

THE
INVESTMENT
ASSOCIATION

INVESTMENT MANAGEMENT IN THE UK 2021-2022

The Investment Association Annual Survey

September 2022



CONTENT ENQUIRIES

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September 2022

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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 2021. THE FINDINGS ARE BASED ON:

- Questionnaire responses from 74 IA member firms, who between them manage £10.0 trillion in the UK (86% 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 with senior personnel from 9 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.

THE SURVEY IS IN SIX CHAPTERS:

1. UK Investment Management Industry: A Global Centre
2. Key Themes in a More Uncertain World
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 FIVE 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 2022)
4. Definitions
5. Survey and interview respondents

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.



SURVEY FOREWORD



OUR LATEST INVESTMENT MANAGEMENT SURVEY SHOWS THE UK INVESTMENT INDUSTRY MAINTAINING RESILIENCE AND GROWTH AS IT EMERGED FROM THE PANDEMIC. ASSETS UNDER MANAGEMENT (AUM) BY IA MEMBERS ON BEHALF OF UK AND INTERNATIONAL CLIENTS CLIMBED TO A RECORD £10 TRILLION BY 2021'S YEAR-END. IT IS PARTICULARLY ENCOURAGING TO SEE THE UK INDUSTRY RETAIN ITS POSITION AS THE LEADING INTERNATIONAL CENTRE FOR INVESTMENT MANAGEMENT. IN 2021, WE CONTINUED TO INCREASE THE PROPORTION OF ASSETS MANAGED ON BEHALF OF CLIENTS FROM ACROSS THE WORLD, WHICH GREW TO NEARLY HALF OF TOTAL AUM. THE INDUSTRY NOW EMPLOYS 122,000 PEOPLE IN TOWNS AND CITIES ACROSS THE UNITED KINGDOM AND OUR COMMITMENT TO FURTHERING DIVERSITY AND INCLUSION IS PUTTING IN PLACE THE FOUNDATIONS TO ATTRACT THE NEXT GENERATION OF INVESTMENT MANAGERS.

In 2021, the growth of sustainable and responsible (S&RI) investing was a standout trend in our data with ESG integration now applied to nearly half of AUM. In the retail market funds under management in S&RI strategies grew by 62%, far outpacing the 11% growth of UK investor FUM overall. Another interesting finding was the extent to which a new generation of 'lockdown savers' started to invest through 2020-2021. Inflows to funds from UK retail investors in 2021 were £43.5 billion, the second highest on record. After very little movement for a decade, we have seen the proportion of assets managed on behalf of retail clients increase to 22% of total AUM.

Whilst 2021 was a positive year, we now face a very different operating environment. In February 2022, Russia invaded Ukraine. This tragic event continues to have profound consequences for the Ukrainian people and our firms were caught in the eye of the storm as we raced to implement the sanctions on Russian companies and to carry out an orderly programme of divestment. The ramifications of the war for the global economy have been far reaching, setting in motion a chain of events that resulted in European energy supply shocks, cementing persistent and rising inflation. We are now at the end of the era of rock bottom interest rates and the monetary policy orthodoxy of the last ten years. Looking back to the 1970s does not provide a playbook for central bankers and politicians and even the most experienced chief investment officers must navigate new market dynamics.

Investors are now experiencing a series of unfolding challenges. Portfolio managers face a test of their mettle not seen in a generation. Rising interest rates bring the spectre of recession and weaken the outlook for asset growth. It will become harder to maintain the 10% compound annual growth rate of AUM over the last 10 years. In this environment, investors will seek access to returns that are uncorrelated. This lends urgency to opening up access to alternative assets and private markets. Innovative new fund structures such as the Long-term Asset Fund (LTAF) will increase investor choice and the LTAF could prove to be the catalyst for democratising access to private assets for ordinary pension savers, enabling access to the illiquidity premium enjoyed by institutional investors.

Investors face strengthening headwinds into 2023 and their ability to put money aside each month will be constrained as the cost-of-living crisis bites. We have yet to see the full impact of the crisis on pension opt out rates but early surveys indicate that they are rising. In the retail funds market, outflows for the first half of 2022 are £12 billion, which indicates the scale of the challenge investors are facing. As we look ahead to next year's priorities, alongside delivering on our competitiveness and innovation agenda, we mustn't lose focus on the investor as we strengthen our commitment to supporting their financial inclusion and resilience.

As we gather ourselves to continue to weather the economic storm, our new government is racing to cement its growth and productivity agenda. For its part, the industry is considering how it can strengthen its support for that agenda, drawing on existing initiatives such as the LTAF while re-examining how stewardship and the capital markets more broadly can adapt to support UK competitiveness. Clearly, the future regulatory framework will help to determine how the UK system operates and the Government, alongside our Regulator, must continue to re-evaluate this framework looking not only through the lens of investor protection but also of competition and innovation. By delivering the Financial Services and Markets Bill and looking again at other tax and regulatory costs, the Government can help to support the UK's future as a competitive centre for portfolio management and one with ambitions to grow its share of fund administration.

In many ways, the disruption in geo-politics and the shift in the market cycle serves to re-enforce the areas of strategic importance that we have identified as an industry. Our commitment to investing responsibly and sustainably and to maintaining the UK's attractiveness as a global investment management centre remain. But it does require some careful re-calibration: in the sphere of sustainable investing, our attitudes to defence have evolved following the Russia/Ukraine war and our notions of a socially responsible company are becoming more important. More broadly, some of the old links of globalisation are breaking, causing new diplomatic and trading relationships to be forged. Amidst this, we shouldn't lose sight of our strength as a global centre and we must continue to make it easier for the best and the brightest in global investment talent to come to work here.

Indeed, the UK is acknowledged by industry leaders as a global centre of sustainable and responsible investment expertise and this stands us in good stead as we seek to manage a growing share of sustainable investment strategies. Our focus has also turned to the developing regulatory regime in the UK including the forthcoming Sustainability Disclosure Regulation and reporting initiatives such as TCFD. As S&RI regulation is rolled out at pace, we must call the attention of regulators to interoperability between the US, UK and the EU in this increasingly complex area. This is critical in promoting consistent global standards and meeting net zero commitments across jurisdictions.

I hope that you find the Survey interesting and informative and I welcome any thoughts on aspects of the industry that you would like us to explore in future editions.



Chris Cummings
CEO



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.

1 UK INVESTMENT MANAGEMENT INDUSTRY: A GLOBAL CENTRE

KEY FINDINGS

SIZE OF THE UK INDUSTRY

- » Assets under management (AUM) by IA members reached almost £10.0 trillion in 2021, a 6% increase on the £9.4 trillion reported the previous year. This is below the 11% compound average annual growth rate observed over the last ten years.
- » Scotland remains an important centre for the UK investment management industry, with assets under management in Scotland surpassing £700 billion in 2021 and continuing to account for 7% of total UK AUM.
- » Total assets under management within the wider industry reached £11.6 trillion this past year. This is a 5% increase on the previous year,

UK INVESTMENT MANAGEMENT INDUSTRY IN A GLOBAL CONTEXT

- » Global AUM reached £83 trillion in 2021. The UK continues to be a centre for excellence in investment management – the largest industry in Europe and second only to the United States worldwide.
- » The UK investment management industry is one of the world's leading international centres, 46% of UK AUM is managed on behalf of overseas clients, up from 37% since 2016. The majority of overseas clients are European (at 59%), with North American clients being the second largest overseas client group accounting for one fifth (19%) of overseas assets. There has been very little change in the regional composition of the overseas client base over the years.
- » Assets in overseas-domiciled funds have seen accelerated growth over the past couple of years. As of the end of year 2021, 65% of the £4.1 trillion in investment funds sit in overseas-domiciled funds; up from 63% in 2020, and 9 percentage points higher than in 2016.



This chapter provides an overview of the UK investment management industry – highlighting areas of growth, placing it in a European and global context and emphasising the ways in which the UK investment management industry continues to thrive as a globally recognised centre for excellence in portfolio and asset management.

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 1.

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 the investor to undue risk.

The industry's role goes beyond investing in different asset classes. Investment managers help to ensure

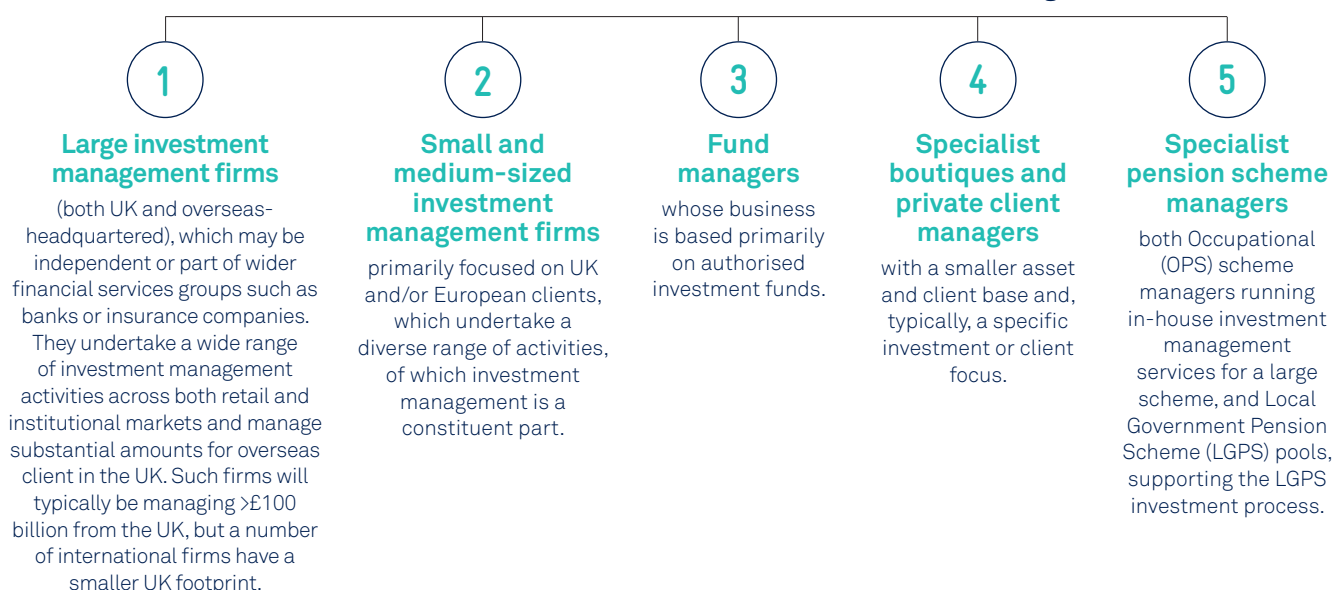
that capital markets work effectively so that investment can take place. Allocating capital on behalf of investors contributes to efficient markets which price information correctly and allow buyers and sellers to transact. This facilitates both primary issuance, when companies or governments are trying 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 role. 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 of the companies they invest in to promote good governance and to protect the company's value for their clients.

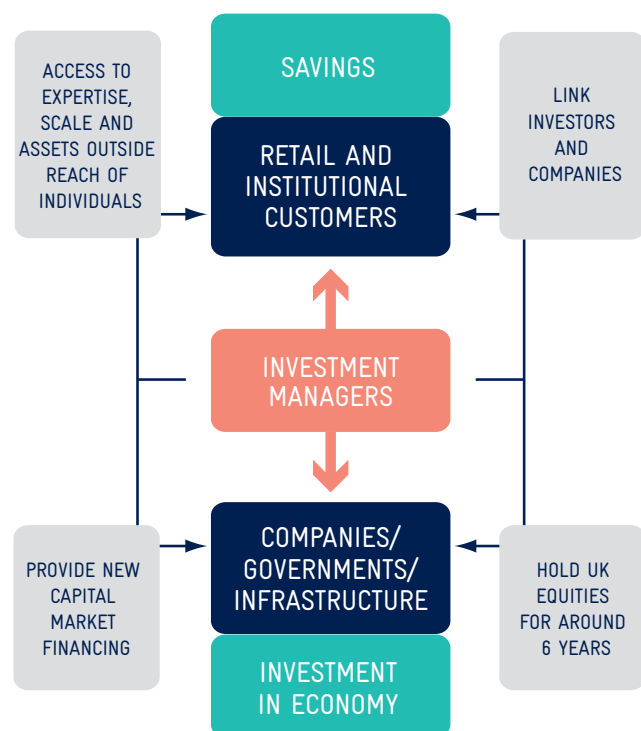
As we discuss in other parts of the Survey, the role of the industry increasingly extends to broader issues such as combating climate change and executive remuneration policies. This wider role is expected to become even more important in future years as part of the focus on responsible and sustainable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

FIGURE 1: WHO ARE THE IA'S MEMBERS?

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



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

Between December 2020 and December 2021, IA member UK managed assets under management (AUM) reached £10.0 trillion, a 6% increase from the £9.4 trillion reported last year. This growth is well below the 11% compound average growth rate for the past ten years.

UK authorised and recognised funds under management (FUM) rose to £1.6 trillion by the end of 2021, up from £1.4 trillion in 2020 which represents a growth rate of 11% on the previous year, outpacing the growth of AUM for the third year in a row. This growth is in line with the compound average growth rate observed over the past ten years.

Chart 1 looks at the evolution of industry AUM and FUM over the last fifteen years. Assets increased threefold over that period, buoyed by the longest bull run in history which began in 2009 and lasted until the Covid-19 pandemic hit in 2020. 2020 saw markets crash in March and recover quickly to reach record highs,

BOX 1: GLOBAL CAPITAL MARKET PERFORMANCE IN 2021

In this section we offer a high-level analysis of global capital market performance in 2021 and, in Figure 3, highlight the annual total return² of selected indices. Market performance was split in 2021 – equity markets performed extremely well, in large part thanks to the flurry of economic activity in a world emerging from lockdown, but bond markets suffered from fears around rising inflation.

The successful Covid-19 vaccine trials of November 2020 acted as a driving force for the impressive performance of equity markets in 2021. The sense of optimism that the worst of the pandemic was over prompted a surge in consumer spending and supported a positive outlook for the post-pandemic economic recovery.

Equity markets experienced strong returns throughout the year despite a range of challenges – including severe supply chain disruptions, high energy prices and rising inflation. Total returns for global equity markets ended the year up 20%, compared with 13% in 2020, which was already a strong year for capital market performance.

US equities were a major contributor to Global market performance³, generating total returns of 27% over the year. This is largely attributed to a strong tilt towards high growth sectors such as technology, which performed extremely well throughout 2021.

UK equity markets fared much better in 2021 than they did in previous years. UK equity performance was impeded by suspensions/cancellations of dividends in 2020, which are a big component of the FTSE's total returns⁴. As the UK emerged from lockdown and the economy reopened in 2021, dividend payments resumed and market performance picked up, contributing to a total return of 18% over the year, on par with Europe. Despite the strong performance, UK equities still underperformed US equities. This broadly reflects the composition of the UK equity market which has a higher weight to defensive stocks which perform better relative to other industries when inflation, and consequently interest rates, are rising. This has helped UK equities perform better than other markets, including the US, in 2022.

Asian equity markets rose alongside US, European and UK equity markets until autumn 2021, when political and financial turbulence in China eroded international investor confidence with repercussions for the entire region. The Chinese government's regulatory crackdown on the tech sector, the declaration of bankruptcy of the Chinese property giant Evergrande and the slowing growth in the housing market, and a return into strict lockdown (as part of China's Zero-Covid policy) negatively impacted the economy and damaged market performance. The Asian equity market ended the year with positive returns at 2%, compared with 18% in 2020.

BOND MARKETS

In 2021, all major bond indices experienced significant losses not seen since the 1980s and ended the year in the red. This underperformance is largely attributed to rising inflation, which presents a significant challenge for the bond market as it erodes the value of future fixed interest payments.

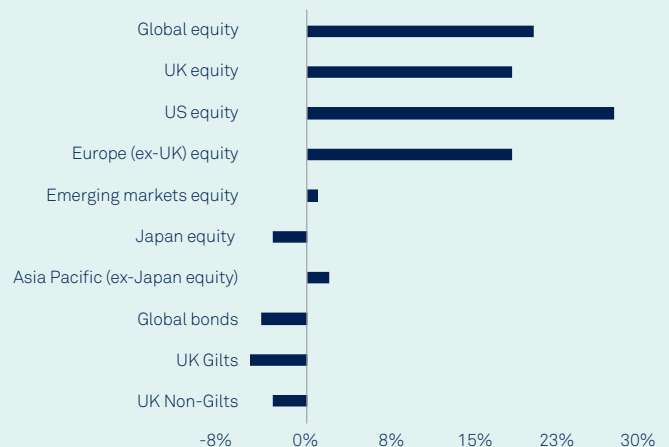
From the very beginning of 2021, a rise in yields hit UK Corporate Bonds and UK Government Bonds total returns. Returns started to recover as the economy re-opened, but in Q3 escalating gas and oil prices exacerbated the impact of rising inflation on bond markets in the UK and other developed markets around the world⁵. Although inflation had been increasing through the year, by Q3 markets began to make adjustments on the basis that inflation was no longer transitory, and the Bank of England (BoE) signalled interest rates would likely be raised to temper the impact of inflation on the economy.

Though the BoE did not raise interest rates until the 15th of December, through Q4 bond markets adjusted to reflect persistent inflation. This prompted a drop in total

returns of UK Gilts and Non-Gilts, which ended the year at -5% and -3%, respectively. This was echoed in the US (-1% total returns) and in the Global bond market (-4%). By comparison, in 2020 UK Gilts and Non-Gilts outperformed Global bonds, which ended the year with returns of 9%, 8% and 6%.

The challenges facing bond markets have so far intensified in 2022. As the invasion of Ukraine solidified the rise of inflation, sterling denominated bond prices have tumbled and fixed income funds have sustained heavy outflows. After yields spiked in the first quarter of the year, US bond prices recovered in Q2. (See page 70 in chapter 5 for more information on the impact of inflation on fund flows in retail markets.)

FIGURE 3: TOTAL RETURN OF SELECTED BOND AND EQUITY MARKETS IN 2021



Source: Morningstar

² Total return is more representative of the return an investor would receive than capital returns. Total returns include income distributions through dividends or share buyback as well as the rise and fall of stock or bond prices that are measured through capital returns.

³ At the time of writing, the MSCI World Index has a 69% weighting/exposure to the US.

⁴ In 2020, headline dividends fell by 44% to £61.9 billion (the lowest annual total since 2011) and two thirds of companies cancelled or cut their dividend payments (Link Group, UK Dividend Monitor Q4 2020).

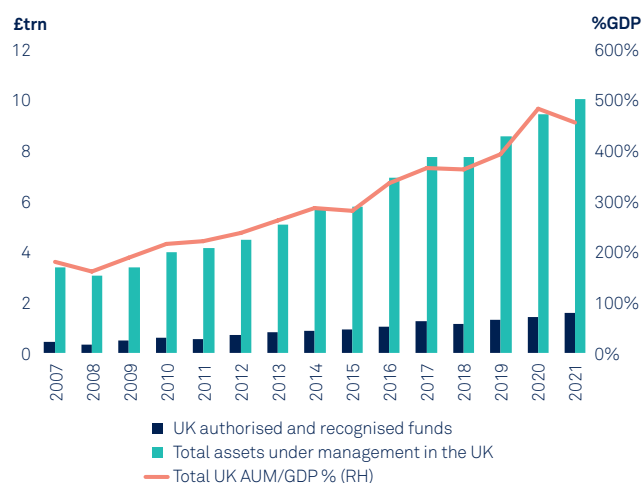
⁵ The UK Consumer Price Index rose from 0.6% in December 2020 to 2.5% in June 2021 and finally reached 5.4% at the end of the year. This is the steepest rise in inflation developed economies have had to reckon with for years (ONS data, Consumer price inflation, UK: December 2021).

further pushing up FUM and AUM. In 2021, capital market performance was quite varied depending on the asset class and region you were invested in (see Box 1). Whilst most equity markets grew, bonds saw negative returns for the year. This is likely to have contributed to a slowdown in growth at the AUM level.

There were pandemic related jitters throughout 2021, with the first quarter spent in lockdown, followed by the impact of the spread of the Delta and then Omicron variants but overall, equity markets performed strongly while fixed income market performance was more challenging. As the economy reopened, surging demand resulted in supply chain disruptions and inflation continued to rise, particularly in the last quarter of the year.

The story in 2022 is different, the global economy is entering a period of great uncertainty and rising volatility. Many economists have commented that The Great Moderation – the period of stable growth and inflation since the mid-1980s – has come to an end. The war in Ukraine has further exacerbated some of the supply chain shocks that emerged post pandemic, with food and energy prices in particular soaring. UK inflation reached a 40 year high of 9.4% by mid-year despite a number of interest rate rises by the Bank of England. Central banks have so far been hawkish and we have seen a number of rates rises which will have a direct impact on growth.

CHART 1: TOTAL ASSETS UNDER MANAGEMENT IN THE UK AND IN UK FUNDS (2007-2021)



Source: IA data, Office of National Statistics (ONS)

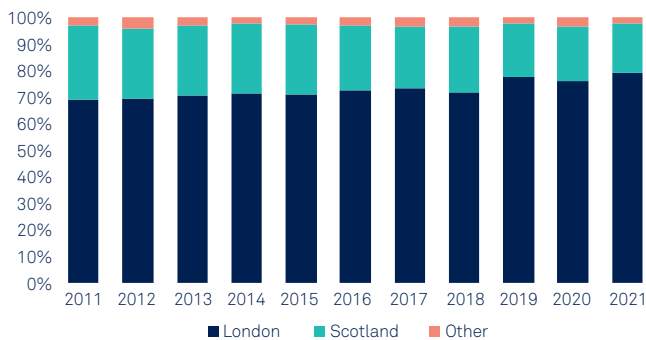
In this period of uncertainty, it is unlikely that the sustained growth observed in Chart 1 will continue at the same rate and may reverse, at least for some time.

The right-hand side of Chart 1 also looks at the size of the UK investment management industry relative to GDP. We see that the AUM as a proportion of gross domestic product (GDP) has fallen for the first time in the past four years, which suggests that growth in AUM was outpaced by the year on year growth rate of the UK GDP. However, assets managed within the industry are still over four times bigger than the size of the UK economy.

SCOTLAND AS A MAJOR CENTRE

There are two primary city hubs in the UK for investment management; London is by far the largest both in terms of headcount and level of assets managed within the city, with Edinburgh coming in as the second largest hub. In 2021, assets managed from Scotland reached £700 billion, a small increase on the previous year. This is equivalent to 7% of total AUM. The longer-term trend observed over the past decade has been an overall decrease in the proportion of assets managed in Scotland. In 2011, the proportion of Scotland-managed assets was 12% of UK AUM, almost double the level observed in 2021. This is a reflection of merger and acquisition activity among Scottish firms which has caused growth to stall, as well as the faster relative growth in London and elsewhere in the UK, rather than a fall in Scottish managed assets in absolute terms.

Chart 2 shows the location of regional headquarters for UK-based investment management firms. Over ten years, we see a ten-percentage point increase in the proportion of firms headquartered in London. The share of Scotland headquartered firms has fallen from 28% in 2011 to 19% in 2021 and the share of other regional locations has remained relatively unchanged, fluctuating between 2 and 3%. Much of the portfolio management capability of Scottish headquartered firms is based in London, which is why we see a difference between the 7% of assets managed in Scotland versus the 19% of assets managed by Scottish headquartered firms. For more detail on the regional location by function see Chapter 6 of this report.

CHART 2: UK-MANAGED ASSETS BY UK REGIONAL HEADQUARTERS (2011-2021)

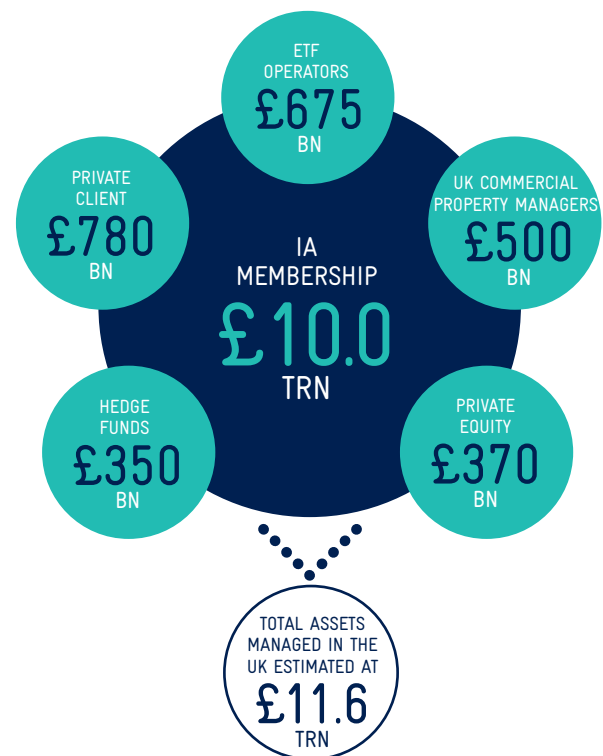
SCALE OF WIDER INDUSTRY

The Investment Associations' members are responsible for the majority (83%) of assets managed in the UK as part of the investment management industry. While the IA membership remains diverse, most of the firms not covered in this report can be categorised as follows:

- Hedge funds
- Private equity funds
- Commercial property management
- Discretionary private client management
- A small number of dedicated ETF operators

There are also some firms who are not members of the IA other than those listed above, but it is difficult to accurately size this group as there is no consistent third-party data available.

Figure 4 estimates the contribution of these firms to total assets under management in the UK as £11.6 trillion. Many of our member firms are active participants in the industry niches listed above so there will be some degree of overlap between this number and the total AUM managed by IA member firms in Figure 1, particularly the ETF asset numbers. We have estimated that total assets managed in the wider industry have grown 5% from a revised £11.1 trillion in December 2020 to £11.6 trillion in December 2021.

FIGURE 4: WIDER INVESTMENT MANAGEMENT INDUSTRY

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

UK INVESTMENT MANAGEMENT IN EUROPEAN AND GLOBAL CONTEXT

As of December 2021, global assets stood at £83 trillion. Together, the US, the UK and Europe are responsible for almost four fifths (77%) of global AUM – with the US alone responsible for more than two thirds.

As the UK grapples with the growing challenge of competitiveness in a post-Brexit environment, it continues to be seen as a centre of excellence for portfolio management more globally. The industry has maintained its standing as the second largest investment management centre (Table 1) behind the US which is nearly four times larger at £37 trillion in AUM. To put the size of the US market in context, total European AUM stood at £27 trillion in 2021. Japan is also a notably large asset management centre, with approximately £5 trillion of assets under management recorded for 2021.

As discussed earlier in this chapter, the total value of UK-managed assets under management grew by 6% between 2020 and 2021. The US market grew at a much faster rate than the UK, as well as all other major investment management centres with a 12% growth rate. Meanwhile, the European market grew by 8% and growth in Japan has stalled.

TABLE 1: GLOBAL ASSETS UNDER MANAGEMENT IN 2021

	Assets under management (local currency)	Assets under management (£ equivalent)
United States	\$50 trillion	£37 trillion
Europe	€32 trillion	£27 trillion
Japan	¥825 trillion	£5 trillion

Within Europe, the UK investment management industry is the largest and has a market share of 37%, a figure that has remained relatively stable over the past few years. This is illustrated in the rankings listed in Figure 3, where we see that the UK's market share is larger than the next three combined – with France at 16%, Germany at 10% and Switzerland at 9%.⁶ The Netherlands, which has one of the largest funded

pensions markets in Europe moved into the top five largest European asset management centres in 2020, with AUM rising a substantial 29% over the year.

FIGURE 5: ASSETS UNDER MANAGEMENT IN EUROPEAN COUNTRIES (DECEMBER 2020)



Country	AUM (€bn)	Market share
1. UK	10,442	37%
2. France	4,582	16%
3. Germany	2,882	10%
4. Switzerland	2,488	9%
5. Netherlands	1,826	6%
6. Italy	1,553	6%
7. Denmark	492	2%
8. Spain	405	1%
9. Belgium	346	1%
10. Austria	151	1%
Other	3,258	12%
TOTAL	28,423	

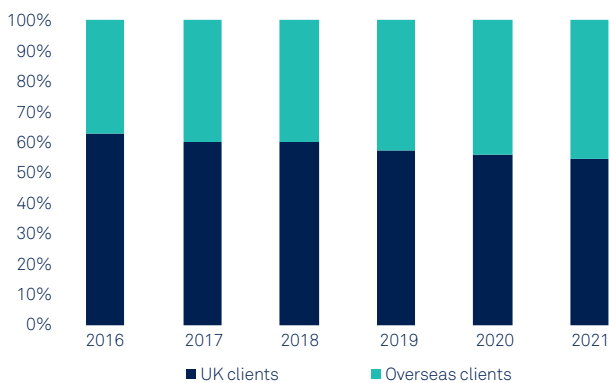
Source: EFAMA

⁶ This is based on December 2020 data published by EFAMA.

OVERSEAS CLIENT MARKET

Despite some of the concerns highlighted in Chapter 2 regarding the UK's competitiveness as a financial centre following Brexit, the UK retains its position as a leading global investment management centre of excellence. The £10.0 trillion figure for total assets under management includes an estimated £4.6 trillion (46%) managed on behalf of overseas clients. Chart 3 shows that in the last five years, overseas clients have commanded an increasing share of the asset base, rising nine percentage points from 37% in 2016 to 46% in 2021.

CHART 3: CHANGE IN PROPORTION OF UK AND OVERSEAS CLIENTS (2016-2021)



The locations of the UK industry's overseas client base are illustrated in Figure 6. European clients continue to make up the majority at 59% (a one-point increase on the previous year), with UK-based investment managers overseeing £2.7 trillion on their behalf. Most of these assets are managed for clients from the European Economic Area (around £2.4 trillion). Of the remaining assets, the majority (approximately £200 billion) is managed on behalf of Swiss clients.

This year the IA has collected more information on the European clients our members serve. Of the £2.7 trillion managed on behalf of European clients, two fifths (40%) of the assets are managed within segregated mandates, or £1.1 trillion in nominal terms. Of this £1.1 trillion in segregated mandate business, approximately £380 billion is managed on behalf of clients located in the Netherlands and £110 billion on behalf of German clients.

Between 2020 and 2021, the value of assets managed in the UK on behalf of North American clients grew to £880 billion, a relatively small £20 billion increase on the previous year. However, the US is consistently the second largest client base for the UK industry.

By comparison, Asian client assets increased by close to £100 billion to reach £700 billion. This year, we were able to collect more detailed data from our member firms on their Asian clients and can report the following breakdown: of Asian client assets managed in the UK, 36% is managed on behalf of Japanese clients (upward of £250 billion) and 7% for Chinese clients (close to £50 billion).

Assets managed on behalf of Middle Eastern clients has seen little growth in previous years in nominal terms, which has resulted in the decline of its share of the UK industry's overseas client base. As of December 2021, however, there was an increase of nearly £40 billion in assets managed on behalf of clients in the Middle East which contributed to a rise in their market share from 5% in 2020 to 6% in 2021.

FIGURE 6: ASSETS MANAGED FOR OVERSEAS CLIENTS



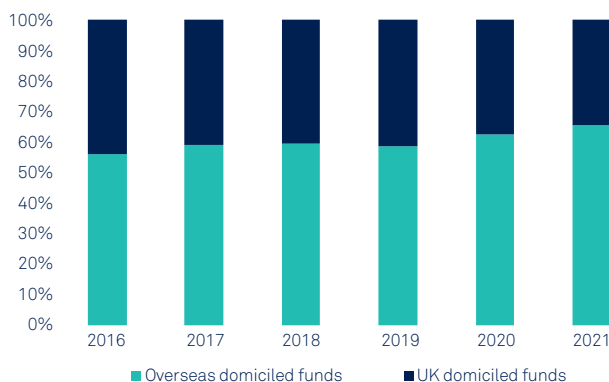
SERVICES TO OVERSEAS FUNDS

Another global dimension of the UK investment management industry is the level of assets that sit within investment funds domiciled overseas, that are being managed from IA members UK-based teams. 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.

Each year, we capture data on assets that sit in open ended funds, investment trusts, ETFs, hedge funds and money market funds (MMFs). At the end of 2021, total assets in UK-managed investment funds stood at £4.1 trillion. Almost two thirds (65%) of these assets sit within overseas-domiciled funds, and of that, 84% are in funds domiciled in the EEA, primarily Ireland and Luxembourg.

Chart 4 illustrates the increase in the proportion of overseas-domiciled funds over the past few years. In 2016, assets in overseas-domiciled funds stood at 56% of total UK-managed investment fund assets; this increased to 59% in 2017 and then stagnated. The step change recorded in 2016 is attributed to the fact that many IA members transferred European client assets from UK to overseas domiciled funds as part of their Brexit preparations. In 2020 and 2021, however, we saw a shift in the level of assets in overseas domiciled funds. Assets rose from 59% to 63% in 2020 and reached 65% in 2021. One possible reason for this could be the inclusion of ETFs in this data which have seen significant growth in assets in the last few years and are almost entirely domiciled overseas.

