THE INVESTMENT ASSOCIATION

INVESTMENT MANAGEMENT IN THE UK 2023-2024

The Investment Association Annual Survey

October 2024

CONTENT ENQUIRIES

investmentassociation.survey@theia.org

CONTRIBUTORS

Hassan Ali

Miranda Seath

Richard Hale

Sarah Shehabi

The Investment Association (IA)
Camomile Court, 23 Camomile Street, London, EC3A 7LL

www.theia.org

@InvAssoc

October 2024

CONTENTS

INDEX OF CHARTS, FIGURES AND TABLES

CHARTS

FIGURES

TABLES

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 2023. THE FINDINGS ARE BASED ON:

- Questionnaire responses from 56 IA member firms, who between them manage £9.1 trillion in the UK (83% 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 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. Three key themes that will shape the UK industry
3. Trends in client assets and allocation
4. UK institutional client market
5. UK retail funds market
6. Operational and structural evolution

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 – June 2024)
4. Definitions
5. Survey respondents and interview participants

A NUMBER OF GENERAL POINTS SHOULD BE NOTED:

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

32%
OF UK PLC MANAGED BY INVESTMENT MANAGERS
124,800
JOBS ACROSS THE INDUSTRY
£490 BILLION
MANAGED IN SCOTLAND
£1.4 TRILLION
INVESTED IN THE UK ECONOMY
£4.5 TRILLION
MANAGED ON BEHALF OF OVERSEAS CLIENTS
£9.1TRN
MANAGED FROM THE UK BY IA MEMBERS
£102 BILLION
IN RESPONSIBLE INVESTMENT FUNDS
WORLD'S LEADING
INTERNATIONAL INVESTMENT HUB
£45 BILLION
INVESTED IN UK INFRASTRUCTURE

SURVEY FOREWORD

THIS YEAR, THE INVESTMENT MANAGEMENT INDUSTRY HAS AGAIN PROVED ITSELF ABLE TO ADAPT AND REMAIN RESILIENT AS ASSETS UNDER MANAGEMENT (AUM) GREW BY 3% TO REACH £9.1 TRILLION OVER THE COURSE OF 2023. WE ARE OPERATING IN THE FIRST YEARS OF A NEW ECONOMIC AND MARKET CYCLE. THIS FOLLOWS THE END OF THE ERA OF LOW INTEREST RATES AND QUANTITATIVE EASING THAT LASTED NEARLY 13 YEARS FOLLOWING THE GLOBAL FINANCIAL CRISIS IN 2008 AND HELPED TO SUPPORT ANNUAL GROWTH IN AUM OF CIRCA 10% EACH YEAR. IN 2023, THE UK SUFFERED VERY WEAK ECONOMIC GROWTH WITH REAL GDP GROWTH OF 0.1% AND THE BANK OF ENGLAND RAISED THE BASE RATE SIX TIMES THROUGH THE YEAR AS IT FOUGHT TO STABILISE INFLATION. AGAINST THIS CHALLENGING ECONOMIC BACKDROP, AND FOLLOWING THE 12% FALL IN AUM IN 2022, THE INDUSTRY'S RETURN TO GROWTH IN 2023 IS AN IMPORTANT MARKER THAT IT IS ADJUSTING TO THE NEW ECONOMIC CYCLE.

The Investment Management Survey provides an authoritative analysis of the UK's investment management industry. It offers insights into how the clients that we serve are changing, how asset allocations are shifting over the long term and at how the industry is adjusting operationally and structurally to the new competitive landscape.

The UK is the second largest centre of investment management globally and the most international. We are home to many firms with overseas headquarters who manage assets from the UK on behalf of an international client-base and who employed talented individuals from across the world. This is a source of pride for the industry. With a new Government in the UK, we now have a compelling opportunity to continue to build a more collaborative relationship with international jurisdictions including the EU that spans, regulation, trade and investment and the movement of people.

In the second, thematic chapter of the report, we address three themes that we see as pivotal in the next phase of the industry's evolution: maintaining the UK's competitiveness in a new economic cycle; the evolution of sustainable investing in a more complex operating environment; and supporting innovation and harnessing the benefits of AI and tokenisation.

Investment managers thrive in an environment where policy and regulation are clear, consistent and proportionate. A productive and collaborative relationship between governments, regulators and investment managers is critical in enabling the industry to innovate and to grow, as well as to deliver good investment outcomes for our clients. In this context, in the UK, the Consumer Duty has established a solid foundation for protecting UK financial services consumers but there is now an opportunity to look at the next set of regulatory priorities and to think about how the FCA can deliver on its secondary competitiveness objective. Regulation that continues to champion consumers remains pivotal but enabling firms to continue to innovate within regulatory parameters is also key. We have seen a strong signal of intent from the FCA through its work in supporting the tokenisation of funds. Impending consultations on digital disclosure and the advice/guidance boundary will also be pivotal in showing that where we are able to innovate as an industry, we can also deliver better investor outcomes.

Indeed, as the Survey outlines, the share of assets that we manage on behalf of retail investors has been rising since the pandemic and now stands at 26% of AUM. Now is the time to seize the opportunity to help more savers to invest – we must look to reset attitudes to risk by pursuing more inclusive investment that bridges the gap between precautionary cash savings and long-term investment. Our research, outlined in Chapter 5 in this survey, suggests that younger people (18-24 year olds) are more likely to look to investing to help meet their long-term savings goals than older generations. We must harness this enthusiasm as an industry and work to continue to drive up investing amongst the young without leaving older people behind: less than half (42%) of UK adults believe that they are saving enough into their pensions to live adequately in retirement and this falls to 10% of the over 55's, the age group closest to retirement.

The opportunity to deliver better outcomes for pension savers is huge. We believe that whilst scale is important, a focus on 'sophisticated scale' is better. Size alone will not set pension schemes up for investment success, there needs to be an emphasis on the importance of strong governance, accountability and appropriate investment expertise as the starting point for delivering the best investment outcomes. Another critical area of focus – and a core priority for the new Government – is on more competitive and innovative UK capital markets. The Survey shows how investment in UK equities has fallen 10% over the last ten years. The Government needs to address frictions and disincentives in the UK capital markets that affect the behaviour of all investors, including UK pension schemes. There is also a significant opportunity to deliver good outcomes in the DC pensions market by opening up access to private markets and the Long-term Asset Fund can help to unlock access for DC savers. Taking this all together, increased UK competitiveness will have a significant impact on capital allocation and in turn economic well-being.

Growth in AUM to £9.1 trillion in 2023 shows that the investment industry has adapted in a period of significant change. Looking ahead, a collaborative and productive relationship between Government, the FCA and industry is critical to maintain momentum and to continue to support innovation and growth both for the health of our industry and to deliver for the investors that we serve.

We hope that you find the analysis and data in this year's report insightful and please don't hesitate to let us know how we can continue to develop the Survey in future years.

Chris Cummings
CEO

IA MEMBERS MANAGE ASSETS OF

£9.1 TRN

FOR UK AND OVERSEAS CLIENTS AS OF THE END OF 2023

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) ad 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.

1 UK INVESTMENT MANAGEMENT INDUSTRY: A GLOBAL CENTRE

KEY FINDINGS

UK INDUSTRY SIZE AND SCALE

- In 2023, assets under management (AUM) by Investment Association (IA) members increased by 3%, reaching £9.1trn. 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 quantitative easing.
- UK funds under management (FUM) grew by 4% in 2023, reaching £1.4trn. This growth marginally outpaced growth in overall AUM.
- 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%.
- In Scotland, IA members managed £490bn in 2023. Scotland's share of UK-managed assets is 5.4% of AUM and Edinburgh remains the second largest centre of investment management in the UK outside London.
- IA members account for 83% of total UK AUM. When including non-IA members, total UK AUM is estimated at £10.9trn.

UK INDUSTRY IN A GLOBAL CONTEXT

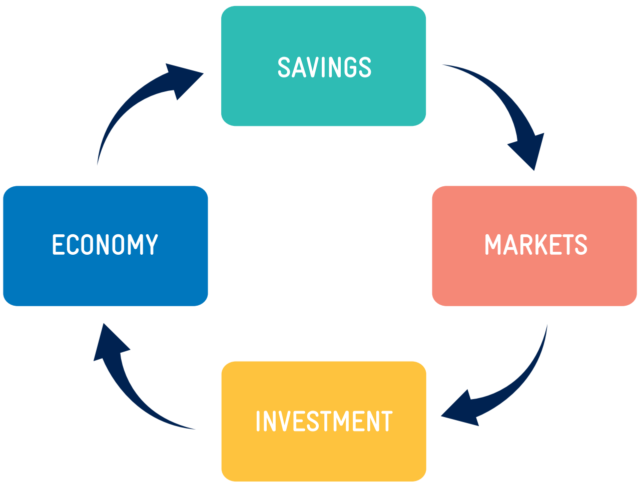
- Global AUM grew 12% in 2023 to $119trn, with Europe reaching €29trn and the UK representing 36% of the European market.
- By 2023, 49% of AUM managed in the UK was on behalf of overseas clients, up from 38% in 2013. Total assets managed on behalf of overseas clients grew by 7% over 2023.
- The largest share of overseas client assets is managed for Europeans, whose AUM grew by 5% in 2023. Over the past decade, these assets have seen a significant 71% increase, reaching £2.5 trillion.
- The highest growth at 12% was in assets managed for Middle Eastern clients, which are now £275bn. US client assets also rose by 9% in 2023 to £925bn.
- UK-managed investment fund assets in both UK and overseas domiciled funds stood at £4trn in 2023, which is unchanged from 2022. 68% of these assets sit in overseas domiciled funds where the portfolio management takes place from the UK.

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 plays a central role in the economy, channelling savings into investment opportunities which deliver returns for a wide range of clients including individual savers or institutions such as pension funds. Figure 1 illustrates how capital is deployed in the economy to drive economic growth.

FIGURE 1: THE ROLE OF INVESTMENT MANAGERS IN CHANNELLING SAVINGS TO INVESTMENTS



The primary role of investment managers is to deliver good investment outcomes for their customers, including individual savers and institutions like workplace pension schemes or insurance companies. This includes passing on the benefits of economies of scale, delivering expertise in areas such as risk management, and providing access to a wide range of investments which would normally be out of reach for individual investors. The ultimate goal is to deliver a diversified portfolio of shares, bonds, and other assets, such as property, which can generate a good return for customers over the long term while being suitable for their willingness and ability to take risk.

Beyond facilitating the investment process, the role of the industry includes ensuring the efficient functioning of capital markets. Capital from individual savers and institutions is channelled to companies which use it to finance their operations and achieve growth. Investment managers play a pivotal role in maintaining properly priced markets and effective transactions between buyers and sellers. Efficient markets allow for accurate pricing of information that helps direct the capital available for investment to the highest-valued market participants, making them essential for the growth and stability of market economies. Investment managers contribute to sustainable economic growth by actively participating in and promoting the efficiency of capital markets, benefitting their investors and the companies they invest in but also the broader society at large.

