-traded open-ended property funds. These funds are investing directly in physical UK property. This is due to valuers qualifying their valuations with a material uncertainty clause meaning that fund managers could not price units with any certainty. According to data from the Association of Real Estate Funds, 35 property funds suspended in March (21 UK domiciled funds).[35]

The material uncertainty clauses were invoked by valuers once the UK Government took steps to introduce the national lockdown required to halt the spread of Covid-19. This was a result of the following drivers:

- Over lockdown, people shopped less, travelled less, could not eat out or commute in to offices, instead working from home.
- The revenue of retailers, hotels and restaurants was significantly reduced, and in some cases, revenues were non-existent during lockdown, which meant that they were less able to pay rent.
- The investment value of a property is derived from its income stream, the rent. If this is at risk, so is the value.
- In March, it was uncertain how long the situation would last. In 2021, the majority of property fund suspensions have been lifted, although challenging conditions remain as the economy opens up.
- The UK government has extended the moratorium on evicting commercial tenants that cannot pay rent until March 2022 and introduced a mandatory arbitration process for landlords and tenants that cannot agree. This measure helped tenants to avoid a cliff-edge scenario for paying rent arrears in July 2021 but prolongs the period of uncertainty for commercial landlords seeking to recoup rents.
- Commercial offices face longer-term uncertainty. Companies have proved that they can work well remotely and are likely to need much less office space. This in turn will affect the value of offices, which will likely fall meaning material uncertainty of long-term value.

[34] In the UK Property Direct sector, 70% of the fund's portfolio must be invested in geographically diversified physical commercial property in the UK. Funds that do not meet this criteria can be found in the Property Other sector: many of these funds invest in property securities, which are more liquid than physical property, but some are hybrid funds investing in physical property and securities and others invest in residential property or in global property directly.

[35] This number is based on publicly available data on suspensions and information provided to AREF by its members. It is possible that there are fund suspensions that AREF is not aware of. Of these funds, the majority were Property Authorised Investment Funds (PAIFs) – either Non UCITs Retail Schemes (NURS) or Qualified Investor Schemes (QIS). They were all open ended.

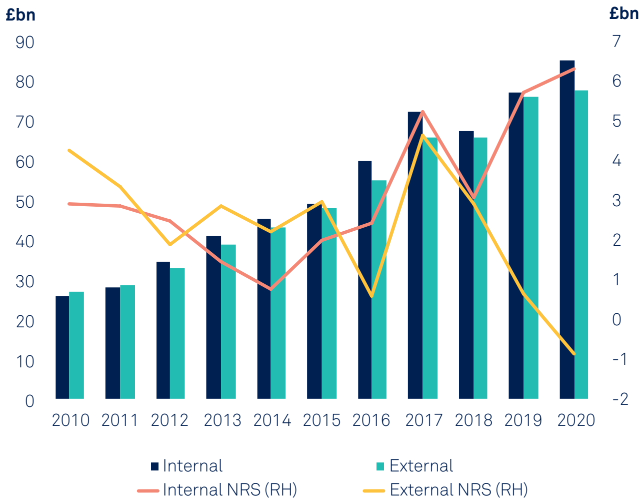
FUND OF FUNDS

The IA divides fund of funds into those that invest in in-house managers and those that are free to invest in funds managed externally. Fund of funds that invest in in-house managers often have slightly lower OCFs, making them cheaper than fund of funds investing across the spectrum of external managers.

In 2020, as in 2019, investors have shown a marked preference for internally invested funds of funds. As shown in Chart 64, the gap between internally and externally invested funds of funds has widened, with flows to in-house fund of funds rising from £5.7 billion in 2019 to £6.3 billion in 2020, while externally invested funds of funds have seen sales decline from £625 million in 2019 to an outflow of -£888 million.

In-house fund of funds sales are dominated by mixed asset funds, representing £5 billion of the 2020 inflow. Many of these funds are invested in index trackers, offering investors diversified core portfolio holdings at a relatively low cost.

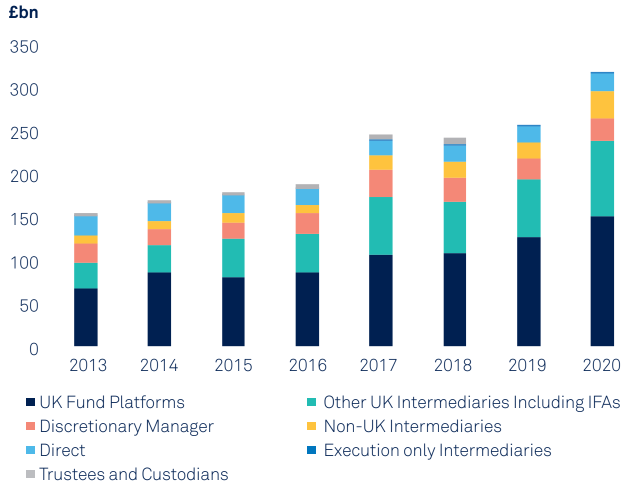
CHART 64: FUND OF FUNDS, FUM AND NET RETAIL SALES (2010–2020)



SALES BY DISTRIBUTION CHANNEL

Gross sales by distribution channel
Chart 65 shows gross sales to UK investors split out by distribution channel and illustrates the extent to which 2020 has seen increased activity in the funds market. Total gross sales for 2020 were £319 billion, 24% greater than in 2019 (£257 billion). All channels saw an increase in gross sales year on year. The proportion of gross sales through the different channels remained broadly unchanged from previous years. UK platforms continue to see the highest gross sales, which has been a consistent trend since 2013.

CHART 65: GROSS RETAIL SALES BY DISTRIBUTION CHANNEL (2013-2020)



Net retail sales by distribution channel

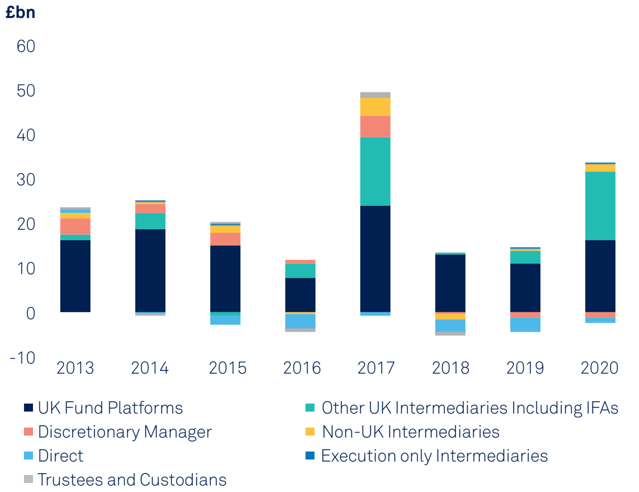
Fund platforms are the primary distribution channel for retail investors, providing over two thirds of net retail sales post RDR (see Chart 66). The 'Other UK Intermediaries including IFAs' channel, which principally represents off-platform IFA sales, has also seen consistent, although modest, annual inflows over the last ten years. In years where there have been exceptionally strong net retail sales, flows through the IFA channel have been elevated and 2020 is no exception to this pattern. The channel has helped drive strong sales in 2020 in a repeat of patterns seen in 2017 (£15.7 billion) and 2009.[36]

Outflows through direct channels have continued for a seventh consecutive year as the industry moves away from distributing directly to investors, while the Discretionary Manager channel has seen a third year of outflows, again reflecting changing business models as more assets are managed in discretionary model portfolios on platforms – meaning that sales are counted through the UK platforms channel.