CHART 4: CHANGE IN PROPORTION OF ASSETS MANAGED FOR UK AND OVERSEAS FUNDS (2016-2021)



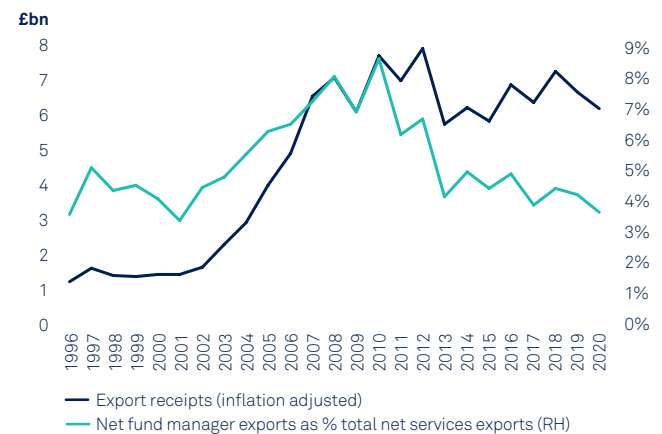
IMPORTANCE TO UK SERVICE EXPORTS

The growth in assets within overseas domiciled funds where portfolio management is delegated to the UK and the increasingly international client base demonstrates an opportunity for UK investment management to export its services globally. Chart 5 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 £6.1 billion in 2020.⁷ This is slightly down from the £6.3 billion in 2019.

The right-hand side of Chart 5 indicates that fund manager contribution as a proportion of total net exports stood at 3.6%. The proportion of fund manager exports increased from the 1990s all the way up to the global financial crisis, when it peaked at 8.5% in 2010. Since then, fund management services as a share of total exports has decreased.

Chart 5 captures earnings by independent asset managers and is likely to understate earnings from asset managers that are part of a wider financial services group such as an investment bank or insurer. As such, the actual contribution of asset management overall to service exports is likely to be higher.

CHART 5: EXPORT EARNINGS AND RELATIONSHIP TO UK SERVICE EXPORTS



Source: ONS

⁷ This is based on the latest data from the ONS, which has a two-year lag on figures.

2 KEY THEMES IN A MORE UNCERTAIN WORLD

KEY FINDINGS

1. NAVIGATING A DIFFICULT ECONOMIC ENVIRONMENT

- » The investment management industry and our clients are facing a number of economic headwinds including rising interest rates, the possibility of permanently higher inflation, potential for significant de-globalisation and an overall more challenging environment for market returns and economic growth.
- » Rising geopolitical tensions that may contribute to a de-globalisation of trade are of particular concern to the increasingly international UK investment management industry.

2. INVESTING RESPONSIBLY AND SUSTAINABLY

- » Buoyed by a run of good performance, investor demand for sustainable strategies continued to rise in 2021. IA members have cited improved data quality and reclassification of assets as the primary driver of this growth. Of the £10.0 trillion of assets under management (AUM): just under half (47%) were integrating ESG in the investment process, 28% applied exclusions to their portfolios, and 8% were managed within sustainable-focused strategies. Impact investments remain niche with just 0.5% of AUM sitting within these strategies.
- » Views were mixed on the impact that rising geopolitical tensions and near term economic uncertainty will have on the climate agenda as governments navigate very challenging conditions. Many see rising tensions, including the war in Ukraine, as further evidence for the need for the energy transition and see a push towards commitments to net zero.
- » Regulation is focused on raising standards around disclosure as well as developing taxonomies to bring about consistency and clarity around definition of sustainable economic activities.

3. ONGOING FOCUS ON PRIVATE MARKETS

- » Total assets in private markets reached \$10 trillion in 2021. In 2021, less than 3% of the almost £10 trillion AUM was invested in private markets. However, we anticipate investments in private markets to increase as the market environment for returns becomes more challenging and regulation changes to allow wider access to private markets.

- » Access to private markets has historically been easier for certain parts of the institutional market. A new fund structure in the UK, the Long-Term Asset Fund (LTAF), aims to give DC pension and retail investors broader access to illiquid assets. The first LTAFs are expected to be launched through 2022-2023.

4. ACCELERATING PACE OF OPERATIONAL MODERNISATION

- » The pandemic triggered an accelerated move towards digitalisation across the investment management industry in the UK - from operations through to product design and customer interaction.
- » The industry is eager to work with regulators on an ambitious technological agenda to facilitate the evolution of the funds industry. Many IA members are developing Distributed Ledger Technology and exploring the tokenisation of assets.

5. OPPORTUNITIES FOR GROWTH

- » IA members have identified a number of opportunities for the UK to retain its standing as a leading international centre for investment management. A continued focus on innovation, both in terms of technological advancement and new product offerings such as the LTAF, will be critical. Sustainable finance also presents a huge exportable opportunity in terms of products, human capital and regulatory developments.
- » While optimistic about opportunities for growth, the industry remains cautious to potential threats to its international competitiveness which include the rising cost of doing business in the UK and growing regulatory burden.

6. ENHANCING DIVERSITY & INCLUSION ACROSS THE SECTOR

- » In 2021, the industry has broadened its focus on the diversity agenda to recognise that 'equity' and 'inclusion' play a key role in recruitment and advancement of diverse talent. While the industry has made progress on recruitment, more needs to be done around retention and many IA members are working on creating a culture of belonging.
- » A key focus for the industry over the next few years will be collecting diversity data, setting goals and measuring progress.

1. NAVIGATING A DIFFICULT ECONOMIC ENVIRONMENT

The UK has faced three major shocks in the past five years – Brexit, Covid-19 and the economic implications of Russia's invasion of Ukraine. In different ways, these have demonstrated the limits of the assumptions around enduring and deepening globalisation, while also contributing to supply-side interruptions that have fuelled a growing concern about the potential impact of inflation upon capital markets and investors. For the investment management industry, this creates a number of uncertainties for both the near and longer term about economic conditions as well as the assumptions underpinning an industry whose investment activity is profoundly global. The headwinds can be summarised in four main themes:

- Likely consequences of rising interest rates
- Possibility of permanently higher inflation
- Potential for significant de-globalisation
- Overall implications for market returns and economic growth

“Investors have had to deal with so many issues over the last few years. You've had Brexit, the pandemic, the impacts of supply chain disruption, the impact of a ground war in Europe and now you've got this huge cost-of-living crisis and inflationary challenge.”



For some we spoke to, the big risk is that structural shifts in the global economic, political and security environment create inflationary pressures that are permanent rather than transitory. This in turn will lead to a higher interest rate environment than has been seen over the past two decades.

“The biggest risk is that it is a secular move towards a more inflationary environment, in part caused by the decrease in globalization and characterised by higher rates for a long time.”



This creates significant challenges both in predicting the direction of markets and delivering the kind of returns that many investors have become used to over the past 30 years. A number of those we interviewed also highlighted other facets of these challenges. For some, this relates to the importance of drawing on the experience of those used to managing through this kind of environment.

“Central bank support has meant that we've been in an almost artificial economic environment. Economic data from the last 20 to 30 years is not necessarily going to be a good guide to the future. We really need to be thinking about scenario analysis and different ways of thinking about risk.”



For others, it was notable that technology, including social media, was driving a completely different pace of information dissemination, which meant in turn that client expectations also adjusted accordingly.

“Clients have access to online technology and information in real time and they're seeking answers. Leadership as an investment manager means you have to have opinions on these and lead from the front or be willing to say we don't know yet and we're figuring this out.”



2. INVESTING RESPONSIBLY AND SUSTAINABLY

Reflecting intensifying concerns about the climate, as well as broader environmental and social considerations, sustainable and responsible investment (S&RI) has become a dominant theme within the investment management industry.

The strong performance of these products in 2020 may also have accelerated demand. While inflows remained consistently strong through 2021, typically such funds tend to underweight oil and gas companies and overweight technology companies, a strategy which has dampened performance into 2022. Although the underlying momentum behind S&RI investing is likely to build in the long-term, a number of firms that we spoke to this year are expecting that recent performance may slow near-term demand for S&RI products, which is certainly reflected in lower Q1 2022 net retail sales.

“My fundamental belief is that if you buy any asset class and make it greener, that is a source of alpha, but we need a longer time horizon so we can prove that.”

A COMPLEX DEBATE ABOUT INTERPRETATION AND APPLICATION

At the same time, there is a recognition that the war in Ukraine has stimulated a wider debate about how precisely to define S&RI and that the economic consequences have potentially weakened some of the consensus and momentum.

“The war in Ukraine has highlighted the challenges of ESG assessment in a big way. Clients are asking how we look at countries like Russia and China from an ESG assessment perspective and how we get rid of our dependency on oil in the short-term.”

This in turn has served as a reminder about what is often a more fragile international consensus than sometimes appears from a UK or broader European perspective:

“There is huge political pressure on governments around the world to make sure that any short-term fixes don't negatively impact this longer-term view of sustainability, particularly as clients are already on a sustainability journey and are continuing on this journey. As an asset manager, we are still under the same pressures as before from our clients to continue to enhance our sustainable capabilities.”

Others within the industry remain optimistic that the climate agenda remains front of mind and that the ongoing war between Russia and Ukraine has highlighted the need for energy security and could accelerate the transition away from oil and gas to more renewable sources of energy.

In the context of Ukraine and the application of sanctions, investors are also increasingly aware of how complex the application of ESG principles is to sovereigns, especially where multiple competing priorities may have to be juggled.

“Understanding the ESG ramifications or risks of holding sovereign debt are not black and white. The line is often not as clear and is subjective. One of the critical active management decisions that we need to make as a fund manager is where that line is and it will vary by different countries depending on the everchanging landscape.”

BOX 2: RISING IMPORTANCE OF CLIMATE CHANGE AGENDA

Climate action failure has been identified as the most severe risk to global economic growth⁸. In late November 2021 the UK hosted COP 26, the UN conference on climate change in Glasgow. The nations represented are parties to the Paris Agreement to limit global warming and achieve net zero greenhouse gas emissions in the second half of this century. This can only be achieved with significant changes to the nature of economic activity. Investment managers, as agents of capital, will have a role to support governments in financing solutions to mitigate and adapt to climate change. This includes support of the Government's first Green Gilt issues, and also acting as stewards to scrutinise the preparedness of the companies and other assets they invest in for the transition to net zero.

In the lead up to COP 26, the UK Government issued its first Green Gilt to finance green projects, raising £16 billion. The Debt Management Office has said that a further issuance of at least £10 billion is expected in 2022, as the Government seeks to establish a deep and liquid green gilt market. Issuances so far have been heavily oversubscribed, reflecting significant investor demand for green sovereign bonds. Going forward, investors will be closely monitoring reporting from the Government as to the allocation of proceeds from the issuances, and the impact they have had.

The UK's role in hosting COP 26, and the one-year delay to the conference, helped to build interest in the UK-based industry and created a sense of momentum behind net zero commitments including Net Zero Asset Managers and the Net-Zero Asset Owners Alliance, which culminated in the formation of the Glasgow Financial Alliance for Net Zero (GFANZ).

IA member firms with AUM in the UK of more than £7 trillion (almost three-quarters of UK AUM) have now signed up to the Net Zero Asset Managers

commitment. This is a significant industry commitment to support the goal of net zero emissions by 2050.

The initial postponement of COP 26 also allowed time for UK policymakers to advance plans for domestic measures, including a UK green taxonomy, TCFD reporting across the economy, a sustainable disclosure and labelling regime for financial products, and corporate transition plans. Much of this work was merely launched in Glasgow and the detailed work of implementation is ongoing despite a drop in the levels of Government-driven publicity since COP 26, and uncertainty following Boris Johnson's replacement by Liz Truss as Prime Minister.

The last year has seen jockeying between the world's leading economies to set the standard on greening the financial system. The EU, with the establishment of SFDR and a green taxonomy, has been seen as a frontrunner in this area but the UK, as host of COP 26 and in a spirit of post-Brexit competitiveness, has also wanted to stake a claim to being the world's first "Net Zero-Aligned Financial Centre". The US, under the presidency of Joe Biden, has been keen to signal its renewed commitment to climate diplomacy.

This is a global issue and for a global industry like investment management, international regulatory coherence will be vital. There are signs that this is being sought through the G20 and the establishment (also at COP 26) of a new International Sustainability Standards Board (ISSB). GFANZ will also have a role as a global, industry-led group, in seeking to influence the adoption of consistent and high-quality standards. There are some concerns within the industry that rising geopolitical tensions and increasingly difficult macroeconomic market environments could see some of these commitments falter as governments seek to address some of the nearer term challenges.

⁸ The Global Risks Report 2022, World Economic Forum.

SIZING THE MARKET FOR SUSTAINABLE AND RESPONSIBLE INVESTMENT

The data presented in Chart 6 is based on the IA's Responsible Investment Framework which was published in 2019. This data includes assets subject to both firm level and individual fund or mandate level responsible investment approaches. Although we now have three years of data, it is very difficult to make year on year comparisons. IA members ability to extract data from their systems and their interpretation of IA definitions is evolving as we move towards greater consistency. As such, year on year changes are a combination of genuine rising allocations, but also improved data quality.

Chart 6 shows that assets within sustainability focused strategies have risen quite substantially from 2.6% in 2020 to 8.1% in 2021. Assets subject to firm level or product level exclusions have seen a two percentage point rise to 28% in 2021. Meanwhile, ESG integration stood at 47%, down from 49% in 2020. Impact investing remains a niche area of investment with a very small number of firms involved in these types of investments. Total assets represent just 0.5% of industry assets and have remained at a similar percentage over the last three years.

The majority (77%) of industry assets are subject to stewardship activity. Oversight goes beyond just voting, and as such, the 77% figure includes holdings across asset classes.

CHART 6: PROPORTION OF ASSETS UNDER MANAGEMENT BY RESPONSIBLE INVESTMENT CATEGORY (2019-2021)

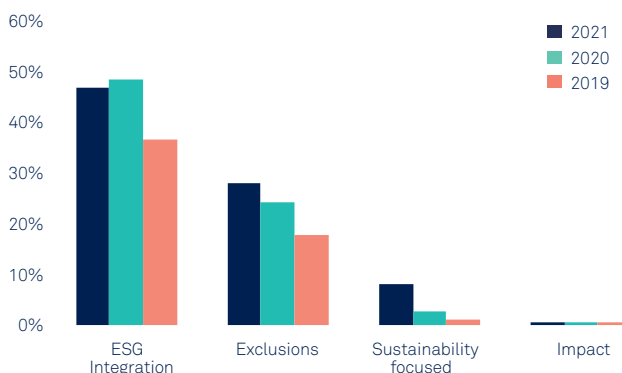


TABLE 2: DEFINITIONS BASED ON IA RESPONSIBLE INVESTMENT FRAMEWORK⁹

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.
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).
Impact Investing	Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. There are four key elements: <ol style="list-style-type: none"> 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.

⁹ The IA RI framework is available at: <https://www.theia.org/sites/default/files/2019-11/20191118-iaresponsibleinvestmentframework.pdf>.

IMPROVING DISCLOSURE

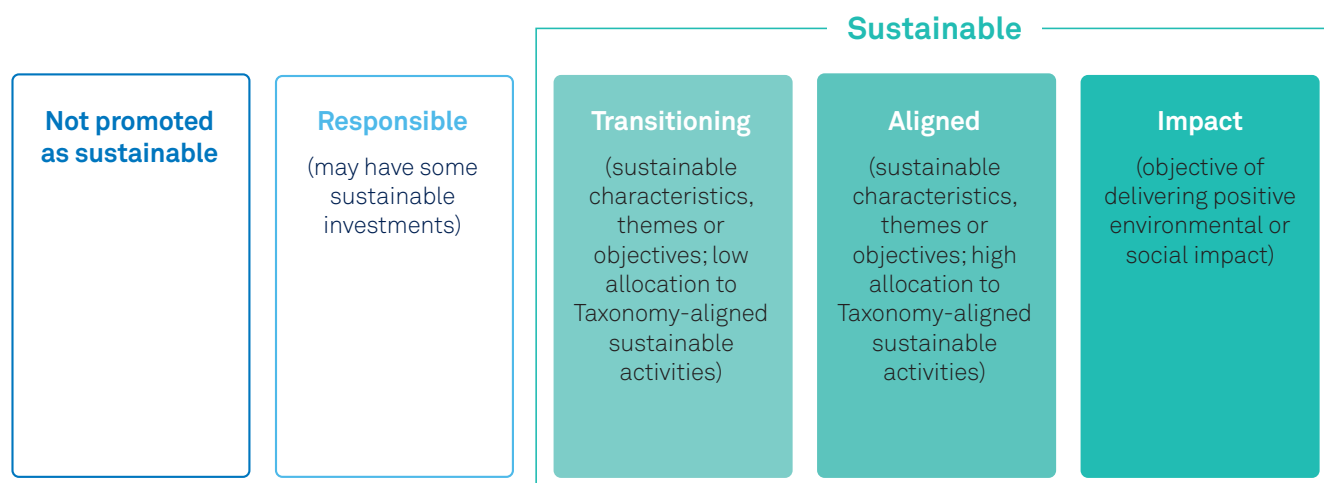
Globally, regulators are paying significant attention to rising investor interest in responsible and sustainable investing. Regulators are keen to prevent 'greenwashing', promote a well-functioning sustainable investment market and to set higher disclosure standards for sustainable investment products. The Sustainable Finance Disclosure Regulation for European domiciled funds, and the proposals outlined in the UK's Sustainable Disclosure Requirements, are partly designed to give investors' greater confidence that the sustainable products that they invest in match their preferences and expectations.

“Some of the focus on sustainability is regulatory-driven as well. The regulation is not going away. In fact, it's coming at a thundering pace, and we all have to keep abreast of that, particularly here in Europe.”

“Labelling is so important today to explain the differences in how funds operate so that consumers can make their own choice. If they want an ethical fund that excludes oil and gas, or if they want a fund that will try and change oil and gas stocks to make them greener, they need to be able to clearly understand that. The need for clear labelling has never been more important.”

Clear disclosure is the central tenet of the FCA's Dear AFM Chair Letter of summer 2021 on improving quality and clarity of authorised ESG & sustainable investment funds. The FCA builds upon the principles outlined in the letter in its Discussion Paper 21/4, published in December 2021, whilst also setting out proposals for a UK sustainable fund labelling regime. Investment managers will have to demonstrate good quality of governance and stewardship, a robust sustainable investment process and provide clear communications and disclosure to meet the sustainable label criteria. Consultation on SDR is likely to conclude by Winter 2022, with rules to be published in 2023.

FIGURE 7: THE FCA'S POTENTIAL APPROACH TO A SUSTAINABLE PRODUCT CLASSIFICATION AND LABELLING SYSTEM¹⁰



Note: The five blocks in this Figure represent potential categories of product in the classification and labelling system. Each would be supported by clear definitions and criteria.

¹⁰ As pictured in the FCA's Discussion Paper 21/4 released November 2021.

IA investor research into sustainable labels showed that investors welcomed the concept of a label, preferring a clear and simple framework that helps them to more easily navigate the expanding sustainable fund market. However, the development of label criteria and proposals around setting thresholds for 'sustainable' assets has highlighted challenges regarding the availability of data and common metrics to assess sustainable investment outcomes.

There is not yet a clear quantitative methodology to determine a sustainable asset. In the EU, the development of a taxonomy could help investment managers to map the revenue alignment of companies to environmental activities, but the taxonomy is unfinished. In the UK, a taxonomy is being developed but is not available yet. Even then, metrics will have an environmental focus and whilst an EU social taxonomy is being planned, it is not yet under development. This makes it difficult to set allocation thresholds according to environmental, social and governance criteria until more comprehensive data and consistent metrics become available.

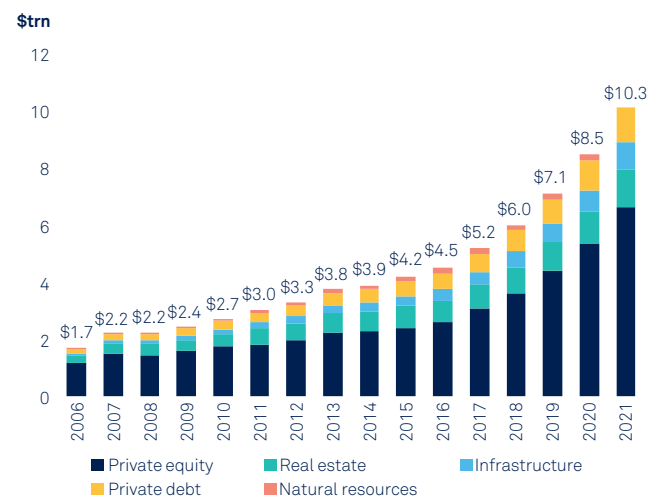
Investors may be better served by a first generation of sustainable fund labels that require fund managers to demonstrate sustainability through the intentions of the investment process. If a fund can prove that it is selecting stocks or bonds based on financial and non-financial criteria and can evidence and explain this effectively to customers, this could be a good starting point for a label.

“Reporting and measurement and making sure that there is consistency is really difficult when you’re pursuing different sustainability goals. Metrics that look at who achieved their goal and by how much will level the playing field.”

3. ONGOING FOCUS ON PRIVATE MARKETS

Global assets in the private markets have increased significantly once again, rising 22% to over \$10 trillion in 2021. Private equity remains the most significant asset class in the alternative investment space, accounting for almost two thirds (or \$6.6 trillion) of global AUM. Although significantly smaller at \$950 billion, total AUM in infrastructure assets has seen the most notable growth over the last decade, growing 16% on average each year compared with a compound annual growth rate of 13% for total private market assets.

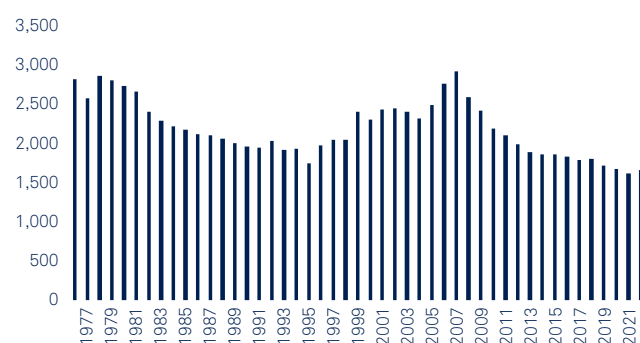
CHART 7: GLOBAL ASSETS UNDER MANAGEMENT IN PRIVATE MARKETS (2006-2021)



Source: Preqin

The growth in private markets is driven by both demand and supply-based factors. On the supply side there is increasing interest in market-based finance – including in the context of financing the UK's transition to net zero. At the same time, as Chart 8, we have also seen a fall in the number of companies that are publicly listed. Increasingly, we see companies choosing to stay private for longer. The number of unicorns – privately held companies with a valuation in excess of \$1 billion – increased by 71% between 2019 and 2022 alone, according to data provider PitchBook. This means that investors will need to increasingly look at private markets if they want to benefit from some of these high growth companies.

CHART 8: NUMBER OF UK LISTED COMPANIES OVER FOUR DECADES (1976-2021)



Source: World Bank, London Stock Exchange.

Although IA member firms have expertise in private markets, large parts of the market, notably private equity, lie outside of the IA's membership. This year, the IA collected data on the level of investments in private markets by IA members. While overall exposure is quite low at approximately 3% of total AUM, many industry leaders believe that the current market environment will see demand for alternatives accelerate. The number of IA firms offering private market solutions remains concentrated for now, with some cautious about entering what they see as a specialised space. As the market cycle turns, there is also increasing caution about valuation, which further emphasises the previous point.

“You're going to see things like alternatives play a bigger part of the investment landscape. I would caution the industry- we need to play to our strengths. If you are a firm that hasn't done these types of things before, enter carefully.”

ACCESSING ILLIQUID ASSETS

Access to private markets has historically been much more straightforward for institutional investors than for those in the private wealth, retail and DC pension markets. As private markets continue to grow and become an increasingly significant part of the economy, there is an ongoing debate about how to widen access, including expansion of the range of fund vehicles available. In the wealth management space, IA research has found that among the pool of wealth managers that are not invested in private markets, 40% cite a lack of appropriate fund structures as a barrier to investing.

In November 2021, the rules for the Long-Term Asset Fund (LTAF) – a new form of investment fund using notice periods – were finalised and the first LTAFs are expected to be launched through 2022-2023.

“Private markets, including infrastructure and property, really were the domain of the institutional market and they're becoming much more needed in the retail, advisory and wealth management market. This is where the Long-Term Asset Fund comes in.”



The LTAF better aligns the liquidity of the underlying asset class that the units are invested in with the dealing frequency of the fund so that units can only be sold at set intervals, for example every 3 or 6 months, or even less frequently.

There are three sets of challenges facing the LTAF as it starts to develop in the UK:

- Regulatory barriers, given tight initial rules on distribution which focus the LTAF on the DC pensions market rather than private wealth and retail. This may start to change following regulatory consultation in the second half of 2022 about widening retail access to the LTAF.
- Operational frictions given that investment platforms are primarily geared towards daily dealing and generally need to adapt to support the use of notice periods.
- Commercial behaviours, partly driven by regulation, notably the DC default fee cap, which are resulting in a very cost-focused assessment of value in the UK investment management market. IA research found 46% of wealth managers think that costs are one of the top three barriers to investing in private markets. This may be a big barrier for the most cost sensitive investors and product providers will need to be able to communicate the value proposition of their product.

Regulatory reforms in the institutional market could also lead to increased allocations to private markets. In Spring 2022, HM Treasury began consulting on proposed reforms to Solvency II, the framework governing the prudential regulation of UK insurers. One of the core objectives underpinning the review is to support insurance firms to provide long-term capital to promote growth, including investment in infrastructure, venture capital and growth equity, and other long-term productive assets, as well as investment consistent with the government's climate change objectives. The broadening out of eligible asset classes could see insurers, who make up 11% of the industry's client base, increase allocations to private markets.

4. ACCELERATING PACE OF OPERATIONAL MODERNISATION

The Covid-19 crisis highlighted the need for the fund management industry to accelerate the move away from paper towards digital, having previously been slower than other parts of the financial services industry to move in this direction. There are a variety of reasons for this, some operational, some regulatory. However, the industry recognises that the fundamental impetus needs to come from within, and the pandemic has both triggered new and intensified existing initiatives for change. These are addressing some of the more obvious frictions that still exist in the customer experience, for example the comparatively slow pace of fund transfer when moving to or between investment platforms.

Looking ahead, the industry is keen to work with regulators on a more ambitious, broader agenda across multiple areas, from operational process through to product design and customer interaction. A major focus in all eventualities will need to be the digitalisation of communication and disclosure, which remains anchored in paper-based regulated documents that heavily impact current information and design requirements. However, there is also scope for a more significant evolution of the funds industry. A recent IA paper, 'Investing for the Future', highlighted potential ways in which utilising new technologies and adopting tokenisation could fundamentally change the way in which the industry operates. It uses the concept of Investment Fund 3.0, a new stage of fund development, to explore potential scenarios for the future.

“The case for tokenisation is pretty strong. It's the delivery mechanisms that have an opportunity to continue to improve and decrease the overall cost for consumers. To the extent that technology can take out friction in the middle, I think that's a huge advantage.”



“We've been a laggard in adoption of key technological trends and I think that's going to change. Digitalisation and tokenisation of the product will definitely come.”



At the most radical end, a transformative shift could instead provide a much more interactive and participatory experience for investors via hyper-customisation. Risk and return exposure could be tailored by customers at individual stock and securities level, rather than at the fund level. This level of customisation is achieved through changing the relationship between the customer and their portfolio, increasing participation and altering the nature of delegation to a professional investment manager.

The creation of personalised ETFs today offers a glimpse of the future. Increasingly this high degree of tailoring will link together with Distributed Ledger Technology and the tokenisation of assets. Tokenising less liquid assets such as property would enable them to be held more easily in open ended funds such as ETFs. Beyond funds, we will see further personalisation of the portfolio in its broadest sense by providing access to a range of financial products that meet investors wider needs. For example, portfolios could hold rainy day savings accounts and protection products such as life insurance. The standard off-the-peg approach will no longer suffice. The investment management industry of the future could look very different from today's.

“We've taken advantage of the generous opportunities created by Fintech innovation here in the UK. We make good use of the rich ecosystem of new service providers on the investment research, technology, operations and back-office arenas. We've had lots of opportunity to experiment with and adopt several new providers.”



FIGURE 8: THREE SCENARIOS FOR INVESTMENT FUND 3.0**SCENARIO ONE: Business-as-usual enhancement**

1

The first scenario extrapolates the enhancements of recent times into the future and produces a more efficient version of today's fund. In this baseline view which underpins the others, the industry continues its modernisation agenda, facilitating speed, scale and efficiency, utilising new technologies and adopting tokenisation to enable fund shares and underlying asset classes to be traded more effectively. Consumers will benefit from incremental improvements to customer experience and be able to interact in a more informed manner with their providers.

SCENARIO TWO: Innovative evolution

2

The second scenario builds upon these enhancements and sees an evolution of greater significance, which results in an adaptation of fund operations and product delivery to suit new investor appetites and expectations. The conventional collective investing model develops through increasing numbers and diversity of thematic and specialist investment building blocks to help construct overall portfolios which are much more tailored to investor preferences. The extent of tokenisation in this view broadens market access much more significantly in areas such as private companies, infrastructure and native digital assets.

SCENARIO THREE: Transformative change

3

At the more radical end, the third scenario imagines a transformative shift where a much more interactive and participatory experience for investors is facilitated via hyper-customisation, and where risk and return exposure is tailored by customers at individual stock and securities level, rather than at the fund level. As in the second scenario, this includes investible assets outside of the current mainstream, such as infrastructure and native digital assets. This level of customisation is achieved through changing the relationship between the customer and their portfolio, increasing participation and altering the nature of delegation to a professional investment manager.

5. OPPORTUNITIES FOR GROWTH

The UK investment management industry is a leading centre of excellence and one of the most international in the world, in terms of both the customers and businesses we serve and the assets that we invest in.

The UK has several well-documented advantages which have bolstered its position as a leader in investment management on the global stage, including time zone, language, and a stable legal system. The latest data in this report confirm the strongly international nature of the UK investment management industry, particularly when measured in terms of the overseas customer base, overseas investment activity (across both equity and fixed income) and the level of delegation to facilitate portfolio management for overseas-domiciled funds (see Figure 9).

However, there is clearly no room for complacency, either at the level of UK-EU relations or the broader macro-economic, political and security environment. This may drive a move to re-regionalisation or localisation, threatening or reversing the globalisation trends that have been so dominant over the past two decades.

“Geopolitical risk is the biggest risk that we face as an industry. We have started to see an uncoupling of globalisation. We are seeing the breakdown of supply chains, barriers to trade going up, the inability to move labour between markets. Increased nationalism will increase barriers and lead to poorer outcomes.”

IA members have identified several opportunities that will help to foster the UK's international competitive advantage in fund delivery and broader portfolio management. Innovation and sustainable finance continue to be critical themes:

FIGURE 9: FOUR MEASURES OF A GLOBAL INDUSTRY IN 2021



1. A system that prioritises innovation. Innovation is partly about the practical application of technological advances, and there is clear scope in areas such as tokenisation to drive further development of both investment fund and capital markets. At the same time, innovation is much bigger than technology alone. Developments in product offerings such as the Long-Term Asset Fund (LTAF), which facilitate access to asset classes that were once out of reach for many investors, will be key in demonstrating an ability to innovate, with both domestic and international benefits.

2. Sustainable finance is seen as one of the biggest exportable opportunities in UK investment management today. The world's leading economies have committed to set the standard on greening the financial system. Whilst the EU has been first to set out a firm set of rules and regulations by establishing SFDR and a green taxonomy, the UK can learn from the challenges seen in implementing SFDR to drive better regulation. It is also taking the opportunity to capitalise on the momentum behind COP 26 to become the first "Net Zero-Aligned Financial Centre". The UK has a strong pool of talent and as demand increases for staff with sustainable investment expertise, this will further support the UK's position as a centre of excellence for S&RI.

One of the critical ingredients in making these areas a success will be the strength of domestic talent. The success of city hubs, such as London and Edinburgh, is rooted in the broader ecosystem which includes the proximity to other market participants and fintechs, availability of broader professional services, and, critically, access to talent. Talent continues to be a key differentiator, particularly in the race to become leaders in sustainable finance, and many believe that the UK is well-positioned in terms of professional capabilities in this area.

"It's a war of talent and will continue to be so and I think the talent for sustainable finance is in the UK today. So, the question is, will that just shift straight to the US when they eventually catch up?"