Investment managers are not alone in their efforts to enhance capital market efficiency, as other financial institutions and individuals also play a role. However, the investment management industry has traditionally been central to the long-term allocation of capital, whether through stocks, bonds, or other assets. As long-term holders of investments, UK investment managers hold UK equities for approximately six years. The industry, therefore, carries a significant responsibility to engage in stewardship activities with the companies they invest in to safeguard the value of their clients' investments. This responsibility now extends beyond traditional considerations to encompass broader issues such as environmental sustainability and executive remuneration.

INDUSTRY SIZE AND SCALE

UK assets under management (AUM)[1] saw a return to growth in 2023, with AUM increasing 3% to reach £9.1 trillion. This follows 2022, a year in which industry assets fell an unprecedented 12% from £10.0 trillion to £8.8 trillion. 2022 saw economic and political instability as Russia invaded Ukraine and globally economies battled with escalating inflation. The monetary policy response to high inflation was to raise interest rates, marking the end of the economic cycle of low interest rates that began in 2008 amidst the global financial crisis. The recovery in AUM through 2023 is a sign that the industry is adapting to a new market cycle and remains resilient. UK funds under management (FUM)[2] rose by 4% to reach £1.4 trillion over the same period in 2023, marginally outpacing AUM growth.

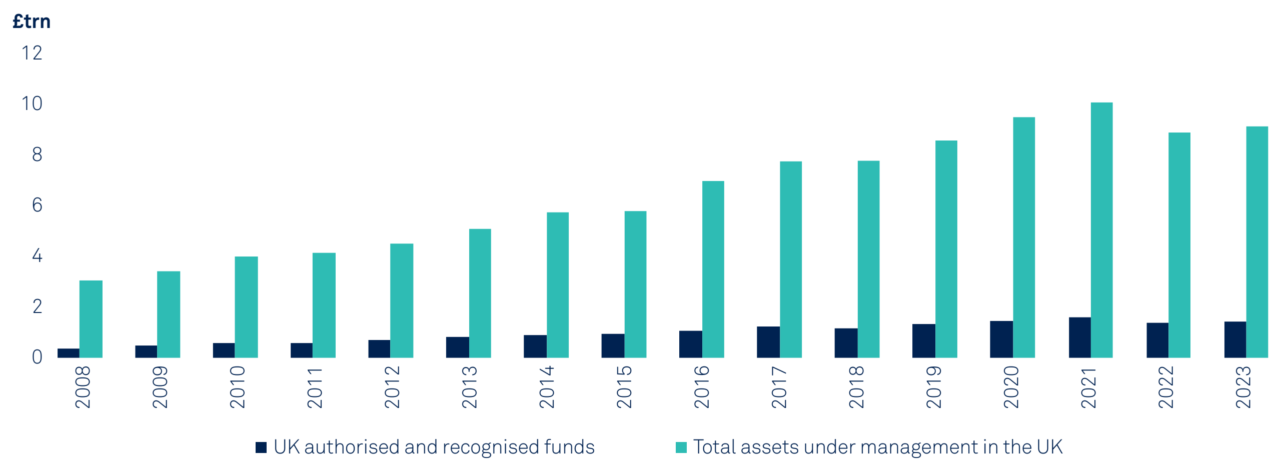
Growth in industry AUM is a function of net flows and market performance. Market performance continues to be the biggest driver of growth. By the end of 2023, most major markets showed positive returns for the year, as markets started to price in higher interest rates. In the UK, the Bank of England's Monetary Policy Committee made its final rate hike in August 2023, pausing at 5.25% where the base rate remained through to the end of the year, even as inflation continued to move towards the 2% target rate (see Box 1 for a more detailed market overview).

"We've had high inflation and falling markets until recently, so that is a fundamental challenge for our industry. High inflation is reversing now which is good."

Chart 1 illustrates how industry assets and funds under management have evolved over the past fifteen years, and how the recovery in assets over 2023 compares to the fall in assets during the Global Financial Crisis in 2008:

- In the decade leading up to 2021, we observe that the compound annual growth rate (CAGR) for AUM was 9% per annum, while the CAGR for FUM was11% each year. Asset growth was boosted by low interest rates and central bank quantitative easing.
- While both AUM and FUM saw sharp falls of 11% and 23% respectively in 2008, this was followed by strong rebounds the following year of 12% and 33%. Central banks were able to cut interest rates to boost the economy during 2008 and this helped to support a rebound in the markets.
- The 3-4% recovery in assets in 2023 looks relatively muted by comparison but is a recovery in a materially different macroeconomic environment. The turn in the interest rate cycle through 2022 and 2023 has been driven by attempts to cool inflationary pressures across the real economy and this had a negative impact on markets.

CHART 1: TOTAL ASSETS UNDER MANAGEMENT IN THE UK AND IN UK FUNDS (2008-2023)



Sources: The Bank of England, The Investment Association, The Office of National Statistics

[1] UK AUM represents assets managed from a desk in the UK on behalf of UK and overseas clients.
[2] UK funds under management represent UK investors in authorised and recognised funds domiciled in the UK and overseas (principally in Ireland and Luxembourg).

BOX 1: 2023 GLOBAL CAPITAL MARKETS IN REVIEW

Chart 2 looks at the annual total return in sterling of the major equity and bond indices over 2023. It illustrates that in 2023, markets recovered, and all the major equity regions showed positive returns, with China being the notable outlier.

Across the bond markets, the total return of UK government and corporate bonds was positive. This contrasts with the surge in UK gilt yields in 2022, which caused steep falls in the price of UK bonds. The global aggregate bond index, which is a mixture of government and corporate bonds, returned 0% over the year.

EQUITY MARKETS

In 2023, US equities showed the strongest performance with total returns of 19% over the year for the Russell 3000 index which includes large, medium and small cap companies. US markets were hopeful that easing inflation would prompt a Federal Reserve rate cut, but although this did not materialise, share prices still rose strongly. This was a significant bounce back from 2022 when the index was down 9% over the year and it puts the valuation of the Russell 3000 at roughly the same level as at the end of 2021. In the US, the "magnificent seven" technology stocks saw the largest increase in the value of their share prices relative to the growth in company valuations seen in the broader indices. In 2023, the pace of AI adoption was accelerating, which also helped to boost the share prices of companies like Nvidia.

The UK equity market returned 8% through 2023, compared with a 0.3% return in 2022. In contrast to 2022, when 0.3% beat the returns of the US, Global and European equity markets, the UK's performance in 2023 lagged the growth of its US, European and Japanese counterparts as capital markets rebounded.

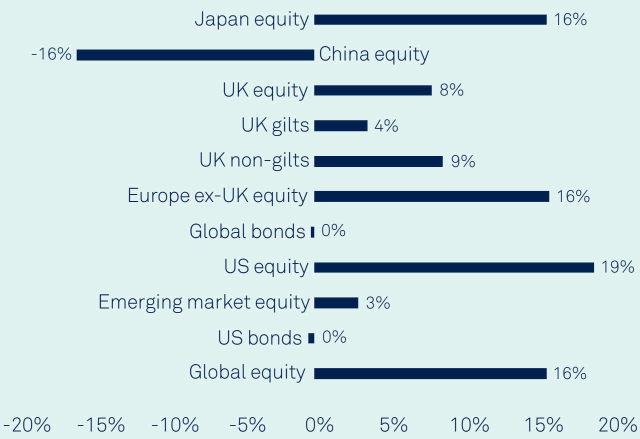
The Japanese stock market was a notable gainer in 2023 as corporate governance reforms on the Tokyo Stock Exchange bore fruit making listed companies more attractive and the Bank of Japan moved interest rates to positive territory, which symbolised the end of deflation in Japan. A weaker Japanese yen also helped to boost exports in 2023.

The MSCI China index saw negative returns of –16%, with hopes disappointed for a significant bounce-back in market valuations following the lifting of restrictive zero-COVID policies at the start of 2023. China has seen a prolonged property slump and ongoing geopolitical tensions, especially with the USA, have weakened investor confidence. Investors shifted their focus from China to India, which grew by 14% over 2023 as the Indian government showed a more positive stance to international business and investment compared with China.

BOND MARKETS

The performance of UK gilts and corporate bonds rebounded in 2023 after a very challenging 2022, when the September 2022 gilts crisis caused gilts yields to rise by 130 basis points over 3 days. Bond prices move inversely to the yield, and UK gilts returned 25% over 2022. As yields have stabilised in 2023, the performance of UK gilts and UK corporate bonds has improved, returning 4% and 9%, respectively.

CHART 2: TOTAL RETURNS ON SELECTED INDICES (2023)



Source: Morningstar

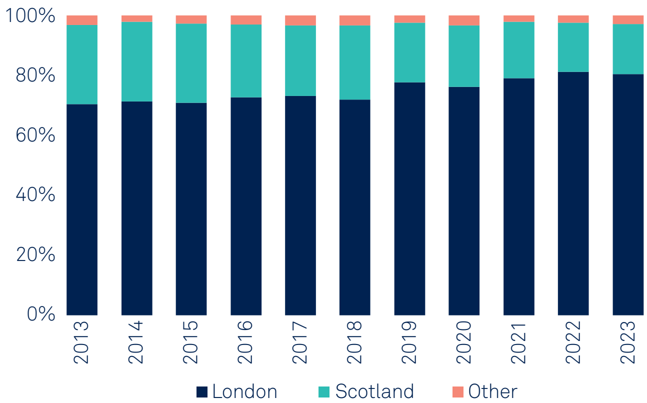
SCOTLAND AS A MAJOR CENTRE

The largest centre of UK investment management activity is London, which far exceeds other cities in the UK by headcount and the value of assets managed. Edinburgh is the second largest investment management hub in the UK and Scotland is a major centre of UK investment administration. Whilst AUM is one marker of the importance of Scotland to the UK industry, it can only tell us about the about the value of assets managed from Scotland, which is affected by a relatively small number of firms, but is not indicative of the development of Scotland's assets under administration. In 2023, assets managed from Scotland were £490 billion (5.4% of UK-managed assets), a one and a half percentage point fall from the previous year (£498 billion in 2022) despite total UK AUM growing over that period.

