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UK INVESTMENT MANAGEMENT IN 5 CHARTS 2023-24

August 2024

START



01 Total UK Assets under Management

02 The US Versus the Rest – Equity AUM

03 An Increasingly Global Client Base

04 The Rise of Retail Investing

05 Shifting Investor Demand



ABOUT THE IA'S INVESTMENT MANAGEMENT SURVEY

- The data in the 5 charts is derived from the IA's annual survey of the investment management industry.
- The survey is the most comprehensive report on the UK investment management industry. Our report is based on responses to the annual questionnaire, monthly fund data and interviews with industry CEOs.
- The report focuses on assets under management 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. AUM represents assets in mandates and pooled vehicles - for example, mutual funds or ETFs.
- There were 55 questionnaire respondents in 2023-24, representing 83% of total assets under management.
- The full report will be available in September.

Coverage includes:

1. Key data points on the size of the UK industry
 2. Defining policy and regulatory themes
 3. Trends in client assets and allocation
 4. Overview of the UK institutional client market and retail funds market
 5. Operational and structural issues
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The global operating environment is increasingly complex and challenging, but the UK investment management industry is adapting and remains resilient. There are multiple factors that investment management firms must navigate:

- **Macro-economic:** adapting to the end of low interest rates and quantitative easing
- **Political:** Significant transfer of power to new parties and focus on driving investment to domestic markets
- **Globalisation:** re-shaping of global alliances and supply chains
- **Environmental:** Diverging US & EU stance on climate change; weaker retail investor appetite for sustainable investing
- **Technological:** accelerating AI adoption and tokenisation; cyber security
- **Operational:** managing complex change; focus on cost reduction

In this data bulletin, we look at the industry in 5 charts to show the evolution of UK investment management in 2023.



01

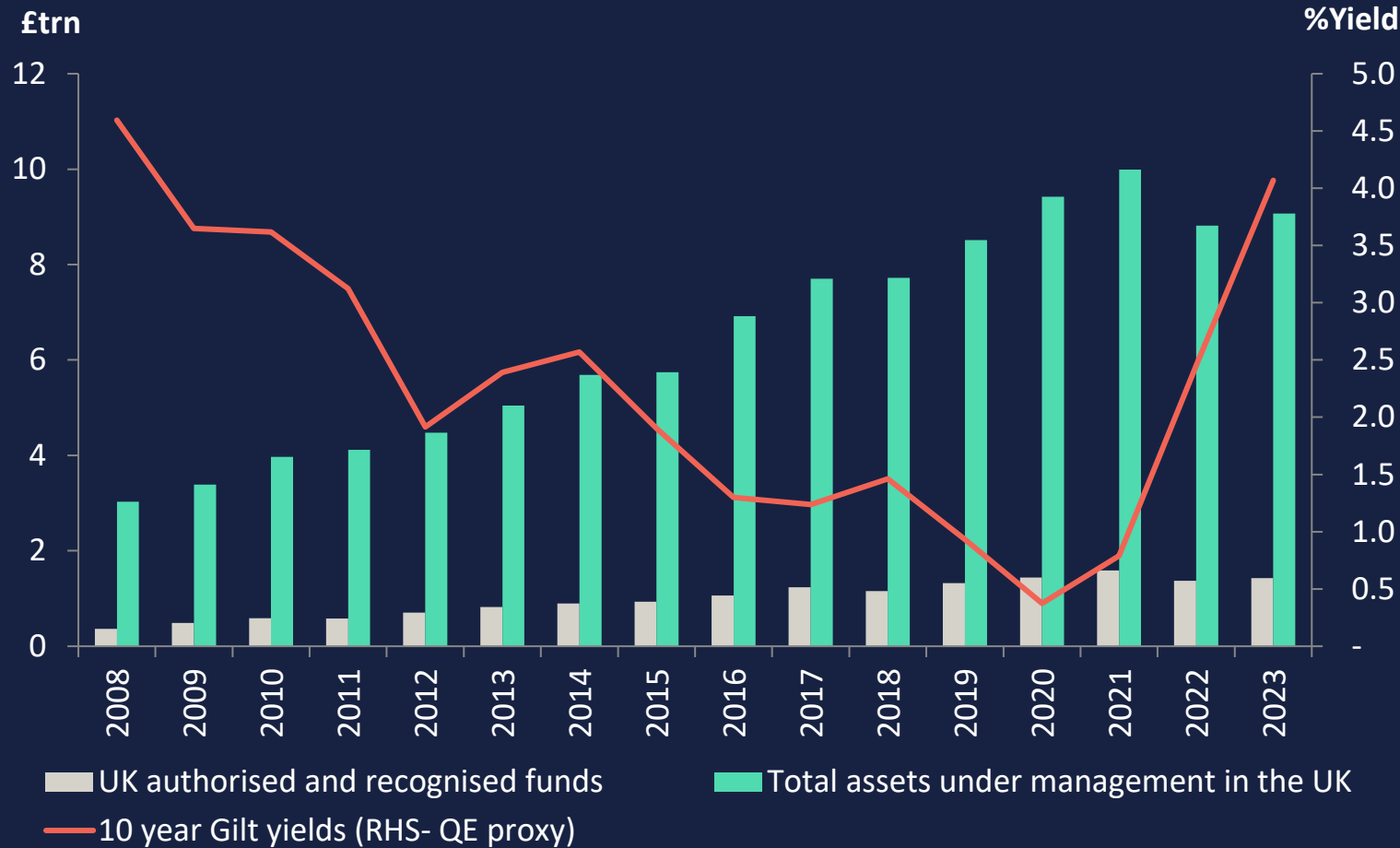
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TOTAL UK ASSETS UNDER MANAGEMENT