UK fund platforms remains the leading distribution channel for net sales in 2020:

- Flows to UK platforms are £16.3 billion up from £10.9 billion in 2019 (a 50% increase).
- 'Other UK Intermediaries including IFAs' saw net sales of £15.2 billion in 2020, which is five times the inflow seen in 2019 and close to 2017 net sales.
- The Discretionary Managers channel remained in outflow in 2020, as net outflows rose slightly from £1.1 billion in 2019 to £1.4 billion in 2020. The trend to outflow reflects some discretionary managers moving away from funds to implementing segregated mandate agreements with investment managers. More discretionary managers are also offering model portfolios through platforms, which is diverting sales through the platform channel. Neither of these trends represents a loss to the investment management industry. Outflows from the Discretionary Managers channel were particularly high in March at £2.4 billion, the highest outflow from any channel, indicating the speed of discretionary managers' reaction to the volatility in capital markets in March.

CHART 66: **NET RETAIL SALES BY DISTRIBUTION CHANNEL (2013-2020)**



INVESTOR AVERAGE HOLDING PERIODS FALL SLIGHTLY IN 2020

Average investor holding periods have fallen slightly during the pandemic to 3.4 years, the same average holding period as in 2018.[37] In 2019, average holding periods had risen slightly to 3.7 years. Despite the reduction in the average holding period of a retail fund, they have not fallen below 3 years, the minimum track record that advisers would typically want to see before investing in a fund. Portfolio adjustments in response to changing market conditions during the pandemic may be a factor in the slight reduction in holding periods.

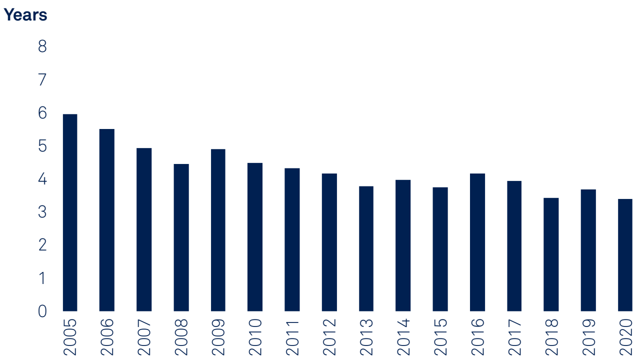
The majority of fund sales in the UK are transacted through investment platforms, whether the investor is direct or advised. Since coming to prominence in the mid 2000's, investment platforms have made it substantially easier to switch assets between funds held on platform. The Retail Distribution Review in 2012 and the rise of Centralised Investment Propositions (CIPs) has also had an impact. CIPs are a standardised approach to investing that must be suitable for

[36] Changes to the distribution landscape post RDR and the IA channel categorisation mean that 2009 data is not directly comparable and not shown here in Chart 66.

[37] The IA calculates investor average holding periods using this formula: HP=(Average Retail FUM between 2 years - NS)/ REPURCHASE.

different advised client segments. They can be a multi-asset fund but many are a model portfolio of funds managed on an advisory or discretionary basis with significant FUM. Adjustments to fund allocations in model portfolios are often made on a quarterly basis and this also helps to explain the reduction in average holding periods.

CHART 67: RETAIL INVESTOR AVERAGE HOLDING PERIODS (2005–2020)

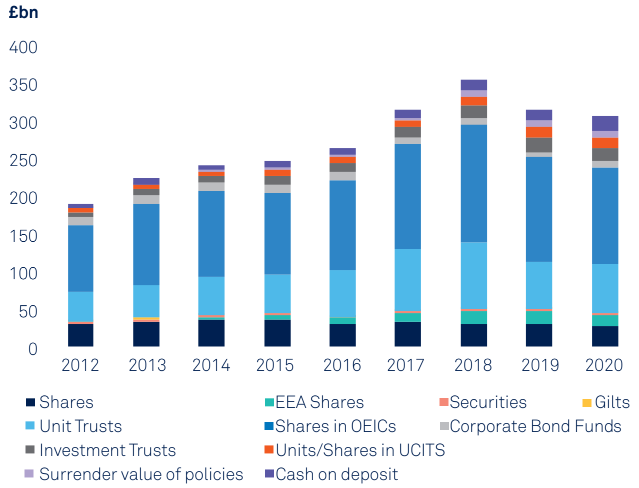


SALES TO ISAS

Net sales to pension wrappers of £4.8 billion in 2020 remain the highest of any wrapper on platforms reporting data to the IA. The rise in net sales to pension wrappers follows the introduction of the pension freedoms in 2015. However, ISAs remain one of the most accessible ways for retail investors to save tax efficiently and each year, ISA season causes a rises in inflows to funds. HMRC provides comprehensive data on the ISA market, which we analyse here.

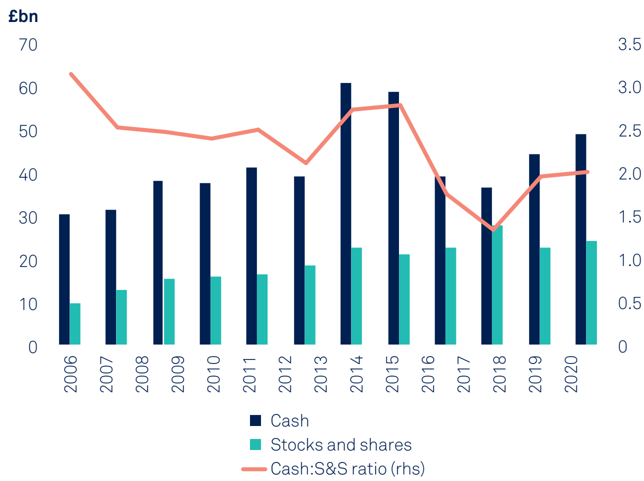
In 2020, assets in stocks and shares ISAs were £305 billion according to data from HMRC, a decrease of 3% from 2019. Assets in Shares and EEA Shares, Corporate Bond funds and OEICs in particular declined year on year. The market movements of March 2020 are likely to have had some effect. Assets in open ended funds were £207 billion or 68% of total assets in 2019/2020.

CHART 68: TOTAL ASSETS IN STOCKS AND SHARES ISAS BY TYPE OF ASSET (2012–2020)



In 2019/20, subscriptions to stocks and shares ISAs were £24 billion, an increase of 7% on the previous tax year. Despite a rise in subscriptions, the average subscription amount was down by 5% on the previous year at £8,875. The average cash ISA subscription was also 3% lower than the previous tax year at £5,024.

CHART 69: TOTAL SUBSCRIPTIONS TO CASH AND STOCKS AND SHARES ISAS (08/09–19/20)



THE UK IN THE CONTEXT OF THE EUROPEAN FUNDS MARKET

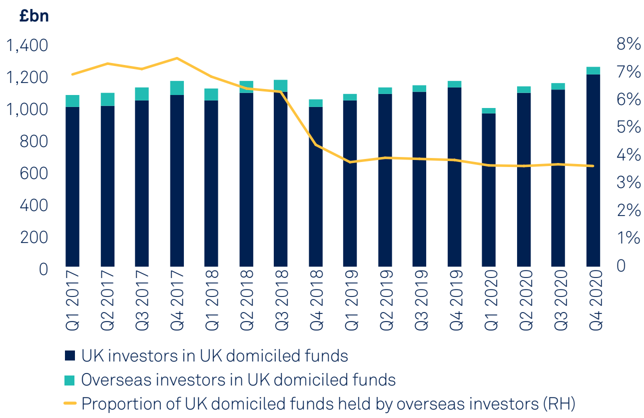
Here we examine the UK in the context of the European funds market. Whilst the UK is an international investment management centre, in the retail funds market, the vast majority of overseas investors and overseas domiciled funds in IA data are European. We look at the impact of Brexit on overseas investors in UK domiciled funds. We also analyse UK investor appetite for overseas domiciled funds post Brexit, the vast majority of which are domiciled in Europe, and look at wider market trends in European fund sales and the growth of European domiciles.