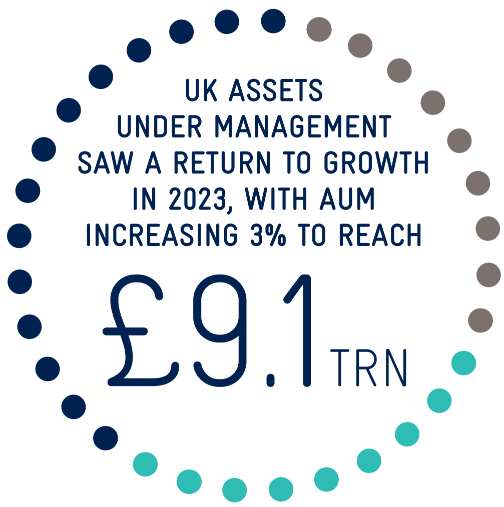
Chart 3 shows UK-managed assets broken down by the regional headquarters of UK-based investment managers. From 2013 to 2023, the share of assets managed by investment managers headquartered in London has increased ten percentage points reaching 80% in 2023. Assets managed from Scotland have fallen to 17% in 2023 from 26% ten years ago. The fall in share of assets managed in Scotland is due to a combination of factors including merger and acquisition activity amongst Scottish firms and the relatively high growth of assets managed in London.

The proportion of assets managed from other regions remains relatively unchanged over the last ten years ranging between 2-3% of assets. The concentration of UK assets managed by firms headquartered in London aligns with a broader trend observed in our employment data, where portfolio management is becoming increasingly centralised in London (See chapter 6 for further analysis of UK employment data).

CHART 3: UK-MANAGED ASSETS BY REGIONAL HEADQUARTERS (2013-2023)



Source: The Investment Association



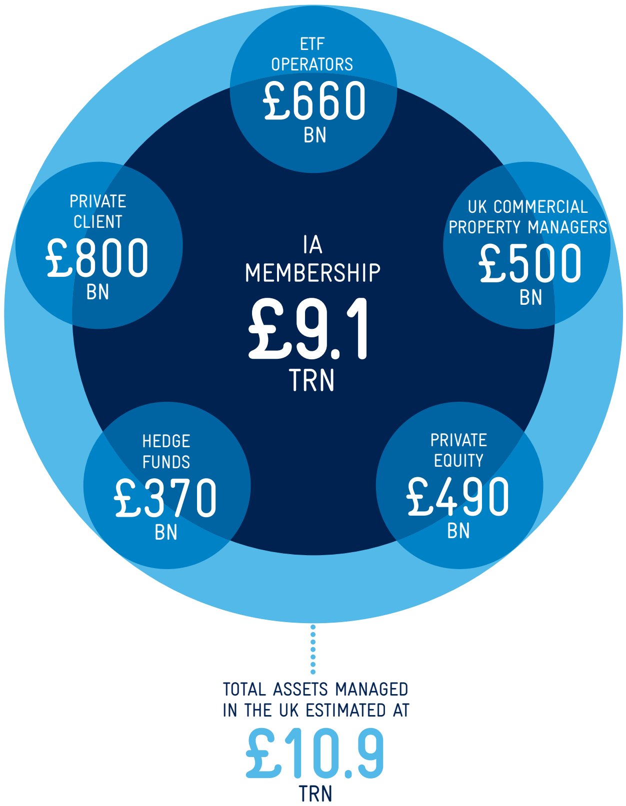
SCALE OF WIDER INDUSTRY

Investment Association (IA) member firms manage the majority of UK AUM (83%). While the profile of IA members remains diverse, the types of firms not covered by this report can be categorised in two groups:

- **Firms specialising in alternative investments:** The majority of firms not captured in the report typically specialise in alternative investments, including: hedge funds, private equity funds, commercial property management, discretionary private client and private debt management and natural resource management firms. However, more IA members are buying firms with expertise in managing alternative investments and so the proportion of alternative assets managed by IA member firms is increasing
- **Investment management firms that sit outside the IA membership:** It is difficult to accurately size and describe the profile of firms that are not IA members due to the lack of consistent third-party data.

Using third-party data and proprietary estimates, we estimate that assets managed by IA members and the wider industry are £10.9 trillion, up from £10.3 trillion in December 2022. Figure 2 provides estimates that highlight how various sectors contribute to the total AUM in the UK. The data in Figure 2 on ETF operators, UK commercial property managers, private client, hedge funds, and private equity represents assets managed not only by the wider industry but also by IA members. As such, there is overlap between the £660 billion managed by ETF operators and the £9.1 trillion managed by IA members, which includes assets in ETFs managed by IA members.

FIGURE 2: WIDER UK INVESTMENT MANAGEMENT INDUSTRY (2023)



Source: The Investment Association, Compeer, Investment Property Forum, Morningstar & Preqin.

THE UK IN A GLOBAL CONTEXT

The global investment management industry rebounded in 2023 after a difficult 2022. AUM in the United States grew from $47 trillion to $56 trillion, a 19% increase, reaffirming the dominant position of the US with nearly half of global AUM. This recovery was driven by improved equity markets and more favourable economic conditions, which saw GDP growth rise to 2.5% in 2023 from 1.9% in 2022.

In Europe, AUM rose slightly in Euros from €28 trillion to €29 trillion but remained flat at £25 trillion in sterling terms, reflecting ongoing inflation and slower growth. Japan's AUM increased from ¥888 trillion to ¥909 trillion, but in sterling, AUM dropped from £6 trillion to £5 trillion due to currency depreciation. While still significant, Japan's global share of AUM fell to 5%.

Overall, global AUM recovered 12% to $119 trillion[3] (£95 trillion) after a 10% decline in 2022, with the US leading the rebound. However, Europe's flat performance and Japan's currency challenges underscore the uneven nature of the recovery across key regions.

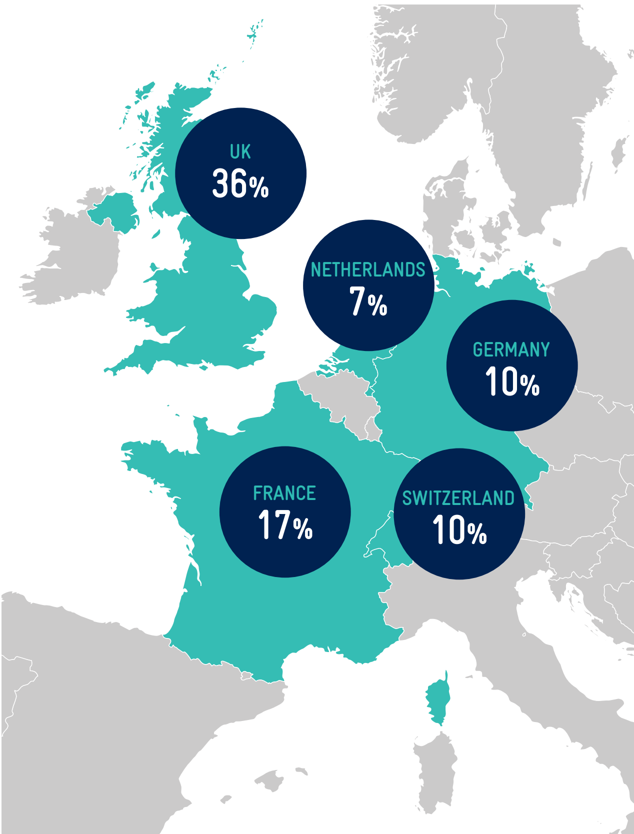
TABLE 1: GLOBAL ASSETS UNDER MANAGEMENT (2023)

	AUM (local currency)	AUM (£ equivalent)
United States[4]	$56 trillion	£44 trillion
Europe[5]	€29 trillion	£25 trillion
Japan[6]	¥909 trillion	£5 trillion

Source: HM Revenue & Customs, Boston Consulting Group, EFAMA, Nomura Research Institute

Figure 3 shows the share of assets managed in different European countries. The UK has the greatest market share of European assets at 36%, a slight decrease from the 37% recorded in 2021. The next three largest centres are France (17%), Switzerland (10%) and Germany (10%), the combined share of these markets is almost equivalent to the UK. The top ten countries have a 91% share of the European investment management industry.

FIGURE 3: ASSETS UNDER MANAGEMENT IN EUROPEAN COUNTRIES (DECEMBER 2022)



Source: EFAMA Asset Management Report (2023)

[3] Boston Consulting Group, AI Transformation: Global Asset Management 2024.
[4] Boston Consulting Group, AI Transformation: Global Asset Management 2024.
[5] EFAMA, Our industry in numbers (data estimated as of September 2023).
[6] Japan's Asset Management Business 2023-24, NRI (data as of March 2023).

MULTIPLE DIMENSIONS OF INTERNATIONAL ACTIVITY

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. Figure 4 highlights four key metrics that illustrate the extent to which the UK investment management industry is highly international – and becoming more so over time:

- Assets managed on behalf of overseas clients.
- Assets invested in overseas markets.
- Overseas assets delegated to UK based portfolio managers.
- Assets managed by firms headquartered overseas.

OVERSEAS CLIENT MARKET

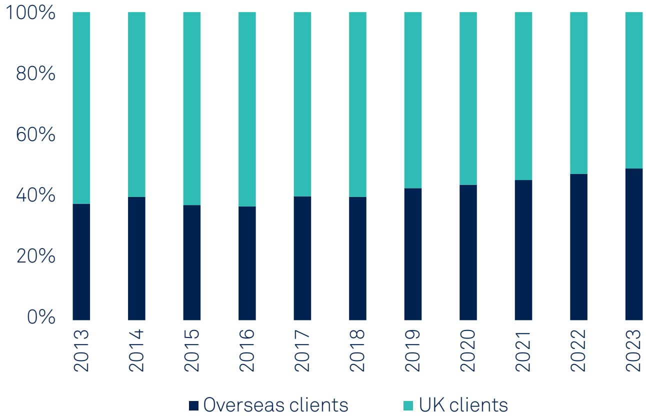
Chart 4 (overleaf) illustrates the distribution of assets for UK and overseas clients. By the end of 2023, overseas client assets accounted for 49% of the £9.1 trillion of UK-managed assets. Since 2019, the overseas segment of client assets continues to make up an increasing share of total UK assets.

Determining the factors behind changes in the number of overseas clients is difficult without flow data at the AUM level. The shifts likely result from a combination of factors, including client behaviour, operational decisions related to investment management capabilities, capital market returns, and exchange rate fluctuations.

There has been a gradual shift in the client base, with assets managed for overseas clients rising by one percentage point in 2023 to 49%. Over the decade, this share has increased from 38% in 2013 to 49%, reflecting an eleven-percentage point rise. This trend indicates that the UK continues to be seen by overseas clients as a centre of excellence for portfolio management.