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TOTAL ASSETS UNDER MANAGEMENT RECOVER IN 2023 RISING 3% AFTER RECORD FALLS (12%) IN 2022



£9.1 trn
Assets under management (AUM)

£1.43 trn
Funds under management (FUM)

- In 2023, total industry AUM increased by 3% as markets rebounded. This is in spite of ongoing geopolitical uncertainty and flat economic growth in developed markets outside the US. FUM rose by 4% over the same period.
- The rise of 3% in 2023 compares with a record fall in AUM in 2022 of 12%. Investment managers are adapting to a new market cycle and the end of the era of low interest rates and QE (we use the 10 year gilt yield as a proxy for QE in this chart.)
- In the period following the Global Financial Crisis between 2008 and 2021, AUM grew on average by 9% each year whilst FUM grew by 11%.



02

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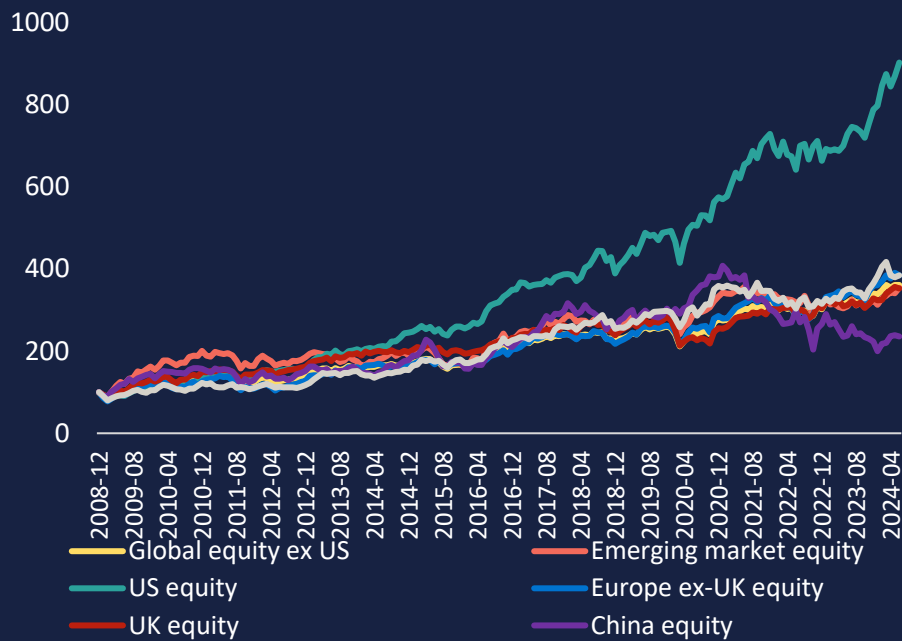
THE US VS THE REST- EQUITY AUM