OVERSEAS INVESTORS IN UK DOMICILED FUNDS

FUM in UK domiciled funds including funds managed on behalf of overseas investors is £1.2 trillion an increase from 2019 of 8%. In Q1 2020, FUM fell by 15% to £956 billion before recovering. Overseas investor FUM in UK domiciled funds in 2020 was £45 billion, an increase of 1% from 2019.

The proportion of UK domiciled funds held by overseas investors has remained stable at 4% since the last quarter of 2018. The decline from 7% to 4% in 2018 resulted from operational decisions by firms to move overseas investors out of sterling denominated share classes in UK domiciled funds and is not the result of overseas investors responding to Brexit by withdrawing capital from UK domiciled funds on a significant scale.

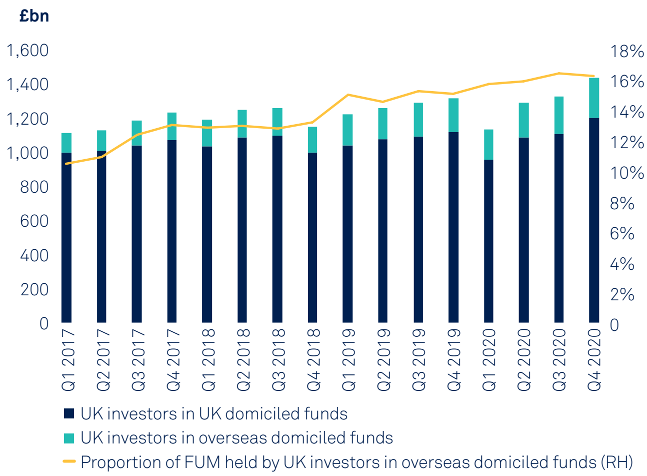
CHART 70: UK DOMICILED FUNDS BY INVESTOR PROFILE (2017-2020)



INVESTMENT IN OVERSEAS DOMICILED FUNDS POST BREXIT REFERENDUM

The percentage of FUM in overseas domiciled funds has increased from 11% in the first quarter of 2017 to 16% in Q4 2020. This tells us more about the appreciation of assets in overseas domiciled funds than UK investor preference as sales is a much smaller contributor to the growth or decline in FUM.

CHART 71: UK INVESTOR FUM IN OVERSEAS DOMICILED FUNDS (2017-2020)



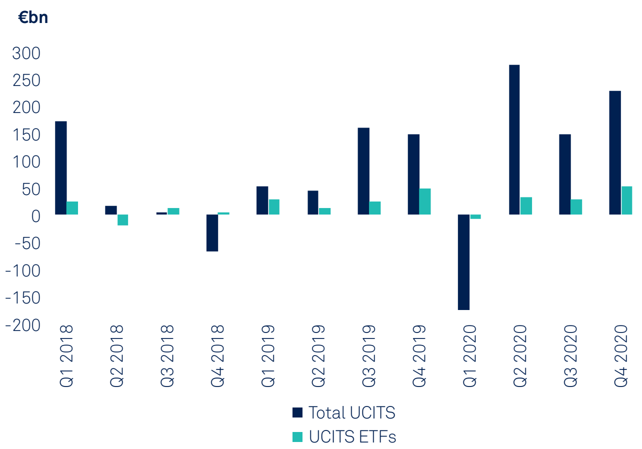
40% of the funds that report data to the IA are domiciled overseas, up slightly from 39% in 2019, and the majority are domiciled in Ireland. Whilst IA sales data is not forward looking, £7.4 billion in net retail sales to overseas domiciled funds makes up 24% of total 2020 inflows.

In March 2020, substantial outflows from overseas OEICs/ICVCs and SICAVs accounted for nearly half of total outflows that month. The scale of outflows from the fixed income asset class is the driver: 57% of bond funds in IA data are domiciled overseas. The data does not suggest that there has been a shift in UK investor sentiment towards overseas domiciled funds as a result of Brexit. The Brexit transition arrangement for overseas funds (Temporary Market Permissions Regime) ends in 2025. Whilst this is some way off, we will continue to monitor any material shift in the pattern of sales to overseas domiciled funds.

EUROPEAN UCITS SALES

The pattern of sales to European domiciled funds is consistent with the UK net sales data in 2020. After high outflows in Q1 of €186.8 billion, sales rebounded on the back of rising capital market returns to end the year on net sales of €562.2 billion overall. Inflows were strongest in the second quarter of 2020 at €301 billion. This contrasts with UK investor sales data where Q4 saw record quarterly inflows as markets climbed following the announcement of successful vaccine trials.

CHART 72: EUROPE-WIDE UCITS NET SALES (2018-2020)



Source: EFAMA

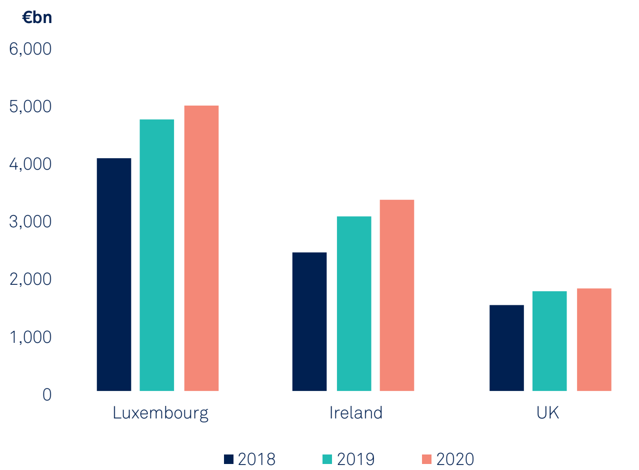
Total sales to UCITS ETFs were €95.4 billion in 2020, 9% down on the significant inflows of €104.4 billion seen in 2019 but still robust. UCITS ETFs saw a quarterly outflow in Q1 2020 of €10.6 billion. Fixed income ETFs emerged as efficient price discovery tools in the bond markets at the height of the crisis and inflows to ETFs recovered to reach €106 billion for the last three quarters of 2020 as sales through the recovery from March 2020 outstripped 2019.

FUM BY EUROPEAN DOMICILE

Funds under management in UCITS and AIFs domiciled in Luxembourg, Ireland and the UK all rose year on year from 2019 but the percentage increases are less substantial year on year, likely dampened by the impact of the steep falls in capital markets in March 2020.

- FUM in funds domiciled in Luxembourg increased to €5 trillion, an increase of 5% from 2019 (€4.7 trillion). This compares with an increase of 16% between 2018 and 2019.
- The acceleration in the increase in FUM domiciled in Ireland has slowed somewhat – in 2020 FUM was €3.3 trillion, an increase of 9% from 2019 (€ 3 trillion) but not matching the rise of 26% that took place between 2018 and 2019.
- In the UK, FUM in 2020 was €1.8 trillion with flat growth of 3% year on year. This compares with an increase of 17% between 2018 and 2019.