FIGURE 4: FOUR MEASURES OF A GLOBAL INDUSTRY (2023)

CHART 4: CHANGE IN PROPORTION OF UK AND OVERSEAS CLIENTS (2013–2023)



Source: The Investment Association

Figure 5 illustrates the regional distribution of overseas client assets. Nearly half (£4.5 trillion) of AUM is managed on behalf of overseas clients. Overseas client AUM grew by 7% over 2023, up from £4.2 trillion at the end of 2022:

- Assets managed on behalf of Europeans saw the biggest change over the last 10 years, increasing 71% to reach £2.5 trillion in 2023. Europeans remain the largest overseas client group and AUM grew by 5% in 2023.
- North American client assets grew 9% to reach £925 billion in 2023. US clients account for approximately 21% of the overseas client base.
- The highest levels of growth in overseas client assets in 2023 were seen for Middle Eastern clients (12% growth) and Latin American clients (11%). Growth in Latin American client assets was from a low base.
- Assets managed on behalf of Asia-Pacific clients grew by approximately 6% to £720 billion from £680 billion in 2022.

FIGURE 5: ASSETS MANAGED ON BEHALF OF OVERSEAS CLIENTS (2023)

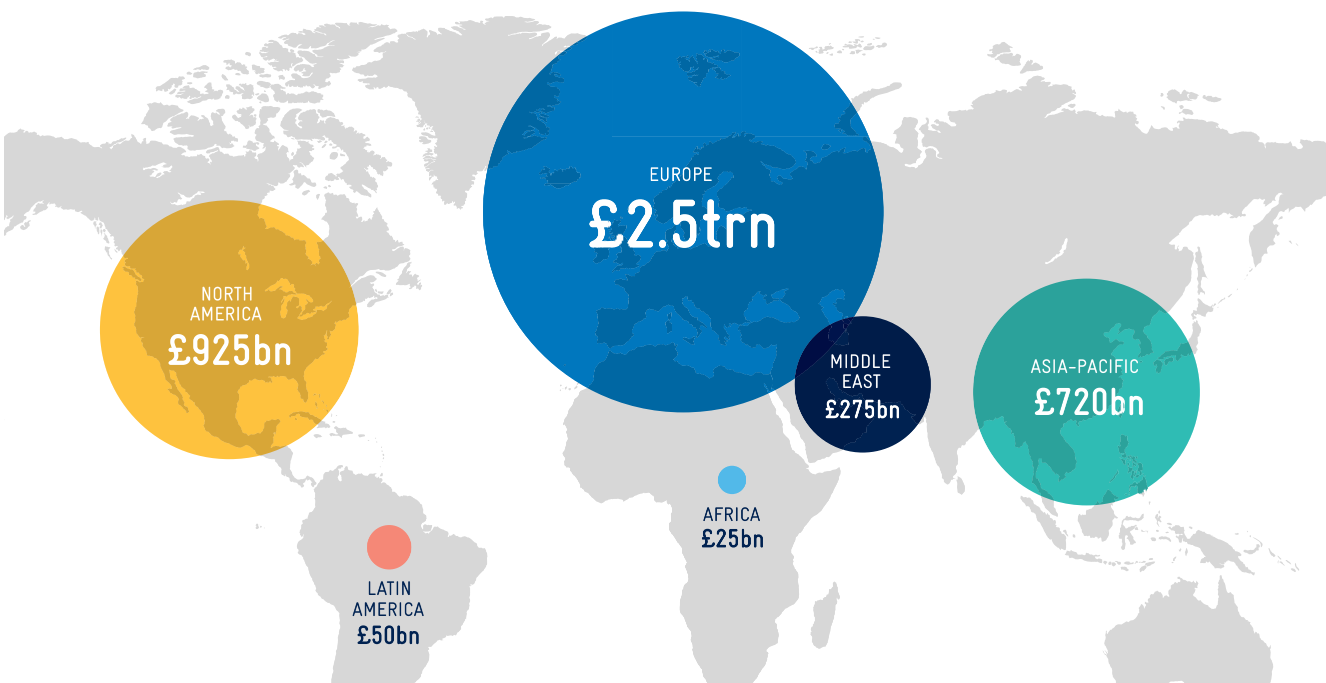
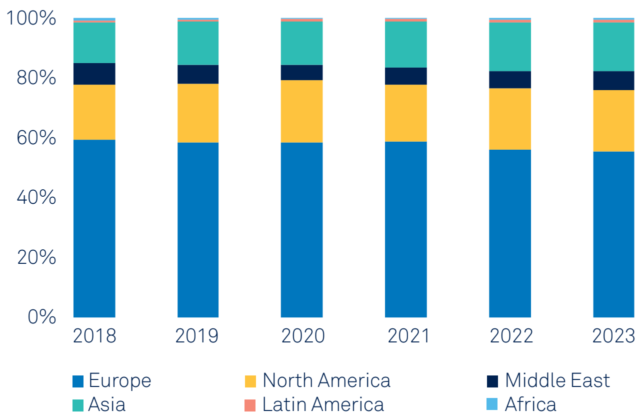


Chart 5 illustrates the change in the percentage share of assets managed on behalf of overseas clients by region:

- The proportion of assets managed on behalf of North American clients has steadily increased, growing from 19% in 2018 to 21% in 2020. This share has remained stable since the pandemic and remains at 20.7% in 2023.
- Europe's share of managed assets has consistently decreased, dropping from 59% in 2018 to 55% in 2023. While Europe still represents the largest proportion of assets, its dominance is gradually declining, indicating that assets managed on behalf of clients from other regions are growing at a faster rate.
- The share of assets managed on behalf of Middle Eastern clients is 6% in 2023, growing from 5% in 2020.

CHART 5: PROPORTION OF OVERSEAS CLIENT ASSETS BY REGION (2018-2023)



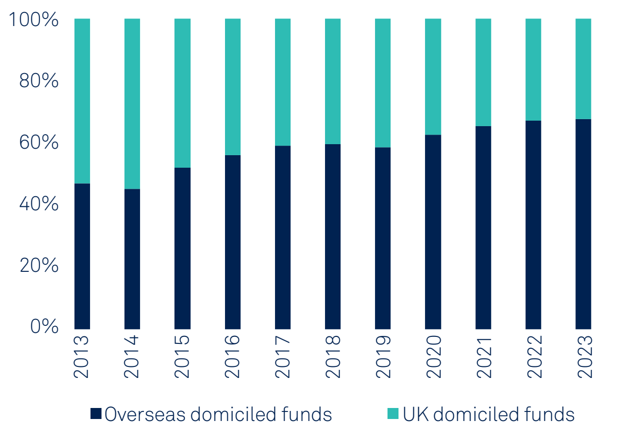
Source: The Investment Association

SERVICES TO OVERSEAS FUNDS

UK-managed investment fund assets in both UK and overseas domiciled funds stood at £4 trillion by the end of 2023, which is unchanged from 2022. As illustrated in Chart 6[7], 68% of these assets (approximately £2.7 trillion) sit in overseas domiciled funds where the portfolio management takes place from the UK:

- Luxembourg accounted for 15% of overseas domiciled assets managed from the UK in 2023, the same level recorded the previous year.
- Dublin remains the largest overseas domicile for UK-managed assets representing a 30% share in 2023. This share has fallen by three percentage points over 2023.
- The share of UK-managed assets domiciled in the UK is 32%, down from 33% the previous year.
- Overall, 54% of UK-managed investment fund assets are in funds domiciled in Luxembourg, Ireland or within the European Economic Area (9%). The proportion of assets in funds domiciled from outside the EEA is much smaller at 13%, although this is a one percentage point rise from 2022.

CHART 6: PROPORTION OF ASSETS MANAGED IN UK AND OVERSEAS FUNDS (2013-2023)



Source: The Investment Association

[7] Chart 6 includes data captured from open-ended funds, investment trusts, ETFs, hedge funds and money market funds (MMFs).

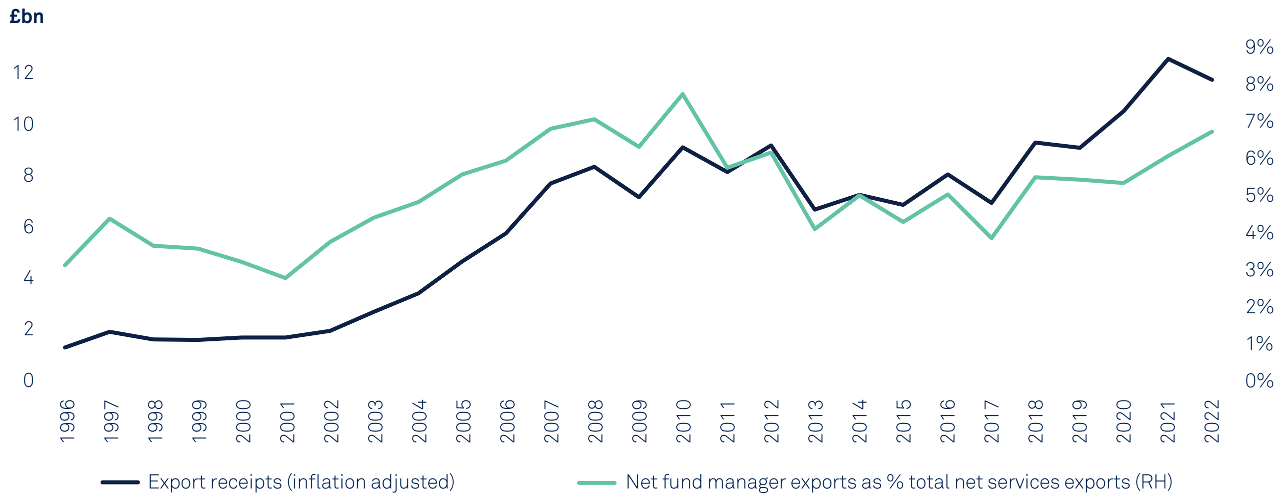
IMPORTANCE TO UK SERVICE EXPORTS

The UK investment management industry has a strong track record in providing services to international investors and has seen continued growth in the delegation of portfolio management from overseas domiciled funds to UK based portfolio managers. UK investment management is an important example of an industry that has seen success in exporting its services globally.

Chart 7 examines the industry's contribution to total UK service exports earnings from 1996 to 2022. Whilst industry export earnings decreased by 7% in 2022 to £11.7 billion compared with 2021, industry export earnings in 2022 are still the second highest in ONS data on an absolute basis. The revised ONS data show that industry export earning start to rise consistently year-on-year between 2002 and 2008 (from £1.7 billion to £7.5 billion). Since 2020, inflation-adjusted export earnings have consistently been over £10 billion annually.

The industry's contribution to total net exports stood at 6.7% in 2022, this is marginally up from 6.1% in 2021 and higher than the consistent 5.5% contribution observed between 2018 and 2020. The 2010's peak contribution of 7.8% was largely driven by the slowdown in the growth of other services exports following the Global Financial Crisis.