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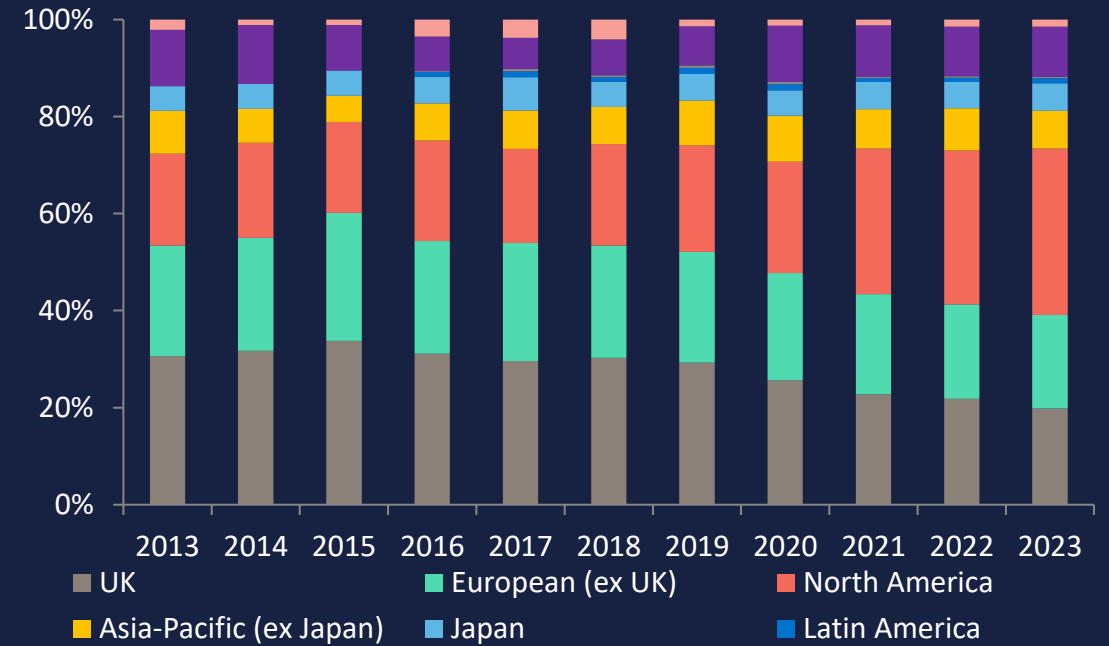


THE GROWTH OF AUM IN US EQUITIES OUTSTRIPS ALL OTHER MARKETS REACHING 35% OF EQUITY AUM IN 2023. THE UK ACCOUNTS FOR 20%.

Total return of major equity indices (2008-2023)



Allocation of UK managed equities by region (2013-2023)



Source: Morningstar

- The US stock market has significantly outperformed other equity markets over the last 15 years. As a result, the proportion of UK managed equities invested in North American companies has almost doubled over the last decade to 35%.
- Allocation to UK equities in 2023 is 20%, falling by 10% over 10 years. This reflects the trend over the last 15 years to more global diversification in equities as assets have been allocated away from the UK. However, the performance of UK equities has improved over the last two years in comparison with other developed markets and the UK makes up the second largest allocation, with the share of AUM in European equities at 19%.