CHART 73: ASSETS IN UCITS AND AIFS BY DOMICILE (2018-2020)



Source: EFAMA

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

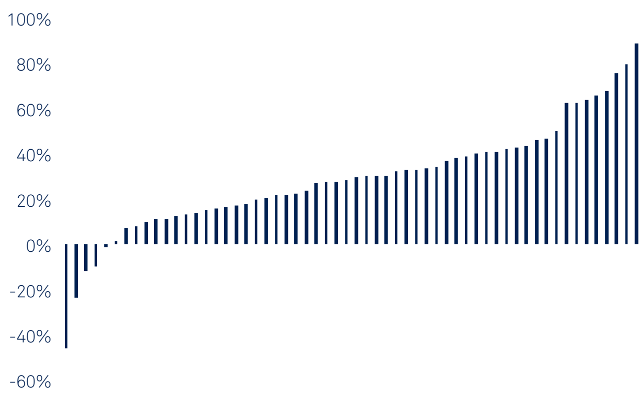
Each year, the IA reports the aggregate revenue and cost figures for the industry, covering both in-house and third-party business.[38]

- 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)



[38] 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

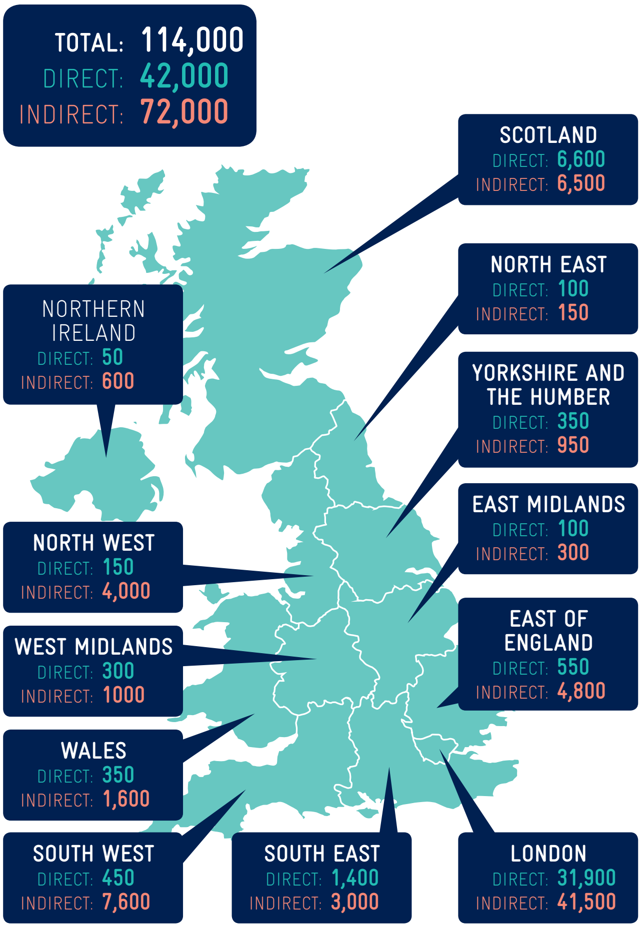
For the past fifteen years, the IA has been tracking direct employment numbers in the investment management industry. In 2006, an "indirect employment" category was introduced, in order to more accurately assess the value of the investment management industry as a source of employment in the UK. Indirect 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.[39]

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.[40] 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.

[39] 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).

[40] 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

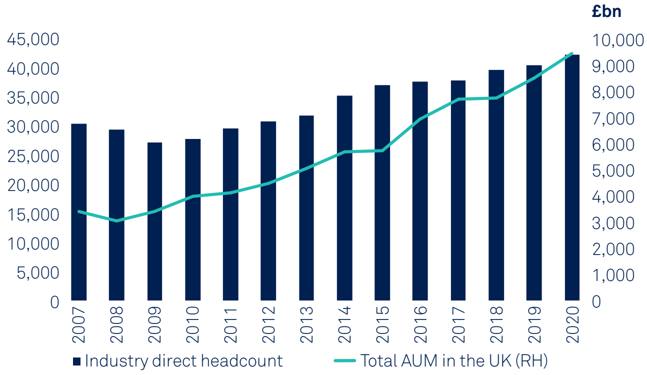
According to IA estimates, just over 42,200 people are directly employed by investment managers in the UK. Chart 75 shows the growth in direct employment over the last fifteen years. There are a few things to note:

- 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
Investment Management of which	**27%**
Investment management (asset allocation and stock selection)	68%
Research, analysis	26%
Dealing	7%
Operations and Fund Administration of which	**16%**
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%
Business Development and Client Services of which	**17%**
Marketing, sales, business development	68%
Client services	32%
Compliance, Legal and Audit of which	**8%**
Compliance	37%
Risk	33%
Legal	23%
Internal audit	7%
Corporate Finance and Corporate Administration of which	**12%**
Corporate finance	37%
HR, training	18%
Other corporate administration	45%
IT Systems	**14%**
Other Sector	**6%**

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.

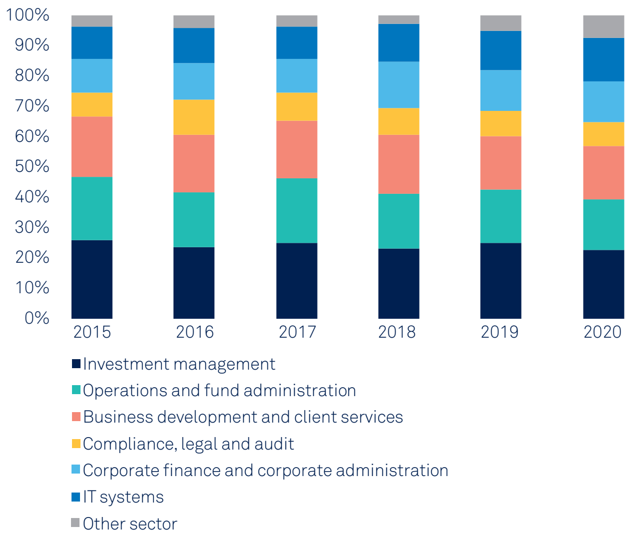
- Employment in Business Development and Client Services has experienced a small but steady decrease over the past few years, dropping five percentage points since 2016 to 17% in 2020. Regional business development roles have increasingly been centralised by firms.

- 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
Investment Management of which	**28%**	**21%**	**37%**
Investment management (asset allocation and stock selection)	64%	71%	71%
Research, analysis	28%	23%	24%
Dealing	8%	6%	4%
Operations and Fund Administration of which	**15%**	**19%**	**24%**
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%
Business Development and Client Services of which	**19%**	**16%**	**10%**
Marketing, sales, business development	70%	47%	72%
Client services	30%	53%	28%
Compliance, Legal and Audit of which	**8%**	**7%**	**8%**
Compliance	34%	48%	33%
Risk	37%	26%	34%
Legal	23%	16%	32%
Internal audit	6%	10%	1%
Corporate Finance and Corporate Administration of which	**12%**	**15%**	**10%**
Corporate finance	30%	46%	63%
HR, training	16%	22%	5%
Other corporate administration	54%	32%	32%
IT Systems	**12%**	**21%**	**10%**
Other	**7%**	**2%**	**2%**

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.