CHART 7: INDUSTRY EXPORT EARNINGS AND RELATION TO UK SERVICES EXPORTS (1996-2022)



Source: The Office of National Statistics

2 THREE KEY THEMES THAT WILL SHAPE THE UK INDUSTRY

2

KEY FINDINGS

- Growth in AUM to £9.1trn in 2023 shows that the investment industry is adapting in a period of significant change. The three themes addressed in this chapter are critical to the future development of investment management.

MAINTAINING THE UK'S COMPETITIVENESS IN A NEW ECONOMIC CYCLE

- Governments worldwide and in the UK are prioritising policies that support economic growth, attract investment to domestic capital and private markets and address the needs of ageing populations including providing adequate income in retirement.
- The newly elected UK Government has placed economic growth at the forefront of its agenda. The investment management sector has a crucial role to play in helping to achieve this goal as well as driving good investor outcomes.
- Clear, consistent, and proportionate fiscal and regulatory frameworks are critical to maintaining a stable environment for investment managers. Priority areas include pensions policy and a consistent and proportionate tax policy.

THE EVOLUTION OF SUSTAINABLE INVESTING IN A MORE COMPLEX OPERATING ENVIRONMENT

- Since 2019, the sustainable and responsible investment landscape has evolved significantly, marked by an investment boom and major regulatory and political changes. However, sustainable investing is now operating in a more complex environment. There are three important dimensions driving this:
  - **Diverging political views** across jurisdictions on sustainability and sustainable investing: increasingly, political considerations are affecting the attitude of governments towards implementing measures to achieve the transition to net zero.
  - **The volume and pace of regulation** on standards of disclosure across the EU, the UK and the US is affecting the development and communication of sustainable products and strategies.
  - **Changing investor demand** as investors are influenced by diverging political and societal views and lower returns on sustainable investment strategies through 2022/2023.

SUPPORTING INNOVATION AND HARNESSING THE BENEFITS OF AI AND TOKENISATION

- There is a significant focus from investment managers on using technology to drive efficiencies and to control costs. 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.
- These developments signify a period of accelerating change and firms must also keep pace with emerging risks and strengthen their operational resilience strategies. Two pressing threats are cyber security and the emergence of quantum security risks.

Growth in industry AUM of 3% through 2023 shows that the industry has adapted to new market conditions following the 12% fall in AUM through 2022. Nevertheless, we continue to operate in a period of significant change as firms navigate a more complex operating environment and the end of the era of low interest rates and quantitative easing, which helped to power consistent annual growth until 2022.

Looking ahead, in this chapter we have focused on three themes that are important to the future development of the UK investment management industry.

1. Maintaining the UK's competitiveness in a new economic cycle
2. The evolution of sustainable investing in a more complex operating environment
3. Supporting innovation and harnessing the benefits of AI and tokenisation

MAINTAINING THE UK'S COMPETITIVENESS IN A NEW ECONOMIC CYCLE

In 2024, more than 60 countries are holding national elections bringing around 2 billion voters to the polls across the globe. Elections are taking place in the US, UK, India and the European Union bringing new governments to power. There may be significant differences in ideology between newly elected parties around the world but there are three important goals that most new governments share that have implications for investment management:

- A focus on delivering economic growth.
- The desire to attract investment to domestic capital markets.
- In developed countries, ageing populations and the imperative to deliver adequate retirement income.

SUPPORTING GROWTH IN A NEW ECONOMIC CYCLE AND THE ROLE OF INVESTMENT MANAGERS

Delivering economic growth comes high up the priority list for newly elected governments. Global GDP grew by 2.7% in 2023 with the UK's GDP growth at 0.1% and the US doing relatively better at 2.5%. Maintaining economic growth post pandemic whilst trying to dampen escalating inflation, where raising interest rates cools economic output, has been extremely challenging. In the UK, the new Labour Chancellor, Rachel Reeves, has made it clear that economic growth is her priority and the investment management sector can play an important role in helping to achieve economic growth.

"In the UK, the main issue for us is having a government that is pro-business, pro-financial services and pro-investment management both in what they say and in what they do. It's clear that the current government is in favour of financial services in what they say."

The government can help to unlock growth in the UK by attracting more investment to domestic companies through the capital markets and private markets. There is widespread support for deploying capital to support the domestic economy but there is an equal focus on delivering stable, long-term risk-adjusted returns for investors: the fiduciary duty to the investor remains of central importance to investment managers.

"There is particular pressure on asset managers to invest more capital to support domestic markets; this could be seen to clash with firms' fiduciary obligations – this goes to the heart of asset management and ultimately our fiduciary duty as stewards of our clients' money."

There is also the opportunity to support economic growth through investing in private assets including infrastructure and real estate.

MAINTAINING THE UK'S ROLE AS A COMPETITIVE INTERNATIONAL CENTRE OF INVESTMENT MANAGEMENT

As a new government establishes itself, the relationship between the Government, the regulator and the industry will be critical to helping to deliver good outcomes for investors. There are four important areas that will help to strengthen the UK's competitiveness according to senior leaders in investment management.

- Stable and proportionate policy making: ensuring that fiscal stability is maintained and that taxation is proportionate. Implementing a consistent tax policy across the next parliamentary term allows investment managers to better plan. For example, if the Government rows back on measures such as removing the Lifetime Allowance for pensions, this would penalise pension savers seeking to increase their pension pots to help fund their retirement and re-introduce complexity around managing the Lifetime Allowance threshold.
- A regulator that focuses not just on consumer protection but on enabling firms to innovate and to be competitive.
- A more collaborative relationship with international jurisdictions, including the EU, that spans regulation, trade and investment and the movement of people. Attracting and retaining talent in the UK from around the world is a critical success factor in maintaining the UK's position as global investment management centre.
- Helping to support investment in the domestic market and attracting investment through delivering economic growth.

"It is very important for the UK to continue to be a base for global managers ...if you want firms to establish themselves here you also have to encourage the domestic market and foster a culture of investing... The UK has to be competitive, tax friendly, regulation friendly and it must think about this holistically."

If investment managers have a clear view of fiscal strategy and regulatory priorities, that enables them to plan effectively and to make longer term business decisions. If tax increases are going to come, then once they are in place, maintaining consistent tax policy for the remainder of the parliamentary term will help to support stability and make the UK a more attractive location for international firms.

"We're in this phase of uncertainty as to whether there are going to be tax increases and where those tax increases are going to be."

The UK regulatory landscape is an important factor in the competitiveness of the UK as a centre of investment management. In recent years there has been a strong and consistent focus on consumer protection.

"The FCA have historically been seen as being a sensible, proportionate regulator. We've supported the Consumer Duty - it is inherently at the heart of what we believe which is ...that we think about good customer outcomes."

The Consumer Duty has established a solid foundation for protecting UK financial services consumers. There is now an opportunity to look at the next set of regulatory priorities and to think about how the FCA can deliver on its secondary competitiveness objective. Regulation that continues to champion consumers remains pivotal but enabling firms to continue to innovate within regulatory parameters is also key and we look in more detail at the FCA's work in supporting the tokenisation of funds later in this chapter. Indeed, the FCA's accommodative stance on allowing firms to roll out artificial intelligence without imposing regulation that could stifle innovation is an example of the willingness of the FCA to work to support innovation in UK financial services. The FCA is also looking at digital disclosure and at closing the advice gap in the UK by delivering regulation on advice/ guidance that works better for consumers.

In our interviews, investment managers have also told us that they want to see a change in emphasis away from a focus on delivering the post-Brexit agenda, which has driven a significant amount of regulatory change.

"The regulatory landscape in the UK has been a constant churn over the last 8 to 10 years... the whole debate on competitiveness has partly come from the UK's exit from the EU and the need to show tangible examples and benefits..."

As we look ahead to the next 5 years of a new government, there is the hope and expectation that the relationship between the UK and the EU will become more productive and collaborative across trade, regulation and immigration, which would allow investment management firms to operate more effectively cross-border.

"We would like to hear a softening in the rhetoric in terms of the UK and EU partnership and more clarity about what that partnership will look like over the next 2-5 years."

"We are absolutely 100% behind promoting the UK financial services hub as the place to do business, but not the only place, and we recognise that we need to have strong partnerships with other jurisdictions, including our European neighbours. One of the clear advantages of the UK as an international centre is the access to talent that it provides; this must be preserved as it is a clear competitive differentiator for the UK."

"What has made UK asset management successful is talent, it's innovation and it's having an open and collaborative global approach... The UK's biggest selling point is access to talent. You need to have open borders, you need to have ease of immigration so that talent can move with less restriction and so that we can make the UK a hub for innovation."

Supporting the growth of the UK's domestic market is a critical factor in promoting the competitiveness of the UK investment management industry. In listed equities, UK equity AUM is down by a third from 10 years ago. If the Government can help to create a virtuous circle where the UK economy becomes more competitive and grows, this will attract further investment and good companies headquartered in the UK and overseas could be attracted to list on the UK stock exchange. Geo-politics could also play a role in driving up London listings for Chinese companies who find listing on the US exchanges closed to them but this is probably a peripheral trend rather than a fundamental shift.

In July 2024, the FCA introduced new listings rules to promote the UK as a more attractive place to list, raise capital and grow. This is the culmination of a programme of regulatory reform that started with the UK Listing Review in 2021. The changes are also designed to place an emphasis on disclosure that puts information in the hands of investors to inform their investment decisions.

Reform of UK listings must balance driving UK competitiveness and the needs of companies and their ability to raise capital through public markets with the obligation that investment managers have to investors to deliver sustainable returns and to protect the value of their client's investments. The need to maintain the integrity of, and confidence in, well-functioning public markets remains critical and is a delicate balance.

"It's principally about the size of the UK equity markets and listings. We know that the proportion of what has been allocated to the UK in global market caps has been falling and therefore demand for UK shares has been falling. How do you automatically reverse that? You try to bring more to market in the UK and there's a couple of elements. It's the regulatory regime around listings, and the competitiveness of that, and corporate governance and remuneration."

Focusing on retaining young companies at IPO so that inventions, patents and technology are commercialised in the UK and not abroad is also an important component of supporting a vibrant domestic market and requires significant focus.

"... lots of our startups and...our inventions, patents, technology end up being commercialised somewhere else in the world or the scale up happens with foreign money. Changing this is a very complex issue and changing the whole rhetoric around it is really important..."

Whilst reforming the UK listings environment is an important component of supporting growth in the UK's domestic market it is not the silver bullet. In our interviews, there was a clear view that listings reform is only part of the solution to attracting capital to the UK. Domestic and international investors will re-deploy their capital back to the UK if the economy grows.

"The best thing the Government can do is make the UK more competitive as an economy. If the UK is a fast growing economy with great industries and great businesses, we will want to invest in it."

"I'm a little sceptical about just simplifying the rules of listing, which can have a marginal impact. The real point to consider is how the UK economy is going to become more effective and that's really what makes the difference."