03

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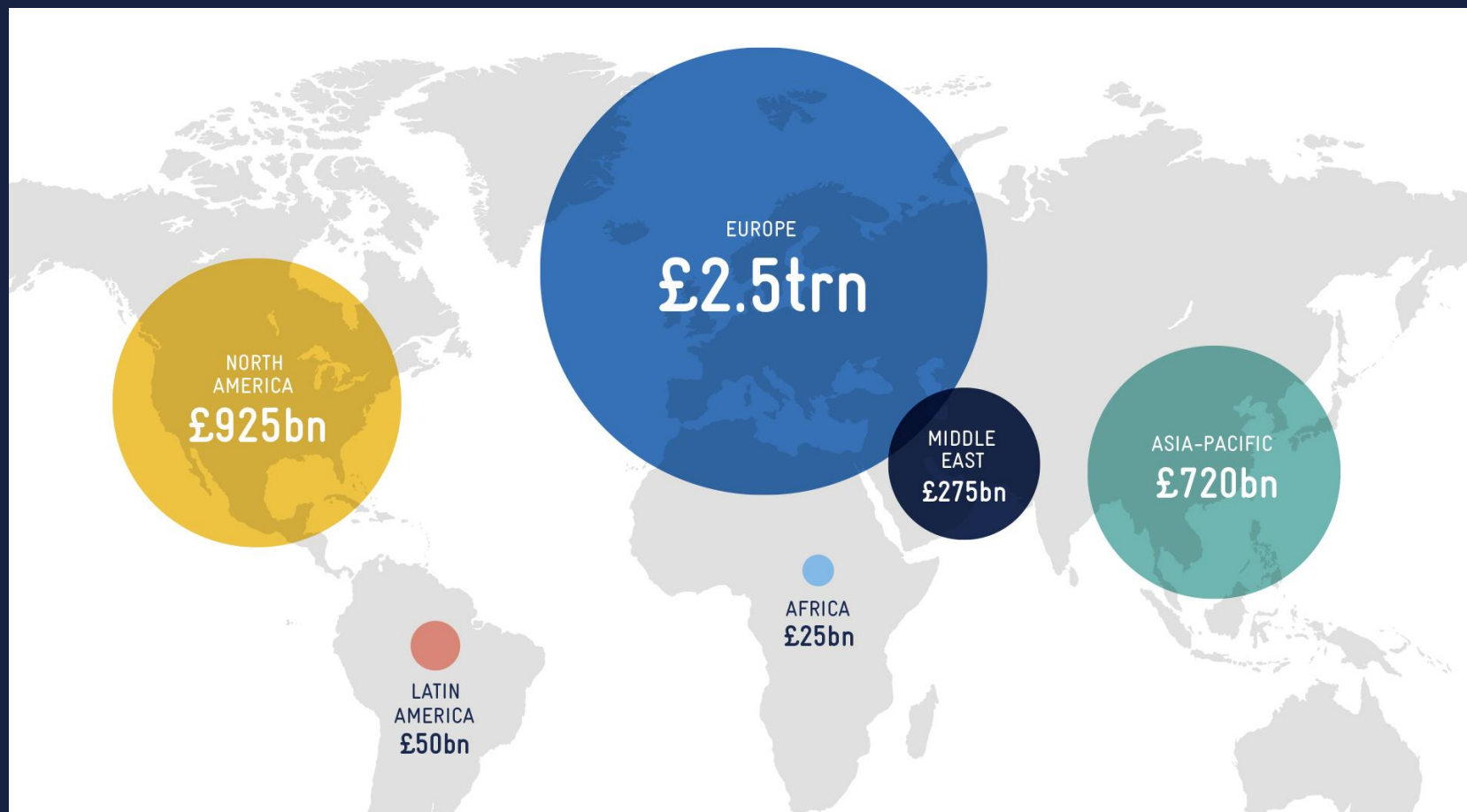
AN INCREASINGLY GLOBAL CLIENT BASE

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OVERSEAS CLIENT ASSETS CONTINUE RISING TO £4.5 TRN

→ 49% of UK assets are managed on behalf of overseas clients



- Nearly half (£4.5 trillion) of AUM is managed on behalf of overseas clients and total assets managed on behalf of overseas clients grew by 7% over 2023.
- The largest share of overseas client assets is managed on behalf of Europeans. Assets grew 5% year-on-year to £2.5trn but are still below the £2.7trn peak in 2021.
- The highest growth in 2023 at 15% was in assets managed for Middle Eastern clients which are now £275bn.
- US client assets also rose by 9% to £925 bn
- The proportion of total AUM managed on behalf of overseas clients continued to rise incrementally by 1% in 2023 to 49% - a growing overseas client base is a key indicator of the strength of the UK as a global investment management centre.



04

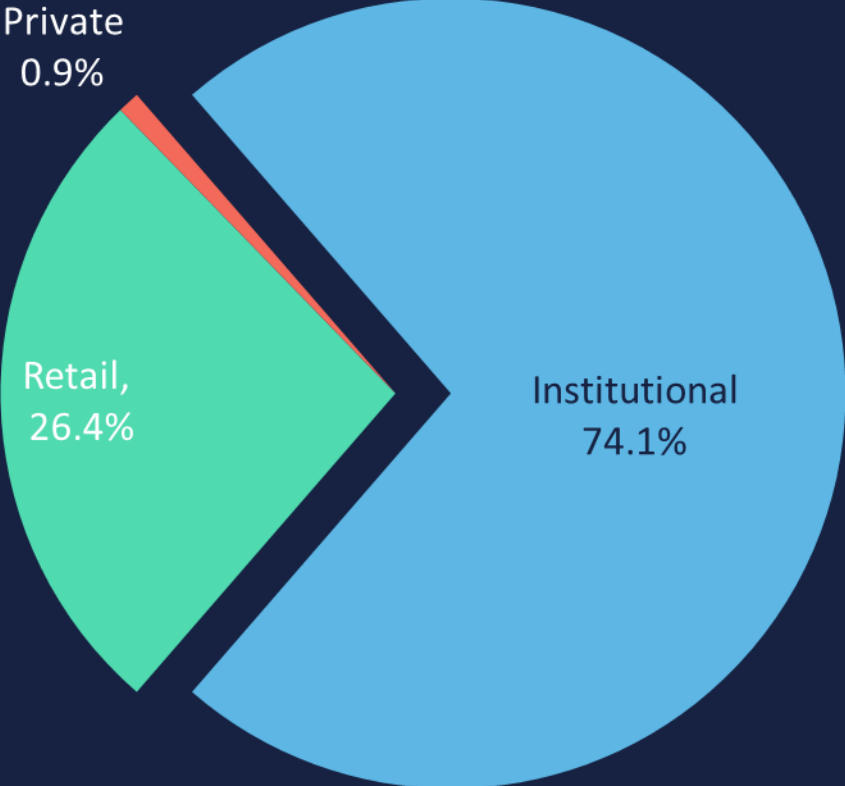
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THE RISE OF RETAIL INVESTING