AVERAGE ASSETS UNDER MANAGEMENT IN JUNE 2020

MEAN: **£55** BILLION

MEDIAN: **£11** BILLION

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

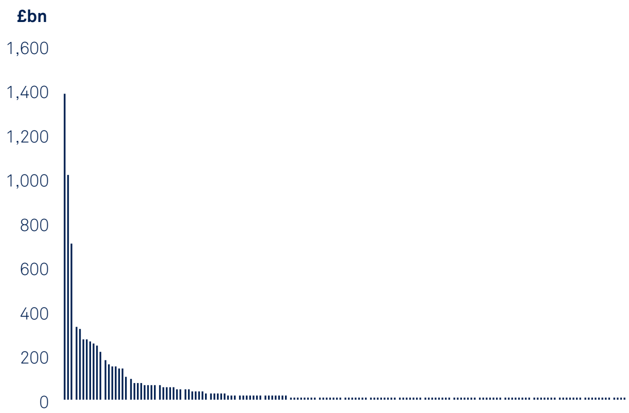


Table 8 offers a breakdown of IA member firms into different buckets based on their total assets under management. In the analysis, we have grouped firms into small firms managing less than £15 billion; medium-sized firms managing between £15 - £50 billion and large firms managing over £50 billion. Firms 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%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

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,he 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)

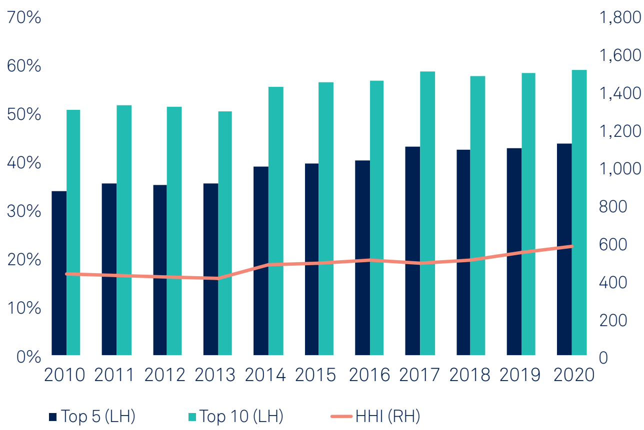


Chart 79 presents the top ten investment management firms in terms of UK-managed and global assets under management.[41] The top ten UK firms are a diverse group ranging from independent investment managers to bank and insurance owned managers. Both active managers and managers offering indexing strategies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

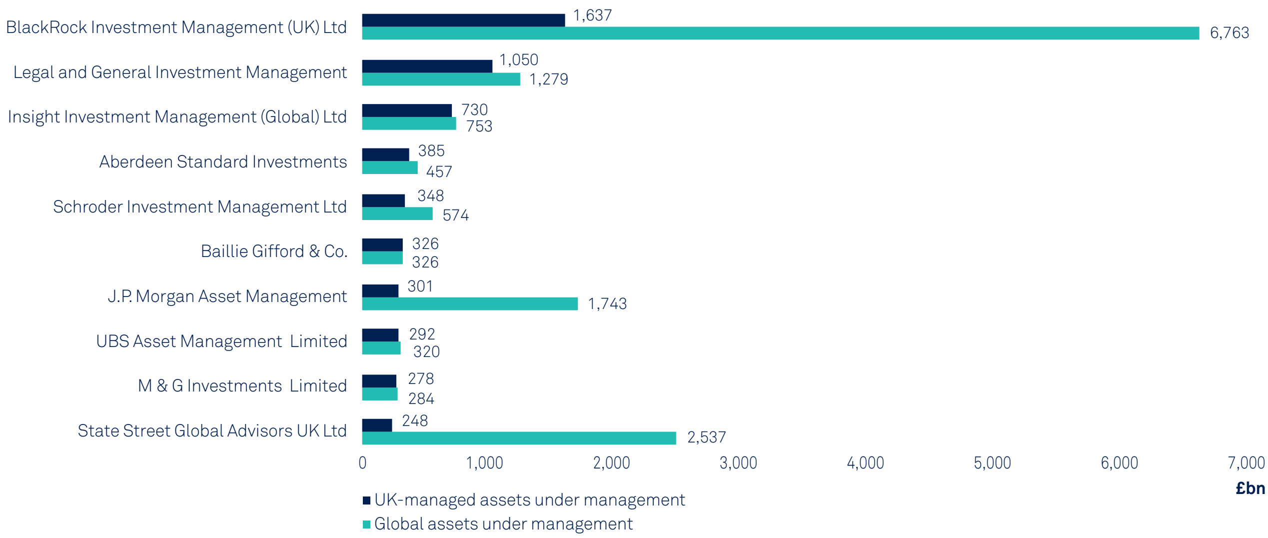
BOUTIQUES

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[42]



[41] Figures disclosed based on headline data supplied by firms themselves to the IA in response to the Survey Questionnaire.
[42] 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)

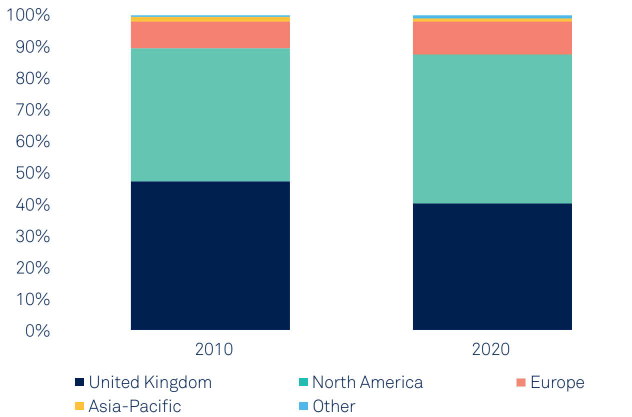
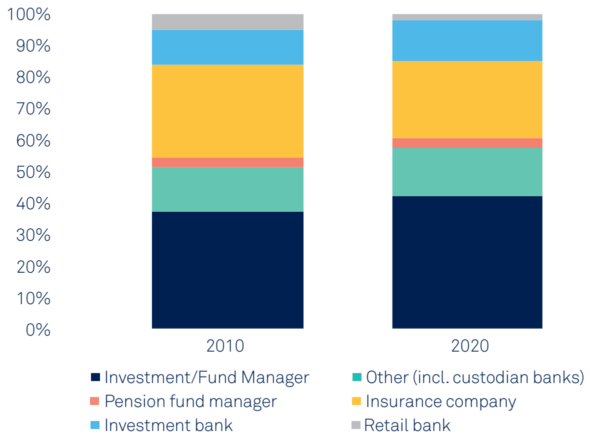


Chart 81 looks at shifts in ownership over the last decade. The most significant change has been the growth of investment managers as standalone businesses:

- 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)



APPENDICES

APPENDIX 1
SUMMARY OF ASSETS UNDER MANAGEMENT IN THE UK[1]

	TOTAL
Assets under management in the UK (£m)	**9,419,424**
Segregated or pooled (%)	
Directly invested on a segregated basis	**53.2%**
Managed on a pooled basis	**46.8%**
Active or passive (%)	
Actively managed	**68.7%**
Passively managed	**31.3%**
Asset allocation (%)	
Equities *of which:*	**38.6%**
UK	25.7%
Europe (ex UK)	22.0%
North America	23.0%
Pacific (ex Japan)	9.4%
Japan	5.2%
Latin America	1.3%
Africa	0.5%
Emerging market	11.6%
Other	1.3%
Fixed Income *of which:*	**32.4%**
UK Government	13.0%
Sterling corporate	15.3%
UK index-linked	10.2%
Other UK	7.0%
Overseas govt	17.6%
Non-sterling corporate	20.1%
Non-sterling other	16.8%
Cash/Money market	**5.5%**
Property	**2.1%**
Other	**21.5%**

[1] This includes all assets under management in this country, regardless of where clients or funds are domiciled.