"There is a big opportunity for the UK around the regulatory environment for sustainable finance. The UK can be a leader in terms of creating a product construct within sustainable finance that operates globally."



“The UK’s investment management ecosystem is well-established and quite unique. We are generally leading on tech and FinTech and that will remain key and I see a great capacity to innovate. We also continue to see the UK as having a very deep talent pool. We need to protect that ecosystem.”

CHALLENGES TO UK COMPETITIVENESS

At the same time, there are growing concerns from the industry about the relative competitiveness of the UK as an operating environment that can both attract and retain global businesses. A range of issues tend to surface among industry participants, including the rising cost of doing business in the UK and increasing regulatory burden. The issue is not one of a trade-off between competitiveness and customer protection. Firms feel that high degrees of customer protection are wholly compatible with a policy and regulatory regime in the UK that sees international competitiveness as a net gain in terms of both domestic delivery and broader economic contribution. Rather, a critical question is how efficient, effective and adaptive the regulatory regime is in practice?

“There’s a very big risk that we are launching initiatives that really are only going to be fit for purpose for a few years. They’ve got no way of evolving because of the way that that regulation has been set up. Really, you want propositions that can evolve as we learn.”

There is also a real emphasis across the industry on ensuring that the international talent pipeline so necessary for its success is as strong as possible, alongside further measures to foster a more diverse and inclusive recruitment culture.

“Other countries across the globe are making it a lot more friendly to do business for people who have interest in cryptocurrencies and DLT. Some countries will offer a digital visa. Is there a sensible opportunity for the UK to be doing that in any way to facilitate different types of business?”

Assets within sustainability focused strategies have risen quite substantially from 2.6% in 2020 to

8.2%

IN 2021

6. ENHANCING DIVERSITY & INCLUSION ACROSS THE SECTOR

Diversity, equity and inclusion (DEI) are widely recognised as strategic priorities, as businesses shape the future world of work following the disruptions of the last few years. Businesses are responding to changes in societal expectations of creating outcomes by offering wider perspectives. This in turn reduces the risk of group think. Furthermore, firms are increasingly being evaluated against a wider set of criteria, which includes the diversity of the workforce and being able to evidence this with data across different career levels. The regulators too have expressed their expectations for businesses to take action that measures and addresses workforce diversity and inclusion as part of risk mitigation.

“When you're making a reversal of a generational long-term issue, it takes a while to build momentum, but it will build.”

The ability to build and lead diverse teams has become increasingly important as leaders strive to create an inclusive work culture that develops and retains good talent. As part of this, we are seeing a shift in focus from the ‘diversity’ of the workforce, to include a broader recognition that ‘equity’ and ‘inclusion’ play a prominent role in helping to level the playing field for recruitment and advancement. This broader focus also helps to create a culture of employee belonging. There has been progress on diversifying entry-level talent but there is recognition that more needs to be done to ensure that our industry benefits from these efforts through the retention, development and progression of talent into senior positions. Strides have been made in addressing under representation in gender, ethnicity, and socio-economic characteristics but there is still much work to be done when it comes to including these under-represented groups in decision-making and investment roles.

“The market has woken up to the fact that we need to grow our own talent and create opportunities around the talent we have. We will see more of a shift to internal development rather than simply trying to poach other people's diverse talent.”

Capturing diversity data, setting goals and measuring progress is recognised as a crucial component to achieving DEI results but more progress is needed. Businesses are shifting approach to reduce internal drivers of inequality and are taking a more holistic approach so that these issues are not addressed in isolation. More investment management leaders are now at the forefront of driving lasting cultural and behavioural change and are committed to integrating DEI into all their processes.

“We spent a long time last year collecting diversity data and it does help because you can start to measure change. Data is the first and hardest thing to get and in some countries you can't collect the data. You manage what you measure better.”

3 TRENDS IN CLIENT ASSETS AND ALLOCATION

KEY FINDINGS

CLIENT AND MANDATE TYPE

- » In 2021, institutional clients continued to account for the majority (77%) of industry assets. Assets managed on behalf of retail clients increased for the second year in a row, rising two percentage points from 20% to 22%.
- » Assets managed on behalf of pension clients, the single largest client group, dipped to 40%, five percentage points lower than in 2018.
- » The proportion of assets that sit within segregated mandates versus pooled investment vehicles has seen little change over the last decade. In 2021, 53% of assets were managed on a segregated basis, which is unchanged on the previous year.

ASSET ALLOCATION

- » The proportion of the asset base invested in equities has increased for the third year in a row, rising three percentage points in 2021 to 42% of total assets. The proportion of fixed income assets fell two percentage points to 30%, reflecting the volatility observed in fixed income markets in 2021.
- » Looking at a regional breakdown of equity holdings, the largest change in 2021 has been the proportion of total equity investments held in North American equities, which rose a substantial six percentage points over the year to 30%. Holdings in UK equities continued to fall in 2021, dipping to 23% which is a 14 percentage point fall over the decade. This meant that for the first time, UK equities were overtaken as the largest region for equity investments.
- » Diversification of holdings through investment in overseas markets is also a theme in the regional fixed income holdings. Over half (55%) of fixed income assets are held in overseas bonds, compared with one third of holdings a decade ago.

INVESTMENT IN THE UK ECONOMY

- » Total investment in the UK economy across UK equities, sterling corporate bonds, UK infrastructure and commercial property stood at £1.6 trillion in 2021, a small dip on the £1.7 trillion reported in 2020.
- » In 2021, UK infrastructure investments held by IA members stood at £40 billion, which has been broadly unchanged for a number of years now. This figure is largely (70%) made up of investments in economic infrastructure projects with a smaller proportion (30%) invested in social infrastructure projects. A large number of the economic infrastructure projects are focused on renewable energy, primarily wind and solar farms. Social infrastructure projects are largely investments in public buildings related to healthcare and education.

GROWTH OF INDEXING MARKET

- » Year on year growth in indexing strategies slowed in 2021 but continue to be an increasingly significant proportion of the asset base, rising from 22% of total assets in 2011 to 32% in 2021.
- » Global ETF data show another substantial increase assets, which grew 29% over 2021, reaching almost \$10 trillion. The two notable trends in the ETF market have been the rise in actively managed ETFs and the growth of sustainable investment ETFs. Actively managed ETFs accounted for 4.2% of total assets in 2021, up from 1.6% in 2016. Sustainable investment ETFs were responsible for 4.0% of assets in 2021, up from 2.9% the previous year.

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 asset management styles.

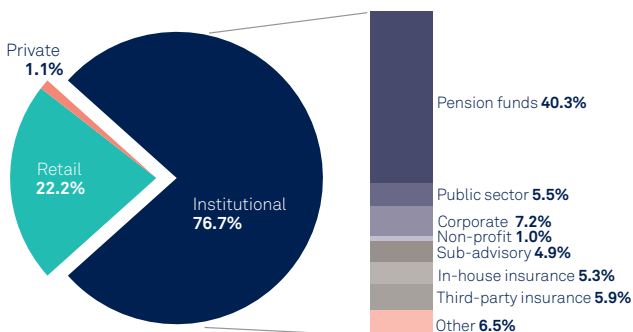
CLIENT TYPES

Chart 9 provides a general overview of the types of clients that the UK asset management industry serves. The industry primarily provides products and services for clients who broadly fall into either the retail or institutional category, while a small number of IA member firms also operate directly in the private client market. However, as Box 3 outlines, there is an increasing blurring of the lines between the broad categorisation of assets in this way.

In 2021, assets managed on behalf of institutional clients continued to make up the majority (77%) of assets, while just over a fifth (22%) was managed on behalf of retail clients. Pension clients are the single largest client group in the institutional market and account for 40% of total assets under management.

Among the rest of the institutional client market, insurance clients represent the second largest group, representing 11% of AUM.

CHART 9: ASSETS MANAGED IN THE UK BY CLIENT TYPE IN 2021



BOX 3: BLURRING OF CLIENT TYPES

Insurance vs. Pension

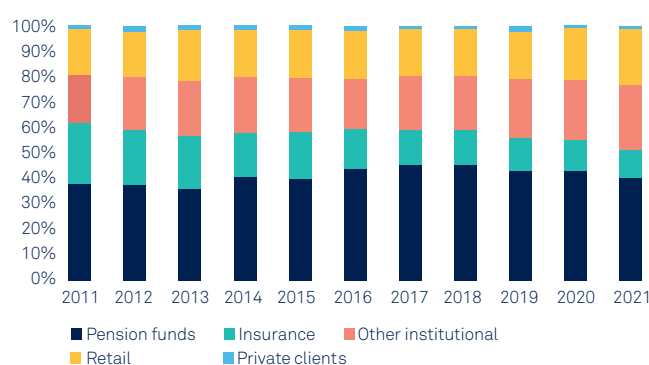
DC pension assets that are operated via life companies wrapping funds are not included in pension fund assets but are rather reflected in assets managed on behalf of insurance companies. This includes assets managed for personal pension and Group Personal Pensions (GPPs). This blurs the line between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

Chart 10 offers a comparison of the breakdown of assets managed in the UK by client type over the last decade.

CHART 10: ASSETS MANAGED IN THE UK BY CLIENT TYPE (2011-2021)



The most notable trends of the past decade have been:

- An increase in the proportions of assets managed on behalf of pension funds:** The pensions market has seen large scale reforms over the last decade, much of which are a reflection of changing demographics and increased longevity. These changes have seen pension assets become a larger share of the industry's asset base over the last decade, rising almost consistently from 38% of total assets in 2011 to a peak of 45% in 2018. Since 2018, pension funds' share of the total asset base has fallen, dipping to 40% in 2021. While pension assets continue to rise in nominal terms, growth has slowed, particularly in comparison with assets managed on behalf of corporate and retail clients.
- An increasing share in the assets managed on behalf of retail clients:** Retail client assets have increased for the second year in a row after a decade of very little movement, rising from 20% in 2020 and reaching 22% of assets in 2021.
- A decline in the proportion of assets managed on behalf of insurance clients:** Insurance client assets have decreased thirteen percentage points over the last decade from 24% to 11% in 2021. 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 share of assets managed on behalf of private clients continues to fluctuate between 1% and 2%:** Private client assets peaked at 2% in 2012 and again in 2019 but have remained unchanged between 2020 and 2021 at 1%.
- An increase in the proportion of assets managed on behalf of corporate clients:** Corporate client assets have more than doubled since 2011, growing from 3% of AUM to 7% in 2021.

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 fundamental change, even as the diversity of investment strategies available in pooled vehicles has widened significantly. Chart 11 illustrates that between 2011 and 2021, the proportion of assets within segregated mandates remains fairly consistent at 56% in 2011 and at 53% in 2021, which is unchanged from the previous year. This is down three percentage points since 2011. The remaining 47% of assets sit within pooled vehicles (which is up from 44% in 2011).

CHART 11: SEGREGATED VERSUS POOLED INVESTMENT (2011-2021)



TRENDS IN ASSET ALLOCATION

Table 3 looks at the proportion of IA members invested across different asset classes. We observe that almost one third (29%) of respondents are invested across all five categories listed in Table 3. Almost all (93%) of the respondents to the Survey are invested in equities and the majority (78%) are also invested in fixed income. One quarter (25%) of respondents are either equity or fixed income specialists, investing only in one of these asset classes. Property and cash remain niche areas of investment.

TABLE 3: PROPORTION OF IA MEMBERS INVESTING BY ASSET CLASS IN 2021

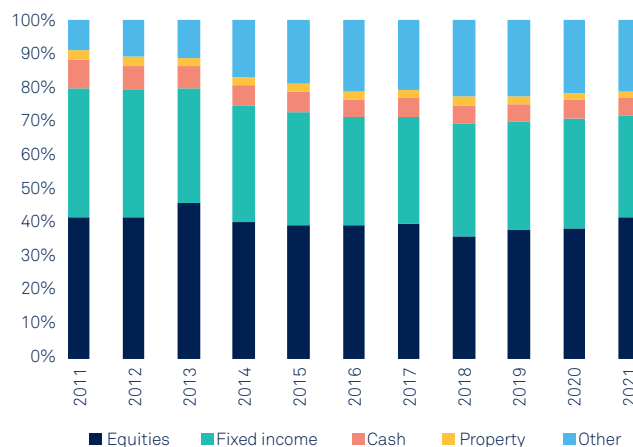
	Percentage of firms
Equities	93%
Fixed income	78%
Property	41%
Cash	19%
Other	66%

Our data also allows us to look at total assets invested in each of the broad asset classes listed in Table 3. Although we are unable to differentiate between market movements and a genuine reallocation of client assets, market movements play a significant role in year on year changes in AUM. On aggregate, Chart 12 shows that asset class movements in 2021 were broadly consistent with poor fixed income performance and relatively strong equity market performance (see Box 1 on page 16 for more detail):

- Total holdings in equities rose three percentage points between 2020 and 2021, rising from 39% of total assets to 42% of assets. The proportion of assets invested in equities have risen each year since 2018, rising from 36% to 42% of assets. This is largely a reflection of the very strong equity market performance over that period and the rebound in equity performance following the market downturn in Q4 2018.

- Fixed income returns were volatile in 2021, with the major indices seeing negative returns over the year. This is borne out in our 2021 data, where total assets in fixed income fell two percentage points year on year to 30%. Looking over the long-term, this is the lowest level of fixed income assets since we began collecting the data a decade ago, down eight percentage points since 2011.
- Total assets within the 'Other' category have seen the most substantial growth over the decade with the proportion more than doubling from 8% in 2010 to 21% in 2020. Much of this growth occurred between 2011 and 2016, and the proportion has remained fairly consistent since then. The majority of assets in the 'Other' category are solutions type strategies, such as Liability Driven Investing (LDI). As we discussed in Chapter 2, a small proportion of these assets are in traditional alternatives such as infrastructure and private equity.

CHART 12: OVERALL ASSET ALLOCATION OF UK-MANAGED ASSETS (2011-2021)



DETAILED ASSET ALLOCATION

In addition to monitoring the shifts between asset classes, the IA assesses trends within equity and fixed income holdings according to type of exposure. This section considers these changes in more detail.

EQUITY BY REGION

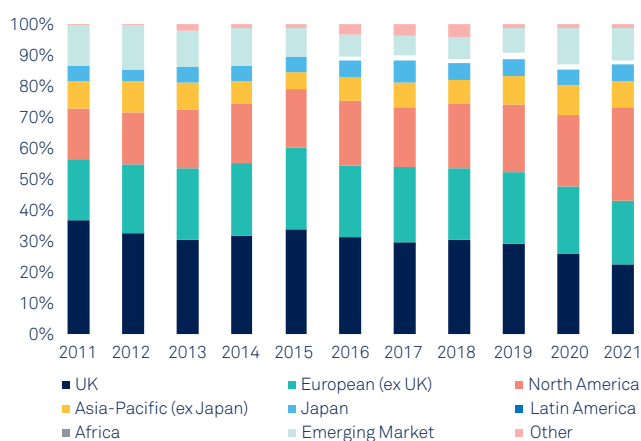
Chart 13 illustrates the equity split by region over the past ten years. There are a few notable trends in regional breakdown both in 2021, and when looking at the evolution over the long-term:

- The most striking trend in 2021 has been the surge in the proportion of assets held in North American equities which, for the first time, account for the largest share of total equity assets at 30%. North American equities rose by six percentage points over the year and are almost double the level recorded ten years ago. The growth in assets has been supported by a run of outperformance of US equities compared with the other major equity markets over the last few years.
- The UK equity market performed well in 2021 after a number of years of underperformance. Yet, a strong 2021 was not enough to halt the move away from domestic equities and holdings fell two percentage points from a revised 24%, reaching a new low of 23%. This represents a fourteen-percentage point fall since 2011.
- Assets invested in European equities reached a nine year low falling one percentage point year on year to 21%.
- The proportion of assets invested in all other regions were 27%, down from 30% in 2020. The largest regions within this group are Asia Pacific (8%) and Emerging markets (11%), which saw allocations reduced by two and one percentage point respectively.

The changing allocations are partly a performance story, and partly a reflection of a broader shift towards more globally diversified portfolios. We see this trend reflected in Chapter 5 which shows a sustained sell off among UK retail investors out of UK equity

funds since 2016. As discussed in Chapter 2, from a UK competitiveness angle, the UK investment management industry's ability to invest in global capital markets is a key draw for both overseas and domestic investors.

CHART 13: UK-MANAGED EQUITIES BY REGION (2011-2021)



FIXED INCOME ASSETS BY REGION

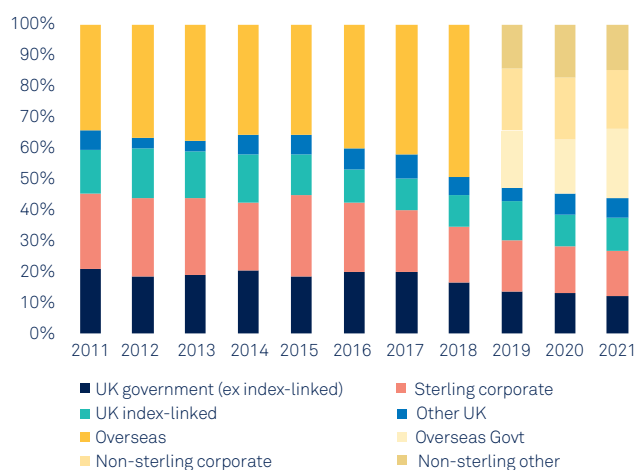
In 2021, the majority (55%) of fixed income assets were invested in overseas bonds. This was not always the case. Prior to 2016, almost two thirds of fixed income holdings was to sterling denominated or sterling hedged bonds. We have seen a consistent year on year increase in the proportion of assets invested in overseas bonds since 2016. This is again partly a global diversification story as investors increasingly seek to diversify portfolios and reduce exposures to a single market.

The fallout from the Brexit referendum has also had an impact, with the outlook for the UK economy impacted. Sterling depreciation has caused bond investors to reduce their holdings in UK bonds, as we see a corresponding rise in overseas bonds that could be denominated or hedged to the US dollar. This is a reflection of the US dollar's position as the world's dominant investment and funding currency.

Chart 14 provides a breakdown of fixed-income assets by type with a regional dimension over the past ten years. Two trends are particularly worth noting:

- The proportion of assets invested in sterling corporate bonds fell for the sixth year in a row in 2021. Sterling corporate bond assets now account for 15% of fixed income assets, ten percentage points lower than in 2011. Non-sterling corporate bonds fell by one percentage point in 2021 (down to 19%) yet remain higher than the allocation to sterling corporates.
- UK government bonds made up a third (35%) of fixed income assets in 2011 but accounted for 23% of assets in 2021, a twelve-percentage point fall over the decade. Much of this fall has been from non-index-linked UK government bonds which have almost halved from 21% to 12% in that time. Index linked government bonds have dipped but more modestly, falling from 14% to 11%, as institutional investment managers have moved to allocate to bonds that are protected against rising inflation.

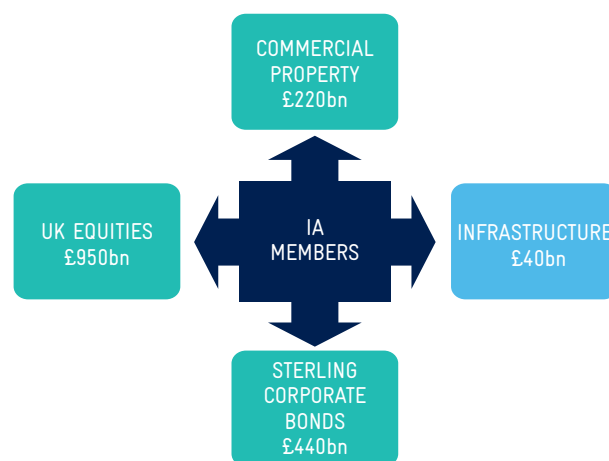
CHART 14: ALLOCATION OF UK-MANAGED FIXED INCOME ASSETS BY TYPE AND REGION (2011-2021)



INVESTMENT IN THE UK ECONOMY

As a major allocator of capital, the investment management sector has a direct impact on the UK's economic prosperity. In the aftermath of the financial crisis, the reduction in bank lending led to an increased use of investment finance through the capital markets. This has led to overall growth in industry assets and increased investment in the UK economy over the last 10-15 years. IA members have invested £1.6 trillion in the UK economy through equities, sterling denominated bonds, infrastructure and commercial property (illustrated in Figure 10). Of this, £950 billion is held in UK equities, unchanged since 2020 in nominal terms. This is approximately 33% of total UK equity market capitalisation. Sterling corporate bond assets fell £10 billion in nominal terms to £440 billion, reflecting poor performance in 2021.

FIGURE 10: IA MEMBER HOLDINGS IN UK ASSET CLASSES IN 2021¹¹



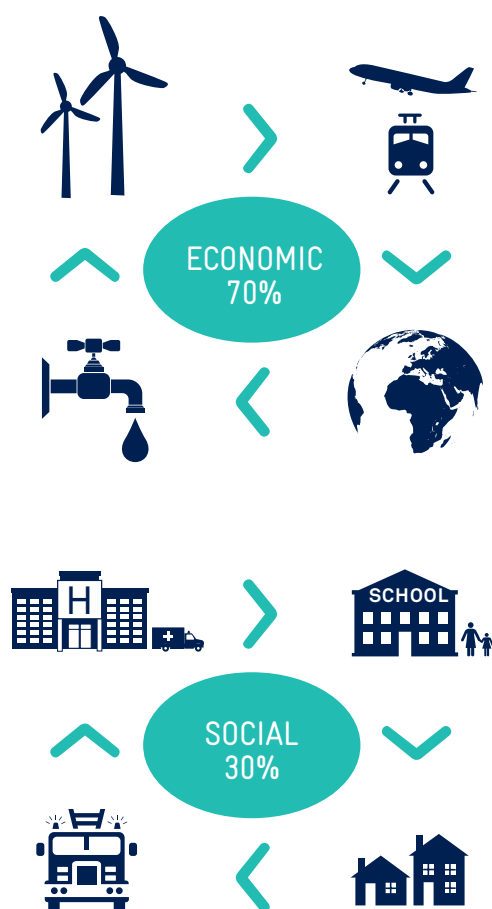
¹¹ The majority of property investment is in commercial property; however, a small amount may be allocated to residential accommodation, notably student housing. The majority of infrastructure investment is UK-based but there are some investments located overseas.

INVESTMENT IN UK INFRASTRUCTURE

Infrastructure investment has garnered increased focus in recent years both as a result of the growing reliance on market-based finance, and the increased focus on the role that investment managers can play to support the UK's commitment to decarbonisation and the "building back better" agenda post-pandemic. In 2021, UK asset managers held an estimated £40 billion in infrastructure projects, which has remained unchanged since 2019.

Figure 11 presents how we categorise infrastructure investments. There are two broad categories – economic and social. Economic infrastructure includes investments in renewable energy, utilities, transport and telecommunications, and accounts for the majority

FIGURE 11: INFRASTRUCTURE INVESTMENT BY IA MEMBERS

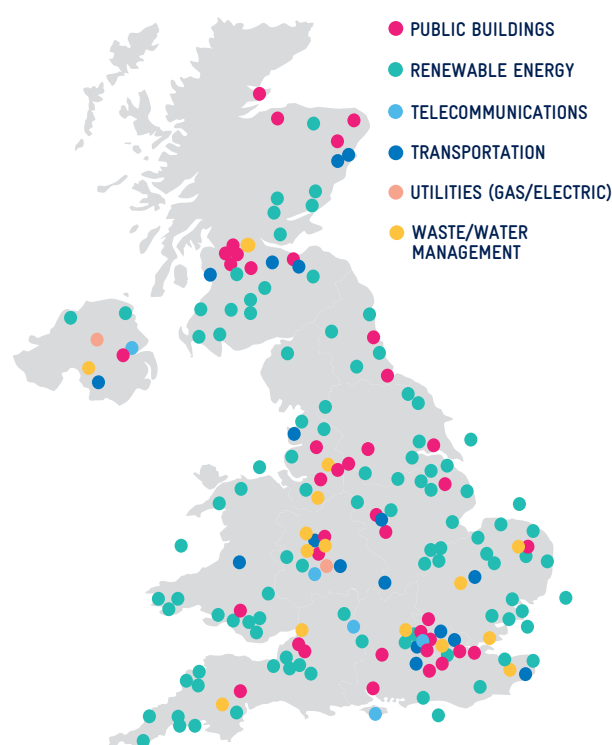


(70%) of infrastructure projects in the UK. Social infrastructure mainly involves public health, education and building, construction and maintenance. Social infrastructure investments make up 30% of total infrastructure investment in the UK.

Though limited to a selection of projects, Figure 12 maps out 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 wind farms.

Increasingly, members are also investing in nationwide initiatives includes regional waste and water management services, national grids for the provision of fibre broadband and international transportation networks. Because they are nationwide, these projects do not appear on the map.

FIGURE 12: SELECTION OF UK INFRASTRUCTURE INVESTMENT FACILITATED BY IA MEMBERS IN 2021



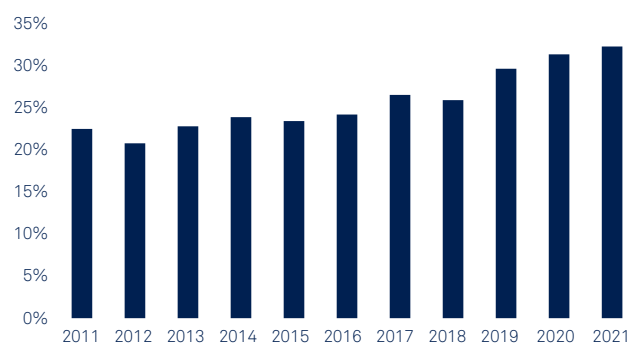
GROWTH OF INDEXING STRATEGIES

Indexing strategies have become an increasingly significant proportion of the asset base over the last ten years. In 2011, assets in indexing strategies made up 22% of total assets. This proportion has risen to 32% in 2021, one percentage point higher than 2020.

As indexing funds replicate the performance of the indices that they track, performance follows the pattern of the markets. A high proportion of indexing assets are tracking equity indices. This helps to explain the pattern of growth at the AUM level, which is mirrored in our funds market analysis in Chapter 5. Strong growth in assets in 2019 follows the downturn in markets at the end of 2018. There has been a slowdown in growth through 2021, compared with the previous two years, although assets have continued to rise. Chapter 5 data show that active strategies had a very strong year in terms of net flows in 2021, which could explain some of the slowdown in indexing strategies as a proportion of total assets. The majority of responsible and sustainable investment strategies are active and the strong performance demonstrated in 2021 may also have had an impact. Assets in index trackers grew 9% year on year, compared with 5% growth in active assets. By comparison, in 2019 tracker assets grew 26% compared with 5% growth in active strategies.

The data in Chart 15 includes assets held in ETFs. ETFs, which are largely index tracking vehicles, have seen very significant growth over the last few years. It is likely that the growth in ETFs has contributed to the acceleration of the growth in indexing we have seen since 2018. For a more detailed overview of 2021 trends in the ETF market, see Box 4.

CHART 15: INDEXING STRATEGIES AS PROPORTION OF TOTAL UK ASSETS UNDER MANAGEMENT (2011-2021)



BOX 4: ETF MARKET

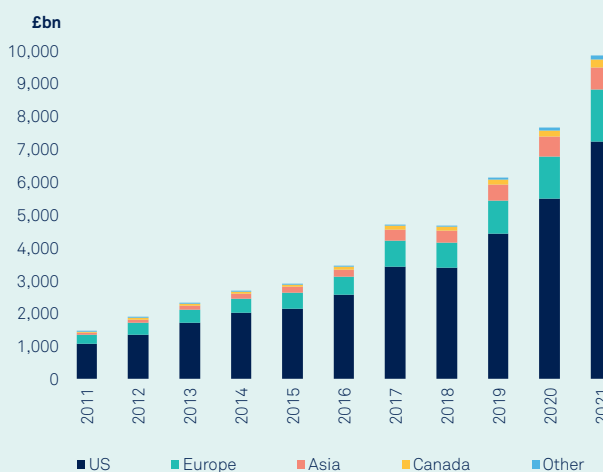
An ETF is an open-ended pooled investment vehicle with shares that, like a 'traditional' fund, will offer investors access to a portfolio of stocks, bonds, and other assets, most commonly aiming to track an index. Unlike a fund, it can be bought or sold throughout the day on a stock exchange, which is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

Among the IA's membership, less than a fifth of members manufacture ETFs as part of their product offerings. Among the members that we interviewed this year, some were of the view that increasing demand for highly transparent and liquid solutions would see the demand for ETFs rise considerably in Europe over the next few years.

Globally, total assets in ETFs approached \$10 trillion at the end of 2021, an increase of 29% year on year. As illustrated in Chart 16, assets in US domiciled ETFs outpaced global growth and reached \$7.3 trillion, a 32% rise over the year. Although in line with 2020 growth rates, assets managed in European domiciled funds grew at a slower rate than the US, increasing by 25% to \$1.6 trillion. It should be noted that assets in Irish domiciled funds saw a 30% increase year on year but growth in other regions such as Luxembourg, Germany, France and Switzerland slowed to rates between 5 and 22%.

In 2021, AUM in Asia domiciled ETFs slowed considerably, growing just 5.2% over the year to \$650 billion. The slowdown in growth alongside considerable growth in assets managed in other regions saw the share of assets in Asia domiciled funds fall from 8.1% in 2020 to 6.6% in 2021. It was also the regions lowest growth rate since 2008-09.

CHART 16: ETF ASSETS UNDER MANAGEMENT BY REGION OF DOMICILE (2011-2021)

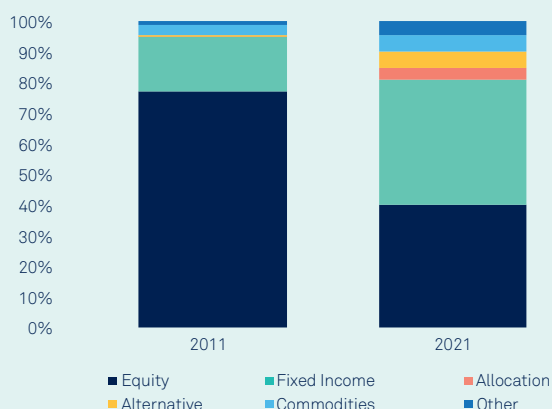


Source: Morningstar

There have been two standout trends in the ETF market over the last few years. The first is the rise in assets within actively managed ETFs and the second is the rise in sustainable investment ETFs.

Actively managed ETFs on the rise

Between 1993 and 2008, only ETFs tracking specific indices were approved for sale in the US. In 2008, SEC rules were amended to allow for the sale of actively managed ETFs fifteen years after the launch of the first index tracking ETF in 1993. Active ETFs globally have grown steadily since 2008 but growth has accelerated rapidly over the last five years, increasing almost eight fold since 2016 from just over \$50 billion to over \$400 billion in 2021. This far outpaces the growth in index tracking ETFs and has resulted in active ETFs having an increased share of the overall market, rising from 1.6% of total assets in 2016 to 4.2% of total assets in 2021. The North American markets, namely the US (71%) and Canada (17%) are largely where assets in active ETFs sit. The European and Asian markets account for 7% and 2% respectively, significantly lower than their share of index tracking ETF assets.

CHART 17: ACTIVE ETF ASSETS UNDER MANAGEMENT (2011-2021)

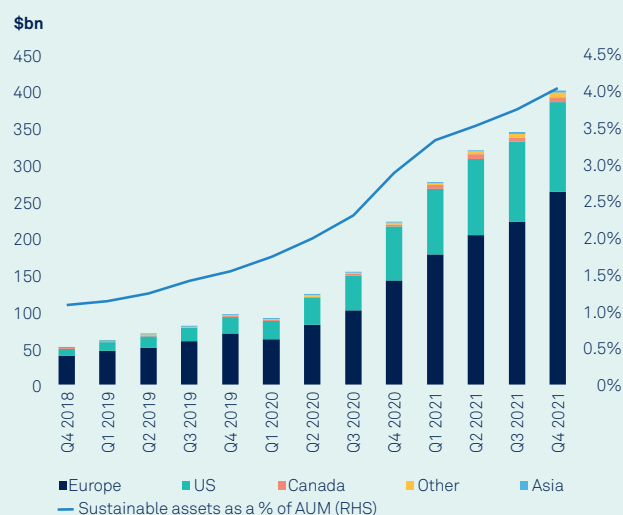
Source: Morningstar

The asset class composition of the active ETF market differs from index tracking ETFs. Equity index trackers represent the majority (77%) of ETF tracker assets, almost double the proportion (40%) of assets that sit within actively managed equity ETFs. Fixed income is marginally the most popular (41%) asset class in the active ETF market, whereas just 18% of total assets sit within ETFs tracking fixed income indices. Alternatives (5%) which can include derivatives-based strategies and more recently, cryptocurrencies also have a much higher relative allocation among active ETFs. At 4%, total assets in active mixed asset Allocation ETFs, which are termed allocation ETFs by Morningstar, are higher in absolute terms than in ETF index trackers.

