

EXECUTIVE SUMMARY

UK INVESTMENT MANAGEMENT INDUSTRY: A GLOBAL CENTRE

- » Total assets under management (AUM) managed by IA members reached £10.0 trillion at the end of 2021, which represents a 6% increase on the previous year. Growth in AUM over the last decade has largely been supported by strong capital market performance. However, as we enter a period of greater uncertainty and increased volatility, we will likely see an impact on AUM growth.
- » The UK maintains its position as one of the largest and most international investment management centres in the world. Total assets managed on behalf of overseas clients, reached 46% in 2021, a nine percentage point increase since 2016.
- » The UK investment management industry also continues to be a centre of excellence when it comes to portfolio management. Of the £4.1 trillion in UK managed investment fund assets, almost two thirds (65%) sit in funds domiciled overseas where the portfolio management is delegated to a UK based portfolio manager. This marks a nine percentage point increase since 2016.

KEY THEMES FOR THE UK INDUSTRY

- » This year's survey identifies six defining themes for the UK investment management industry:
 1. The economic outlook is looking increasingly uncertain posing a significant challenge to investment managers ability to generate portfolio returns and bring in new capital.
 2. Sustainable and responsible investment continues to be a dominant theme for the industry. In 2021, assets subject to ESG integration stood at 47% while assets applying exclusions reached 28%. The proportion of assets subject to sustainability focused criteria saw the most substantial growth, rising from 2.6% of assets to 8%. Impact investments remain a niche area and represent just 0.5% of assets.
 3. Global assets in private markets are growing, reaching \$10 trillion, however private markets remain a small proportion of the IA member asset base at 3% of AUM. We expect interest to intensify as investors look to diversify their returns in a

challenging market. New fund vehicles such as the Long Term Asset Fund, will broaden access to investment in the private markets to a wider group of clients.

4. Digitalisation of the investment process, from operations, to product design and consumer interaction, will accelerate and will be a key driver of industry transformation. Much of the current focus is on the tokenisation of funds, but firms are also exploring the ways in which technology can help in the delivery of more customised products.
5. Maintaining UK competitiveness in the post-Brexit landscape is critical. IA members have identified sustainable finance, technological advancement and innovation as key exportable opportunities for the UK investment management industry. However, the industry remains cautious about the threats to competitiveness particularly in regards to regulation and the cost of doing business in the UK.
6. Diversity, equity and inclusion continues to be a priority for the investment management industry. Much work has been done on recruiting a diverse workforce and there is now an increasing focus on the impact of equity and inclusion on retention and advancement.

TRENDS IN CLIENT ASSETS AND ALLOCATION

- » Trends in client type remained broadly unchanged for most of the past decade. However, over the past three years the proportion of assets managed on behalf of institutional clients has fallen from 80% to 77%. Meanwhile, the share of assets managed on behalf of retail clients grew from 19% to 22%.
- » The proportion of assets invested in equities has increased each year between 2018 and 2021 from 36% to 42%. We have also seen the share of fixed income assets dip to 30% in 2021, which is the lowest proportion in two decades of data collection.
- » A key theme in asset allocation has been the global diversification of investments. In 2021 over half (55%) of fixed income assets were held in overseas bonds, compared with one third (34%) of holdings ten years ago. At the same time, UK equity holdings continue to decline as a proportion of total equities, falling to 23%. North American equities have

surpassed UK equities as the largest market for equity investments in 2021 and now account for 30% of total equity holdings.

- » Indexing strategies account for 32% of the £10.0 trillion of total AUM, a one percentage point increase since 2020 and a ten percentage point increase over the decade. ETFs have been an important contributor to the growth of indexing strategies in recent years.

UK INSTITUTIONAL CLIENT MARKET

- » IA members manage £4.7 trillion globally on behalf of UK based institutional clients, this is up from £4.5 trillion the previous year. UK pension funds and insurers were responsible for 85% of the assets.
- » Third-party assets under management stood at £4.1 trillion, once in-house mandates were excluded from the institutional data. This is up from £3.9 trillion in 2020. Pension funds remain the largest client type, accounting for 70% of third-party assets.
- » Total assets in liability driven investment (LDI) strategies continued to rise reaching almost £1.6 trillion, almost four times the £400 billion reported in 2011. LDI is largely used by DB pension schemes. When we exclude LDI assets, we observe that specialist mandates continue to be the mandate of choice in the third-party institutional market, accounting for 81% of total assets.
- » Within specialist third party mandates, 2021 saw a two percentage point increase in the proportion of assets in equity mandates to 38% while the proportion of assets in fixed income mandates dipped four percentage points over the year to 35%, the lowest level since 2013.

UK RETAIL FUNDS MARKET

- » UK investor funds under management (FUM) reached a record £1.59 trillion at the end of 2021, an 11% increase over the year. Annual net retail sales in 2021 were £43.5 billion, the second highest on record.
- » Sustainable and responsible investment (S&RI) FUM grew 62% to £89 billion in 2021, increasing the share of S&RI funds from 3.8% to 5.6% of industry FUM. Sales to responsible investment funds

remained strong throughout the year despite an increasingly challenging performance environment, totalling £16 billion.

- » 2021 saw a continued resurgence in sales to actively managed funds which outsold index trackers for the first time since 2017. Net retail sales to actively managed funds were £25.3 billion, although sales to trackers remained consistently strong at £18 billion.
- » While performance in 2021 was strong, growth in FUM and sales over the last decade or so has been supported by an era of low interest rates. This ended in 2022 as central banks raised rates as part of their efforts to combat rising inflation. In the first half of 2022, we have seen £12 billion in retail outflows.
- » In this high interest rate and inflationary environment, the challenges for the retail funds market include an increasingly difficult environment for investment returns, lower savings capacity for investors grappling with the rising cost of living and the competing appeal of cash saving as interest rates rise.

OPERATIONAL AND STRUCTURAL ISSUES

- » Total industry revenue after commission stood at £25.8 billion in 2021 while costs stood at £18.3 billion. Operating profit was 29%, a one percentage point increase on the previous year however, individual firm level profitability continued to vary widely.
- » The UK investment management industry supports approximately 122,000 jobs either directly or indirectly. Almost 45,000 people were directly employed at the end of 2021, an increase of 7% on the previous year. This is higher than the growth we have seen in recent years. We estimate that a further 77,000 people are indirectly employed in supporting industries.
- » The UK investment management industry remains relatively unconcentrated. Total assets managed by the top five and the top ten firms stood at 44% and 60% respectively. This is broadly unchanged since 2020.