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A QUARTER OF AUM IS MANAGED FOR RETAIL INVESTORS IN 2023 – UP FROM 20% IN 2020. GROWTH HAS BEEN SUPPORTED BY A RISE IN RETAIL INVESTING THROUGH THE PANDEMIC.



- Assets managed on behalf of retail investors rose again in 2023 to 26.4% of AUM. This compares with 20% in 2020 at the start of the pandemic.
- In 2020, the Bank of England cut the base rate to 0.1% to help kick start the economy and in November 2022, successful vaccine trials were announced and market performance rebounded strongly. This environment was attractive to retail investors, many of whom had more disposable income and time to spend on investing.
- Through 2022 and 2023, the proportion of AUM managed on behalf of retail investors has remained steady. This is in spite of rising inflation, higher interest rates and the market shock in 2022 caused by the Russia/Ukraine war.
- We have also seen some decline in the proportion of institutional AUM. Some of this is the result of performance in a more challenging market cycle. Higher interest rates have also improved funding for many DB pension schemes. In some cases, this means a move to pension buy out and some of these assets may no longer be represented in IA data.



05

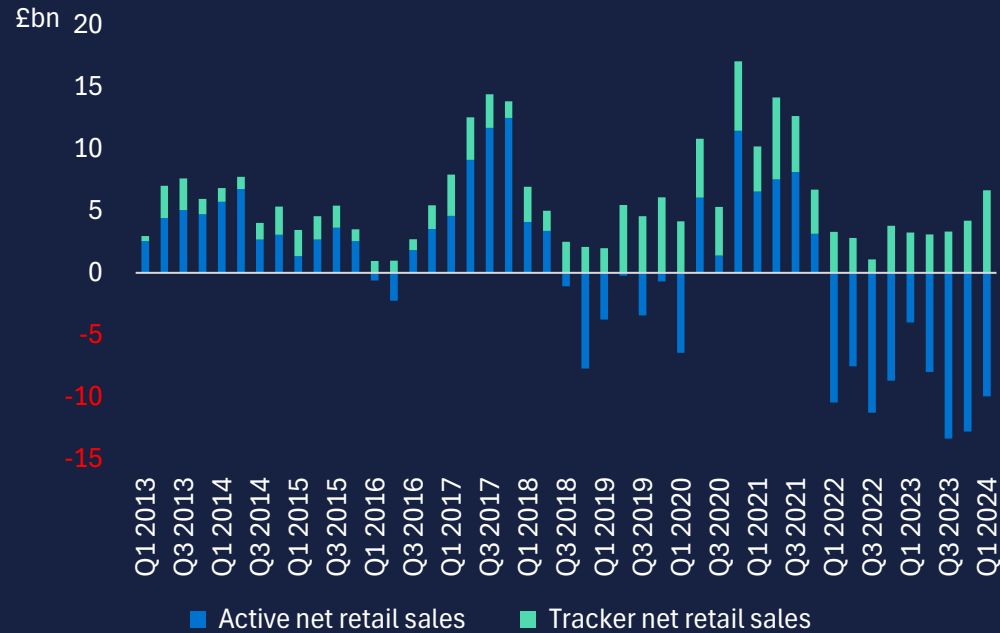
SHIFTING INVESTOR DEMAND

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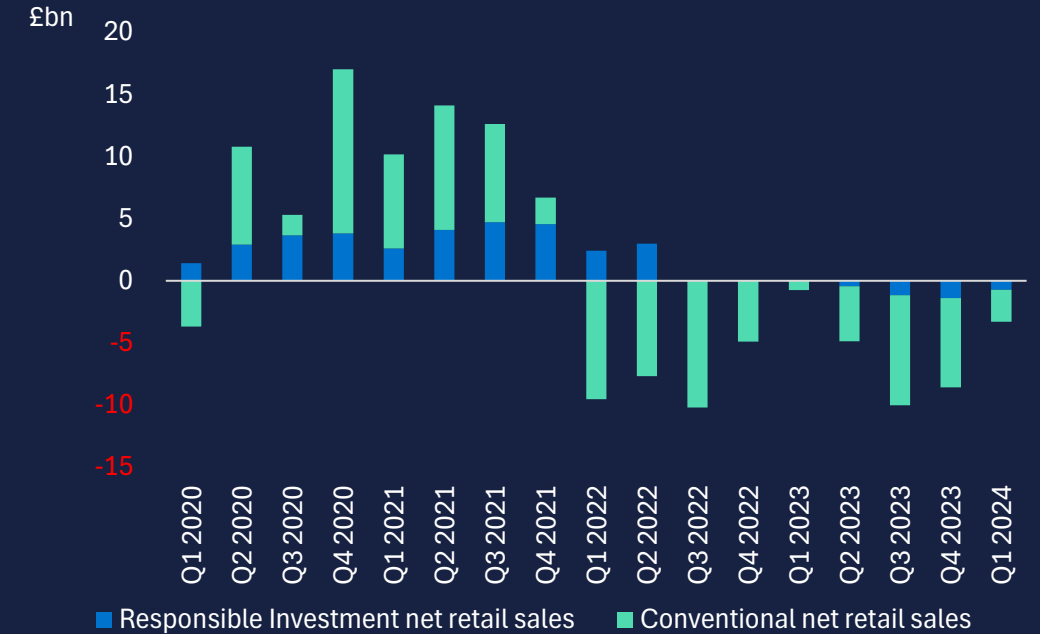


INVESTOR DEMAND FOR PASSIVE REMAINS ROBUST (£13.8BN) AS DEMAND FOR RESPONSIBLE INVESTMENT FUNDS HAS FALLEN - OUTFLOWS REACHED £3.0 BN IN 2023.

UK investor net retail fund sales to active and index tracking funds (2013-2024)



UK investor net retail fund sales to S&RI funds and conventional funds (2020-2024)



- Strong investor demand for passive index trackers remained through the 2022 changes in the economic cycle and inflows increased by £2.9 bn year- on-year to £14bn in 2023. Index trackers' share of UK investor FUM rose to 23% in 2023, doubling from a decade ago.