INSTITUTIONAL								ALL INSTITUTIONAL	RETAIL	PRIVATE CLIENT
Pension funds	Public sector	Corporate	Non-profit	Sub-advisory	In-house insurance	Third party insurance	Other institu-tional			
4,144,546	489,810	596,745	103,886	452,132	489,810	602,843	569,483	7,449,312	1,912,143	86,933
44.0%	5.2%	6.3%	1.1%	4.8%	5.2%	6.4%	6.0%	79.1%	20.3%	0.9%

Appendices

APPENDIX 2

SUMMARY OF DATA FROM THE UK INSTITUTIONAL MARKET[2]

	TOTAL
Total Institutional Market (£m)	**4,478,058**
Assets directly invested on a segregated basis	67.2%
Assets invested on a pooled basis	32.8%
Active or passive (%)	
Actively managed	68.9%
Passively managed	31.1%
Multi-asset, LDI or Specialist (%)	
Multi-asset	**11.6%**
LDI (notional)	**35.2%**
Single-asset / specialist *of which:*	**53.2%**
Equities	**34.4%**
Fixed Income	**41.8%**
Cash/Money Market	**13.9%**
Property	**6.1%**
Other	**3.8%**

[2] This includes UK institutional client mandates, regardless of where assets are managed.

Appendices

	Pension funds			Public sector	Corporate	Non-profit	Sub-advisory	In-house insurance	Third party insurance	Other institutional
	Corporate	Local government	Other							
	2,435,931	279,973	138,371	40,701	226,353	45,729	148,946	407,703	560,544	193,808
	54.4%	6.3%	3.1%	0.9%	5.1%	1.0%	3.3%	9.1%	12.5%	4.3%
	71.9%	44.4%	36.7%	77.3%	40.5%	52.0%	92.1%	71.4%	86.0%	10.2%
	28.1%	55.6%	63.3%	22.7%	59.5%	48.0%	7.9%	28.6%	14.0%	89.8%
	62.0%	57.3%	43.9%	78.8%	88.6%	75.3%	56.2%	91.4%	86.1%	83.4%
	38.0%	42.7%	56.1%	21.2%	11.4%	24.7%	43.8%	8.6%	13.9%	16.6%
	7.8%	**5.0%**	**29.3%**	**6.6%**	**6.3%**	**32.1%**	**9.2%**	**3.5%**	**40.3%**	**2.9%**
	59.1%	**19.5%**	**17.0%**	**9.7%**	**2.6%**	**1.7%**	**0.6%**	**0.9%**	**3.2%**	**12.5%**
	33.0%	**75.5%**	**53.7%**	**83.7%**	**91.1%**	**66.2%**	**90.2%**	**95.6%**	**56.4%**	**84.6%**
	33.5%	**60.6%**	**35.7%**	**43.1%**	**13.2%**	**56.4%**	**64.0%**	**25.3%**	**40.1%**	**11.7%**
	49.7%	**27.3%**	**52.1%**	**34.9%**	**26.2%**	**10.8%**	**30.2%**	**53.6%**	**49.2%**	**11.0%**
	4.5%	**2.6%**	**6.5%**	**12.3%**	**50.3%**	**12.9%**	**0.2%**	**8.9%**	**5.4%**	**70.9%**
	5.4%	**5.7%**	**1.5%**	**4.7%**	**9.9%**	**3.9%**	**1.3%**	**11.1%**	**4.3%**	**4.3%**
	6.8%	**3.8%**	**4.2%**	**5.0%**	**0.5%**	**16.1%**	**4.3%**	**1.1%**	**1.0%**	**2.2%**

APPENDIX 3

NOTABLE M&A DEALS IN THE UK ASSET MANAGEMENT SECTOR (2009 – JUNE 2021)

2020-2021

ACQUIRER	PURCHASE
Aberdeen Standard Investments	Majority stake in Tritax Management
AllianceBernstein	AnchorPath
Affiliated Managers Group Inc.	Majority stake in Parnassus Investments
Amundi	Sabadell Asset Management
Apex Group Ltd	FundRock Partners Ltd
BNP Paribas Asset Management	Gambit Financial Solutions
Brooks Macdonald Group	Lloyds Bank International's Channel Islands wealth management and funds business
Brown Shipley	NW Brown & Co Limited
Close Brothers Asset Management	PMN Financial Management
Ameriprise Financial (Columbia Threadneedle)	BMO Financial Group's EMEA business
Fidelity International Ltd	Legal & General Investment Management's UK Personal Investing business
	Cavendish Online Investments Ltd
Franklin Resources, Inc.	Legg Mason, Inc.
J.P. Morgan Asset Management	Campbell Global, LLC
Jupiter Asset Management	Merian Global Investors
	Minority stake in NZS Capiak
Liontrust Asset Management	Architas UK
M&G	Ascentric
Morgan Stanley	Eaton Vance Corp.
PineBridge Investments	Benson Elliot Capital Management
Polar Capital	Dalton Strategic Partnership
Rathbone	Personal Injury and Court of Protection business of Barclays Wealth
Schroders	Sandaire
	Majority stake in Pamfleet
Stonehage Fleming	Cavendish Asset Management
	Maitland's Private Client Services business
Sumitomo Mitsui Financial Group	TT International
Vontobel	Remainig 40% stake in TwentyFour

2019

ACQUIRER	PURCHASE
AXA	Increased equity holding in Capzanine
BlackRock	eFront
Bluebay	Spins out Arcmont Asset Management
BNP Paribas	Purchase of 22.5% of Allfunds
Brewin Dolfin	Epoch Wealth Management
	Investec's Wealth Management Business in Ireland
	Mathiesen Consulting
Charles Stanley	Myddleton Croft
F&C	Thames River Capital
Franklin Templeton	Material stake in Embark Group
Goldman Sachs	S&Ps Model Portfolio business
Hargreaves Lansdown	£765m stake of retail ISA assets from JPM Chase
Invesco	RedBlack
Liontrust	Neptune Investment Management
Merian Global Investors	Kestrel Investment Partners multi-asset business
Mitsubishi UFG Trust and Banking	First State Investments
Premier Asset Management	Miton Group
Quilter	Charles Derby
	Lighthouse
Sanlam	Astute Wealth Management
	Thesis Asset Management
Schroders	Thirdock
	Majority stake in BlueOrchard Finance
SJP	Havest Financial Services
Standard Life Aberdeen advice firm – 1825	Grant Thornton advice code
Sumitomo Mitsui Financial Group	TT International
Waverton Investment Management	Timothy James & Partners

2018

ACQUIRER	PURCHASE
AllianceBernstein	Autonomous Research
Allianz GI	Sound Harbour Partners
Amundi	Mirae Global Investments Taiwan
	Anatech
BlackRock	eFront
Brewin Dolphin	Investecs Wealth Management Business in Ireland
	Mathiesen Consulting
Candriam	Tristan Capital Partners (strategic partnership)
F&C	Thames River Capital
Federated Investors	Hermes Investment Management (majority stake)
Franklin Templeton	Benefit Street Partners
	Edinburgh Partners
FundRock	SEB Fund Services Luxembourg
Goldman Sachs	Aptitude Investment Management
	Rocaton Investment Advisors
	S&Ps Model Portfolio business
Hargreaves Lansdown	£765m stake of retail ISA assets from JPM Chase
Impax Asset Management	Pax World Management LLC
Invesco	Oppenheimer Funds
	Intelliflo
Jupiter	Merger of retail and wealth management sales teams
Lyxor ETF	Commerzbank ETF Arm
Man GLG	Bond Fund from Salnlam
Mellon	Walter Scott & Partners
Mitsubishi UFG Trust and Banking	First State Investments
Muzinich	Springrowth SGR
Natixis	MB Credit
Nomura Asset Management	8 Securities (majority stake)
Pimco	Gurtin Municipal Bond Management
Quilter	Charles Derby
Quilter	Lighthouse
Rathbones	Spears and Jeffery
Sanlam	Thesis Asset Management
Schorders	Thirdock
Seven Investment Management	TCAM
SJP	Harvest Financial Services