At the time of writing, the UK has seen the first incremental rate cut from the Bank of England as inflation has fallen to the 2% target set by the Bank. If the Bank of England is able to cut rates further, this will help to reduce the cost of borrowing and support growth in the domestic economy. The UK government is focused on delivering measures to boost economic growth whilst maintaining fiscal stability, a strategy that may not be pursued by more populist politicians in other major global economies. UK companies are also valued cheaply in the context of other markets such as the US. The outlook for attracting capital back to the UK is improving.

SUPPORTING ECONOMIC GROWTH THROUGH INVESTING IN UK PRIVATE MARKETS

Unlocking opportunities to invest in private assets is another means of supporting economic growth, helping to boost investment into the real economy through allocating to infrastructure and other types of real assets. Investing in private equity and private credit enables access to the full spectrum of investment opportunities across public and private markets and unlocks capital and debt financing for companies at different stages of growth. The establishment of the new National Wealth Fund, which combines the British Business Bank and the UK Infrastructure Fund, is a signal of intent from the Government - it wants to boost investment into green and growth industries.

Establishing a proposition in private markets is also an important way of diversifying revenue opportunities for investment management firms that could help to manage the shift in the economic cycle. Investors also benefit from the illiquidity premium provided by private assets over long term investment horizons and there is general recognition that investing in private assets could benefit DC pension scheme members in particular.

"In the UK, asset managers have swung too much to risk aversion and insurance companies took money out of risk assets."

"Defined benefit pension funds are essentially taking no risk at all. If you look at the allocation of DC, it's still heavily into traditional ETFs and a lot of fixed income target date products whilst being restricted from alternatives."

The Long-term Asset Fund (LTAF), a fund structure designed to hold less liquid assets, is also helping to open up access to investing in private markets. We look in more detail at deepening access to private markets in Chapter 3.

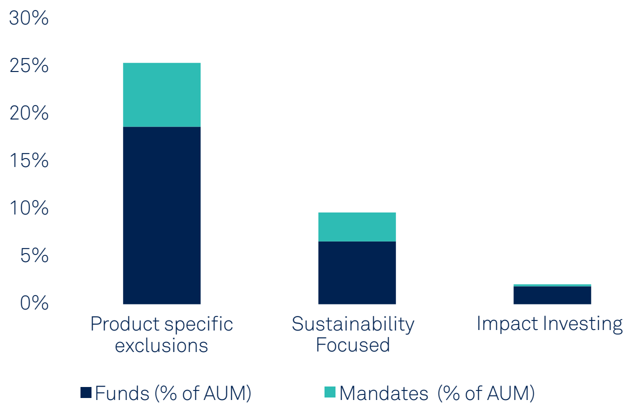
THE EVOLUTION OF SUSTAINABLE INVESTING IN A MORE COMPLEX OPERATING ENVIRONMENT

Since 2019, the sustainable and responsible investment landscape has gone through a significant period of evolution encompassing an investment boom and an intense period of regulatory and political change. As the economic cycle shifted in 2022, responsible and sustainable investment strategies faced challenging market conditions following the outperformance of oil and gas industries and investor demand for sustainable investing has reduced as returns have lagged traditional investment strategies.

Many investment managers have firm-wide approaches to assessing ESG risk factors through ESG integration and have adopted norms-based exclusions at entity level, such as controversial weapons, as investment managers develop firm-wide policies. However, in order to understand how firms are developing products and strategies that are marketed to investors as responsible and sustainable, the IA has collected data on product-specific strategies. In 2019, the IA launched its Responsible Investment Framework, an industry-agreed framework to help categorise common approaches to responsible and sustainable investing. In 2020, we started to collect and report data based on the characteristics set out in the framework – three of the main characteristics appear in this chart and sit alongside ESG integration and Stewardship. This year, we cannot report the year-on-year progression of assets because it is clear from the data reported to us that the way that firms are classifying approaches is changing, driven by new definitions and standards of disclosure set by regulators in the EU, UK and the US. The data provided in Chart 8 is therefore a snapshot of industry AUM rather than a representative data set.

Chart 8 indicates that 25% of AUM is managed according to product specific exclusions in 2023, one of the core sustainability characteristics. Funds and mandates with a focus on sustainability account for 10% of AUM and impact investing strategies remain relatively niche at 2% of AUM – indications are that this percentage has grown from 0.5% in 2021, although there are challenges in reporting year-on-year progression in this data set.

CHART 8: PROPORTION OF ASSETS MANAGED ACCORDING TO SUSTAINABILITY CHARACTERISTICS (2023)



Source: The Investment Association

Sustainable investing is now operating in a more complex environment. There are three important dimensions driving this:

- **Diverging political views across jurisdictions on sustainability and sustainable investing:** increasingly, political considerations are affecting the attitude of governments towards implementing measures to achieve the transition to net zero. Investment management firms pursuing sustainable and responsible investment strategies are navigating political views that in some countries are becoming more sceptical about financing the net zero transition. The political rhetoric on sustainability in the US is perceived by investment managers to be more negative than in Europe. This has made it more complicated for firms to show how they can invest in sustainable companies and provide stable, financial returns for investors whilst also meeting sustainable investment objectives. For example, in the US there are complex cross-currents at state and federal levels. The Inflation Reduction Act has provided powerful incentives to develop green infrastructure in the US. In states like Texas, which has a strong history of oil exploration, there has been significant development in solar and wind technologies and the state is now the leading provider of US solar power. The US has succeeded in drawing capital from around the world to invest in green infrastructure but there are vocal politicians who remain sceptical of investment in de-carbonisation strategies and the green economy preferring to support industries such as shale oil and gas to improve the national security of energy supply. Against this backdrop, investor views on what is responsible and sustainable are changing. Whilst the development of an EU taxonomy has helped to set out a framework for sustainable and responsible investment activity in Europe, the UK's taxonomy is still under development. Investment managers are often allocating capital globally and must navigate diverging standards and expectations.

"There is a populism agenda emerging and asset managers suffer in the public arena where we are seen to be trying to do good at the expense of customer returns. Of course, that's not what we are doing but if we don't describe what we are doing well enough, we run a risk of being misinterpreted."

"We need more clarity around what the role of asset managers and financial services is when it comes to the global transition to net zero."

- **The volume and pace of regulation on standards of disclosure** across Sustainable Finance Disclosure Regulation (SFDR) in the EU, Sustainability Disclosure Requirements (SDR) in the UK and the SEC's ESG disclosure rules in the US, is affecting the development and communication of sustainable products and strategies. At the heart of this is a focus from regulators on preventing greenwashing and ensuring that the industry better articulates how it is helping investors to achieve their sustainable investment objectives and make more informed choices from the range of sustainable products available, whilst setting minimum standards of sustainability. This should help investors who want to achieve a financial return whilst also using their capital to support good social and environmental outcomes.

"We're seeing the impact of political polarisation globally in the ESG space, for example, the difference between the SEC rules, European rules, and SDR and other labelling rules in the UK. If you're building and distributing products to investors, you've got different disclosure standards, different reporting standards... a lack of consistency leads to rising costs and a complete lack of clarity for investors..."

In the UK, from December 2nd, the FCA will require sustainable funds to have a sustainable investment objective and to use a robust evidence-based standard to provide proof of process.

"The industry needs to get better at explaining how investing sustainably can either enhance returns or lower the risk of bad returns. When you then invest with both financial and sustainable lenses, you seek to pick corporates that will do well on both accounts and outperform in the long term."

- **Changing investor demand:** investors are not operating in a political vacuum and changing government attitudes to responsible and sustainable investing will have some impact. UK investment managers have a very international client base as 49% of AUM is managed on behalf of overseas investors and the attitudes of Middle Eastern or Asian investors is likely to be different from European investors, coloured by regional differences in attitudes to climate change, social norms and increasingly to defence as in Europe, attitudes towards the importance of supporting investment in defence are influenced by the recent Russia/Ukraine war and evolving views on the role that investing in defence can play in protecting democracies against authoritarian actors. Coupled with this is the impact of performance on investor demand and in the UK, we have seen the waning of retail investor demand for sustainable investment strategies through 2023 as performance challenges affected investor appetite.

"You had all these low carbon green funds that just avoided sectors like oil and gas and then horribly underperformed."

Most think that this is a cyclical challenge, and that investor sentiment has been affected by lower returns compared with in 2020/21 following the outperformance of oil and gas sectors in the aftermath of the Russia/Ukraine war. Sustainable investment strategies often exclude these sectors.

“A lot of the initial wave of product construction and product development to create differentiated product has started to wane. There is a little bit of regulatory scepticism around it as well. Demand will dampen down a little bit but I still think you'll see an element of cyclicality where it comes back.”

“In the UK, Europe and Asia, we've seen clients focus their money on areas other than ESG, investors are tightening their belts and putting money into lower risk cash type investments.”

FUNDS AND MANDATES WITH A FOCUS ON SUSTAINABILITY ACCOUNT FOR

10%

OF AUM

SUSTAINABILITY DISCLOSURE REQUIREMENTS

The FCA’s Sustainability Disclosure Requirements (SDR) and investment labels regime aims to give investors better visibility and an improved understanding of sustainable funds and to strengthen investor confidence. These aims are wholeheartedly supported by investment management firms and the industry recognises that the FCA is setting a high bar for sustainable funds by implementing a minimum requirement that funds must set a sustainable investment objective supported by a robust, evidence-based standard and metrics. By the 2 December 2024, firms must either adopt a sustainability label, which is voluntary, or change the name of the fund, if the fund name includes restricted terms such as ‘sustainable’, ‘sustainability’ or ‘impact’ (or a variation of those terms) and if the fund does not have a sustainability label.

Firms must also change the way that they market the sustainability characteristics of their funds. Their approach to the marketing rules will depend on whether the fund has a label, where there are set disclosures and requirements that must be set out in the regulated disclosure documents including the prospectus and the KIID and in a new Consumer Facing Disclosure document (CFD). Unlabelled funds with sustainability characteristics will also have to produce a CFD. Whilst SDR labels and naming and marketing rules initially only apply to UK domiciled funds, and overseas domiciled funds being marketed in to the UK will not have the opportunity to voluntarily apply labels, we anticipate that the SDR regime will eventually be extended to overseas domiciled funds. HM Treasury will further consult with the industry on the implementation of extending the scope of SDR to overseas domiciled funds. In the interim, investment platforms and advisers must provide investors with a ‘caveat emptor’ notice on overseas domiciled funds (i.e. recognised schemes, including ETFs), to clarify that the fund is not subject to the UK sustainability disclosure and labelling regime.

Complying with the SDR requirements has exposed some of the complexity in implementing rules and standards around sustainable investing, particularly for funds that are investing across multiple sustainable themes.