- Growth in ETFs also rebounded as global AUM grew by 25% outpacing the 17% annual growth rate of the last decade. This follows a fall of 11% in 2022 (Source: Morningstar). AUM in European domiciled ETFs rose by 28% in 2023 surpassing growth in the US (25%), the largest global market for ETFs.
- In contrast, demand for sustainable and responsible (S&RI) funds has fallen. Sales surged in 2020 and 2021 at £27.7 billion over the 2 years, accounting for a third of all net retail fund sales.
- Despite tough conditions in 2022, outflows from S&RI funds lagged the wider market. However, as sectors such as oil and gas outperformed following the market shock caused by the Russia/Ukraine war, investors holding S&RI funds, which typically exclude these stocks, experienced relative underperformance. Investors withdrew a net £3.0 billion in 2023 as outflows accelerated in H2.....



LOOK AHEAD

Growth in AUM to £9.1 trillion in 2023 shows that the investment industry is adapting in a period of significant change. Looking forward, it is critical to maintain momentum and to continue to support innovation and growth as we seek to deliver good outcomes for investors. We see these 5 themes as important to the future development of UK investment management:

1. Competitiveness and growth in a new economic cycle: increasing fiscal pressure and globalisation coming under stress; a collaborative and productive relationship between government, the FCA and industry is critical.
2. Changing role of private markets: significant opportunity to deliver good outcomes in the institutional/pensions market; opening up access through the LTAF.
3. Innovation and impact of technology: accelerating use of AI; establishing the right model for fund tokenisation.
4. Evolving investment themes: ongoing rise of passive; more complex global operating environment brings opportunity for active; what's next for sustainability?
5. A new retail agenda? better supporting investors in a digital world; helping more consumers to invest.





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August 2024

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