Accelerating growth in sustainable investment ETFs

Sustainable investment is also a standout trend in the ETF market. According to Morningstar, which categorises a fund as sustainable based on prospectus disclosures, total assets within sustainable investment ETFs crossed \$400 billion at the end of 2021, an 80% increase over the year and an eightfold increase over the last three years. This growth rate far outpaces the 29% growth in global ETF assets, resulting in sustainable investment ETFs market share rising from 2.9% at the end of 2020 to 4.0% at the end of 2021. Chart 18 shows that two thirds (66%) of sustainable ETF assets sit

in funds domiciled in Europe, despite Europe being a smaller ETF market by asset size than the US. The sustainable investment market is less developed in the US than in Europe. In contrast with mutual funds, the sustainable investment product offerings are predominantly (96%) index trackers, and heavily (83%) equity products with almost all of the remaining (17%) assets in fixed income products.

CHART 18: INCREASE IN SUSTAINABLE AND RESPONSIBLE INVESTMENT OPTIONS IN ETFs (Q4 2018 - Q4 2021)

Source: Morningstar

ETFs in 2022

Asset values in ETFs across domiciles have been affected by the volatility in global capital markets in 2022. By mid-year 2022 total net assets in ETFs had fallen 15% to \$8.5 trillion, an almost \$1.5 trillion dollar fall. In contrast to the heavy H1 2022 retail outflows from UK mutual funds (see page 71 for more detail), and despite the sharp fall in asset valuations, ETFs have continued to draw net inflows in 2022. In fact, the \$400 billion of inflows in the first six months of the year have been the second highest H1 inflows on record. While it is unclear what is driving this investment, some commentators have suggested that the inflows are being driven by long-term buy and hold investors looking to acquire undervalued assets.

4 UK INSTITUTIONAL MARKET

KEY FINDINGS

MARKET OVERVIEW

- » IA members managed £4.7 trillion on behalf of UK-based institutional clients in 2021, up from £4.5 trillion the previous year.
- » UK pension funds and insurers were responsible for 85% of UK institutional client assets in 2021. The proportion of assets managed on behalf of UK pension funds increased almost consistently between 2011 and 2018 but has remained stable at approximately 64% since then.
- » Over the decade, assets managed on behalf of insurers has been declining falling fifteen percentage points from 37% in 2011 to 22% in 2021.

EVOLUTION OF PENSIONS MARKET

- » In 2021, IA members managed £3.0 trillion on behalf of UK pension funds. This is largely made up of corporate pension fund assets, which are responsible for £2.6 trillion of this. Over £300 billion of this is managed on behalf of the Local Government Pension Scheme (LGPS), which represents approximately 90% of LGPS assets.
- » IA estimates of the wider pensions market in the UK – which includes individual pensions, drawdown and assets backing the annuity book – reached £4.2 trillion at the end of 2021, up from £4.0 trillion the previous year. IA members are managing a significant proportion of this through institutional mandates and funds.
- » Pension participation rates increased in 2021, despite a rise in the minimum contribution rates into workplace pensions in 2019 and a rise in inflation and economic uncertainty. In 2022, there are early indications that opt out rates for automatically enrolled employees are beginning to rise as the cost-of-living crisis intensifies and constrains the amount that people are able to save.

THIRD PARTY MARKET

- » Once in-house mandates are excluded, assets under management for third party UK institutional clients stood at £4.1 trillion at the end of 2021. The dominance of pension assets becomes even more pronounced when looking at the third party client market, with pensions funds responsible for 70% of the £4.1 trillion.
- » In 2021, total assets in Liability Driven Investment (LDI) mandates accounted for 38% of assets, unchanged since the previous year. Over the last decade total assets in LDI strategies have quadrupled, rising from £400 billion in 2011 to almost £1.6 trillion in 2021.

MANDATE TYPES

- » We continue to see a reversal of the trend that we observed between 2011 and 2018 which seemed to indicate a shift towards multi-asset mandates. Since 2018, the proportion of UK institutional client assets in specialist mandates has been increasing, rising from 76% to 81% in 2021.
- » Within specialist mandates, 2021 shifts in investment across different asset classes most likely reflect capital market performance. We have seen a four percentage point fall in the proportion of assets in fixed income mandates over the year to 35%. We have also seen a corresponding rise in the proportion of assets in specialist equity mandates, rising two percentage points over the year to 38%.
- » Asset allocation varies among UK pension funds. The LGPS tends to have a significantly higher allocation to equities at 63% in 2021 compared with just 31% allocation for corporate pension funds which are more heavily invested in fixed income.

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 assets are managed from the UK or 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 2021, IA members manage £4.7 trillion¹² for UK institutional clients globally, this is up from £4.5 trillion in 2020. Data provided by IA members suggest that almost all of this growth was a result of market movements as net inflows for the year were positive but negligible. On aggregate over the year, UK institutional investors took money out of single asset equity strategies (also referred to as specialist mandates in this chapter), with over £60 billion in outflows. Fixed income strategies saw inflows of close to £15 billion. We do not have comprehensive monthly flow data on the institutional market, so it is difficult to understand the drivers of these flows and whether or not institutional investors took money out of fixed income strategies towards the end of year when inflation fears ramped up and fixed income performance worsened.

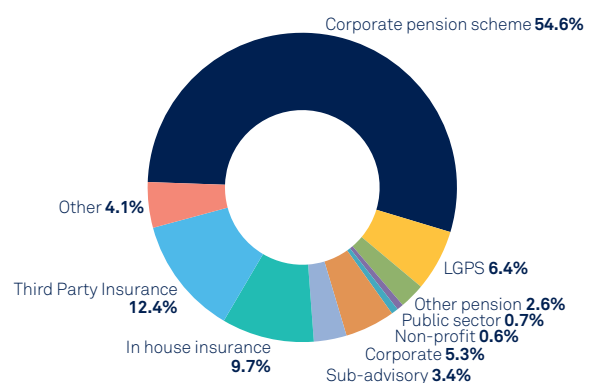
CLIENT BREAKDOWN

Chart 19 shows the breakdown of the UK institutional client market and includes both in-house and third party mandates. There has been very little year on year movement in client type. UK pension funds (64%) and insurers (22%) continue to account for the overwhelming majority of UK institutional assets.

Assets managed on behalf of UK pension funds remained broadly unchanged year on year, though there has been a small reallocation of assets from the 'Other pension' category to 'Corporate pension schemes' in 2021, which remain the single largest client group at 55%.

In-house insurance clients saw marginal rises in 2021, rising from 9.1% to 9.7% of assets. UK third party insurance client assets dipped slightly to 12.4% from 12.5% over the year. Non-profit client assets fell from 1.0% in 2020 to 0.6% in 2021 while sub-advised (3.4%) and public sector (0.7%) remained broadly unchanged.

CHART 19: UK INSTITUTIONAL MARKET BY CLIENT TYPE (2021)

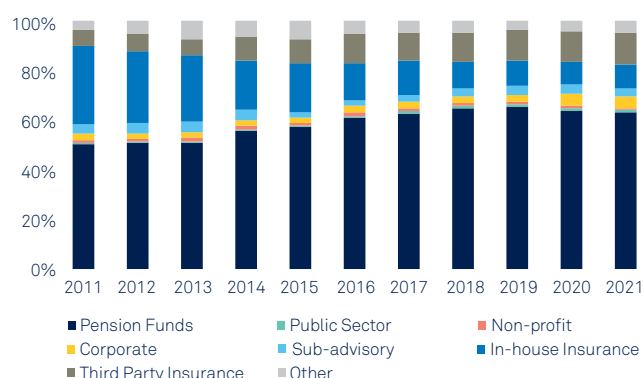


¹² Implied figure based on data collected on an estimated 83% of the institutional client base.

Chart 20 looks at the long-term trend in the proportion of assets broken down by client type.

- Pension funds have increased their share of UK institutional client assets from 50% in 2011 to 63% in 2021. Much of this growth occurred between 2011 and 2018 but has since slowed, with other client groups experiencing more rapid growth in the last three years.
- Assets managed on behalf of UK insurers have declined in the last decade, falling fifteen percentage points from 37% in 2011 to 22% in 2021. This fall happened between 2011 and 2018. Since 2018 however, the proportion of assets managed on behalf of insurers has remained stable at 22%. Much of this decline has been in in-house insurance assets which fell from 31% a decade ago to 10%. By comparison, third party insurance assets have more than doubled, rising from 6% to 13%. Much of this rise reflects a reclassification of assets from in-house to third party for firms who were once part of large insurance groups but have since become standalone asset managers.
- Corporate client assets have increased for the fifth year in a row, reaching 5.3% of assets, almost double the 2.8% recorded in 2011.

CHART 20: UK INSTITUTIONAL MARKET BY CLIENT TYPE (2011-2021)



EVOLUTION OF PENSIONS MARKET

This section utilises both IA and third-party data to present a more detailed overview of the UK pensions market. The IA defines pension funds as Defined Benefit (DB) and Defined Contribution (DC) schemes where the asset 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 19, pension funds accounted for almost two thirds of the UK institutional client base in 2021 with assets totalling £3.0 trillion. The IA divides pension scheme assets into three categories:

Corporate pension funds (CPF) account for the majority of UK pension fund assets at £2.6 trillion. Occupational Pension Scheme (OPS) managers, who manage an estimated £120 billion in assets, are also included in the category. This number is down from £200 billion last year as a number of OPS managers outsourced all or part of their assets to third party managers.

The Local Government Pension Scheme (LGPS), accounts for just over £300 billion in assets, which indicates that IA members manage approximately 90% of LGPS 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 £125 billion of total UK pension scheme assets.

SIZING THE MARKET

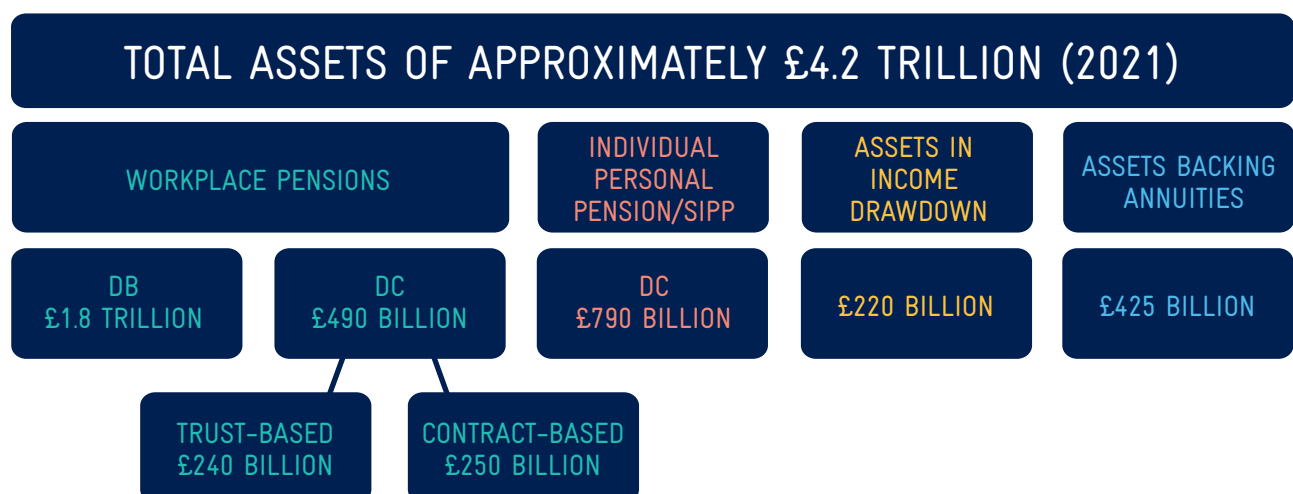
Figure 13 provides an overview of the assets in the UK pensions market. In 2021, the IA estimates total assets of £4.2 trillion in UK pensions. Defined benefit pension assets¹³ continue to make up the highest proportion of workplace pension assets at £1.8 trillion. The majority of open defined benefit pension schemes are in the public sector where 34% of members are actively accruing benefits.¹⁴ In the private sector, most DB schemes are closed to new members. Pensioners make up 47% of occupational private sector DB membership according to ONS data whereas just 8% of members are actively accruing benefits.¹⁵

The burden of funding growing DB pension scheme liabilities has caused private sector employers to opt for defined contribution pensions, where the pension saver rather than the employer bears the risk of accumulating enough assets to fund their retirement. DC workplace pension assets now stand at £490 billion. Our estimate puts assets in contract-based DC schemes at over £240 billion and assets in trust-based DC pensions at almost £250 billion. According to ONS data, pensioners account for just

0.1% of the membership of private sector occupational DC schemes compared with active members of 41%, which indicates the younger age profile of DC scheme members.

Once retired, pensioners can decumulate pension assets to take an income in retirement through income drawdown strategies or take out an annuity that provides a guaranteed annual income until death. Assets in income drawdown now account for £220 billion of total pension assets and assets backing annuities, which sit on insurers balance sheets, are £425 billion. In 2015, the Pension Freedoms Act was passed. This gave DC pensioners greater flexibility about how and when they could access their pensions. A key pillar of the act was the removal of the requirement to annuitise pension pots by the age of 75. This enabled pensioners to keep their money invested, taking an income by drawing down their assets rather than annuitising. Whilst drawdown does not provide a guaranteed annual income like an annuity, it does offer more flexibility to pass assets on through inheritance and to grow assets through investment returns. As we noted above, currently the majority private sector DC scheme members are accumulating assets and as more retire, the proportion of assets in income drawdown is set to grow.

FIGURE 13: OVERVIEW OF THE UK'S PENSION LANDSCAPE IN 2021¹⁶



Source: Bank of England, Department for Levelling Up Housing & Communities, Financial Conduct Authority, IA data, MoretoSIPPs, Office of National Statistics, Pensions Policy Institute, Pensions Protection Fund 7800 Index.

¹³ Defined benefit pension schemes pay out scheme members based on the number of years of employment and on their final salary. The employer is responsible for ensuring that the DB pension scheme is adequately funded and that contributions are paid on time.

¹⁴ ONS Occupational Funded Pension Scheme Data, 2021

¹⁵ 45% of private sector DB members are deferred members that are no longer accruing scheme benefits.

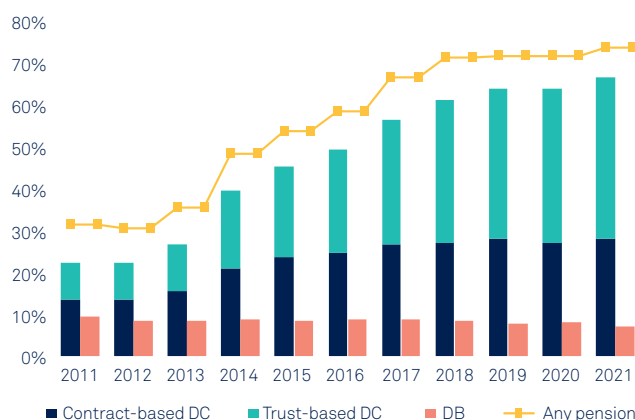
¹⁶ Estimates are provided on a best effort basis.

Chart 21 shows the trend to private sector pension participation across defined contribution and defined benefit schemes. Private sector participation has risen substantially since 2012 from just 32% across all types of pension to 74% in 2021. This is largely due to the roll out of auto-enrolment from 2012, requiring employers to automatically enrol eligible employees into DC pension schemes. Participation in DC trust-based and contract-based schemes combined has increased from 23% in 2012 to 67% in 2021.

- The data in Chart 21 show that participation in trust-based schemes rose by 2% year on year to 39% in 2021, an increase of 20% since 2012. The launch of new master trusts following auto-enrolment has contributed to this significant growth and Nest, the pension scheme with a universal service obligation to take on all employers, is run as a master trust. Trust-based pensions are overseen by trustees that have a fiduciary duty to the scheme. They are not subject to conduct or prudential supervision and are therefore regulated by the Pensions Regulator.
- Participation in contract-based schemes has also increased slightly year on year to 28%, just higher than in 2020 (27%). This is up from 14% in 2012. Contract-based schemes are most commonly Group Personal Pensions but include Group Stakeholder Pensions and Group SIPP. Contract-based schemes are subject to FCA rules. Scheme governance is provided by an Independent Governance Committee that oversees how the pension provider operates the scheme.
- At 7%, private sector DB scheme participation in 2021 is the lowest participation rate in a decade falling by 1% year on year. Prior to 2021, participation in DB schemes had consistently fluctuated between 8% and 9% but as the member base ages, scheme participation will likely fall further.

In 2019, minimum contributions into a workplace pension were increased from 5% to 8% and some experts feared that opt-out rates could rise. The data in Chart 21 suggest that private sector participation rates in DC schemes are resilient as participation rates have increased in 2021 by 3%. Looking ahead, members face increasing pressures on the cost of living as energy and transport costs rise rapidly in 2022 and inflation is forecast to rise further. This could constrain the amount that employees are able to save into their pension each month and may increase pension opt out rates. The Bank of England forecasts that the savings ratio, which also accounts for employer contributions and non-pension saving, will fall from 5 ¼ to 3 ¾ in 2023.

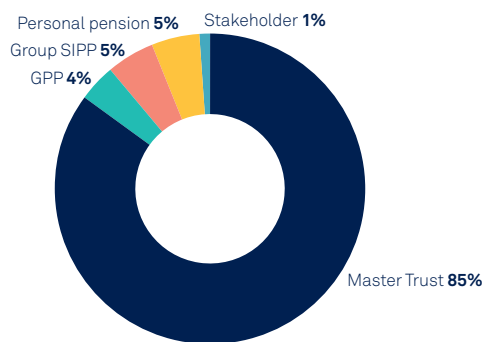
CHART 21: PENSION PARTICIPATION FOR PRIVATE SECTOR JOBS (2011-2021)



Source: Office of National Statistics

Chart 22 shows DC members split by scheme type. Workplace contract-based schemes account for 10% of members but at 85%, the highest proportion of members are enrolled into Master Trust schemes. Nest, the low-cost pension provider set up by the Government,¹⁷ is run as a master trust and has some impact on the high percentage of members enrolled into master trusts. Nest has a public service obligation to provide a pension to all employers and the self-employed and in March 2021, the scheme had 9.9 million members enrolled, representing around two thirds of the employees enrolled in master trusts.¹⁸

CHART 22: DC MEMBERS BY SCHEME TYPE IN 2021



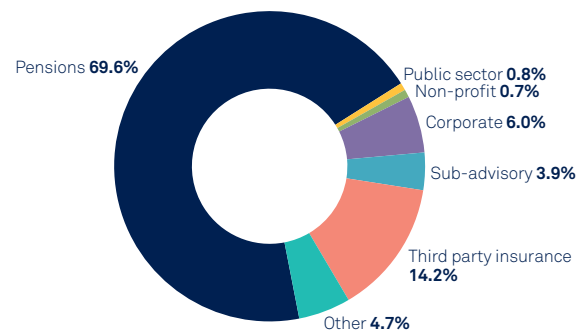
Source: Pensions Policy Institute (PPI) DC Future Book 2021

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 uses IA data to look more closely at the institutional market that is available to third party clients, that is, excluding mandates managed in-house by insurance parent groups and occupational pension schemes, as at the end of 2021.

Assets under management stand at £4.1 trillion once in-house insurance mandates are excluded from the institutional data. In Chart 23, we see that pensions dominate the market even more once in-house mandates are excluded. However, if the trend to a fall in the proportion of in-house insurance assets continues, Chart 19 and Chart 23 will become more closely aligned.

CHART 23: THIRD PARTY UK INSTITUTIONAL CLIENT MARKET BY CLIENT TYPE (2021)



¹⁷ Nest Corporation, the Trustee that runs the Nest scheme, is a public corporation. It is accountable to Parliament through the Department for Work and Pensions but is generally independent of government.

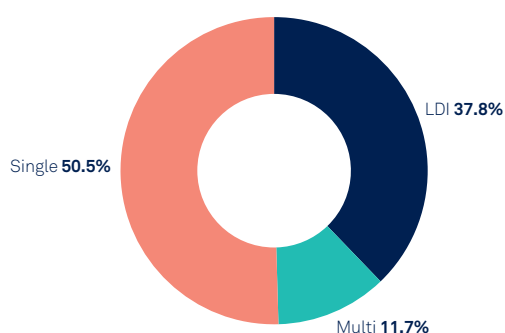
¹⁸ DWP, An Independent Review of the National Employment Savings Trust, 2022.

MANDATE BREAKDOWN

Chart 24 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 2021, assets managed in single asset strategies rose one percentage points to 50% of mandates.
- **Multi-asset, or 'balanced' mandates**, which cover a number of asset classes and regions. At the end of 2021, balanced mandates were used in 12% of assets managed by third party clients.
- **LDI mandates**, which 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 £1.6 trillion.

CHART 24: UK THIRD PARTY INSTITUTIONAL MANDATES INCLUDING LDI IN 2021

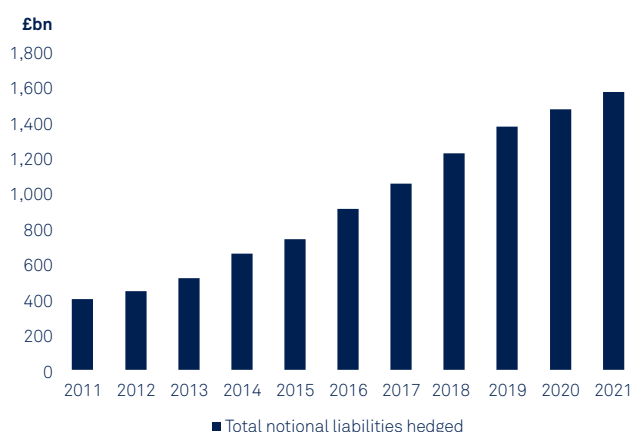


LDI strategies are almost exclusively used by DB pension funds as a way to hedge the inflation and interest rate risk they face in their liabilities. Regulatory changes around the DB funding regime in the UK have reinforced this shift towards liability management and growth in LDI mandates will likely continue in the near future. In 2011, the notional value of LDI stood at £400 billion and this had quadrupled by 2021 reaching £1.6 trillion.

Central banks have raised base rates in 2022 to combat soaring inflation and rate rises and volatility in fixed income prices have impacted the funding positions of LDI strategies. As interest rates have risen, the notional value of some of the derivatives held in LDI portfolios has fallen. The result of this has been a rise in the number and size of collateral calls. The speed at which rates have risen has meant that some LDI managers have had to liquidate larger than expected proportions of their portfolios to meet collateral calls.

While such movement in markets and interest rates are built in to LDI portfolios, the timing of interest rate rises in an environment where virtually all asset classes have depreciated in value has meant that managers have had to liquidate at the bottom of the market and funding positions have worsened.

CHART 25: NOTIONAL VALUE OF LDI (2011-2021)

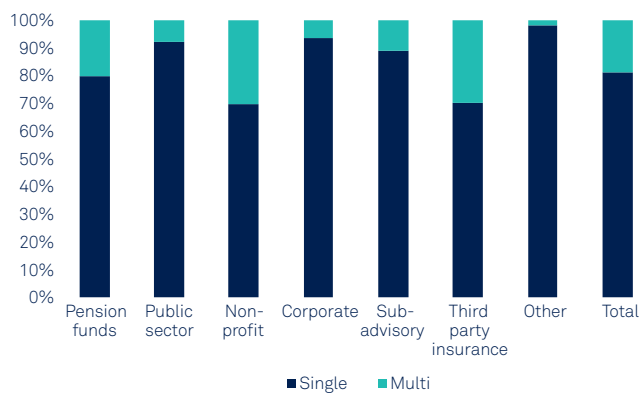


Source: KPMG LDI Survey, IA data

The analysis on pages 57 to 61 excludes the value of LDI mandates. These strategies are used almost exclusively by DB pensions, and as such their inclusion can mask some interesting trends in the broader market.

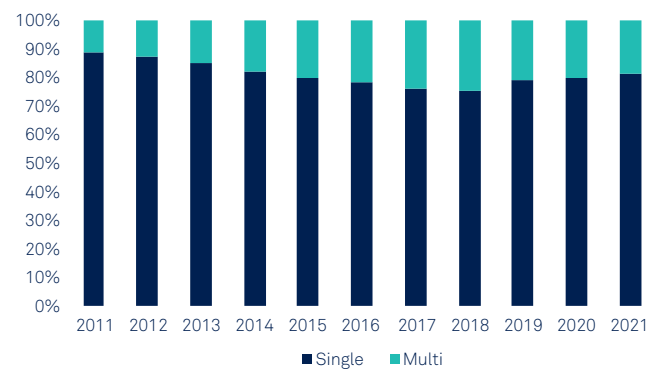
Chart 26 shows the balance between single and multi-asset mandates, excluding LDI. We observe that when we exclude LDI, 81% of assets are managed in single asset strategies, two percentage points higher than in 2020. The preference for single vs. multi-asset strategies varies depending on client type. Almost all (94%) of assets managed on behalf of corporate clients are managed within mandates focusing on a single asset class and region. By comparison, almost a third (30%) of third-party insurance client assets are managed in multi-asset mandates.

CHART 26: UK THIRD PARTY INSTITUTIONAL CLIENT MANDATES: MULTI-ASSET VS. SPECIALIST IN 2021



For a number of years, it looked as though there would be a shift to more multi-asset mandates (Chart 27). The proportion of assets in multi-asset mandates had increased consistently since 2011, peaking in 2018 at 24%. Since then, we have seen a reversal in that trend with a shift back towards greater use of single asset strategies. Some of the shift in 2018 and 2019 can be explained by the movement of some large mandates across the industry.

CHART 27: UK THIRD PARTY INSTITUTIONAL CLIENT MANDATES: MULTI-ASSET VS SPECIALIST (2011-2021)



IN 2011,
THE NOTIONAL VALUE OF
LDI STOOD AT £400 BILLION
AND THIS HAD QUADRUPLED
BY 2021 REACHING

£1.6
TRILLION

INVESTMENT TRENDS WITHIN SINGLE-ASSET MANDATES

Chart 28 looks at the long-term trend in the breakdown of assets in specialist or single-asset mandates.

- The performance of equity markets has had an impact on the balance of assets over the last ten years. When equity markets suffered steep falls in Q4 2018, we saw a corresponding 5% drop in the percentage allocation to equities to 35% in 2018. In 2021, despite institutional outflows of £65 billion from equities, asset appreciation helped to increase the proportion of assets in equities to 38%, the highest level since 2017. 2021 saw very strong performance from US stocks in particular, which returned 26% and the majority of major equity markets saw double digit growth.
- The other notable trend in the last two years is the increase in the value of assets in cash to 15%. Before 2019, assets in cash fluctuated between 9% and 10%. Cash assets provide little opportunity for capital appreciation, so a rising allocation indicates either a higher demand for liquidity or a short-term allocation before making tactical asset adjustments as market conditions shift.
- Assets in fixed income have fallen to 35% from 39% in 2020 as equities have rebounded as a proportion of total assets and bonds saw negative annual returns.
- Assets in property have been relatively stable over the past ten years between 5% and 6% of total assets.

CHART 28: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS (2011-2021)

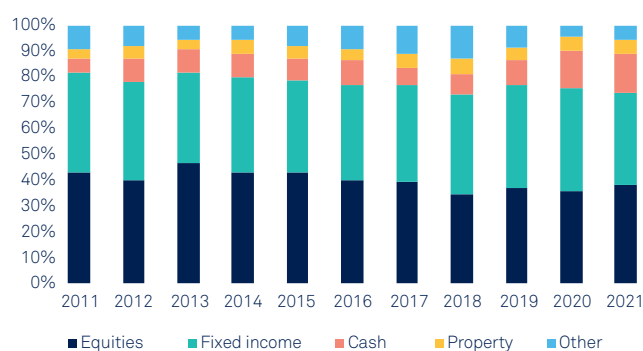
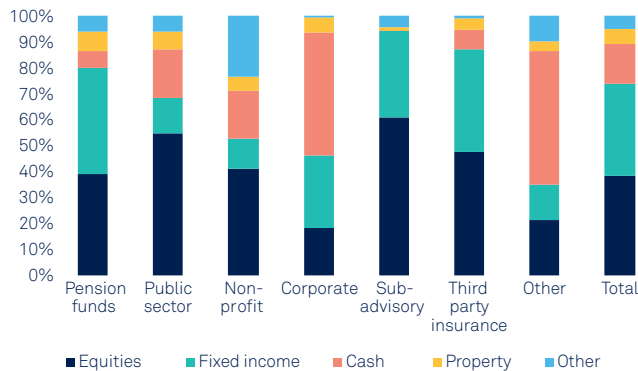


Chart 29 looks at asset allocation in single-asset mandates by different client groups. The chart illustrates that asset allocation can vary considerably depending on the investment objective of the client.

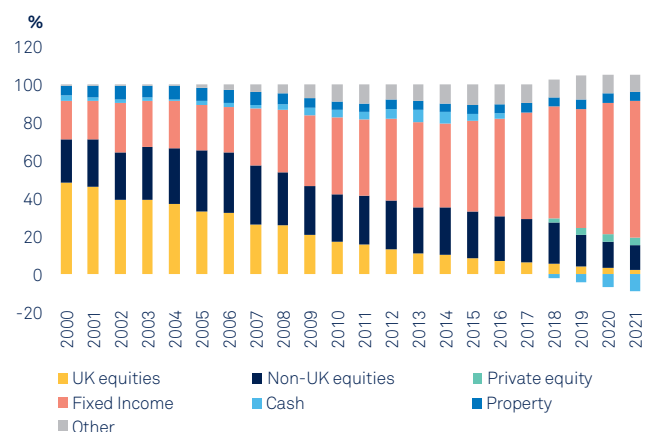
- Pension funds (41%) and third-party insurers (39%) both saw a significant drop of 5% and 10% respectively in the proportion of assets allocated to fixed income. Corporate and government bonds delivered negative returns in Q1 2021, a relatively rare occurrence, and this had some impact on the balance of assets. DB assets still make up a significant proportion of mandates for pension funds and as private sector DB schemes are increasingly closed to new members, the investor base is aging. A higher proportion of assets in fixed income helps to achieve relatively low-risk and stable returns for older scheme members.
- The higher allocation to equities by the public sector (55%) tallies with the data in Chart 32 later on in this chapter, which shows that the Local Government Pension Scheme has a 63% allocation to equities. Public sector DB schemes are still open to new members and accruals. This means that their member base is younger and has longer investment horizons. Equity returns can be volatile but drive higher performance and holding equities over two to three decades smoothes the impact of volatile returns. Sub-advisory mandates also have a high allocation to equities at (61%). These mandates can form part of third-party retail products such as multi-manager products.
- Corporates have maintained nearly half of assets (47%) in cash in 2021. This is only slightly down from 2020 (50%) when we first observed a significant 30% shift in allocation to cash in the face of very uncertain business conditions. Investment in liquid cash strategies can generate a higher return on cash than bank deposits in an environment of very low interest rates, and a high allocation enabled businesses to maintain a cash buffer as lockdowns in 2021 continued to place a strain on cash flows for many industries.

CHART 29: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS IN 2021

Looking more closely at the pattern of allocation to funded DB schemes reveals substantial long-term shifts away from equities as the majority of DB schemes have closed to new members and the age profile of membership matures.

- In Chart 30 in 2000, assets in equities were 74% of the total allocation and UK equities accounted for 48% of assets. The total proportion of equities has fallen to just 19% in 2021 and UK equities make up 2%. Looking at the data behind the chart, on a weighted average basis, at 12% the UK equity proportion of equity assets has fallen below private equity (20%) and overseas equity (68%). This mirrors the long-term trend seen in IA data to a reduced allocation to UK equities in AUM in favour of overseas equities.
- Assets in fixed income now make up 72% of total allocation compared with 20% in 2000. Over the last 15 years, index-lined bonds that are hedged against rising inflation have risen as a percentage of bond allocations to 47% putting DB schemes in a stronger position as inflation rose rapidly through the final quarter of 2021.

- The negative position of -9.5% cash reflects large schemes with investments such as swaps and repurchase agreements.
- Allocations to property have been stable at around 5% over the long-term. The rise in the proportion of assets in other is largely due to an increase in the percentage of annuities from 2% in 2016 to 7% in 2021, a reflection of the ageing member demographic.