2017

ACQUIRER	PURCHASE
Amundi Group	Pioneer Investments
Blackrock	Cachematrix Holdings
	First Reserve Energy Infrastructure Funds
	Scalable Capital (minority stake)
BNP Paribas Asset Management	Gambit Financial Solutions (majority stake)
Brewin Dolphin	Duncan Lawrie Asset Management
Canada Life Group (UK)	Retirement Advantage
Close Brothers	Adrian Smith and Partners
Crux Asset Management	Oriel global and European funds from City Financial
FundRock	Fund Partners
LGIM	Canvas
Link Group	Capita Asset Services
Lovell Minnick Partners/ Existing Management Team	BNY Mellon Investment Management (CentreSquare Investment Management Real Asset Boutique)
Natixis Global Asset Management	Investors Mutual Ltd
Nikko Asset Management	ARK Investment Management (minority stake)
Principal Global Investors	Internos Global Investors
RWC	Pensato Capital
Sandaire	Joint venture with Delancey
Schroders	Adveq Holdings AG
	Alonquin
SJP	HJP Independent Financial Advisers
Standard Life Investments	Aberdeen Asset Management (merger)
Stonehage Fleming	OmniArte
Swiss Re	LGIM with profits business
TA Associates	Old Mutual Global Investors (single strategy funds)
Thesis Asset Management	Cambridge Fund Managers

2016

ACQUIRER	PURCHASE
Aberdeen	Arden Asset Management, Parmenion Capital,
Aegon	Cofunds
AJ Bell	Indexx Markets Ltd, Allium Capital
Alliance Bernstein	Ramius Alternative Solutions
Allianz	Rogge Global Partners
Amundi	Kleinwort Benson Investors
Columbia Threadneedle	Emerging Global Advisors
Courtiers	JRH Asset Management
Franklin Templton	AlphaParity
Henderson Global Investors	Janus
Legal and General Investment Management	Aegon annuity portfolio
Legg Mason	EnTrust Capital, Clarion Partners, Financial Guard
Liontrust	Alliance Trust Investment
Momentum	London and Capital adviser business
Standard Life	AXA portfolio services
State Street Global Advisors	GE Asset Management
Stonehage Fleming	FF&P Wealth Planning

2015

ACQUIRER	PURCHASE
Aviva	Friends Life
BNY Mellon	Cutwater Asset Management
Henderson	90 West (increased holding to 100%)
	Perennial Fixed Interest Partners/Perennial Growth Management
Broadstone	Blythwood
Brooks Macdonald	Levitas Investment Management Services Ltd
Legal and General Investment Management	Aerion
GAM	Singleterry Mansley Asset Management
Maitland	Phoenix Fund Services
Stonehage	Fleming Family
Threadneedle	Columbia (merger)
Vontobel	TwentyFour

2014

ACQUIRER	PURCHASE
Aberdeen	Scottish Widows Investment Partnership
Bank of Montreal	F&C
Broadstone	Blythwood
Brooks Macdonald	Levitas Investment Management Services Ltd
Family Investments	Engage Mutual
GAM	Singleterry Mansley Asset Management
Legg Mason	Martin Currie
Octopus	MedicX
Rathbones	Jupiter Asset Management Limited's private client and charity investment management business
River and Mercantile	P-Solve (merger)
Standard Life	Ignis Asset Management
Thomas Miller	Broadstone Wealth Management

2013

ACQUIRER	PURCHASE
Aberdeen	Artio Global Investors
	Scottish Widows Investment Partnership
Aviva	Solar portfolio from Ecovision Renewable Energy
Barings	SEI Asset Korea (SEIAK)
BlackRock	Credit Suisse ETF Business
Bank of Montreal	F&C
Henderson	H3 Global Advisers
	Northern Pines Capital (50%)
	90 West (33%)
Liontrust	North Investment Partners
Miton	PSigma
PSigma	Axa Framlington private client business
Royal London	Co-Operative (Insurance and asset management businesses)
Schroders	Cazenove Capital Management
	STW Fixed Income
Standard Life Wealth	Private client division of Newton

2012

ACQUIRER	PURCHASE
Brooks Macdonald	Spearpoint
Bridgepoint & Quilter	Quilter (MBO)
Broadstone	UBS Wealth's corporate pension arm
Franklin Templeton	K2 Advisors
Goldman Sachs	Dwight
Insight	Pareto
Legg Mason	Fouchier Partners
Liontrust	Walker Crips
Natixis	McDonnell
Punter Southall	PSigma
Rathbone	Taylor Young

2011

ACQUIRER	PURCHASE
BT	JO Hambro
Close	Cavanagh Wealth Management
Close	Allenbridge Group
Cyrun Finance	SVM Asset Management
Franklin Templeton	Rensburg
Henderson	Gartmore
Investec	Evolution
Liontrust	Occam
Principal	Origin
Punter Southall	Brewin Dolphin's corporate pension arm
Royal London	Royal Liver
SGBP Hambros	Barings' private client business
Threadneedle	Liverpool Victoria
Williams de Broe	BNP Paribas' private client business

2010

ACQUIRER	PURCHASE
Aberdeen	RBS' multimanager and alternatives business
Alpha Real Capital	Close Brothers' property fund management business
AMG	Artemis
Aviva Investors	River Road
Close	Chartwell Group
F&C	Thames River Capital
Investec	Rensburg Sheppards
Man Group	GLG Partners
Marlborough	SunLife Financial of Canada's funds
Schroders	RWC Partners (49%)
State Street	Bank of Ireland

2009

ACQUIRER	PURCHASE
BlackRock	BGI
BNP Paribas	Fortis
BNY Mellon	Insight
Henderson	New Star
Ignis	Axial
Invesco	Morgan Stanley's retail fund business
Marlborough	Apollo
Neuberger Berman Group	Management buyout of Lehman asset management business
Rathbone	Lloyds' RBS PMS client portfolio and two private client portfolios
Sumitomo Trust	Nikko

APPENDIX 4
DEFINITIONS

CORPORATE CLIENTS

Institutions such as banks, financial corporations, corporate treasuries, financial intermediaries and other private sector clients. Investment management services for fund products operated by financial corporations are included under 'Sub-advisory'.

ESG INTEGRATION

The systematic and explicit inclusion by investment managers of environmental social, and governance factors into traditional financial analysis.

FUND OF FUNDS

Funds whose investment objective is fulfilled by investing in other funds rather than investing directly into assets such as cash, bonds, shares or property. These may also referred to as 'multi-manager products'.

IMPACT-DRIVEN INVESTMENT

This approach seeks to enhance value by proactively screening for businesses that are seeking to work for the benefit of all their stakeholders, not just shareholders or owners.

IN-HOUSE INSURANCE CLIENTS

Refers to assets that insurance-owned investment management firms manage for their parent company or an insurance company within the parent group.