“SDR is... costly and time consuming but once it's finally implemented, it's going to bring more clarity and value. It's a very demanding regulation and the bar is set pretty high. The labels are a very positive tool that we can actually use and they create a lot of clarity.”

Whilst in the UK, there has been a significant focus on implementing the SDR regime, the pace of regulatory change in the EU continues to accelerate. The proposed introduction of new naming guidelines for funds by ESMA ensure that '...ESG- and sustainability-related terms in funds’ names should be supported in a material way by evidence of sustainability characteristics or objectives that are reflected fairly and consistently in the fund’s investment objectives and policy.’

Managing the differing legislative regimes in the EU, UK and US is complicated and there is some concern from firms that the different jurisdictional approaches will fail in their objective to provide greater clarity to investors whilst driving up the cost of managing sustainable and responsible strategies, some of which will ultimately be passed on to investors.

"There needs to be a genuine focus on end investors and assessing what the impact of regulation or policy will be on end investors."

OPPORTUNITIES AND RISKS AROUND THE NET ZERO TRANSITION

The transition to net zero is a critical ambition for governments, shared by 195 countries and the EU. The Paris Agreement was adopted in 2015 to limit global warming to well below 2°C (and preferably to 1.5°C) above pre-industrial levels. In the UK, the Conservative Government set a legally binding net zero target in 2019 and the new Labour Government sees the energy transition as a priority.

Allocating to companies that are changing to take account of climate transition targets requires constant monitoring. Committing as a firm to make the transition to net zero, as many investment managers have, requires a similar level of focus.

“For global asset managers, the macro themes including sustainable finance, particularly the path to net zero, have ramped up the political pressure to do more or less in that space depending on the jurisdiction. The Europeans have front run and are trying to drive forward net zero and the transition to a green economy. The UK is also trying to be seen as a as a leader of net zero but the economic reality is hitting and they are thinking about how to fund this at the macro level.”

The net zero transition has brought about new investment opportunities as new industries are developing to promote climate transition and firms have launched climate transition funds with an objective to invest in companies that are improving their sustainability credentials, often through a commitment to making the transititon to net zero. We are also seeing investors opt for index trackers that follow Paris-Aligned and Climate-transition indices.

"On the opportunity side, for governments that have signed up to Paris alignment deals, there's new industries to be developed. There are new solutions to be found and investing in the companies that are at the forefront of that might be really strong investments. The negative of course is the companies that are polluting water might become very bad investments over the medium term, they could be fined, could be regulated. So as part of our core investment process, we want to be careful about companies that are misbehaving on any of these risks."

The UK has had good reason to promote its track record on decarbonisation. Official national statistics on UK territorial greenhouse gas emissions show that total greenhouse gas emissions in 2022 were 50% lower than they were in 1990. However, in its report outlining the key outcomes from COP28 and suggesting next steps for the UK, the Climate Change Committee noted "a perception of slowing UK climate ambition by members of the international community."

Domestically, the Government had continued to face criticism of its net zero strategy, and in May, courts found that the UK's net zero strategy was unlawful because it contained insufficient detail on how decarbonisation policies would be achieved. This sense of drift in UK decarbonisation policy had begun to impact negatively on the UK's reputation with business and investors and, when compared to the significant investment of the US Inflation Reduction Act, a sense was developing of an opportunity lost following the UN climate conference which had been hosted in Glasgow in 2021.

Since the UK hosted COP26 there has been an intense focus on developing a framework to ensure, quality and consistency in climate disclosure. This package – under the banner of making the UK the world's first net zero-aligned financial centre – had included the development of transition plan standards, consideration of a UK green taxonomy, and a process for developing sustainability standards. It has built on the work of the Taskforce for Climate-related Financial Disclosures (TCFD) and sought to encourage new standards including the Taskforce on Nature-related Financial Disclosures (TNFD).

Progress had been mixed and a change of Government in July presented the opportunity for a new direction to be taken and the potential for negative sentiment to be reversed, with boosting green energy identified as one of five "national missions" by the new administration. It is too early to know what will become of incomplete projects on climate-related disclosures.

In its first full week, the Government instead made a series of high-profile announcements on energy policy including approving the building of three solar farms, reform to the planning system, a new policy to permit onshore wind generation, the creation of a National Wealth Fund to invest in green and growth industries, a new 'Mission Control' to coordinate clean energy expansion, and a decision not to defend a legal challenge to a previously permitted new coalmine. The King's Speech, which sets out the Government's legislative agenda, included plans to establish a public energy company called GB Energy and to build more offshore windfarms by reforming the Crown Estate.

For investors who have become accustomed to asking for policy clarity and certainty, this has been a clear and early demonstration of intent. Both GB Energy and the National Wealth Fund will be established with a remit which includes catalysing private finance. Inevitably, any policy announced in the first week of government will be short on detail having received limited input from the civil servants whose job it is to make political ideas into practical reality. At the same time, an investment industry that has been arguing that capital will follow clear policy pathways must begin to engage in good faith.

Ultimately the legal responsibility for transition in the UK rests with the Secretary of State. The public sector must therefore take responsibility if it wishes to achieve its treaty and legal responsibilities. However, the public sector cannot act alone. It will need to collaborate with industry, the finance sector, and investors to create a supportive ecosystem for economic transition that can leverage the expertise, innovation, and capital of the private sector. Investors will now have to judge whether they have confidence in the UK Government to deliver on its ambitions, whether a second term is necessary for this goal, and if this "mission-driven" approach is more attractive than the vast subsidies currently available across the Atlantic.

SUPPORTING INNOVATION AND HARNESSING THE BENEFITS OF AI AND TOKENISATION

Following a tough two years for investment performance amid a difficult operating environment, there is a significant focus from investment managers on using technology to drive efficiencies and to obtain cost control.

As we approach the end of the second year of the genAI era, much of the debate has been around the relative significance of DLT/tokenisation and artificial intelligence (AI). While views differ on which could be the most transformational, there is no doubt that the effect of implementing these technologies signify a period of accelerating change.

> *""AI has great ability to gather data, improve processes and create customised reports. As long as it's using existing data, it has great potential in creating client reports or on gathering investment research on corporates and summarising corporate strategy and activity. Productivity gains could be quite immense if used well. That might lead to the ability for us to become more efficient, keep up with fee pressure and enable us to explore wider investment universes and offer improved investment performance as a result."*

Members have generally been embedding GenAI within their firms in an incremental way, with small applications focusing initially on productivity gains. The adoption of tokenisation has been more gradual but could offer a more dramatic transformation across the capital markets ecosystem in which investment firms operate. That promise, which has been a long time coming, does appear to be being realised as projects in funds and assets scale up.

HOW INVESTMENT MANAGERS ARE USING AI

Our conversations with investment managers tell us that there two principal applications for AI within firms:

- Using AI to streamline operations to speed up manual and repetitive processes.

  > *"AI will bring efficiencies that could allow our employees to focus on some higher value more strategic things, whether that's leading and developing teams, or focusing on clients' needs. It's more of an efficiency tool rather than something that will replace our human capital."*

  > *"With Copilot there's little micro efficiencies happening right through the business."*

  > *"We are looking at how AI can assist in the commentary we produce and the KPIs we send to clients. Instead of having the portfolio manager spending two hours every month writing commentary, we can have a machine learn and understand what the portfolio manager wants to say, then build the database and pull out the data of 10, 20 products at the same time."*

- In active management, AI-powered investment research and analysis is unlocking insights from large data pools. The ability of AI to analyse historical data is complemented by investment teams bringing a critical skillset in interpreting the market outlook. The view from firms is that AI combined with professional investment teams is a powerful combination and that AI will not replace investment managers, at least in the near to medium term, given its current inability to forecast opportunities for outperformance.

"If you've got 100 or so investment analysts, and then 6000-7000 global stocks that you might want to research, you need to narrow that down somewhat. One of the things we do is think thematically – what themes are going to drive stocks? Then the large language models can help us identify the thematic intensity of the stocks and narrow down the universe."

"Whatever way you cut it, artificial intelligence shares a lot of commonalities with the machine learning and quantitative approach to investing, in that it's learning from history. It's able to crunch volumes of data that humans couldn't deal with, but the ability for humans to imagine a future that is different from the past, is still going to be required."

Other use cases are detailed in the recent paper for the Asset Management Taskforce[8]. There remain challenges, however, in assessing the accuracy of AI, with some investment managers commenting that they are more comfortable training AI on their own data and analysis than allowing it to sift through large external data sets unchecked. This provides a reassuring element of quality control.

"We've been using generative AI to build. We've created our own data lake that's got all of our own proprietary research, as well as every company report, as well as all investor marketing materials. We've been able to put all of our research in and now we can ask questions like: which assets will be most impacted by a far right victory in France's election, for example. pooled from our proprietary thoughts about it."

Firms have also identified issues with data governance and proprietary data: there is a fear that using CoPilot and other generative AI models developed by external parties could allow data to leak into the public domain.

"Our organisation is currently not allowed to use Copilot due to concerns about proprietary information coming out into the public domain."

This problem would become more acute if AI was designing investment solutions or setting investment strategies, because the ability to explain the process if the solution goes wrong or is subject to challenge remain critical and this is not currently possible using AI.

"When it comes to using AI for designing investment solutions, from a governance point of view you always have to think about if something's designing investment solutions, there's always the possibility that they go wrong and it bcomes subject to challenge, so there's always going to have to be somebody who is held accountable."

[8] The Investment Association: Intelligent Investment October 2024.

This is leading firms to be concerned with the future regulation of AI. The new UK government has indicated a slight shift from the previous principles-based, innovation-friendly approach, though at present the exact details remain to be seen. Firms recognise that regulators will have to strike a balance between protecting consumers from poor or harmful outcomes and allowing innovative solutions to common challenges. There is agreement that it will be challenging to navigate inconsistency across global frameworks, with the comparison with the EU requirements being the most stark.

"You've got a scenario where the EU and ESMA are coming out saying that in the AI space there are multiple risks to think about, whereas in the UK this is far less pronounced. What we need is consistency and proportionality. Different regulatory standards leads to higher implementation and run costs for global firms."

"In the AI space, it's about getting the balance right between doing too much and doing nothing but being proportionate.... It's great that the UK is aligning with Singapore to do more around AI and tokenisation. I think that's impressive and should be encouraged. On the other hand, it is important that by front running with legislation, the EU does not go too far too quickly, thereby limiting growth opportunities and slowing innovation."

Almost all firms that were interviewed stressed that AI use must be combined with human oversight to achieve the greatest benefits. Many investment managers have relatively nascent AI competencies but it has the potential to bring significant efficiencies, allowing investment teams to focus on higher value tasks.

"We've had an AI strategy running for a few years ...We're now using it to help us with the research process to help our investors, combining AI with a human, rather than trying to have something that's purely AI, or purely human."