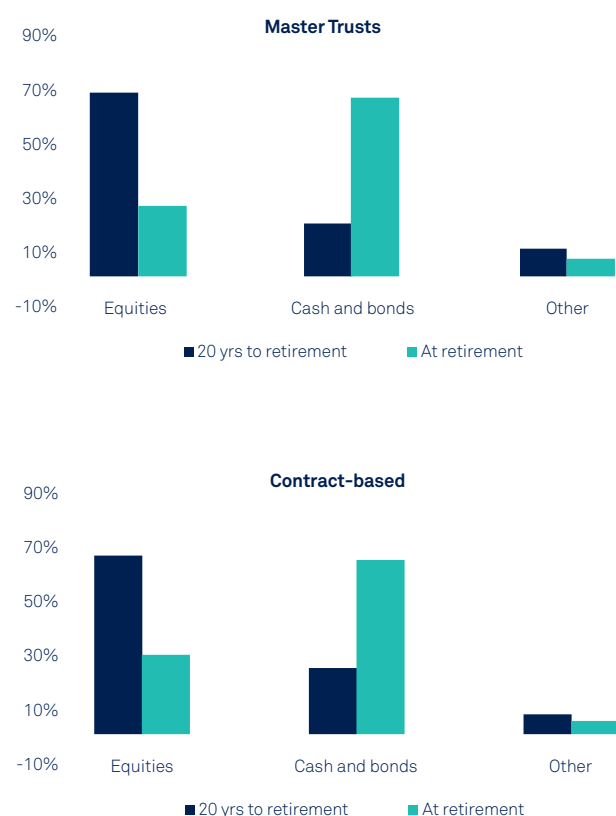
CHART 30: UK DB PENSION FUND ASSET ALLOCATION (2000-2021)

Source: UBS Pension Fund Indicators, PPF purple book 2021

The next charts further illustrate the impact that a younger member age profile has on asset allocation. For DC savers with twenty years until retirement, the proportion of assets in equities is two-thirds for both contract-based and master trust schemes. Although the return on equities is more volatile than bonds, in the accumulation phase of pension saving, an investment horizon of twenty years smoothes out returns and enables savers to achieve a higher overall return whilst building up a pension pot. As DC scheme members move into retirement, they are looking to draw an income from their investments, which can be provided through a higher weighting to bonds.

At retirement the charts show a two-thirds allocation to bonds. Although the return from bonds is lower than equities, there is a lower risk of negative returns, which could erode the capital available to members moving into drawdown.

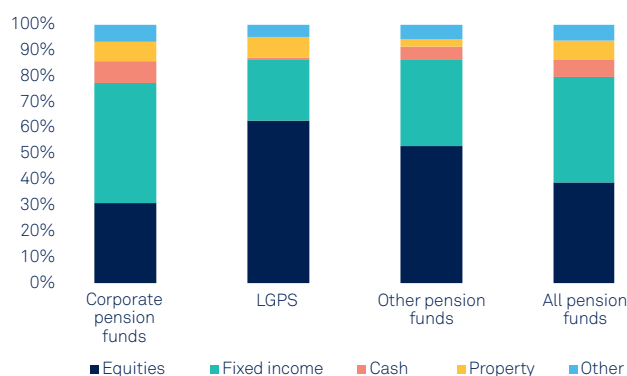
CHART 31: DC ASSET ALLOCATION, 20 YEARS PRIOR TO RETIREMENT AND AT RETIREMENT IN 2021



Source: Penions Policy Institute

Chart 32 illustrates the difference in asset allocation among UK pension funds. It shows a substantial difference between the allocation of corporate pension funds and LGPS.¹⁹ LGPS is a defined benefit public sector scheme that is open to new members and active members account for one third of total scheme members. According to ONS data, active members of private sector DB schemes are just 8% and 47% are receiving their entitlements in retirement. This shows an older age profile of members and helps to explain the lower proportion of assets in equities for corporate pension funds of 31% compared with 63% for LGPS.

CHART 32: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS AMONG UK PENSION FUNDS IN 2021

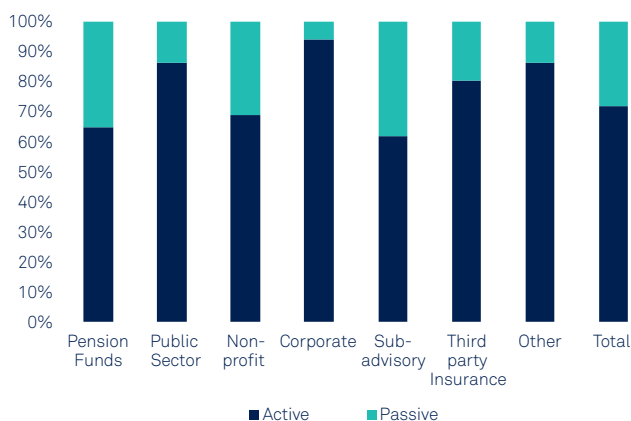


¹⁹ LGPS is administered by 86 local pension funds in England and Wales and has 6.1 million members.

ACTIVE VS. INDEXING

Almost three quarters of institutional client assets (72%) were managed by IA members on an active basis in 2021, unchanged from 2020. Use of index strategies varies depending on client. Public sector, insurance and corporate clients tend to use more actively managed strategies whereas indexed strategies are more widely used by pension funds, non-profit and sub-advised clients. The introduction of the charge cap for DC pension schemes has contributed to the greater use of indexing strategies in order to fall below the 75 basis point cap on charges.

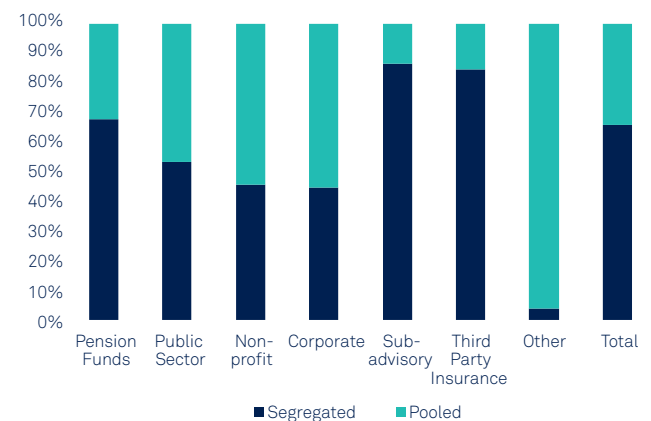
CHART 33: ACTIVE AND INDEX THIRD-PARTY MANDATES BY CLIENT TYPE IN 2021 (SAMPLE-ADJUSTED)



SEGREGATED VS. POOLED

Chart 34 shows that segregated mandates represented two thirds (66%) of assets managed for third party institutional mandates at the end of 2021, down one percentage points on 2020. Corporate clients (55%) and non-profit clients (54%) tend to use pooled vehicles to invest, whereas third party insurance clients and sub-advised clients most typically prefer bespoke segregated mandate arrangements with 85% and 87% of assets managed in this way respectively.

CHART 34: SEGREGATED AND POOLED MANDATES AMONG THIRD PARTY PENSION FUNDS IN 2021



5 UK RETAIL MARKET

KEY FINDINGS

STRONG NET RETAIL SALES IN 2021 BUT CHALLENGING 2022 OUTLOOK

- » Annual retail inflows in 2021 were £43.5 billion, exceeding the 2020 inflow of £30.8 billion and rank only behind the record inflow of £48.6 billion in 2017.
- » UK investor funds under management rose to a record £1.59 trillion by the end of 2020, up 11% from £1.44 trillion at the end of 2020.
- » The period post the Global Financial Crisis saw low interest rates and accommodative monetary policy, which overall benefited capital market performance and fund sales. The era of low interest rates is at an end in the near term as in 2022, Central Banks are raising interest rates to combat runaway inflation. As markets have fallen, outflows in H1 stand at £12 billion.
- » The retail fund market faces three core challenges in a higher interest rate, high inflation environment:
 - An increasingly difficult environment for investment performance, particularly for equities, leading to lower returns compared with those seen over the last decade.
 - A reduced capacity for investors to save at all as a result of the rise in cost of living.
 - An increase in interest rates filtering through to higher rates on cash savings products could make them more appealing, particularly if investment performance is volatile.
- » There are a number of ways that the industry can support retail investors through this challenging period including strengthening consumer understanding through good investor communications and disclosure.

PRODUCT TRENDS REMAINED LARGELY INTACT IN 2021

- » Continuity in key product trends was largely maintained, including high sales to globally diversified equity funds and the strong drive to sustainable and responsible investment.
- » Actively managed funds continued their pandemic era popularity through 2021, recording net retail sales of £25.3 billion and outselling index trackers for the first time since 2017. Sales to index trackers were constant at just over £18 billion for the third year in a row.
- » Net retail sales of £13.4 billion to globally diversified funds dominated equity inflows, which totalled £14.9 billion. Robust net sales combined with strong performance in global equity markets, especially in the US, to take overseas equity allocations to a new high of 40% of UK investor assets.
- » Investor sentiment towards UK equities remained very weak and UK equity funds saw a record outflow of £5.3 billion in 2021, up from £2.8 billion in 2020.
- » Inflows to fixed income funds were £11.5 billion in 2021, up from £8.0 billion in 2020 following the record March 2020 outflow from fixed income of £7.5 billion.
- » UK fund platforms remained the dominant channel for inflows with £28 billion in net retail sales, the highest annual inflow recorded through the channel and up 70% on 2020.

RESPONSIBLE INVESTMENT SURGE CONTINUES

- » Investors continued to show a strong preference for responsible investment funds in 2021, maintaining the 2020 trend. Retail inflows were £16 billion and remained stable, despite more adverse performance conditions as fossil fuel prices rose towards the end of the year.
- » Funds under management in responsible investment funds grew by £34 billion to £89 billion, a 62% increase. Their share of funds under management reached 5.6% by the end of 2021, up from a 3.8% share of FUM at the end of 2020.
- » The number of funds in IA data with responsible investment characteristics grew 37% to 301 through 2021.

UK VS EU DOMICILED FUNDS UNDER MANAGEMENT

- » In 2021, UK domiciled funds remain the highest proportion of UK investor FUM at 85% or £1.4 trillion but this is down from 91% in 2015. Irish domiciled funds (excluding ETFs) now account for 11% of total UK investor FUM up from 5% in 2015 and Luxembourg domiciled funds have maintained a consistent level of circa 4%.
- » Assets in UCITS and AIFS domiciled in the UK have grown by 43% over the last 5 years reaching €2.1 trillion. Growth in assets domiciled in Ireland has significantly outpaced the UK at 95% over the same period and Luxembourg domiciled assets have grown by 58%. Maintaining and increasing the UK's competitiveness as a domicile remains a critical focus.

This chapter focuses on UK retail investor behaviour looking at long and near-term trends in net sales to both UK and overseas domiciled funds. It also examines the factors affecting growth in funds under management.

The impact and aftermath of the pandemic remain a focus of our retail fund market analysis. We pay particular attention to rising inflation and the impact of monetary policy since the Global Financial Crisis on market performance and fund flows. We also look at a range of long-term trends, including sales to index trackers and the growth of responsible and sustainable investment funds. This year we have included additional analysis on fund market concentration and on sales to UK and overseas fund types as the Brexit transition period ends and overseas funds operate under the temporary permissions regime.

UK INVESTOR FUNDS UNDER MANAGEMENT

2021 ended with UK investor funds under management at a record £1.59 trillion, up 11% from £1.44 trillion at the close of 2020 (see Chart 35).

CHART 35: TOTAL INDUSTRY FUNDS UNDER MANAGEMENT (2006-2021)



Growth in funds under management followed a broadly upwards trend through 2021, maintaining the momentum established at the end of 2020 as capital markets surged in the wake of successful Covid-19 vaccines trials. Growth in FUM was particularly strong early in the year, driven by a combination of asset appreciation and strong sales. Economic re-opening following vaccine rollouts triggered a 'bounce-back' effect on the major stock markets as previously restricted economic activity resumed, boosting asset valuations. At the same time, savers looked to deploy excess savings accumulated through lockdown. The rate of FUM growth slowed towards the end of 2021 as concerns began to mount over rising inflation and as supply chains and logistics operations struggled to keep up with rebounding economic activity, weakening asset valuations (see Chart 36).

CHART 36: UK INVESTOR FUM THROUGH 2021

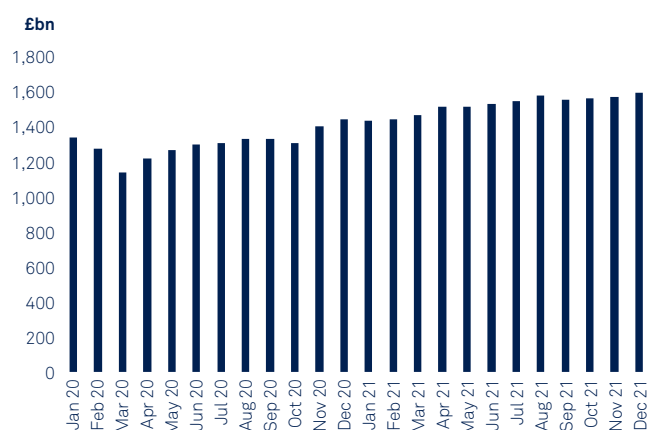
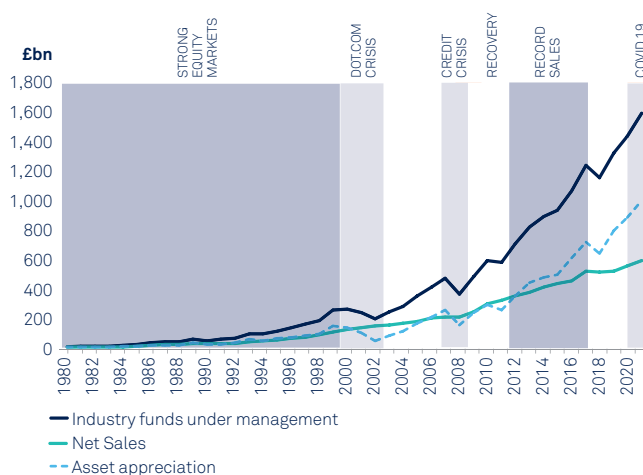


Chart 37 shows the FUM of the asset management industry from 1980 – 2021, illustrating the relative contributions to growth from net sales (retail and institutional) and asset appreciation. As demonstrated by the chart, much of the growth in industry FUM over the past decade has been driven by asset appreciation during an era of expansionary monetary policy, defined by low interest rates and the purchase of debt by central banks through the process of quantitative easing. Following the Global Financial Crisis, interest rates were cut to near zero and this has helped to substantially increase the valuations of companies in high growth industries such as technology that are evaluated based on future earnings potential. Aside from a £5.1 billion outflow in 2018, net sales have been positive throughout the past decade.

During 2021, asset appreciation reached £118 billion, second only to £157 billion in 2019, following a fall in asset prices at the close of 2018, which proved temporary and boosted performance in 2019 as prices recovered.

CHART 37: DRIVERS OF INDUSTRY GROWTH (1980-2021)



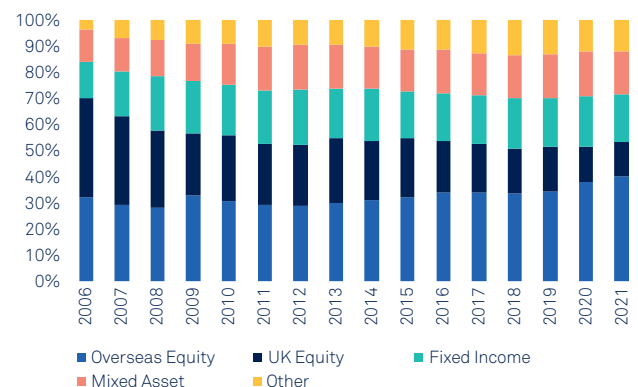
LONG-TERM ASSET ALLOCATION

Chart 38 shows the long-term trend in asset allocation. The most notable trend is the longstanding decline in the share of assets in UK equity. From 38.1% of FUM in 2006, the share of assets in UK equities has dropped to 13.4% by the end of 2021. Year on year there has been little change, however as the UK equity share has held steady from 2020. This follows a sharp drop during 2020 from 17.0% to 13.5%. During 2020, UK equity performance was slower to recover value after the March 2020 correction than other developed markets (especially the US) as dividend incomes, a key part of the return offered by UK equities, were cut or suspended.

Overall, equity allocations continued to climb through 2021 driven by overseas equity which rose to 40.0%, making for a third year of growth in asset share. While sales have been strong to overseas equity over recent years, asset appreciation has been key to growth following strong equity performance.

The proportion of assets within the 'Other' category has remained broadly stable over recent years, the overall allocation masks a shift from Targeted Absolute Return (TAR) to Volatility Managed, which overtook TAR as the largest share of assets within 'Other' during 2021.

CHART 38: FUM BY ASSET CLASS (2006-2021)



LONG-TERM SALES TREND

Over the longer term, the funds industry has seen volatile flows from year to year as markets and investors are influenced by external events. The most notable within the last 15 years have been the Global Financial Crisis (GFC), the Brexit referendum and the Covid-19 pandemic.

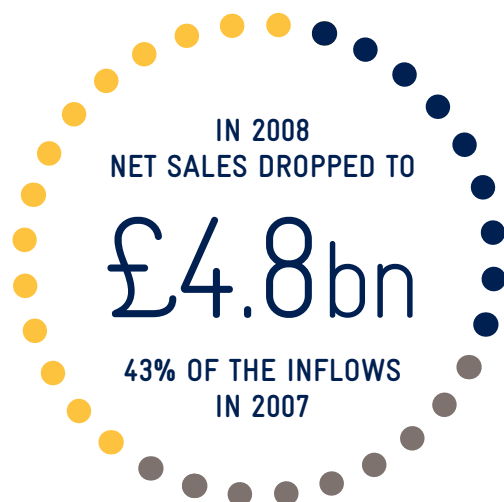
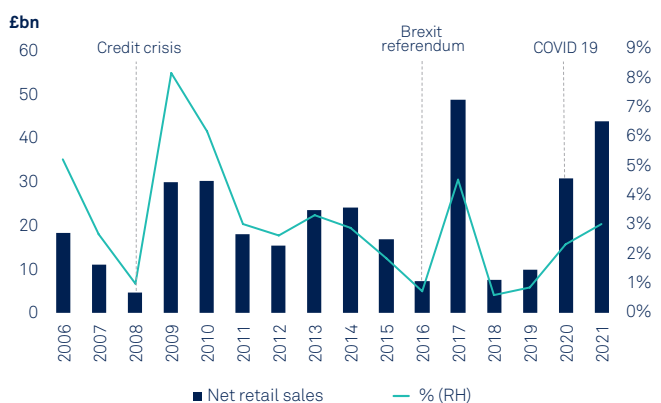
As illustrated by Chart 39, both the GFC and the Brexit referendum result led to a year of depressed sales, followed by a rebound. In 2008 net sales dropped to £4.8 billion, 43% of the inflows in 2007. 2009 and 2010 then both saw inflows in the region of £30 billion as investors adjusted to the post GFC low interest rate environment, which helped markets to recover and made cash saving unattractive.

2016 saw inflows drop to £7.2 billion, again 43% of the previous year, as investors responded to the Brexit referendum. This was followed by record inflows of £46.8 billion in 2017 as sentiment recovered, aided by inflows resulting from pension freedoms and the DB pension transfer market.

At the beginning of the pandemic in March 2020, a record monthly outflow of £9.7 billion (see Chart 40) occurred as markets experienced a correction. However, strong fiscal and monetary policy stimulus helped drive a rapid return to growth in valuations and maintained confidence in markets. Strong inflows through the rest of the year, culminating in a record £8.3 billion in November helped take inflows for 2020 to £30.8 billion. In 2021, annual net retail sales were even higher at £43.5 billion.

Chart 39 also looks at sales as a proportion of industry size. The strong sales of 2009 and 2010 were lower in absolute terms than 2020/2021 but more significant as a proportion of industry FUM. In 2009, inflows to a smaller funds market reached 9% of the total FUM, while in 2021, inflows were 3% of FUM.

CHART 39: TOTAL NET RETAIL SALES AND NET RETAIL SALES AS A PERCENTAGE OF FUM (2006-2021)



NET RETAIL SALES THROUGH 2021

In the context of historic fund flows, net retail sales in 2021 of £43.5 billion mark an extremely strong year, second only to the record inflows of £48.6 billion observed in 2017. Inflows were especially strong in the first half of the year seeing net retail sales of £24.3 billion, maintaining the momentum from November 2020 as markets rose following the development of vaccines against Covid-19. This is the highest recorded inflow for the first six months of any year that the IA has recorded. Rising markets coupled with excess lockdown savings helped to drive a strong ISA season for funds and the highest monthly inflows in 2021 were seen in March and April.

The strong first half for sales was followed by a decline in activity towards the end of the year as concerns grew over inflation, which reached 5.4% (UK annual CPI) by the end of 2021. As Chart 40 shows, inflows fell across the major asset classes amidst a more uncertain economic outlook and a debate over transitory or persistent inflation.

CHART 40: MONTHLY NET RETAIL SALES BY ASSET CLASS (JAN 2020 - DEC 2021)

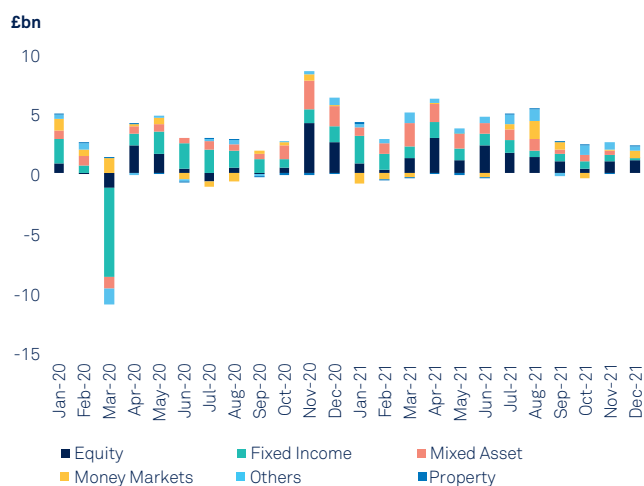
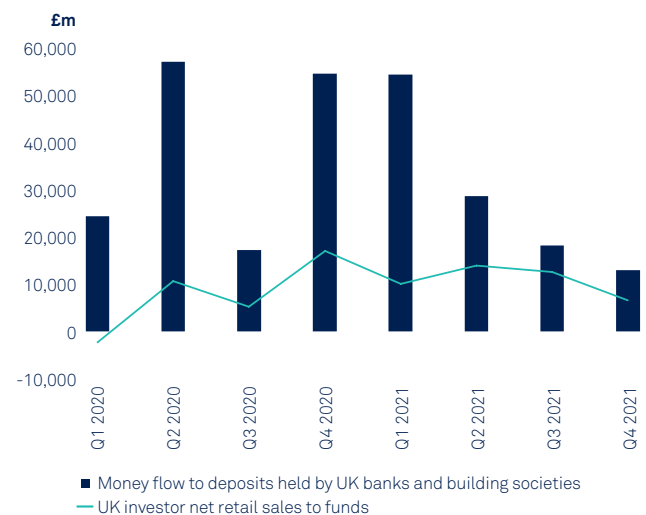


Chart 41 shows the quarterly level of deposits by households through 2020 and 2021, highlighting the role of lockdowns in driving elevated savings rates that have likely boosted fund sales. As lockdown restrictions slowly lifted, deposit rates dropped to their lowest level in two years. The final quarter of 2021 saw inflows of £13 billion which is less than a quarter of the peak in net retail sales seen in Q2 2020 of £57 billion.

CHART 41: QUARTERLY MONEY FLOW TO DEPOSITS HELD BY UK BANKS AND BUILDING SOCIETIES (Q1 2020 - Q4 2021)



Source: Bank of England, IA data

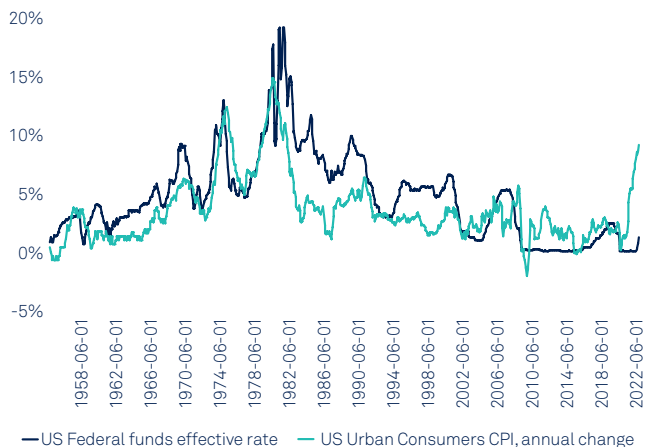
INFLATION: DRIVERS AND THE IMPLICATIONS FOR THE FUND MARKET

Financial markets and investors became increasingly concerned about the impact of rising inflation through 2021 on the economic outlook and on capital markets. As economic activity rebounded following the easing of Covid-19 restrictions at the beginning of the year, inflation began to climb as supply chains struggled to cope with a surge in pent up demand. Uneven speeds of reopening in global supply networks combined with congestion in ports to dislocate supply chains. Additionally, a recovery in oil prices increased energy and transport costs. Initial hopes that inflation would prove transitory faded as inflation continued to climb through the year. UK inflation rose to 5.4% by the end of 2021, while in the USA it reached 7.0%.

Chart 42 takes the trend in US inflation, as the largest global economy, forward to June 2022 when annual inflation reached 9.1%. This is plotted against the Federal Reserve's effective funds rate showing the magnitude of the Central Bank's response to inflation over periods of significant inflation in the last 70 years. In 2022, further pressure on commodity prices followed the Russian invasion of Ukraine at the end of February, and the restrictions on access to natural gas caused

the price of wholesale gas to rise by 160% in the first half of the year. This put an end to any remaining hopes that inflation would prove short lived. As shown, the 9.1% inflation by the end of June places inflation rates at their highest since the beginning of the 1980s, when the US Federal Reserve under Paul Volcker raised interest rates to almost 20% to break the inflationary cycle of the 1970s. In comparison, in 2022 interest rates remain low in a historic context but not in comparison with the years since the GFC. The Fed tried to raise rates gradually between 2017 and 2018 but this contributed to a significant market correction in Q4 2018 and the Fed shifted its stance. The pandemic caused rates to be cut further in March 2020 before the new cycle of rate rises was introduced in 2022 in response to rising inflation. The chart shows the speed and strength of rate rises in 2022.

CHART 42: US INTEREST RATES AND CONSUMER PRICE INDEX (JULY 1954 - JUNE 2022)



Source: Federal Reserve Economic Data - Federal Reserve Bank of St. Louis



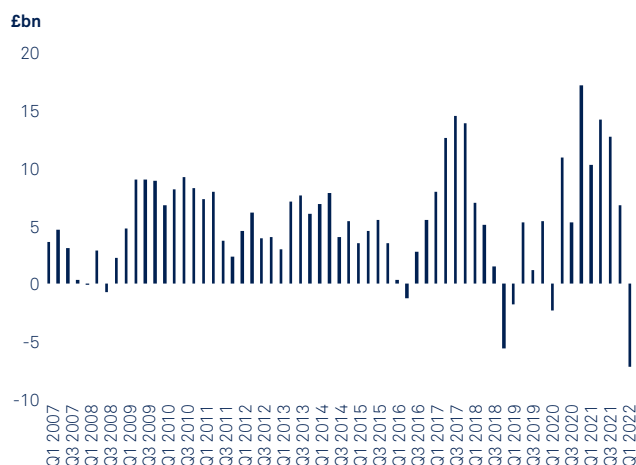
INFLATION, INTEREST RATES AND NET RETAIL SALES IN 2022

Chart 43 shows that the impact of the Fed's interest rate rises contributed to one of the highest quarterly outflows from UK retail funds of £5.6 billion. Tightening monetary policy, alongside tensions between the USA and China under the Trump administration, helped to trigger a downturn in markets in the final quarter of 2018 as the MSCI World fell by 10% over the quarter, and investors withdrew £5.6 billion from funds.

Ultimately the US Federal Reserve reversed the programme of rate rises in 2019 and suspended their quantitative tightening program in a bid to stabilise capital markets.

In 2022, we see interest rate rises not only from the Fed but also the Bank of England. The funds industry has seen two consecutive quarters of high outflows, of £7.1 billion in Q1 and £4.8 billion in Q2 2022. Markets, including the S&P 500 and the Nasdaq, dropped 11% and 21% in sterling terms through the first half of 2022. As a result of rapidly rising inflation, Central Banks have to maintain the course of raising rates, which stops them from easing the pressure on markets.

CHART 43: QUARTERLY NET RETAIL SALES
(Q1 2007 - Q2 2022)



As monetary policy has tightened, and inflation has increasingly hit consumers spending capacity, expectations have risen that developed economies will enter a period of recession as economies adjust. It is likely that the ultra-low interest rates of the last 10 years are at an end, at least in the medium term. At the time of writing, the UK base rate has been raised to 1.75% and the BoE anticipates that the base rate will be 3% by 2023 to keep inflation in check. US rate rises are likely to be of a similar magnitude.

The retail funds market faces three main challenges that could cause reduced annual inflows:

- An increasingly difficult environment for investment performance, particularly for equities, leading to lower returns compared to those seen over the last decade.
- A reduced capacity for investors to save at all as a result of the rise in cost of living.
- An increase in interest rates filtering through to higher rates on cash savings products will make them more appealing, especially if there is also a desire to minimise the volatility of investments in less certain times.

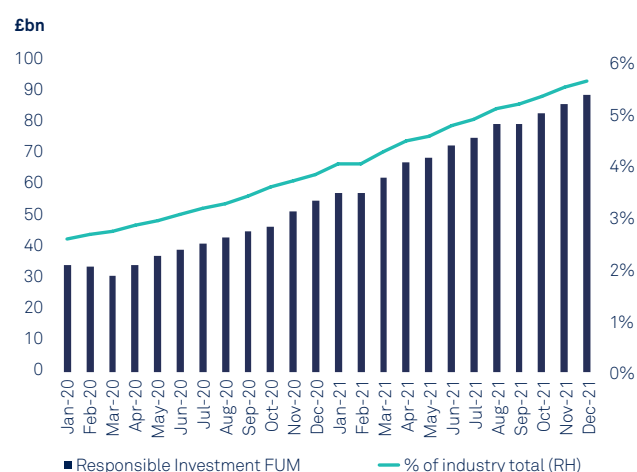
That said, the changing market cycle presents new opportunities: funds investing in undervalued companies with good current cashflows will perform better; as interest rates rise, new bond investors will benefit from higher fixed interest rates and investors seeking income can look again to bonds as bond yields increase after a long period of very low yields.

RESPONSIBLE AND SUSTAINABLE INVESTMENT

2021 saw rapid growth of funds under management within funds with Responsible Investment (RI) characteristics, continuing the trend observed in 2020. Funds under management rose by £34 billion over the year to £89 billion at the end of 2021. As illustrated by Chart 44, a 62% increase in FUM outpaces the growth of the funds industry as a whole and takes the share of RI FUM to 5.6%.

Sales have been a key component of growth in RI FUM over 2021. Net retail inflows were £16.0 billion or a third of retail inflows for the year. The remaining growth in FUM comes from a combination of asset appreciation and the entry of new funds. The number of funds in IA data rose 37% from 219 to 301 between 2020 and 2021. Responsible and sustainable investment is a key area for fund launches but the rise also represents the 'greening' of existing funds to include sustainable investment policies or objectives.

CHART 44: RESPONSIBLE INVESTMENT FUM (2020-2021)



WHAT IS INCLUDED IN IA RESPONSIBLE INVESTMENT DATA?

The Responsible Investment data presented here is defined according to the IA responsible investment framework as funds that have an investment policy/objective with one or more of the following components:

- Fund specific exclusions – prohibition of certain investments beyond any firm level policy, and beyond a prohibition on controversial weapons.
- Sustainability Focus – An investment policy with sustainability criteria as a core part of the investment approach.
- Impact Investing – Investment made with the intention of generating a measurable positive social and/or environmental impact.

Funds employing ESG integration and/or stewardship alone without one of the components listed above are not included in IA RI data. Funds included within this data are those identified by managers as meeting the above criteria, with verification conducted by the IA.

RI funds continue to be dominated by equities. 61% of FUM in RI funds sits within equity funds, contrasting with 53% of FUM in equity funds for the wider industry. Fixed income funds, representing 13% of RI FUM, are underrepresented compared with the overall industry where fixed income funds make up 18% of FUM. However funds applying exclusions match the industry figure of 18%. For sustainability focus funds, there is a tilt towards mixed asset funds, which make up 24%. So far, impact funds are concentrated overwhelmingly (86%) in equity, with 9% investing in fixed income.