INVESTMENT FUNDS

All pooled and listed vehicles regardless of the domicile of the client or fund (ie. unit trusts, investment companies with variable capital including ETFs, contractual funds, investment trusts, and hedge funds) but it does not include life or insurance funds.

LIABILITY DRIVEN INVESTMENT (LDI)

Defined as an approach where investment objectives and risks are calculated explicitly with respect to individual client liabilities.

MULTI-ASSET MANDATE

Also called 'balanced', these types of mandate invest across a range of asset classes and geographies without a specific focus on a particular universe.

NON-PROFIT CLIENTS

Includes charities, endowments, foundations and other not for profit organisations.

NORMS-BASED SCREENING

Screening of investments against minimum standards of business practice based on international norms.

'OTHER' CLIENTS

Assets managed on behalf of client types that cannot be classified under any other category as well as unidentifiable client types, eg. closed-ended funds or institutional pooling vehicles.

OVERSEAS BONDS

Include overseas government bonds as well as debt denominated in overseas currencies.

OVERSEAS CLIENT ASSETS

Assets managed on behalf of non-UK clients. Includes assets delegated to the firm from overseas offices and assets directly contracted in the UK.

PENSION FUND CLIENTS

Incorporates both defined benefit (DB) and defined contribution (DC) provision, where the respondent has a relationship with a pension fund, irrespective of type. Where the DC provision is operated via an intermediary platform, particularly a life company structure wrapping the funds, the assets are reflected in 'Insurance'.

PUBLIC SECTOR CLIENTS

Encompasses central banks, supranational bodies, public sector financial institutions, governmental bodies, public treasuries and sovereign wealth funds as well as the non-pension assets of local authorities and other public sector clients.

PRIVATE CLIENTS

Comprise assets managed on behalf of high-net-worth and ultra-high-net-worth individuals as well as family offices.

POOLED

Comprises investment vehicles operated by a manager for several clients whose contributions are pooled. It also includes assets in segregated portfolios that are held indirectly via pooled vehicles managed by the respondent.

RETAIL

Includes investment into unit trusts, open-ended investment companies (OEICs) and other open-ended investment funds irrespective of domicile. It incorporates assets sourced through both intermediated sales (ie. made through fund platforms, supermarkets and other third parties) and direct retail sales. It does not include life-wrapped funds, which are classified under 'Third Party Insurance'.

RESPONSIBLE INVESTMENT

An approach where the investor avoids investing in businesses that are harming people or the planet, such as oil, tobacco, or weapons production.

SEGREGATED

Assets directly invested within segregated portfolios, and managed on behalf of one client. This would also include mandates run on behalf of a single pooled vehicle (eg. a 'pooled' insurance fund run for an insurance parent company).

SINGLE-ASSET

Also called 'specialist', these types of mandate are overwhelmingly focused on one asset class, and therein usually a specific sub-type (either geographic or other; eg. a US equity mandate or an index-linked gilt mandate).

STERLING CORPORATE DEBT

Exposure to Sterling-denominated debt, irrespective of whether it is issued by UK or overseas companies.

SUB-ADVISORY

Business as part of which the respondent provides investment management services to third party fund products. It may therefore include business that is institutional to the respondent, but may ultimately be retail (eg. 'white-labelled' funds or manager of manager products).

SUSTAINABILITY-THEMED INVESTING

Investment in themes or assets specifically related to sustainability (for example clean energy, green technology, or sustainable agriculture).

THIRD PARTY INSURANCE CLIENTS

Assets sourced from third party insurance companies (ie. from outside the respondent's group), where the mandates are seen as institutional. It includes both unit-linked assets (ie. funds manufactured by the respondent and distributed with the respondent's brand through a life platform) and other third party assets.

UK ASSETS UNDER MANAGEMENT

Assets where the day-to-day management is undertaken by individuals based in the UK. This includes assets managed by the firm in the UK whether for UK or overseas clients contracted with the firm. It also includes assets delegated to the firm's UK-based asset managers by either third party asset managers or overseas offices of the company or group. With respect to fund of funds and manager of manager products, the figure only includes the size of the underlying funds managed by the firm's UK-based managers.

UK FUND MARKET

This primarily covers UK-domiciled authorised unit trusts and OEICs, which are by the far the largest part of the UK retail fund market, but also used by institutional investors. A small but growing part of the fund market is represented by funds domiciled overseas though often with portfolio management performed in the UK. There are also some UK-domiciled funds that are sold into overseas markets.

UK INSTITUTIONAL CLIENT MARKET

Covers mandates or investment in pooled funds by UK institutional clients. We analyse this market on the basis of client domicile, not domicile of funds invested in or location of asset manager. This is in contrast to the analysis of UK assets under management, which covers assets managed in the UK regardless of domicile of funds or clients for whom firms manage money.

APPENDIX 5
SURVEY RESPONDENTS

Aberdeen Standard Investments
Aberforth Partners LLP
AllianceBernstein Limited
Allianz Global Investors
Amundi London Branch
Aviva Investors
AXA Investment Management
Baillie Gifford & Co
Baring Asset Management Ltd
Blackrock Investment Management (UK) Ltd
BlueBay Asset Management LLP
Brewin Dolphin Ltd
Brooks Macdonald Asset Management
Candriam
Carmignac Gestion
Carvetian Capital Management Ltd
CCLA
City of London Investment Management Company Ltd
Columbia Threadneedle
Crux Asset Management
Edinburgh Partners
EFG Asset Management (UK) Limited
Eurizon SLJ Capital Ltd
FIL Investment Management Limited
Genesis Investment Management LLP
Goldman Sachs Asset Management International
Guinness Asset Management
Hermes Investment Management
HSBC Global Asset Management (UK) Limited
Independent Franchise Partners LLP
Insight Investment Management (Global) Ltd
Invesco
J O Hambro Capital Management Ltd
J.P. Morgan Asset Management
Janus Henderson Investors
Lazard
Legal and General Investment Management
Lindsell Train
Link Asset Service
Longview Partners LLP
M & G Investments Ltd
Man Fund Management UK Limited
Margetts Fund Management UK Ltd
Martin Currie Fund Management Ltd
McInroy & Wood Ltd
Morgan Stanley UK Ltd
Newton Investment Management Limited
Ninety One
Odey Asset Management LLP
Premier Miton Group plc
Pyrford International Ltd
Quilter plc
Rathbone Unit Trust Management
Royal London Asset Management
Ruffer
RWC Partners Limited
Santander Asset Management
Sarasin & Partners LLP
Schroders Investment Management Ltd
Slater Investments Ltd
Smith & Williamson
State Street Global Advisors UK Ltd
T. Rowe Price International Ltd
Tokio Marine
Troy Asset Management
TT International
TwentyFour Asset Management LLP
UBS Asset Management (UK) Limited
Valu-Trac Investment Management Ltd
Vanguard Asset Management Limited
Veritas Investment Management
Virgin Money Unit Trust Managers Limited
WAY Fund Managers Ltd
Wellington Management International Limited

APPENDIX 6
INTERVIEW AND ROUNDTABLE PARTICIPANTS

AJ Bell

Aviva Investors

BNY Mellon

Border to Coast

Carmignac Gestion

Embark Group

FIL Investment Management Limited

GBi2

Interactive Investor

Invesco

J.P. Morgan Asset Management

Money Advice Service

Premier Miton Group plc

The Wisdom Council

THE
INVESTMENT
ASSOCIATION

The Investment Association
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