

EXECUTIVE SUMMARY

UK INVESTMENT MANAGEMENT INDUSTRY: A GLOBAL CENTRE

- » Total assets under management (AUM) by Investment Association (IA) members increased 3% in 2023, reaching £9.1trn. This 3% rise compares with a record 12% fall in AUM in 2022. This comes as investment managers are adapting to a new market cycle and the end of the era of low interest rates and quantitative easing.
- » A key driver of the scale of total AUM is the international nature of the UK investment management industry, both in terms of the customers and businesses served and the underlying assets.
- » 49% of AUM managed in the UK is on behalf of overseas clients. UK-managed investment fund assets in both UK and overseas domiciled funds stood at £4trn in 2023. 68% of these assets sit in overseas domiciled funds where the portfolio management takes place from the UK.

THREE KEY THEMES THAT WILL SHAPE THE UK INDUSTRY

- » Growth in AUM to £9.1trn in 2023 shows that the investment industry is adapting in a period of significant change. We see three themes as critical to the future development of investment management:
 1. Maintaining the UK's competitiveness in a new economic cycle as we seek to strengthen the UK's competitiveness by calling for stable and proportionate policy making; regulation that protects consumers whilst enabling firms to innovate and be competitive; collaborative relationships with international jurisdictions and supporting investment in the domestic capital and private markets.
 2. The evolution of sustainable investing in a more complex operating environment. Firms must navigate a shifting environment for sustainable investing as we see diverging political views towards implementation of net zero measures, an accelerating volume and pace of regulation including Sustainable Finance Disclosure Regulation (SFDR) and Sustainability Disclosure Requirements (SDR), and changing investor demand.
 3. Supporting innovation and harnessing the benefits of AI and tokenisation is a critical theme as investment managers are focused on implementing AI to streamline operations and to enhance research and analysis. The development of Distributed Ledger Technology (DLT) and tokenisation is focused on both fund operations and capital markets with progress on digital bond issuance and tokenised Money Market Funds.

TRENDS IN CLIENT ASSETS AND ALLOCATION

- » Institutional clients account for 72.7% of total AUM, down from 74.1% in 2022. The share of assets managed on behalf of retail clients rose to 26.4% in 2023, up from 24.7% the previous year.
- » Equity allocation remained constant at 42% in 2023. The share of fixed income allocation increased to 30%, up 2% from 2022.
- » Global diversification continues to be a key asset allocation theme. Allocation to UK equities in 2023 is 20%, falling by 10% over 10 years. Although down by 1% in 2023, overseas bonds still dominate fixed income assets, accounting for 59%.
- » Allocations to indexing strategies increased from 23% to 33% from 2013 to 2022, then dipped slightly to 32% in 2023. Growth in Exchange Traded Funds (ETFs) has supported the rising share of AUM in indexing with global AUM in the ETF market reaching \$11.09trn in 2023.
- » IA members invest £1.43trn in UK-listed equities, sterling denominated bonds, infrastructure and UK commercial property in 2023. Investment in UK equities slightly decreased to £780bn from £815bn in 2022. Sterling corporate bond assets reached £400bn in 2023. Investments in UK infrastructure projects remained stable at £45bn.

UK INSTITUTIONAL CLIENT MARKET

- » IA members manage £3.9trn in UK institutional client assets. UK institutional client assets are still dominated by pension and insurance clients, comprising 82% of institutional AUM.
- » UK pension funds represent the largest proportion of institutional assets (56%) despite falling year on year since 2019. The last time pension assets were as low as 56% of AUM was in 2014. In 2023, a number of DB schemes moved to full funding and sought to transfer scheme risk to insurers – it is estimated that buy-in and buy-out deals reached £50bn.
- » UK pension fund assets managed by IA members remained at £2.2trn in 2023, unchanged from 2022 and the IA estimates the size of the UK pensions market at £3.8trn in 2023, which is up 2% from the £3.7trn estimated in 2022.
- » Single-asset mandates represented 51% of institutional assets in 2023, a slight decrease from 52% in 2022. Multi-asset mandates grew by 3% to reach 16% of total assets. Assets in liability driven investment (LDI) mandates continued to fall in 2023 accounting for 33% of total mandates, down three percentage points from the previous year, reflecting ongoing changes in asset allocation strategies.

UK RETAIL FUNDS MARKET

- » UK investor FUM increased by 4% in 2023, rising to £1.43trn from £1.37trn in 2022. However, FUM remained 10% below the 2021 peak of £1.59trn. Net retail sales were -£24.3bn in 2023 as retail investors grappled with the impact of higher interest rates. Higher cash savings rates diverted capital away from funds and for some investors, monthly expenditure on paying off mortgages and credit cards affected their ability to save and invest.
- » The proportion of UK adults who actively invest was 39% in 2023. UK investors are younger than the wider population with just under half (42%) aged 18-35 compared with 35% of all UK adults. A higher proportion of investors are men (63%) compared with women (37%).
- » In 2023, 22.7% of UK investor FUM was in index tracking funds (excluding ETFs), a 9.2% growth in market share year on year. Outflows from active funds were £31.8bn and inflows to index trackers were more resilient at £13.8bn. In the last decade, net retail sales to actively managed funds were £21.1bn whereas index tracking funds attracted £116.5bn in inflows.
- » FUM in responsible investment funds was £102bn in 2023, 7.2% of industry FUM. Equity funds make up 63% of responsible FUM and bond funds account for 15%. Investors pulled £3bn from responsible investment funds in 2023 as more challenging performance conditions for equities combined with the outperformance of funds investing in oil and gas stocks through 2022.

OPERATIONAL AND STRUCTURAL EVOLUTION

- » Industry profitability decreased to 20% in 2023, down from 22% in 2022, marking a drop from 29% over the past four years. IA member data on a matched basis suggests that this fall was driven by a higher level of operating costs (up 3%). Revenues were higher in 2023 (up 2.6%), an increase marginally lower than that of operating costs.
- » The UK investment management industry supports approximately 124,800 jobs with 45,800 people directly employed by investment management firms, a 1% decrease over the previous year. Over the longer term, headcount in the UK investment management industry has been trending upward from 2009 and this is the first annual fall since the Global Financial Crisis.
- » The top five firms managed 42% of total assets while the top ten firms managed 58% of assets in 2023, unchanged from the previous year.