CHART 45: RESPONSIBLE INVESTMENT FUM BY ASSET CLASS AND COMPONENT IN DECEMBER 2021

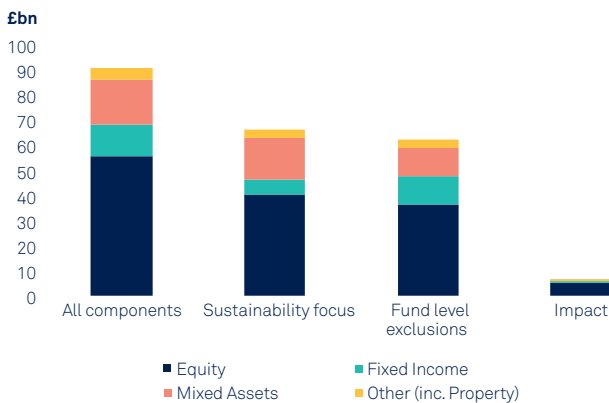
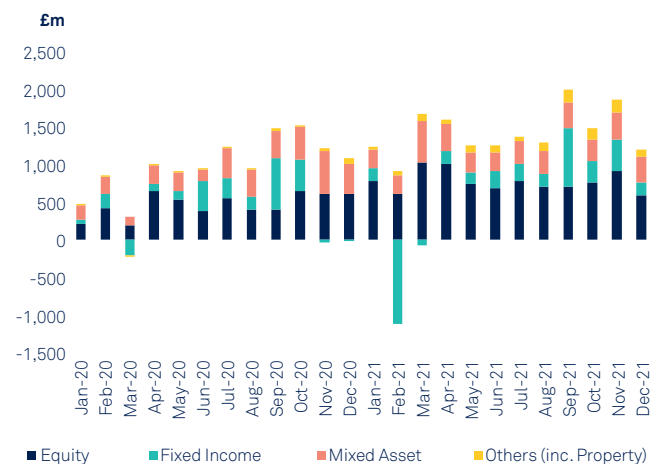


Chart 46 shows the pattern of retail sales to

Responsible Investment funds throughout 2021, split out by asset class. Flows to RI funds show remarkable consistency through 2021, with a roughly even distribution of the £16 billion through the quarters. The February outflow was concentrated to a small number of funds operating exclusions and is more likely driven by the type of the assets the funds were investing in, than investor sentiment towards responsible investment. The continued popularity of RI funds with investors was not affected by performance constraints at the end of the year. As fossil fuel and commodities prices rose, the energy and mining sectors performed well and many RI funds exclude this type of company. The continuation of strong sales to RI funds also contrasts with lower overall sales in Q4.

CHART 46: RESPONSIBLE INVESTMENT NET RETAIL SALES BY ASSET CLASS (2020-2021)



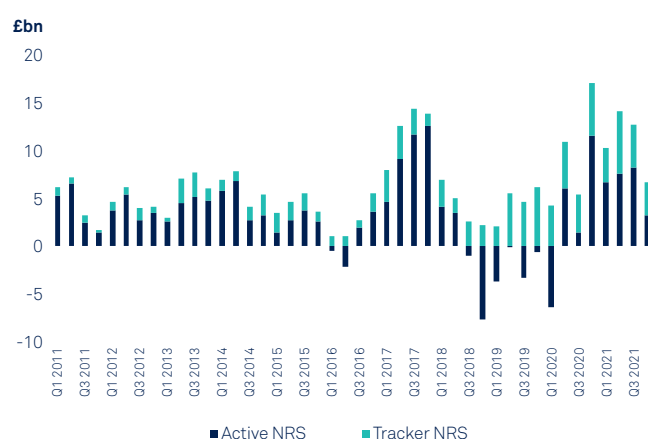
INDEX TRACKING FUNDS

In Chart 47, we compare net retail sales of active and index tracker funds since 2012. 2021 witnessed a resurgence in flows to actively managed funds. However, sales to index funds did not diminish. Of the £43.6 billion net retail inflow in 2021, £25.3 billion went to actively managed funds, while £18.3 went to index trackers, making 2021 the first year since 2017 that actively managed funds outsold trackers.

Index fund sales have shown a high level of consistency over recent years, with annual inflows remaining steadily around £18 billion since 2019 and index tracking funds have recorded inflows every month since July 2016.

Actively managed funds, by contrast, have shown quarter-on-quarter flows volatility, with outflows throughout 2019 turning to inflow from Q2 2020 during the pandemic.

CHART 47: NET RETAIL SALES TO ACTIVE AND INDEX TRACKING FUNDS (2011-2021)



FUM IN INDEX TRACKERS

FUM in trackers reached a new high of £298 billion by the end of 2021, taking these funds to 19% of total industry FUM, a 1% increase on 2020. This is a two and a half times increase on the 7% in index trackers at the end of 2011. The data does not include assets within ETFs, which remain primarily index trackers and Chart 48 therefore likely underestimates the overall growth of index tracking strategies. Index tracking funds have a larger share of UK investor FUM than in Europe, where index funds account for 8% of total assets in long-term UCITS funds. ETFs have an 11% share of total assets across Europe.²⁰

CHART 48: ACTIVE FUNDS AND TRACKER FUNDS AS A PROPORTION OF TOTAL FUM (2006-2021)

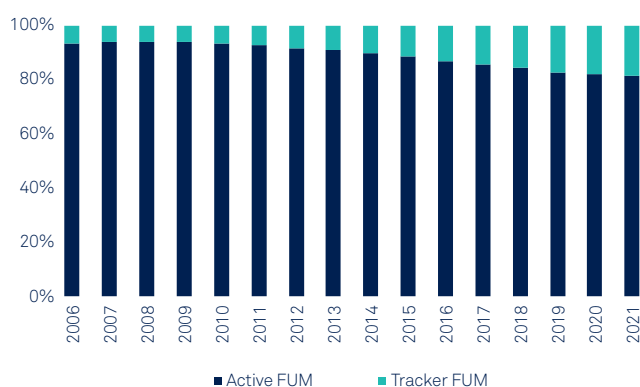


Chart 49 shows the sales to index trackers by index investment type:

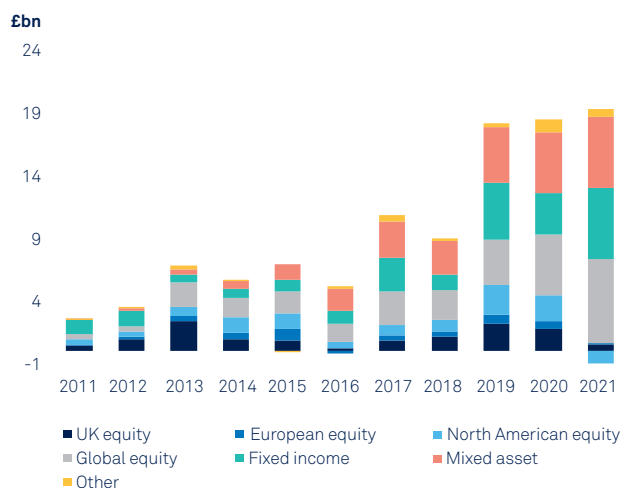
- Global equities were the best-selling asset category for index tracking funds in 2021. Net sales grew from £4.8 billion in 2020 to £6.7 billion in 2021. In contrast, regional equity trackers all saw a decline in net sales through 2021.
- North American index trackers experienced outflows

²⁰ EFAMA Fact Book 2022, page 15.

of just over £1.0 billion, contrasting with a £2.0 billion inflow in 2020. This is in spite of the Russell 3000 returning 27% over 2021. Investors may have anticipated that the US stock market rally would fade earlier than it did.

- UK equity index trackers remained in inflow through 2021, with net retail sales of £490 million. This runs counter to the record outflow from UK equity funds overall of £5.3 billion. UK equities are broadly out of favour with investors but an inflow via trackers illustrates that investors preferred lower cost allocations in 2021.
- Mixed asset trackers saw sales grow to £5.6 billion. This is up from £4.8 billion in 2020 when mixed asset trackers outsold equity trackers. Mixed asset trackers are frequently funds of funds.
- Following a decline in sales to fixed income trackers in 2020, these funds returned to sales growth through 2021, with a record £5.7 billion in net retail sales.

CHART 49: NET RETAIL SALES OF TRACKER FUNDS BY INDEX INVESTMENT TYPE (2011-2021)

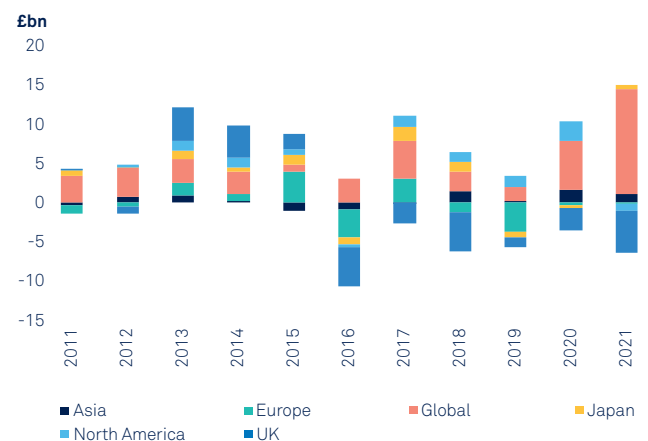


SALES TRENDS BY ASSET CLASS

LONG-TERM EQUITY FLOWS

UK investors have demonstrated a consistent appetite for globally diversified equity funds over the past decade. Flows of £42 billion to globally diversified funds in the last 10 years, compare with sales of £57 billion to equity funds overall. Chart 50 shows that the preference for global diversification was especially acute in 2021 with net retail sales of £13.4 billion.

CHART 50: EQUITY FUNDS, NET RETAIL SALES BY REGION (2011-2021)



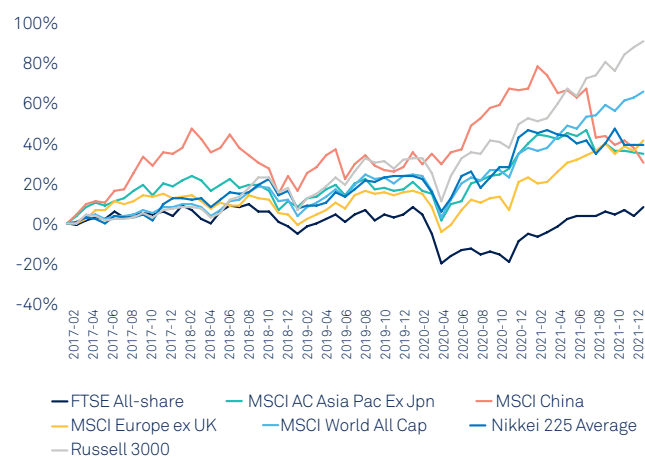
The other prominent trend has been the post 2016 outflow from UK equity funds, accelerating to its highest level in 2021 with a £5.3 billion outflow. From 2016, when the Brexit referendum result was returned, to the end of 2021, UK investors withdrew a combined £22 billion. The prolonged uncertainty around Brexit negotiations and eventual economic impact of Brexit has clouded the outlook for the UK economy. Outflows from UK equity funds also reflect the ongoing erosion of home bias towards the domestic market as investors have built increasingly global portfolios.

EQUITY MARKET PERFORMANCE IN 2021

The performance of equity markets is a key factor affecting the trend in sales to equity funds. Equity markets, especially in developed markets, saw strong performance through most of 2021 as the lifting of pandemic restrictions helped to drive growth and improved the outlook for economies. Chart 51 shows the capital or price return of the major indices. The US Russell 3000 index saw the highest returns through 2021 of 25%. The UK's FTSE All Share index returned 15% in 2021 and showed similar returns to the MSCI Europe ex UK at 15%. Overall, the MSCI World returned 20% in 2021.

The MSCI China index experienced the sharpest contraction of the major indices, down by 22% over the year. The Chinese government tightened regulation on technology firms and took an increasingly hawkish stance towards foreign investment in 2021. China's GDP growth was dampened further by a slowdown in growth in the housing sector and Evergrande, one of the largest Chinese house builders, defaulted. The underperformance of China helped drive flat performance for Asia Pacific as a whole through the second half of 2021.

CHART 51: PERFORMANCE OF THE MAJOR EQUITY INDICES ON A CAPITAL RETURN BASIS, JAN 2017-DEC 22



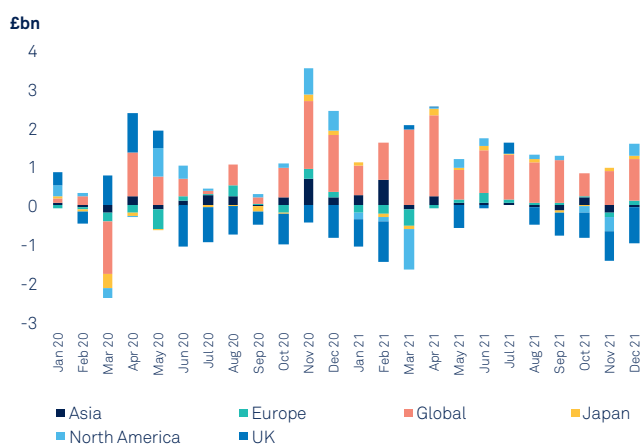
Source: Morningstar

SALES TO EQUITIES

Boosted by strong performance in most of the major capital markets through 2021, Equities remained the top selling asset class for a second year. Net retail sales of £14.9 billion were up from £10.4 billion in 2020. Sales to equity funds were especially strong in the second quarter with a £6.3 billion inflow. Inflows remained strong over summer but faded towards the end of the year as concerns began to mount about the impact of persistently high inflation on the economy.

Chart 52 illustrates the uneven distribution of equity inflows. Investors largely favoured globally diversified funds while regional equities have seen only pockets of inflow.

CHART 52: MONTHLY NET RETAIL SALES BY EQUITY REGION (JAN 2020 - DEC 2021)



Global: The long-term investor preference for globally diversified funds remained consistent throughout 2021 with inflows in every month of the year and an aggregate inflow of £13.4 billion. The economic recovery from Covid-19 followed different paths and timescales through 2021 and by investing in geographically diversified funds, investors were able to mitigate some of the risk of dislocated supply chains and an uneven pace of recovery in different countries. A significant (£7.4 billion) driver of global equity sales has been the growth of responsible investing, where fund managers invest in companies using a sustainability lens rather than focusing on a specific equity region.

Asia: The early success of Asian countries in controlling the Covid-19 pandemic led to a relative openness in the regions' economies at the start of 2021, helping to attract strong sales to Asian equity funds. Inflows slowed as vaccine rollouts allowed economic re-openings in other regions and hopes faded for a marked improvement in Sino-US relations following Joe Biden's election at the end of 2020. The second half of 2021 saw outflows from Asian equity funds as investors grew increasingly cautious in the wake of a series of regulatory crackdowns in China. Despite outflows of £188 million in the second half of the year, Asian equity funds received just under £1.0 billion in inflows through 2021.

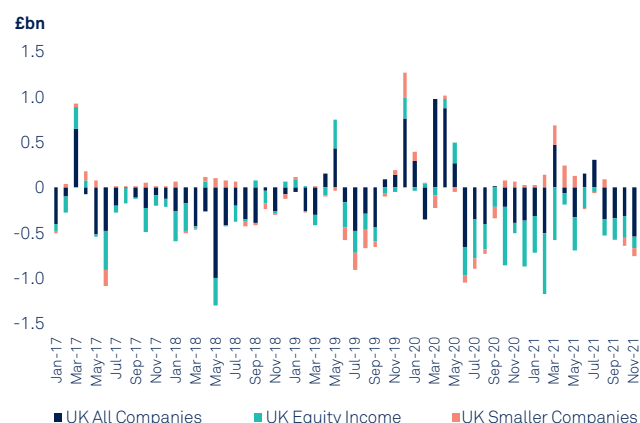
Funds in the newly launched India sector returned an average of 29% over the year, driven by a combination of economic growth, government stimulus and a shift in focus away from China. Investor interest in these funds was limited, however, at a £26 million inflow for the year.

Europe: Initial delays to the vaccine procurement and roll out caused European economies to lag behind other developed markets in the recovery from the economic side effects of Covid-19. Investors withdrew £837 million from European equity funds through the first quarter. As access to vaccine supplies improved and European economies re-opened, European equity funds did see inflows over the summer, recovering some of the Q1 losses to end the year on a £305 million outflow.

North America: North American equity funds saw investors withdraw £863 million in 2021, the first annual outflow since a £350 million outflow in 2016. This is in spite of strong market performance. Sharp outflows in the first quarter were concentrated to a small number of funds, suggesting an allocation decision, potentially to another investment vehicle such as a mandate or ETF. North American equities saw inflows through spring and summer, with investors benefitting from the bounce back as economic restrictions were lifted. Flows turned negative in the final quarter of 2021, as concerns mounted over inflation in the USA, supply constraints, and a tightening labour market. Investors withdrew £244 million from North American equity funds in the final quarter.

UK: Outflows continued from UK equity funds, rising from £2.8 billion in 2020 to £5.3 billion in 2021. The outflows in 2021 are the highest recorded in IA data, exceeding the £4.9 billion outflow in 2016 in the aftermath of the Brexit referendum result. This is in spite of decent FTSE All-share performance of 15% in 2021 and continues the long-term trend to reducing allocations to UK equities.

Chart 53 shows net retail sales to the three UK equity sectors. Outflows early in 2021 were dominated by the UK Equity Income sector, continuing the pattern of flows seen in 2020, when widespread dividend suspensions hit equity income funds. The strong initial vaccine rollout in the UK boosted investor confidence in the domestic economy, helping to drive inflows of £747 million to the UK Smaller Companies sector in the first half of 2021. The UK Smaller Companies sector typically has higher exposure to domestically focused companies. This is in contrast to the UK All Companies sector with higher exposure to multinational firms headquartered in the UK that can have more globally diverse revenue streams. The end of the Brexit transition period increased uncertainty over cross-border trade as businesses adjusted to the new environment. The UK All Companies sector saw retail outflows of £2.6 billion in 2021, £1.6 billion of which was in the final quarter.

CHART 53: MONTHLY NET RETAIL SALES, UK EQUITY SECTORS (JAN 2017 - DEC 2021)

The second half of 2021 saw a shift in sales patterns, with outflows from UK Equity Income funds slowing as the dividend outlook improved. Slowing GDP growth, supply chain issues and growing concern over inflation dampened the outlook for the UK domestic economy, sending UK Smaller Companies flows negative by the final quarter.

NEW IA EQUITY SECTORS

In September 2021, the IA launched four new equity sectors. Two regional equity sectors – India/Indian Subcontinent and Latin America, and two industry sectors – Financials and Financial Innovation, and Healthcare, helping investors to identify and compare these types of funds more easily. The constituent funds for these sectors were primarily drawn from the Global and Specialist sectors.

Alongside the four new equity sectors, the IA launched the Infrastructure, and Commodities and Natural Resources sectors. While funds in these sectors frequently invest via equities, these sectors are considered as 'Other' within IA analysis as being more closely aligned to alternatives.

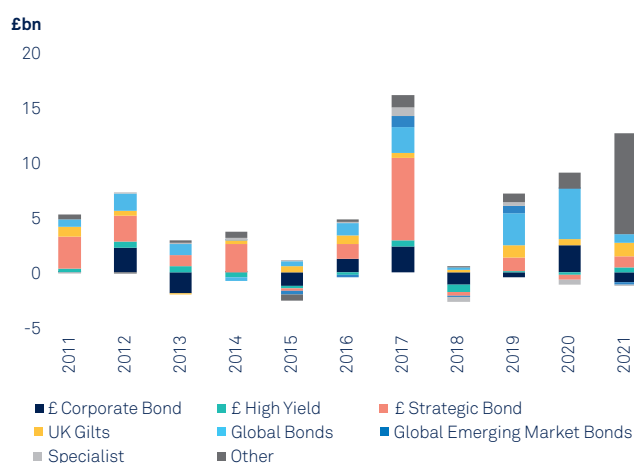
LONG-TERM SALES TO BOND FUNDS

Chart 54 shows annual sales to the IA bond sectors between 2011 and 2021. Sales to bond funds make up 24% of total net retail sales in the last 10 years, just lower than sales to equities which were 25%.

2017's inflow of £16.1 billion to bond funds is the highest over the last decade, in a record year for net retail fund sales overall. Nearly half of fixed income sales in 2017 were to funds in the £ Strategic Bond sector, where investment managers are able to adjust asset allocation up and down the bond credit spectrum to respond to shifting market conditions.

Global Bond funds have also proved attractive to retail investors, taking in a quarter of net retail sales to fixed income in the past 10 years. Sales to Global Bond funds were strongest through 2019 (£2.9 billion) and in 2020 at £4.5 billion, when bond sales rebounded strongly following the record March outflow of £7.5 billion.

In 2021, sales to bond funds unallocated²¹ to the IA sectors made up 74% of the annual inflow, a far greater proportion than in previous years. Our data suggest that two-thirds of the highest selling bond funds in this category were managed by vertically integrated groups with distribution arms.

CHART 54: FIXED INCOME, NET RETAIL SALES BY SECTOR (2011-2021)

²¹ There are a range of reasons that a fund may not be allocated to the IA sectors. The fund could be newly launched and waiting to be classified to a sector. Funds could also be managed and sold through groups with tied or restricted distribution models, for example a bank or a financial advice firm, where the visibility provided by IA sector fund classification scheme is less important. Funds may also be predominantly invested in by non-UK investors.

NEW IA BOND SECTORS

Considerations when investors select their bond exposure include:

- Type of bond: government bond, corporate bond.
- Credit type: investment grade, high yield, mixed.
- Currency focus: GBP, USD, EUR or multi-currency.

These factors inform the construction of the IA bond sectors. In April 2021, the IA split up the Global Bond sector and launched 14 new bond sectors including: Global Government Bond, Global Corporate Bond, Global Mixed Bond and Global Inflation Linked Bond as well as corresponding sectors USD and EUR bond funds. This was to ensure that savers can continue to easily compare bonds funds based on the type of bond, credit type and currency focus.

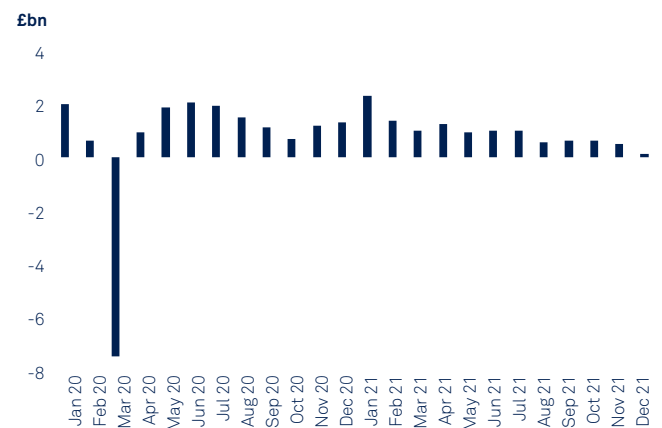
SALES TO THE IA BOND SECTORS THROUGH THE PANDEMIC

Overall net retail sales in 2021 were £11.5 billion, up from £8.0 billion in 2020, when in March bond funds sustained a record monthly outflow. However, towards the end of 2021 as Chart 55 shows, rising inflation caused inflows to bond funds to weaken.

In March 2020, outflows from fixed income funds reached a record £7.5 billion. Equity valuations fell substantially in response to the swift imposition of measures to curb the pandemic, leading to an effective economic shutdown. Investors were wary of selling out of equities at low valuations. A typical balanced portfolio construction of 60% equities, 40% bonds would have been thrown out of alignment through falling equity valuations, leading to re-balancing of bond allocations. However, the rebound to inflows was immediate and sustained through 2020 and by August 2020 the outflow from fixed income was fully reversed.

In 2021, inflows peaked in January but sales to bond funds started to weaken significantly in the last quarter of 2021 due to rising inflation. Persistent and rising inflation erodes the value of future fixed interest payments, particularly for bonds with longer maturities. Sales to bond funds fell in the last quarter of the year to £1.4 billion, down from £4.8 billion in Q1 2021.

CHART 55: MONTHLY FIXED INCOME NET RETAIL SALES (2020-2021)

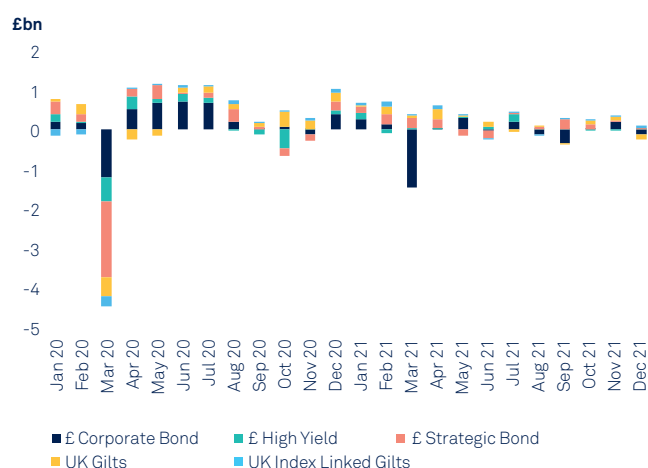


In 2021, sales to funds in the sterling bond sectors were £1.8 billion accounting for 78% of net retail sales to the fixed income sectors (excluding unallocated funds). In 2022, as sterling has weakened against other currencies, in particular the dollar, outflows have been higher from the sterling denominated sectors as investors look to manage their currency risk.

Chart 56 shows sales to the sterling bond sectors broken down in more detail, confirming the overall trend to weak sales in the second half of 2021:

- Corporate bond funds were hit by rising redemptions at the start of the year. There was a sharp increase in bond yields in the first three months of 2021, as economic re-opening brought concerns that inflation would rise.²² This negatively affected the price returns that investors could expect from bonds. The £ Corporate bond sector was the only sterling bond sector in overall outflow in 2021 losing £865 million across the year.
- The £ Strategic Bond sector was the highest selling sterling bond sector at £1.08 billion, which is consistent with the long-term trend to high inflows for the sector.
- Inflows to UK Gilts and UK Index Linked Gilt sectors were £1.2 billion indicating an investor flight to safety. The annual inflow of £487 million to index-linked bonds was the highest in over a decade as investors looked to hedge against rising inflation.
- The £ High Yield sector saw inflows of £430 million.

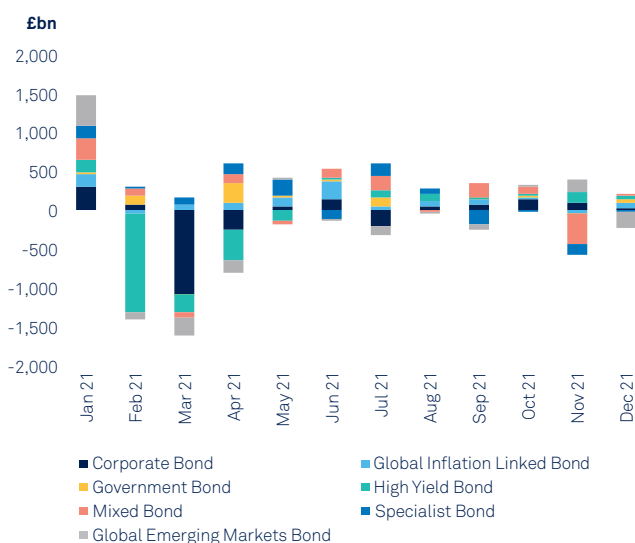
CHART 56: NET RETAIL SALES TO THE STERLING BOND SECTORS (JAN 2020 - DEC 2021)



Following the launch of the new bond sectors in April 2021, Chart 57 shows sales aggregated by type of bond fund denominated in either mixed currencies, USD, or EUR. The data has been extended back to January 2021:

- As bond investors increasingly took account of rising inflation through 2021, sales to Global Inflation-Linked Bond funds were the highest amongst the non-sterling bond funds at £814 million.
- Government bond saw annual inflows of £655 million. Three fifths of funds in this group hold mixed or global currency bonds.
- Mixed bond funds were the third highest selling group at £617 million. A diversified mix of bonds by type of issuer and credit rating provides investors helps manage risk and returns through diversification. Three quarters of the funds analysed in this group also hold bonds of mixed currencies mitigating exposure to single currency fluctuations.
- The pattern of flows to Corporate Bond funds has been more volatile. Net retail sales were -£599 million for 2021. The highest outflow came in March 2021 at -£1.1 billion, which also saw the highest outflow from the £ Corporate sector as corporate bond returns were negative over the first quarter of the year.

CHART 57: MONTHLY NET RETAIL SALES TO THE NON-STERLING BOND SECTORS IN 2021



²² The yield on US Treasuries with a 10-year maturity, which is seen as a benchmark for 10-year debt, rose to 1.74% in Q1 2021, a rise of 0.83 % over the quarter. According to Northern Trust data, the first quarter of 2021 was the worst quarter of performance since 2008, as corporate bonds lost 4.65% over the quarter.

SALES TO OUTCOME AND ALLOCATION FUNDS

LONG-TERM

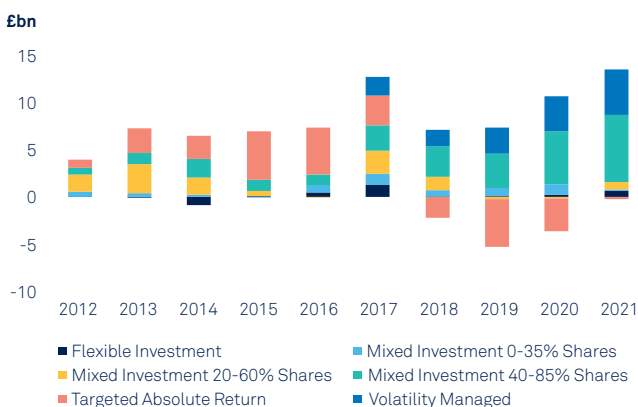
Funds with an outcome or allocation investor objective comprise investments that have a mixed asset allocation or that target a particular investment outcome such as managing the volatility of investment returns. These types of funds are investment solutions, offering investors ready-made diversification of assets.

Outcome and allocation funds have been consistently in favour over the past ten years, as illustrated by chart 58, with a total net retail inflow of £71.1 billion across the decade. However, there have been some significant shifts in investor appetite in recent years. In the outcome space, Targeted Absolute Return funds have fallen out of favour. For allocation funds, the Mixed Investment 20-60% Shares sector has seen sales decline and investors have shown a rising preference for the Mixed Investment 40-85% Shares sector.

Looking back, from 2014 to 2017 Targeted Absolute Return dominated sales with flows of £15.8 billion over the four years. However, from 2018 the sector fell out of favour with investors amidst concerns over long-term performance, with a combined £11.0 billion withdrawn from 2018 to 2021.

The Volatility Managed sector, where funds are tailored to the risk appetite of investors, has seen consistent and growing sales since its 2017 launch reaching £15 billion over the period.

CHART 58: OUTCOME AND ALLOCATION, NET RETAIL SALES BY SECTOR (2012-2021)



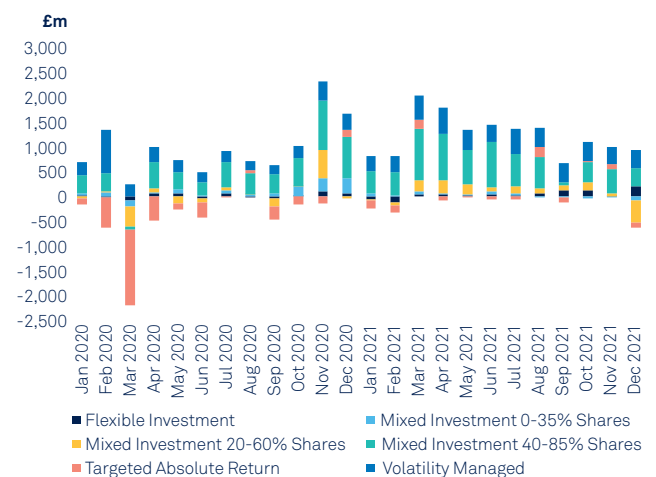
Within the mixed asset sectors, the past decade has seen a shift in investor interest from the Mixed Investment 20-60% Shares sector with a balance of equities and bonds, towards the more equity heavy Mixed Investment 40-85% Shares. In a prolonged period of low interest rates and strong equity growth, the high equity end of the mixed asset spectrum will have typically enjoyed stronger performance.

SALES THROUGH THE PANDEMIC

As shown in chart 59, investors continued to favour the high equity mixed asset sectors through 2020 and 2021. Stimulus measures supported a rapid recovery in equity valuations following the March 2020 correction, while interest rates dropped to historic lows.

Despite more volatile market conditions through the Covid-19 pandemic, Targeted Absolute Return has not seen a consistent return to inflows. Outflows continued in 2020 with £3.5 billion withdrawn through the year. However, outflows softened in 2021 to £217 million with intermittent months of inflow to the sector.

CHART 59: MONTHLY OUTCOME AND ALLOCATION, NET RETAIL SALES BY SECTOR (2020-2021)



PROPERTY FUNDS

Funds under management in property funds peaked in 2015 at £32 billion but has since fallen by 12% to £28 billion in 2021. The performance of assets affects the rise and fall of FUM and during the pandemic property funds have been affected by valuation uncertainty as the outlook for rental incomes has weakened through successive lockdowns. Persistent outflows since the 2016 Brexit referendum have also had an impact. Since 2016, the total outflow from property funds is £3.4 billion.

Direct property funds investing in physical commercial property have faced significant market headwinds since 2016. The funds operate daily dealing where fund units are priced daily and can be redeemed daily. Following the Brexit referendum in 2016, large redemption requests made to direct property funds forced many funds to suspend dealing to enable liquidation requests to be met at a fair value. In March 2020, direct property funds were again forced to suspend dealing as a result of valuation uncertainty. Property derives its investment value from the income it produces through rents. The introduction of lockdowns made it difficult to value commercial property such as office buildings, shopping centres, hotels and restaurants amidst a difficult trading environment for commercial tenants as people were confined to their homes.

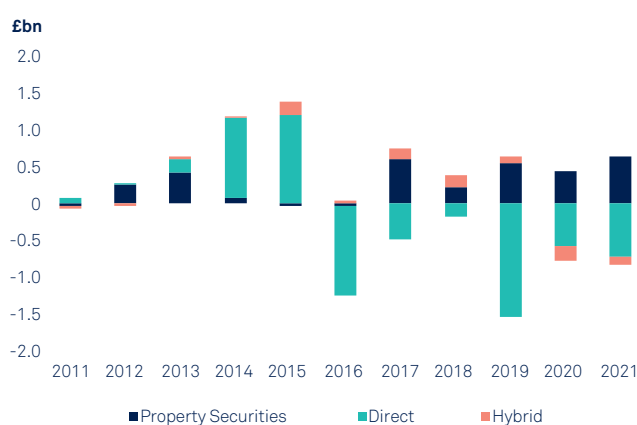
CHART 60: PROPERTY FUM AND NET RETAIL SALES (2011-2021)



Chart 61 shows net retail sales to property funds by type of fund. Since 2016, outflows from UK direct property funds are £4.8 billion as fund suspensions have affected investor sentiment towards open-ended direct property funds. When funds have lifted suspensions, there has been a corresponding rise in redemptions before sales stabilise. Funds investing in property securities, which are more liquid, were not forced to suspend in 2016 or in 2020 and net retail sales have reached £2.4 billion since 2016. Property funds can provide an alternative source of income for investors and continued inflows into funds investing in listed property indicate that the outflows from direct property funds are the result of a liquidity mismatch rather than negative sentiment towards property as an asset class.

Looking at 2021, sales to funds investing in property securities were £633 million – the only category of property fund to achieve an inflow. Outflows from hybrid funds were £111 million. By the middle of 2021, all direct property funds in the IA sectors that had suspended in 2020 had either lifted suspension or been closed. As a result, direct property funds saw outflows climb in 2021 to £735 million.

CHART 61: NET RETAIL SALES BY TYPE OF PROPERTY FUND (2011-2021)



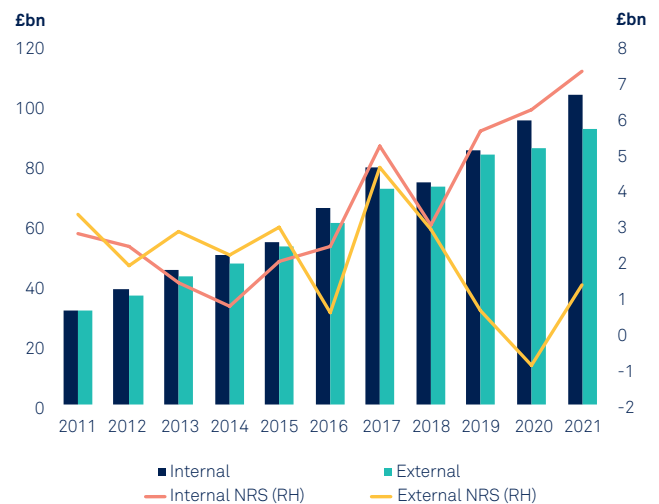
FUND OF FUNDS

Since 2019, growth in FUM and net retail sales of internally managed fund of funds (FoFs) has outstripped externally managed FoFs. Internal fund of funds are able to invest in funds managed by their management company whereas external fund of funds can invest in funds from across the market.

FUM in internally managed fund of funds has increased by 232% over the last decade, reaching £104.1 billion in 2021. This growth has outpaced the growth in FUM of externally managed fund of funds, which at £92.1 billion in 2021 increased by 190% over the decade.

There has been a step change in the level of sales to internal FoFs since 2019, as illustrated by Chart 62. In 2021, annual sales to internally managed FoFs were £7.3 billion compared with £1.4 billion to external FoFs. Over three years, sales to internal FoFs were nearly 18 times higher at £19.2 billion than to external FoFs, which saw sales of £1.1 billion. Whilst internal FoFs are not able to invest in the range of funds available to external FoFs, the ongoing fund charge is typically lower. Internal FoFs investing in index trackers and ETFs have seen strong sales over the last three years, suggesting that lower fees have become an important driver of investor choice for fund of funds.

CHART 62: FUND OF FUNDS FUM AND NET RETAIL SALES (2011-2021)



NET RETAIL SALES BY DISTRIBUTION CHANNEL

The UK fund platform channel, which encompasses sales through adviser and direct platforms, is the dominant retail distribution channel. Net retail sales of £148 billion are 70% of the total inflow since the introduction of the Retail Distribution Review in 2013.²³ The steepest decline in sales has been directly through fund managers and since 2013, the outflow from the direct channel has reached £18 billion.

The UK intermediaries channel, which represents off-platform IFA sales as well as sales through the large, vertically integrated advice businesses, accounts for sales of £58 billion since 2013 making it the second largest channel at 27% of total sales.

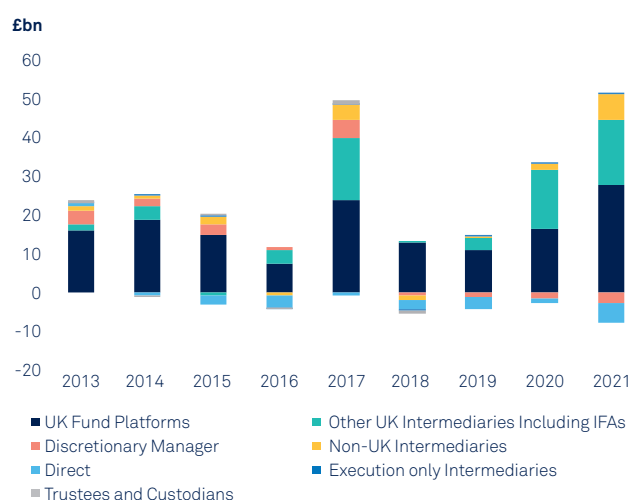
In 2021, annual net retail sales through UK platforms were again the highest at £28 billion, up by 70% on sales in 2020 in a strong year for sales overall. These are the highest sales through this channel since the IA started collecting data. The UK intermediary

²³ Investment platforms came to prominence in the mid-2000s, enabling advisers and direct investors to select from a range of funds and tax wrappers such as ISAs and SIPPs rather than dealing with numerous providers. Platforms also facilitate fund and advice fees and provide portfolio reporting, helping to streamline administration.

channel also maintained strong net retail sales of £17 billion, again the highest sales through this channel, although only up by 9% year on year. Sales through non-UK intermediaries of £6.5 billion were three times higher than in 2020 and sales through execution-only intermediaries (£607 million) doubled.

Rising outflows from the direct channel of £5 billion confirms the long-term trend to the winding down of many direct books. We also saw outflows from the discretionary manager channel of £2.8 billion – as more discretionary model portfolio services are offered through platforms, a proportion of discretionary manager flows are being re-directed into the platform channel.

CHART 63: NET RETAIL SALES BY DISTRIBUTION CHANNEL (2013–2021)

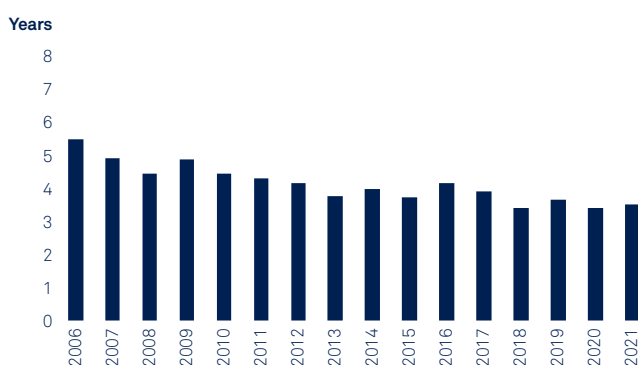


INVESTOR AVERAGE HOLDING PERIODS

In 2021, average retail investor holding periods are estimated at 3.5 years. The average investor holding period has fallen from 5.5 years in 2006 to a low of 3.4 in 2020. There are a range of factors that may be acting to decrease holding period. Platforms have made it easier for investors to buy, sell and switch between funds and this has helped to reduce average holding periods over time.

Another factor contributing to the fall is the move to centralised investment propositions (CIPs). Following RDR, the FCA has encouraged financial advisers to introduce a standardised approach to investing by using CIPs. These are often provided through advisory or discretionary 'model portfolios' of funds,²⁴ with an investment committee advising on the allocation of the portfolio to cater for clients with different risk tolerances. Model portfolios are adjusted on a quarterly basis, which has also contributed to lowering holding periods.

CHART 64: RETAIL INVESTOR AVERAGE HOLDING PERIODS (2006–2021)



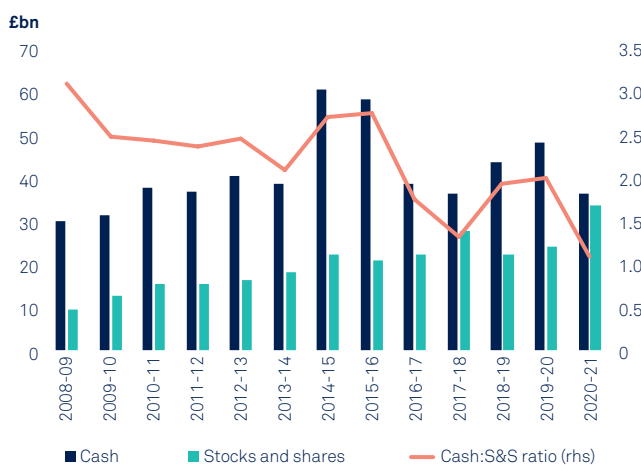
²⁴ Fund of funds or multi-asset funds can also be used as CIPs.

SALES TO ISAs

The market value of adult ISA holdings at the end of the tax year 2020/21 stood at £687 billion, an increase of 11% on the previous tax year. According to HMRC data, the increase can largely be attributed to a 31% increase in the market value of capital held in stocks and shares ISAs.

Chart 65 shows that the annual subscriptions to stocks and shares ISAs were £33.9 billion in 20/21 compared with subscriptions of £36.8 billion to cash ISAs. The ratio of cash subscriptions to stocks and shares subscriptions was 1.1, near par and the lowest ratio since the 08/09 tax year, which is the earliest data provided by HMRC. In 2020, the bank base rate was reduced to 0.1% in response to the severe economic contraction resulting from the pandemic. After over a decade of low rates the interest available to savers on cash accounts was negligible in 2021. In contrast, the returns that savers could achieve investing in a global index tracker in 2021 was circa 20%. These factors, combined with higher levels of saving during lockdown, helped to drive up subscriptions to stocks and shares ISAs by 40% year on year whereas cash ISA subscriptions fell by 24%.

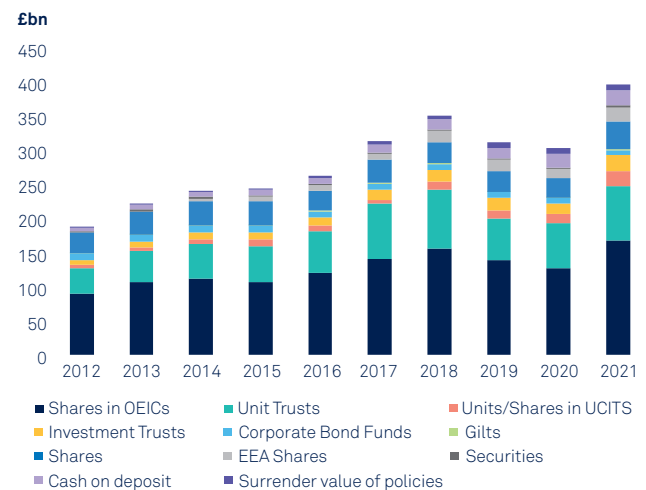
CHART 65: TOTAL SUBSCRIPTIONS TO CASH AND STOCKS AND SHARES ISAs (2008/09- 2020/21)



In 2021, assets in stocks and shares ISAs were £399 billion according to HMRC data, an increase of £93 billion on the previous year. Chart 66 shows the type of assets held in stocks and shares ISAs over the last decade:

- In 2021, assets in open ended funds were £278 billion or 70% of assets²⁵ compared with 75% in 2012. A 6% fall in the share of assets in 'shares in OEICs' and a 3% fall in the proportion allocated to corporate bond funds is partially offset by an increase in the share of assets in UCITS which is 5% in 2021, up from 3% in 2012.
- Whilst assets in shares have stayed consistent at 16% compared with 15% in 2012– EEA Shares now account for 5% of the allocation and UK shares are at 10%, down from 16% in 2012. This suggests that share portfolios are broadening out from UK companies, a long-standing trend in funds.

CHART 66: TOTAL ASSETS IN STOCKS AND SHARES ISAs BY TYPE OF ASSET (2012-2021)



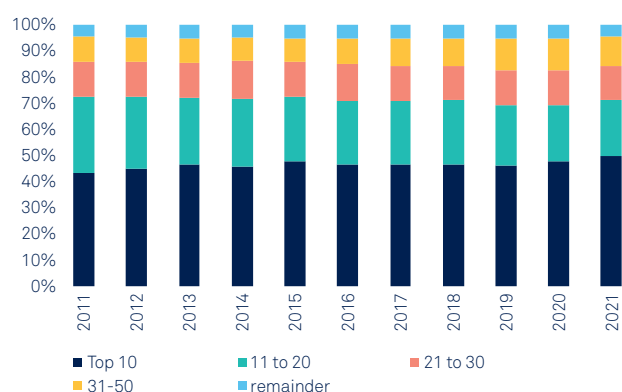
Source: HMRC

²⁵ Shares in OEICs, Unit Trusts, Units/Shares in UCITS, Corporate Bond Funds.

INDUSTRY CONCENTRATION

As of the end of 2021, the IA was receiving data from 89 operators of UK domiciled funds, down from a peak of 105 in 2013, following a series of mergers and acquisitions (see Appendix 3 for details). The top ten firms represented 50% of UK authorised funds in 2021, up from 43% a decade earlier, while the firms from 11th to 20th have dropped from 29% of market share in 2011 to 22% in 2021. As shown in Chart 67, these changes have combined to keep the percentage for the top 20 overall constant, at 71% in 2021 against 72% in 2011.

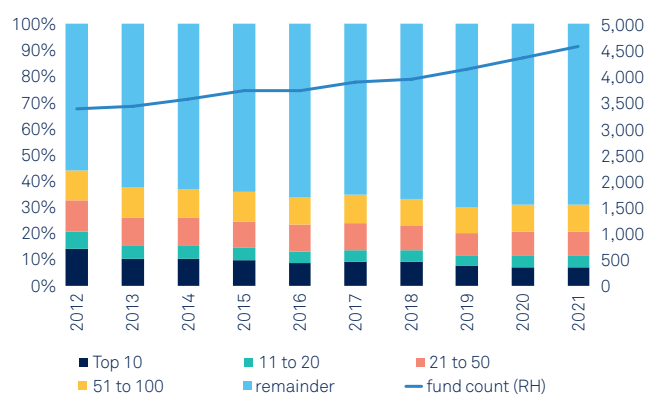
CHART 67: INDUSTRY CONCENTRATION OF UK DOMICILED FUNDS UNDER MANAGEMENT (2011-2021)



The Herfindahl-Hirschmann Index (HHI), a commonly accepted measure of market competition ranging from 0 (perfect competition) to 10,000 (a complete monopoly) can be used to gauge the level of competitiveness in the industry. Amongst UK fund operators, the HHI reached 371 in 2021, up from 356 the previous year and 307 in 2011. While the industry has become more concentrated, a measure of below 1000 on the HHI is considered to indicate a low level of concentration and so at 371 the industry can be considered highly competitive.

While there has been some increase in concentration among UK fund operators, the pattern for funds available to UK investors (including overseas domiciled funds) has been one of steady growth. Chart 68 shows the steady climb in the number of funds in IA data sold to UK investors to 4,565 in 2021.²⁶ As the number of funds available has climbed, the market share of gross sales going to the most popular funds has fallen, with the top 100 funds by gross sales (excluding money market funds) accounting for 31% of sales in 2021, down from 44% in 2012. This shift has occurred despite the growth in popularity of index tracking funds, which tend towards a smaller number of large funds by FUM. The shift towards index tracking has changed the nature of the top selling funds however, with half of the top 10 funds in 2021 being index trackers, compared to a single index fund in the top 10 in 2012.

CHART 68: FUND GROSS SALES CONCENTRATION EXCL. MONEY MARKET FUNDS (2012-2021)



²⁶ This data excludes ETFs.

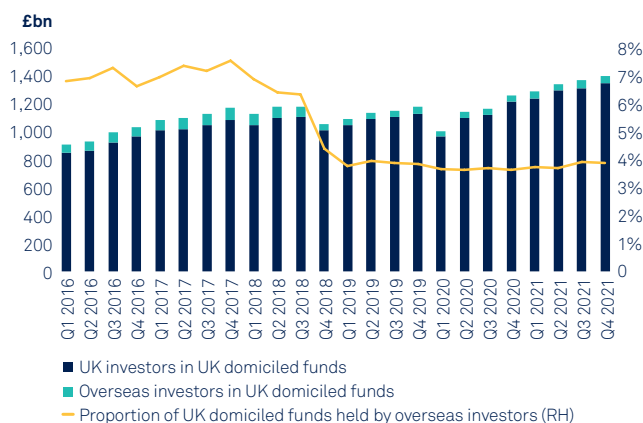
THE UK IN THE CONTEXT OF THE EUROPEAN FUNDS MARKET

Whilst the UK is an international investment management centre managing assets on behalf of clients all over the world, in the UK retail market, funds are predominantly domiciled in the UK and Europe and overseas investors in UK domiciled funds are principally European. Since the Brexit referendum, we have analysed how the profile of investors in UK domiciled funds is changing. We also assess the share of UK Investor FUM in overseas domiciled funds (which are mainly Ireland and Luxembourg domiciled) and track net retail sales by different type of fund structure including SICAVs and ICAVs to see if there is a material shift in sales patterns ahead of the end of the Temporary Permissions Regime in 2025.

OVERSEAS INVESTORS IN UK DOMICILED FUNDS

Total FUM in UK domiciled funds reached £1.4 trillion at the end of 2021, an 11% increase on 2020. FUM held by overseas investors was £53 billion, a 4% share of UK domiciled FUM and this has remained constant since the last quarter of 2018. The fall in the share of funds held by overseas investors from 7% in Q1 2018 to 4% in Q4 2018 represents operational decisions by member firms to move overseas investors out of UK domiciled funds into equivalent overseas domiciled funds in preparation for Brexit. The fall is not a sign of shifting overseas investor sentiment.

CHART 69: UK DOMICILED FUNDS BY INVESTOR PROFILE (2016-2021)



UK INVESTORS AND OVERSEAS DOMICILED FUNDS

UK investor FUM in overseas domiciled funds is £259 billion and 16% of total UK investor FUM (£1.6 trillion). As illustrated by Chart 70, this is up from 10% in Q1 2016. Overseas domiciled funds have maintained a consistent proportion of 16% of FUM since 2020.

CHART 70: UK INVESTOR FUM BY FUND DOMICILE (2016-2021)

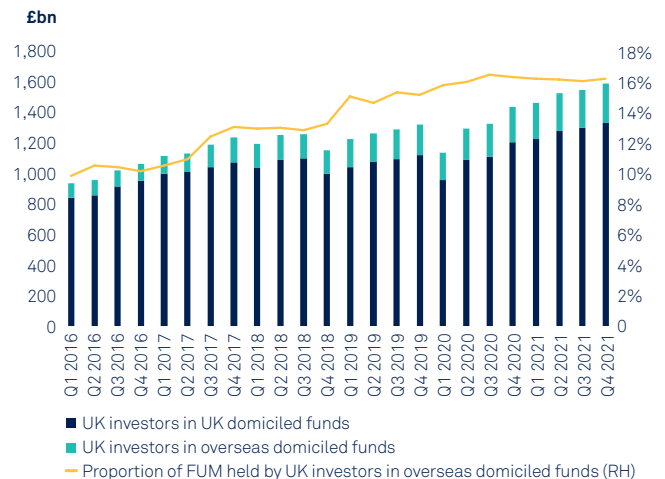
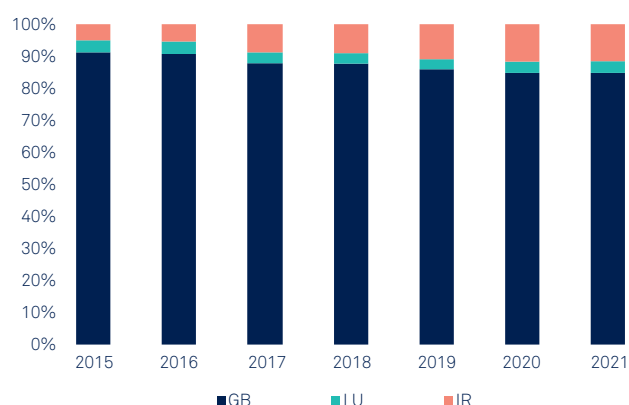


Chart 71 looks at the proportion of UK investor FUM by fund domicile. In 2021, UK domiciled funds remain the highest proportion at 85% of FUM but this is down from 91% in 2015. Growth in the proportion of Irish domiciled funds has been stronger over that period than Luxembourg domiciled funds, which have maintained a consistent level of circa 4%. Irish domiciled funds now account for 11% of total UK investor FUM up from 5% in 2015. This FUM data excludes ETFs available to UK investors, which are mainly domiciled in Ireland. We look at trends in the ETF market in Chapter 3.

CHART 71: PROPORTION OF UK INVESTOR FUM BY FUND DOMICILE (2015-2021)



SALES TO UK AND OVERSEAS FUND TYPES

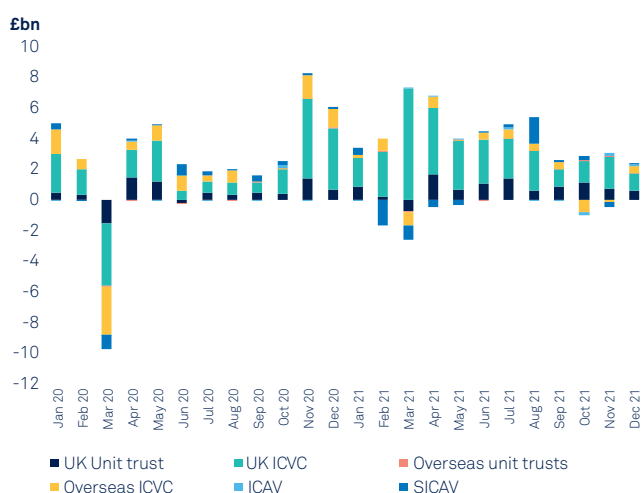
The Conservative party won a significant majority in the late 2019 general election, which cemented the timetable to complete Brexit and the UK formally left the European Union on the 31 January 2020. However, the transition period meant that little material change was seen until the 1st of January 2021. For the funds market, following the transition period the temporary permissions regime came into force allowing EEA based funds that were passporting into the UK to continue to be marketed in the UK in the same way for a limited period ending in 2025. Chart 72 looks at the sales data over the last two years by different

fund type. It allows us to compare the sales of fund structures that originate from the UK with those from overseas - principally the EU - including SICAVs and ICAVs. In 2021, sales to UK fund types were £42 billion or 96% of UK investor net retail sales (this data excludes net retail sales to exchange traded funds). This is up from 76% of net retail sales in 2020.

Looking at the data in more detail illustrates the shifts in sales patterns through 2021:

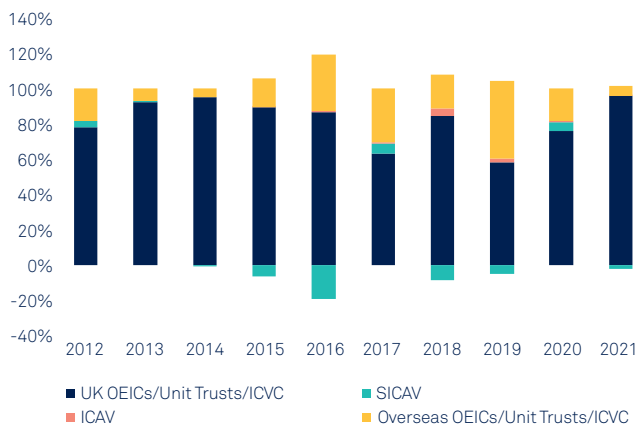
- SICAVs saw an outflow of £814 million following sales of £1.6 billion in 2020.
- Net retail sales to overseas unit trusts and ICVCs were £2.4 billion, down from £5.6 billion in 2020.
- Net retail sales to ICAVs were £197 million and maintained similar levels to 2020 (£192 million).

CHART 72: UK INVESTOR NET RETAIL SALES BY FUND TYPE (2020-2021)



It is still too early to determine if the fall in the share of sales to EEA based funds is a persistent trend caused by Brexit or simply a fluctuation in net flows. Chart 73 indicates that although sales to overseas fund types have fluctuated, the proportion of flows in 2021 is the lowest in the last 5 years in a strong year for sales overall. In 2017, a record year for sales, 47% of flows were to overseas fund types.

CHART 73: ANNUAL PERCENTAGE OF NET RETAIL SALES BY FUND TYPE (2012-2021)



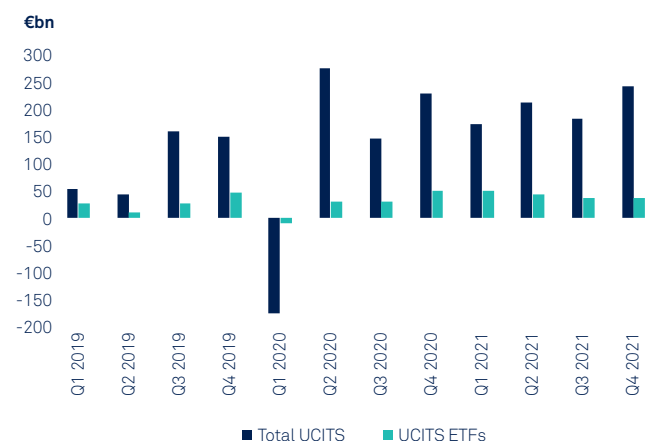
EUROPEAN UCITS SALES

2021 proved a record year for sales to UCITS funds at €812 billion beating 2017's inflow of €746 billion. This was powered by net retail sales to equity UCITS funds of €405 billion following a strong year for stock market performance. Sales to bond UCITS rose year on year to €182 billion, up from €84 billion in 2020 but did not match the record inflows seen in 2017 (€313 billion). Bond funds faced a challenging final quarter of 2021 as inflation started to rise.

Total UCITS sales in 2020 of €467 billion were helped by a strong rebound to sales in the second quarter and further boosted by the announcement of successful vaccine trials in Q4.

In 2021, net sales to UCITS ETFs were a record in absolute terms at €161 billion up from €95 billion in 2020 but in a strong year for sales overall, the share of sales to ETFs fell. According to EFAMA data, ETF sales in 2021 were 20% of total net sales to UCITS compared with 37% in 2020.

CHART 74: EUROPE-WIDE UCITS NET SALES (2019-2021)



Source: EFAMA

FUM BY EUROPEAN DOMICILE

Funds under management in UCITS and AIFs domiciled in Luxembourg, Ireland and the UK all increased strongly year on year, buoyed by strong asset appreciation. As shown in Chart 75 Luxembourg remains the largest domicile but assets in UK and Irish domiciled UCITS and AIFs grew at a faster pace in 2021:

- Assets in Luxembourg domiciled UCITS and AIFs are the highest in absolute terms at €5.9 trillion, up by 15% from 2020 (€5.0 trillion). Assets have risen by 58% in the last 5 years.
- In 2021, Ireland saw the largest percentage increase in FUM, which rose 22% year on year to €4.1 trillion. Assets in Irish domiciled funds have seen the most significant growth over the last 5 years increasing by 95%.
- After flat growth between 2017 and 2020 of just 8%, growth in assets domiciled in the UK accelerated over 2021 reaching €2.1 trillion, which represents 20% year on year growth. Since 2016, asset growth is still weaker than in Luxembourg and Ireland at 43%.

CHART 75: ASSETS IN UCITS AND AIFs BY DOMICILE (2019-2021)



Source: EFAMA

6 OPERATIONAL AND STRUCTURAL ISSUES

KEY FINDINGS

REVENUE AND COSTS

- » Total average net revenue after commission was £25.8 billion in 2021, equivalent to 27 basis points (bps) of total assets under management. This is up from £22.9 billion reported in 2020.
- » In 2021, total operating costs were £18.3, equivalent to 19bps of total AUM (up from £16.4 billion the previous year).
- » Profitability stood at 28.9% at the end of the year, which is one percentage point up from the previous year.

INDUSTRY EMPLOYMENT

- » As of December 2021, the UK's investment management industry employs an estimated 122,000 people, of which 45,000 are directly employed by investment management firms.
- » Distribution of staff by activity sees little change year on year, but over the past five years we have seen an increase in the number of jobs in back office and operations (especially in IT systems).
- » There has been little change in the regional distribution of those directly employed by the UK investment management industry, with three quarters of people (76%) working in London, 19% in Scotland and the rest (5%) elsewhere in the UK.

INDUSTRY CONCENTRATION

- » The industry remains relatively unconcentrated. IA membership continues to consist of a small number of large firms and a long tail of medium and small-sized organisations.
- » As of December 2021, the proportion of assets managed by the top five and ten firms account for 44% and 60% of total AUM, respectively, which is a slight (1%) increase on the previous year.
- » However, concentration has increased steadily (albeit slowly) over the past ten years. In 2021, the number of boutique investment management firms in the IA membership has dropped down to 12 (down from 15 the previous year).

INVESTMENT MANAGER OWNERSHIP

- » The majority (48%) of IA member firms belong to companies headquartered in the US. Over the past ten years the share of UK-headquartered parent companies has dropped to 40%. Meanwhile, the share of companies headquartered in Europe, Asia and elsewhere remains the same.
- » There has been little year on year change in the type of parent companies to IA member firms. Standout long-term trends recorded over the past ten years include: a drop in retail banks, an increase in investment fund managers and a decrease in insurance companies.

This chapter looks at the operational and structural dimension of the investment management industry by taking a closer look at the firms that constitute the IA's membership. As a complement to the analysis of trends in asset allocation and client type, this chapter focuses on the following three themes: industry profitability, employment and concentration.

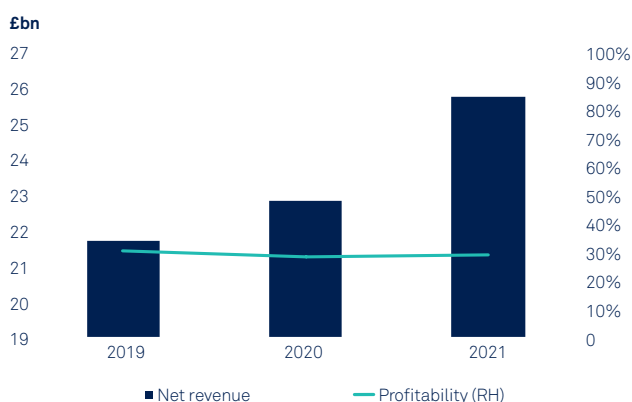
REVENUE AND COSTS

Each year, the IA reports the aggregate revenue and cost figures for the industry, covering both in-house and third-party business.²⁷ Chart 76 looks at industry net revenue over the last three years. We observe the following:

- In 2021, total average industry revenue stood at £25.8 billion after commission, equivalent to 27 basis points (bps) of total assets under management. This is up from £22.9 billion reported in 2020 (and 26 bps).
- Total operating costs were £18.3 billion, equivalent to 19bps of total AUM, up from £16.4 billion the previous year (and 18 bps).
- Operating margins increased very slightly between 2020 and 2021, from 28.2% to 28.9%.

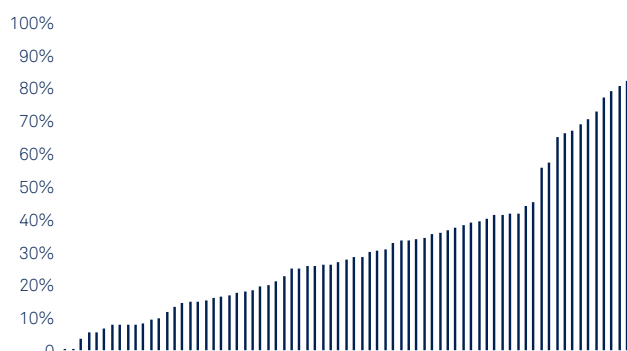
Average profitability in 2021 slightly increased (by less than 1%) on the previous year, reaching 28.9%. Revenue growth outpaced growth in costs, increasing 13% year on year compared with a 12% rise in costs. All IA member firms who participated in this year's Survey recorded profits, whereas some member firms experienced losses in 2020.

CHART 76: INDUSTRY NET REVENUE AND PROFITABILITY (2019-2021)



Average profitability across the industry in any given year can mask great underlying variation in individual firm experience. Chart 77 illustrates the range of profitability across IA member firms in 2021, which ranged from just over 0% to 89%. Our data also show that lower quartile was 15%, meaning that 25% of respondents had operating margins less than 15%. The upper quartile of firms had operating margins above 41%.

CHART 77: DISTRIBUTION OF INVESTMENT MANAGER PROFITABILITY IN 2021



²⁷ 2021 figures are comparable to figures published for 2020 and 2019, but not to figures of previous years 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).

Revenue has increased year on year for the past ten years, as have operating costs. Meanwhile, profitability has fluctuated between 28% and 38%.

Strong market performance has been a driver of revenue growth over the past ten years. At the same time, however, the scale of regulatory activity and the cost of compliance has been driving up operating costs. As the economic environment becomes more stressed due to market pressures associated with rising inflation and geopolitical turbulence, AUM growth is likely to weaken and early indications for 2022 is that AUM has fallen. As most investment managers charge fees on a percentage of assets basis, revenue growth could slow and we may find a very different picture of industry profitability in coming years.

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 to assess the value of the investment management industry more accurately 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.

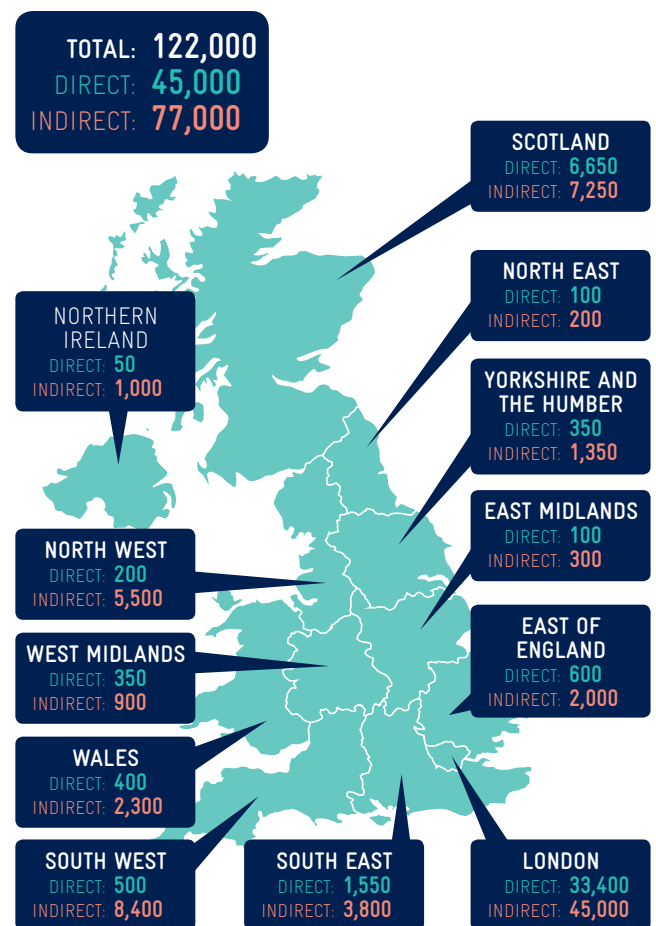
As of December 2021, the UK investment management industry supports approximately 122,000 jobs, of which 45,000 are directly employed by investment management firms and the remainder (77,000) are employed either by affiliate IA members or wider administration services, or in securities and commodities dealing activities.²⁸

London continues to be a major centre for the industry in the UK. Followed by the South West and Scotland.

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.²⁹ In addition, a number of firms have offices in other parts of the British Isles, notably the Channel Islands.

FIGURE 14: MAP OF DIRECTLY AND INDIRECTLY EMPLOYED STAFF ACROSS THE UK IN 2021



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.

²⁸ 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).

²⁹ 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

IA estimates find that just under 45,000 people are directly employed by investment management firms in the UK. This is up on the previous year, when we estimated 42,200 people were employed by the industry. This is equivalent to a 7% increase, a strong year for hiring in the industry. By comparison Since 2014, year on year growth in employment has fluctuated between 1% and 5%. The longer-term trend in industry employment has been one of slow – albeit steady – growth.

Chart 78 illustrates the growth of direct employment alongside total AUM growth for the past fifteen years. Overall, growth in AUM has outpaced the rise in headcount. Between 2008 and 2021, the average year on year growth rate for AUM was 8%, whereas industry headcount grew by 3% on average.

There are a number of reasons why growth in industry employment has been slow over the past fifteen years:

- The Global Financial Crisis (GFC) brought about a severe drop in industry employment, with industry headcount falling by more than 10% between 2007 and 2009. This was followed by a long period of recovery, with near stagnant growth in industry headcount between 2009 and 2013.
- A rise in industry assets does not necessarily lead to a rise in industry headcount. This is particularly true in the indexing strategy space. In order to keep fees low for investors and to maintain a profitable business, indexing firms focus on growing AUM to increase scale but try to keep headcount lean.
- Though a rise in AUM is not necessarily followed by a rise in industry headcount, when AUM falls or stalls it does affect employee growth. In Chart 78 we see that in years where AUM growth is weaker, this often followed by slowing growth in direct employment. This is because profitability is put under strain when AUM growth stalls and firms become increasingly cautious around adding headcount. We see this in the following instances:
 - The 11% drop in AUM between 2007 and 2008 caused by the GFC was followed by a 3% fall in industry headcount between 2007 and 2008, and a further 7% drop between 2008 and 2009.
 - Between 2014-15, AUM grew by just 1% and over the next couple of years industry headcount experienced little growth (increasing by 2% between 2015-16 and by 1% between 2016-17).
 - When growth in AUM stalled between 2017-18, this was followed by a slow down in growth in employment numbers, with industry headcount increasing by a modest 2% between 2018-19 and by 4% between 2019-20.

As AUM looks set to fall in 2022, we expect to see some impact on our employment data..

CHART 78: INDUSTRY HEADCOUNT ESTIMATE VS. UK ASSETS UNDER MANAGEMENT (2007-2021)

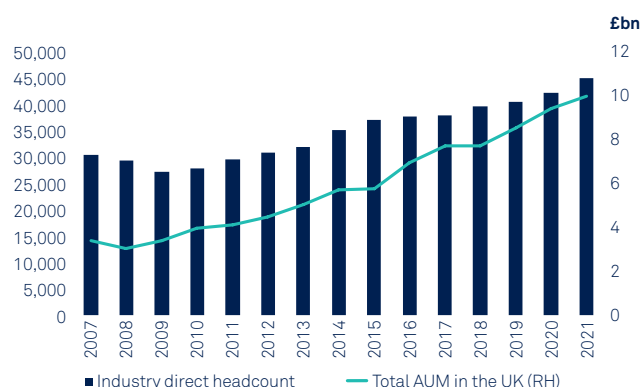


Table 4 provides a breakdown of staff by activity. The largest share (25%) of those directly employed by investment management firms work in investment management, for example as portfolio/fund managers or on product teams. The other three quarters work across the back office in support roles, mainly in operations and fund administration, business development and client services.

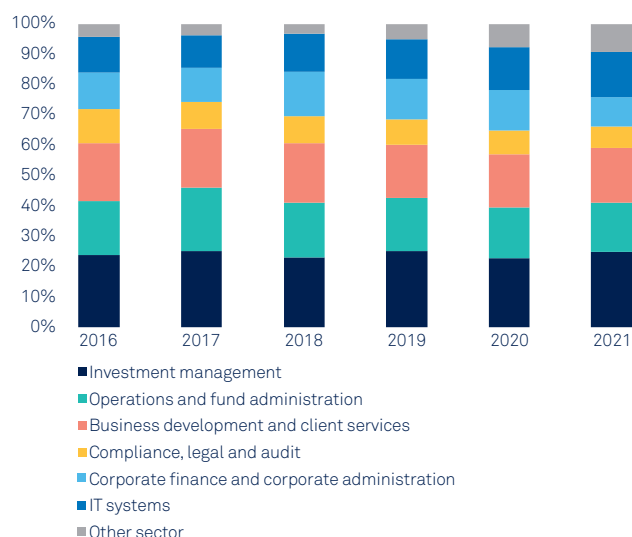
TABLE 4: DISTRIBUTION OF STAFF BY ACTIVITY IN 2021

Activity	Percentage of total headcount
Investment management	26%
Operations and fund administration	16%
Business development and client services	18%
Compliance, legal and audit	7%
Corporate finance and corporate administration	10%
IT systems	15%
Other sector	8%

The distribution of staff by activity sees little change year on year, but looking at Table 4 alongside Chart 79, which illustrates the medium-term trends in employment by activity, it is possible to identify some of the long-term trends in industry staffing.

- Employment in investment management roles has remained stable over the past five years, fluctuating between 23% and 24%. Between 2020 and 2021, staffing levels in investment management roles remained stable at 23%.
- Employment in Operations and Fund Administration has fluctuated between 16% and 21% since 2016. In 2021, 16% of directly employed staff in the industry were working in administration, which is down one percentage point on the previous year.
- The share of staff working in Business Development and Client Services has fluctuated between 17% and 19% over the past five years. In 2021, staffing levels in Business Development and Client Services increased by one percentage point on the previous year, reaching 19%.
- Employment in Compliance, Legal and Audit has generally been decreasing over the past five years, falling from 11% in 2016 to 7% in 2021. This drop is in part due to a slight decrease of staff in these roles in nominal terms, but mainly due to growth in other sectors outpacing growth in compliance, legal and audit roles.
- The share of staff working in Corporate Finance and Administration has fluctuated between 10% and 14% over the past five years. Between 2020 and 2021, there was a step drop from 13% to 10%.
- One of the most notable trends in industry staffing levels has been the rise in employment in IT systems. The share of roles in IT systems has increased from 13% in 2016 to 15% in 2021 as the industry increasingly prioritises embracing technological change (see discussion in chapter 2). We expect headcount in IT systems to continue to rise as some firms will look to develop their tech capacities in-house to boost their competitive edge.
- Staff working in Other sectors have also been on the rise over the past five years, increasing from 4% in 2016 to 10% in 2021. According to our members, a large proportion of these roles are in risk management because of increased regulatory scrutiny. Firms are also increasing headcount in executive and administrative positions. Other sectors also include staff working on stewardship, which has long been an important function for investment management, and sustainability-related activities. Sustainable investing has gained significant traction in recent years as investor appetite has increased and the pace of regulatory change has accelerated. We expect headcount in stewardship and S&RI related roles to continue to rise.

CHART 79: DIRECT EMPLOYMENT STAFF SEGMENT (2016-2021)



Employment in the industry varies by location as well as by staff segment. Between 2020 and 2021, headline employment by region has changed very little. Table 5 provides a breakdown of direct industry employment by location, which also sees little change year on year. A few things to note:

- **London** continues to be the UK's centre for the investment management industry, employing three quarters of people working in the industry (76%) and with the highest concentration of those working as investment managers (27%). Over the past five years, the most important change in the distribution of staff in London has been a decrease in staff working in back-office roles (including operation and fund administration, business development and client services, compliance, legal and audit) from 47% to 39%. By comparison, nearly half of people employed by the industry in Scotland work in these back-office roles (49%).

- **Scotland** continues as the leading centre for operations and fund administration in the UK, with more than a quarter of people directly employed by the industry in Scotland working in operations and fund administration (24%). Many IA members with offices across the UK will locate portfolio management teams in London and support roles in their Scotland offices.

- **Regional** employment (i.e. staff working in investment management outside London and Scotland) varies year on year. For the past five years, the largest increase in regional jobs has fluctuated between investment management and operations and fund administration. We also see a relatively high proportion of regional business development and client services roles, which are likely to cater to financial advisers and discretionary wealth management firms that have a significant presence outside London.

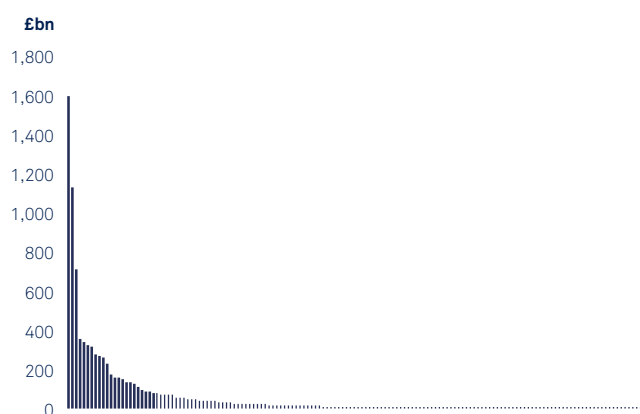
TABLE 5: DISTRIBUTION OF INVESTMENT MANAGEMENT JOBS BY REGION IN 2021

	London	Scotland	Elsewhere in the UK
Investment management	27%	19%	29%
Operations and fund administration	13%	24%	24%
Business development and client services	19%	15%	14%
Compliance, legal and audit	7%	7%	5%
Corporate finance and corporate administration	10%	11%	11%
IT systems	15%	18%	11%
Other sector	9%	6%	7%

INDUSTRY CONCENTRATION

Each year, the IA analyses trends in industry concentration, looking at the distribution of investment management firms by AUM. The ranking of IA member firms by total UK-managed assets under management in Chart 80 shows us that, aside from a few large firms, the industry is mainly made up of medium- and small-sized organisations, confirming that the UK investment management industry is still highly competitive.

CHART 80: IA MEMBER FIRMS RANKED BY UK ASSETS UNDER MANAGEMENT (JUNE 2021)



The median value of IA member firms' assets under management stands at £10 billion but the mean value is much higher at £59 billion, which confirms what we see in Chart 80, that there is a relatively small number of members managing large volumes of assets under management. In 2020, the mean value stood at £55 billion and the median value at £11 billion. Between 2020 and 2021, the mean value rose more than the median, which suggests that the largest firms grew assets at a faster rate.

The distribution of firms by size sees little change year-on-year. The general trend between 2020 and 2021 was an increase in the share of large firms and small firms, and a narrowing in the share of medium-sized firms. This is in large part due to M&A activity which brought a number of firms up from medium to large-sized. Furthermore, as the industry grows and the value of assets under management continue to appreciate, it is expected that more firms will move up the scale. It is conceivable that in coming years, a firm managing between £15 billion and £25 billion will be considered small, for example.

Table 6 offers a breakdown of IA member firms by size. 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. Year on year changes have been small. Over the past five years, we observe that:

- Smaller firms, managing £15 billion or less, continue to constitute the highest share of the IA's membership (at 57%). This is up from 56% in 2020,

TABLE 6: ASSETS MANAGED IN THE UK BY IA MEMBERS BY FIRM SIZE (2016-2021)

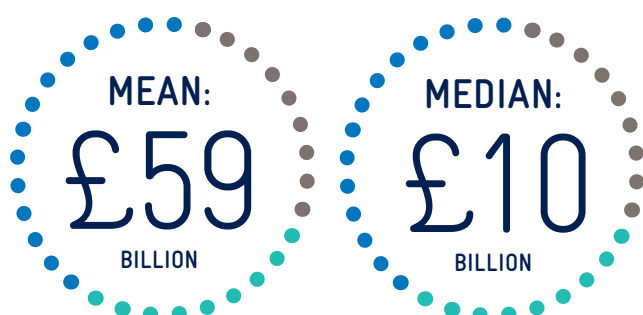
AUM	% of firms (June 2016)	% of firms (June 2017)	% of firms (June 2018)	% of firms (June 2019)	% of firms (June 2020)	% of firms (June 2021)
>£100bn	11%	12%	12%	11%	12%	13%
£50-100bn	9%	9%	8%	7%	9%	9%
£25-50bn	11%	10%	14%	11%	9%	9%
£15-25bn	8%	10%	8%	12%	14%	12%
£1-15bn	51%	47%	49%	45%	48%	47%
<£1bn	10%	13%	10%	13%	8%	10%
Total	100%	100%	100%	100%	100%	100%

which constitutes the first year on year increase in the proportion of small firms, which had been slightly decreasing year on year since 2016, in large part due to M&A activity.

- Medium-sized firms continue to constitute close to a quarter of firms in the industry, fluctuating between 19% and 23%. Generally, there has been an increase in firms managing between £15 billion and £25 billion and a decrease in firms managing between £25 billion and £59 billion.
- In 2021, the proportion of large firms has grown to account for 22% of firms which is up from 20% in 2016.

Between 2020 and 2021, the share of assets managed by the top five firms remained unchanged on the previous year at 44%. Meanwhile, the share of assets managed by the top ten firms increased by one percentage point, reaching 60%. The growth of the share of assets under management of the top ten firms outpaced the growth in assets under management of the top five firms, which means that firms ranking fifth through tenth experienced the most growth. This further confirms the lack of concentration in the industry.

AVERAGE ASSETS UNDER MANAGEMENT IN JUNE 2021



BOX 5: 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 £5.0 billion
- Providing a degree of investment specialisation
- Self-definition

While the IA definition of boutique asset managers places a £5 billion cap on AUM, there are many boutique firms both within and outside of the IA's membership that are much smaller, and so the size dispersion of boutique firms can be quite broad. According to these criteria, there are 13 IA members that qualify as boutique investment management firms. This is down from 15 boutique firms recorded last year. This is in part due to high levels of merger and acquisition (M&A) activity in the sector over recent years (see Appendix 3). As regulatory and compliance requirements continue to rise, and investing in technology becomes increasingly important to staying competitive, firms with scale could be better able to manage the cost burden and to maintain investment in innovation.

Many members we spoke to expect to see increased consolidation in the industry. However, boutiques are also well placed to capitalise on their investment specialisation as the ability to deliver superior returns in more challenging markets becomes a significant competitive advantage. Specialisation in growth areas such as private markets and impact investing could also lead to business gains.

"Some firms are very good at just focusing on alpha generation and this will be critical to competing in more challenging markets."

Chart 81 looks at the concentration level of the industry using the Herfindahl-Hirschmann Index (HHI), which is a commonly used measure of market concentration. HHI increased to 596 in 2021, the highest level of concentration recorded in the past ten years. However, 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.

CHART 81: MARKET SHARE OF LARGEST FIRMS BY UK ASSETS UNDER MANAGEMENT VS. HHI (JUNE 2011 - JUNE 2021)

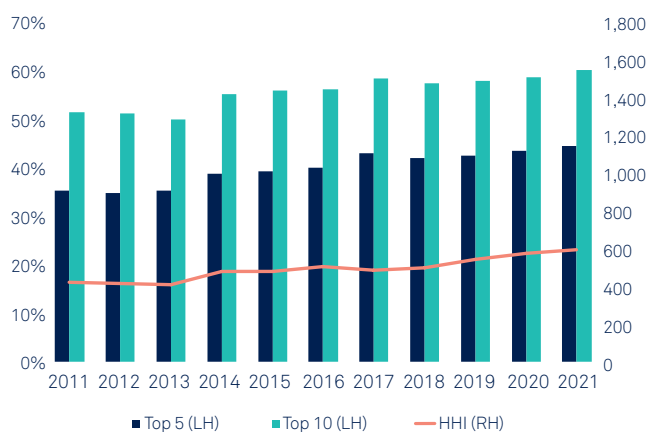


Chart 82 presents the top ten firms in terms of UK and Global assets under management. The top ten UK firms are a diverse group ranging from independent investment managers to bank and insurance owned managers. Both active managers and managers offering indexing strategies are represented in the top ten firms.

Most firms in the top ten have a large global footprint, most notably BlackRock, Vanguard and State Street with the largest value of globally managed assets. However, for most top ten firms, UK assets under management account for the majority of their global assets. Of the top three managers, Legal and General Investment Management is the only firm headquartered in the UK.

Over the past ten years, there has been movement between the top firms, including new entrants to the list. Some of the changes in the composition of the top ten firms have been the result of merger and acquisition activity. In the next section on investment manager ownership, we further discuss the impact of mergers, acquisitions and de-mergers on the industry (see Appendix 3 for more on M&A activity).

CHART 82: TOP TEN FIRMS BY UK-MANAGED AND GLOBAL ASSETS UNDER MANAGEMENT³⁰



³⁰ 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

In this last section we take a closer look at IA members ownership structures. Chart 83 illustrates total assets under management in the UK broken down by location of parent company headquarters. The share of assets managed by firms with a parent company headquartered in Europe, Asia-Pacific and elsewhere has seen little to no change over the past ten years (12% together). Meanwhile, there has been an increase in the assets managed by IA member firms whose parent company's global headquarters are in the US. As of December 2021, nearly half (48%) of total UK AUM is managed by a firm with a US-headquartered parent company, which is up from 42% in 2011. The proportion of assets managed by domestically headquartered companies is 40% in 2021, down from 47% ten years ago.

CHART 83: BREAKDOWN OF UK AUM BY REGION OF PARENT GROUP HQ (2011-2021)

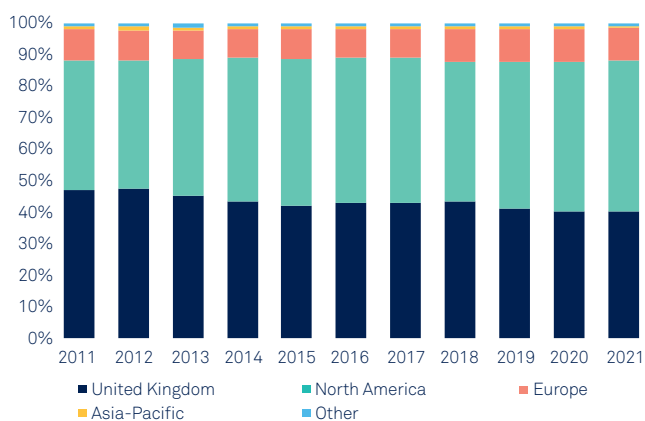
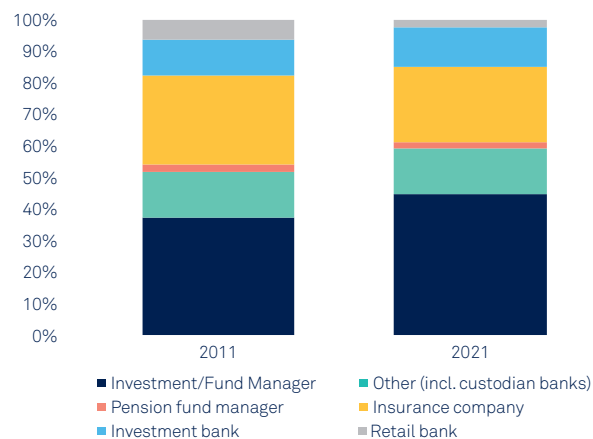


Chart 84, looks at a breakdown of member assets by type of parent company. One of the most notable trends of the past ten years has been an increase in the share of standalone investment management firms, which has increased from 37% to 45%. Over the same period, the share of assets managed by companies owned by insurers has decreased from 28% to 24%. This is mainly due to de-mergers, where we have seen a few large insurers demerge from their investment management arms.

Retail banks made up between 5% to 6% of the asset base between 2010 and 2013, but this has fallen to 2% since 2013. This coincides with the introduction of the FCA's Retail Distribution Review (RDR), which particularly impacted the parts of the market that offer investment advice. While retail banks retain their investment platform capabilities, serving a direct investor base, there is significant competition for direct investor share of wallet. Many retail banks exited the advice market or reduced headcount in 2013 as a result of increased regulatory and compliance costs. The loss of bank investment advisers has constrained the distribution of their investment products post-RDR and this has contributed to slower growth in AUM.

The share of pension fund manager companies has remained stable between 2% and 3% over the past ten years. Over the same period, the share of investment banks has fluctuated between 11% and 13%.

CHART 84: BREAKDOWN OF UK AUM BY PARENT TYPE (2011-2021)



APPENDICES

APPENDIX 1

SUMMARY OF ASSETS UNDER MANAGEMENT IN THE UK¹

TOTAL	
Assets under management in the UK (£m)	9,991,691
Segregated or pooled (%)	
Directly invested on a segregated basis	52.6%
Managed on a pooled basis	47.4%
Active or passive (%)	
Actively managed	67.8%
Passively managed	32.2%
Asset allocation (%)	
Equities of which:	41.7%
UK	22.8%
Europe (ex UK)	20.6%
North America	30.0%
Pacific (ex Japan)	8.1%
Japan	5.6%
Latin America	0.8%
Africa	0.3%
Emerging market	10.6%
Other	1.2%
Fixed Income² of which:	30.2%
UK Government	11.8%
Sterling corporate	14.6%
UK index-linked	10.8%
Other UK	7.3%
Overseas govt	22.3%
Non-sterling corporate	18.6%
Non-sterling other	14.5%
Cash/Money market	5.1%
Property	2.2%
Other	20.9%

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			
4,029,972	548,180	716,277	100,395	493,574	533,857	593,631	651,337	7,667,223	2,214,099	110,369
40.3%	5.5%	7.2%	1.0%	4.9%	5.3%	5.9%	6.5%	76.7%	22.2%	1.1%

APPENDIX 2

SUMMARY OF DATA FROM THE UK INSTITUTIONAL MARKET²

	TOTAL
Total Institutional Market (£m)	4,722,805
Assets directly invested on a segregated basis	67.8%
Assets invested on a pooled basis	32.2%
Active or passive (%)	
Actively managed	72.0%
Passively managed	28.0%
Multi-asset, LDI or Specialist (%)	
Multi-asset	10.7%
LDI (notional)	34.3%
Single-asset / specialist of which:	55.0%
Equities	35.8%
Fixed Income	37.9%
Cash/Money Market	13.7%
Property	7.2%
Other	5.4%

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

	Pension funds			Public sector	Corporate	Non-profit	Sub-advisory	In-house insurance	Third party insurance	Other institutional
	Corporate	Local government	Other							
	2,578,780	301,612	124,350	32,677	248,915	30,611	162,842	460,441	587,599	194,976
	54.6%	6.4%	2.6%	0.7%	5.3%	0.6%	3.4%	9.7%	12.4%	4.1%
	73.2%	47.6%	21.1%	53.5%	44.7%	45.8%	86.7%	83.6%	84.8%	4.2%
	26.8%	52.4%	78.9%	46.5%	55.3%	54.2%	13.3%	16.4%	15.2%	95.8%
	66.3%	62.7%	42.6%	86.1%	94.2%	68.7%	62.0%	91.4%	80.3%	86.2%
	33.7%	37.3%	57.4%	13.9%	5.8%	31.3%	38.0%	8.6%	19.7%	13.8%
	8.1%	4.1%	43.2%	7.3%	6.2%	29.3%	10.7%	2.7%	29.0%	1.7%
	58.1%	18.4%	15.2%	7.0%	2.2%	2.2%	0.6%	0.9%	2.8%	9.4%
	33.8%	77.5%	41.6%	85.7%	91.6%	68.4%	88.7%	96.4%	68.2%	88.9%
	30.7%	62.9%	53.2%	54.6%	18.3%	41.1%	60.9%	26.3%	47.6%	21.4%
	45.3%	23.4%	33.3%	13.7%	27.9%	11.6%	33.3%	48.8%	39.4%	13.4%
	7.8%	0.9%	4.9%	18.8%	47.4%	18.5%	0.1%	9.0%	7.6%	51.7%
	7.6%	8.0%	3.0%	6.9%	5.8%	5.2%	1.4%	12.9%	4.5%	3.7%
	8.5%	4.9%	5.6%	6.1%	0.6%	23.6%	4.3%	2.9%	0.9%	9.8%

APPENDIX 3

NOTABLE M&A DEALS IN THE UK ASSET MANAGEMENT SECTOR (2009 – JUNE 2022)

2021–2022

ACQUIRER	PURCHASE
abrdn	Interactive Investor EXO Investing
Affiliated Managers Group Inc.	Majority stake in Parnassus Investments
Ameriprise Financial (Columbia Threadneedle)	BMO Financial Group's EMEA business
Amundi	Lyxor Asset Management
AssetCo	SVM Asset Management Merger with River & Mercantile majority stake (63%) in Rize ETF 30% stake in Parmenion Capital Partners
Aviva	Succession Wealth
Bank of Ireland	J&E Davy Stockbrokers
Close Brothers Asset Management	PMN Financial Management
Federated Hermes	Remaining 29.5% stake in Hermes Fund Managers
Goldman Sachs Asset Management	NN Investment Partners
GTCR LLC and Reverence Capital Partners	Wells Fargo Asset Management
JP Morgan Asset Management	Campbell Global, LLC
Liontrust	Majedie Asset Management
M&G	90% stake in responsAbility Investments
Mattioli Woods	Maven Capital Partners
Momentum Global Investment Management	Seneca Investment Managers
Morgan Stanley	Eaton Vance Corp
PineBridge Investments	Benson Elliot Capital Management
Polar Capital	Dalton Strategic Partnership
Raymond James Financial	Charles Stanley Group
Schroders	River & Mercantile's Solutions Division 75% of Greencoat Capital
Stephens Financial Services	20% stake in CRUX Asset Management
Tatton Asset Management	50% stake in 8AM Global
Vontobel	Remaining 40% stake in TwentyFour
Waverton Investment Management Group	Cornerstone Asset Management

2020

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
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

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 Dolfen	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	Springgrowth 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 Templeton	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	Singletery 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	Singletery 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
Mitton	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
Cyrus 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 be 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 AND INTERVIEW PARTICIPANTS


Abrdn plc	Lazard & Co., Limited
Aberforth Partners LLP	Legal and General Investment Management
Affiliated Managers Group Limited	Lindsell Train Limited
AllianceBernstein Limited	Liontrust Fund Partners LLP
Allianz Global Investors UK Ltd	Linklaters LLP
Amundi Asset Management	Longview Partners LLP
Aviva Investors	M&G Investments Limited
AXA Investment Management	Man Fund Management UK Limited
Baillie Gifford & Co	Margetts Fund Management Ltd
Baring Asset Management Ltd	Martin Currie Fund Management Ltd
BlackRock Investment Management (UK) Ltd	McInroy & Wood Ltd
BlueBay Asset Management LLP	Morgan Stanley UK Ltd
Border to Coast Pensions Partnership Ltd	Newton Investment Management Limited
Brewin Dolphin Limited	Ninety One plc
Brooks Macdonald Asset Management	Nomura Asset Management U.K. Ltd
Brunel Pension Partnership	Northern Trust Asset Management
BT Pension scheme Management Ltd	Odey Asset Management LLP
Candriam	PineBridge Investments LLC
Carmignac Gestion	Polar Capital LLP
CCLA Investment Management Limited	Premier Miton Group plc
City of London Investment Management Company Ltd	Principal Global Investors (Europe) Ltd
Columbia Threadneedle (EM) Investments Ltd	Quilter Investors Limited
Crux Asset Management	Rathbone Unit Trust Management
Fiera Capital Corporation	Royal London Asset Management
FIL Investment Management Limited	Ruffer Investment Management
Franklin Templeton Fund Management Limited	RWC Partners Limited
Genesis Investment Management LLP	Santander Asset Management
Goldman Sachs Asset Management International	Sarasin & Partners LLP
Guinness Asset Management Funds plc	Schroder Investment Management Ltd
Hargreaves Lansdown plc	Slater Investments Ltd
Hermes Investment Management Ltd	State Street Global Advisors UK Ltd
HSBC Global Asset Management (UK) Limited	T. Rowe Price International Ltd
Independent Franchise Partners LLP	Troy Asset Management Limited
Insight Investment Management (Global) Ltd	TwentyFour Asset Management LLP
Invesco Ltd	Valu-Trac Investment Management Ltd
J O Hambro Capital Management Limited	Vanguard Asset Management Limited
J.P. Morgan Asset Management	Veritas Investment Management
Janus Henderson Investors	WAY Fund Managers Limited
Jupiter Investment Management Limited	Wesleyan Unit Trust Managers Ltd



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September 2022