TOKENISATION

Whilst there is widespread recognition that an AI implementation strategy is a critical component of driving operational efficiency in the near term, firms have differing views on the use case for tokenisation and the best path to systematic adoption by the investment management industry. As we noted in our tokenisation reports[9], a step within the sector's own control is the tokenisation of investment fund structures. However, the tokenisation of assets could solve some longstanding challenges around modernising post-trade processes and liquidity in some asset classes. This is seen as potentially transformational but firms recognise that significant investment will be required to deliver the right infrastructure.

"The biggest application of tokenisation would be in private markets. It could enable distribution of private markets to retail but there are many challenges because with tokens, you don't improve the liquidity... we need to solve that ability to be able to keep the price near to the NAV...

"Tokenisation may have applications to semi-liquid asset classes. However, just talking about economics, if I'm going to buy a building, having 100,000 investors in the building, or one institutional client do the same. I'd rather my business is aligned to the latter. Maybe some will be aligned to the former, but I suspect there'll be very high fees if required to make that work."

[9] The Investment Association: Investment Fund 3.0.

The development of tokenisation internationally is seeing a focus on both capital markets and funds. Through late 2022 and into 2023, there were multiple experiments internationally in digital bond issuance. These proof of concepts, when paired with greater legal clarity in some jurisdictions, have now made tokenisation a reality. There are now emerging use cases within investment products, with numerous examples of tokenised funds now operating across the globe, bringing the benefits of DLT to end investors and furthering the debate about how investment firms will deliver investment solutions to consumers in the future.

Multiple firms have brought tokenised funds to market or partnered with fintechs to tokenise some of the units/shares of their conventional funds to provide an alternative access point for digital native investors. There has been significant interest in money market fund (MMF) tokenisation, as firms seek to capitalise on the higher yield environment in the new market cycle and to provide a digital temporary 'parking space' alternative to stablecoins[10] for digital investors, or to provide the option of using the MMF tokens for collateral.

On the assets side, the corporate and sovereign bond markets have offered the most growth in terms of the number of digital issuances, with the first World Bank and EU member state digital issuances increasing the amount of debt available digitally.

It has been our aim to ensure that the buy-side voice is present in the debate around the structure and features of digital conventional assets and to make sure the funds industry is making concurrent progress to secure its place in the digital marketplace. As a part of this, the debate around the shape of the market infrastructure of the future continues, helped with the start of the first UK Digital Securities Sandbox (DSS) sandbox and other initiatives such as Global Layer One[11], which aim to provide interoperability across markets and jurisdictions.

MANAGING RISK IN TECHNOLOGY AND INNOVATION

As the pace of technological change accelerates, firms must keep pace with emerging risks and strengthen their operational resilience strategies. The FCA has made managing complex change a key priority for investment management firms. Two pressing threats are cyber security and the emergence of quantum security risks.

Cyber threats

The risk of disruption stemming from cyber-attacks is a persistent and serious threat to the industry. The criticality is demonstrated by the speed and scale at which incidents can play out and the fact that such incidents are perpetrated by malicious actors intent on deliberately causing harm.

Significant incidents of recent years, such as the Log4J zero-day vulnerability and the MOVEit vulnerability, demonstrate the extent and reality of the cyber threat faced by the industry. They also underline the need for firms to not only maintain constant vigilance and a focus on cyber hygiene but to further develop incident response plans should the firm need to protect clients and help to recover critical activities, systems and data affected by cyber incidents. This is a growing area of resourcing and activity across the industry, with support from regulators and external agencies such as the National Cyber Security Centre (NCSC), the Connect Inform Share Protect (CISP) platform, the Joint Cyber Defence Collaborative and the FCA's Cyber Coordination Groups.

This year has seen a remarkable increase in the number of disruptive events, reflecting the dominance of digital services within the global economy and its interconnectedness. From data breaches to cyberattacks from both malicious actors and state-sponsored groups, to failures within payment systems demonstrating the fragility of the UK's payments infrastructure, investment firms have needed to be alive to the risks posed from outside the sector. This was prominently demonstrated by the sprawling CrowdStrike incident in mid-2024 which tested firms' resilience and that of investee firms and the wider supply chain.

[10] A stablecoin is a form of digital currency that aims to maintain a stable value by pegging it to another currency, such as the US dollar, or to gold or other commodities.
[11] MAS: Global Layer 1 (GL1) Whitepaper.

Quantum risks

The potential of – but especially the risks posed by – quantum computing are coming more clearly into view and firms are beginning to assess the two most pressing risks: cryptographic vulnerabilities (breaking of passwords) and market instability (unfair or unequal access to market data).

Quantum computing has the potential to break many of the cryptographic algorithms currently used to secure data and access to sensitive information. This is because quantum computers can solve complex mathematical problems much faster than ordinary computers and so existing encryption algorithms could be easily broken by a sufficiently powerful quantum computer. This could lead to data breaches, the undermining of privacy protections, and other security risks.

Furthermore, the adoption of quantum technology could create disparities of access and capability and ultimately lead to market instability. Organisations with early access to quantum technology could gain significant advantages, potentially leading to monopolistic practices and market imbalances.

While it appears that the technology is still some way off the commercial application of quantum computing at a viable price, the potential destructive force it could wreak is beginning to have an impact within the market as firms seek to secure their perimeters.

Managing risk: strengthening operational resilience

Emerging technologies are poised to reshape the underlying operating models of firms. Resilience considerations clearly arise as a result and these changes also have implications for broader financial market infrastructure. The potential sources of disruption and vulnerability will likewise evolve as new technologies are developed and adopted.

Firms relying on third parties need to be able to demonstrate that they are effectively managing the risk of disruption and harm to their clients and end investors. However, there are numerous challenges involved in forming assessments over third party providers' resilience in adequate detail. Driving improvements in this area is likely therefore to be an area of focus over the coming years.

Similarly, the growing importance of technology providers from outside the financial world is creating new potentially systemic risks that firms and supervisory authorities must manage. To address this trend, proposals are afoot in both the UK and the EU to manage the systemic risks that could be caused by disruption at a third party providing key services to multiple firms. In the UK, the FCA, Bank of England and the PRA are developing policy on Critical Third Parties (CTPs) which aims to manage the systemic risks presented by large technology providers to the joint regulators' objectives on UK financial stability, market integrity and consumer protection. The proposals are likely to capture major cloud service providers and other technology providers. The proposals complement the regulators' UK Operational Resilience Rules, which come fully into effect in March 2025. They are motivated by HMT's assessment that the regulators' current powers are not sufficient to tackle the systemic risk that disruption at CTPs could cause.

These proposals involve designating certain entities outside of the regulatory perimeter as critical to the sector and introducing minimum resilience requirements and direct regulatory supervision of their services to financial services clients.

Firms with an EU presence or distribution model have also been developing their plans for the Digital Operational Resilience Act (DORA) which provides a comprehensive framework for the management of suppliers and digital risks. Firms are closely monitoring the detailed regulations which are being designed by the domestic authorities across the bloc.

3 TRENDS IN CLIENT ASSETS AND ALLOCATION

KEY FINDINGS

ASSETS BY CLIENT AND MANDATE TYPE

- In 2023, institutional client assets accounted for 72.7% of total UK AUM, down from 74.1% in 2022. Some of this decline is the result of performance in a more challenging market cycle.
- Retail assets rose to 26.4%, up from 24.7%. This compares with 20% in 2020. Low interest rates through the pandemic made investing attractive and many new investors had more disposable income and time to spend on investing. Through 2022 and 2023, the proportion of retail AUM has remained steady despite rising inflation, higher interest rates and the market shock caused by the Russia/Ukraine war.
- Pension fund assets as a share of total AUM fell to 31.5%, down from 33.9% in 2022. The gilt market crisis in September 2022 continues to impact asset values, particularly for pension funds.

TRENDS IN ASSET ALLOCATION

- Equity allocation remained constant at 42% in 2023 and is unchanged since 2021. North American equities have almost doubled over 10 years to 35% and UK equity allocations have declined to 20% in 2023, down by 10% over the past decade. Fixed income allocation increased to 30%, up 2% from 2022. Overseas bonds account for 59% of fixed income assets. The 'Other' category, which includes LDI and multi-asset strategies, rose by 3% to 20% in 2023.

INDEXING AND ETFs

- From 2013 to 2022, allocations to indexing strategies increased from 23% to 33%. In 2023, the proportion of indexing AUM dipped slightly to 32%.
- Global AUM in the ETF market reached $11.09trn, up 25% from $9.2trn in 2022. This growth outpaced the 17% annual growth rate observed over the last decade. Growth rates were highest for Europe, with AUM growing 28% in 2023 to reach $1.8trn. Over the past decade, growth in the total AUM in active ETFs has consistently outpaced index tracking ETFs, growing at double the rate in 2023 to reach $715bn.

3

INVESTMENT IN THE UK ECONOMY

- IA members invested £1.43trn in UK-listed equities, sterling denominated bonds, infrastructure and UK commercial property in 2023. Investment in UK equities slightly decreased to £778bn from £815bn in 2022. Sterling corporate bond assets grew by £56bn, reaching £396bn in 2023. Investments in UK infrastructure projects remained stable at £45bn.

ONGOING FOCUS ON LIQUIDITY MANAGEMENT

- A combination of events including the 2020 "Dash for Cash" and the LDI market turbulence in September 2022 have underscored the critical importance of liquidity management. A co-ordinated global regulatory reform agenda is focused on more effective liquidity management and in December 2023, the Financial Stability Board and IOSCO issued policy recommendations to address liquidity mismatches in open-ended funds focusing on liquidity bucketing, availability of liquidity management tools and anti-dilution measures. The UK industry broadly supports these efforts, while emphasising that funds have not been central drivers of redemptions during previous crises.

DEEPENING ACCESS TO PRIVATE ASSETS

- Globally, private market assets have grown substantially, with AUM in alternative investments reaching $17trn in 2023, up from $7trn in 2010 according to Preqin data. In the UK, the Government believes that private investment can play a key role in meeting its levelling up and net zero objectives.

- Barriers to investing in private markets are also being addressed. The launch of Long-Term Asset Funds (LTAFs) presents a further opportunity to increase DC pension participation and the momentum behind the Mansion House reform agenda aims to help channel pension capital into public and private UK companies.

This chapter offers insights into the structure of the UK-managed asset base of Investment Association (IA) members. We focus on three key aspects: client type; asset classes and geographies; and asset management styles and approaches.

CLIENT TYPES

The clients served by IA member firms can be broadly categorised as either retail clients or institutional clients, although the blurring of the lines between these groups remains a feature of the market (see Box 3). Chart 9 illustrates the breakdown of the £9.1 trillion of UK-managed assets by client type. We observe the following trends:

- The proportion of industry AUM managed on behalf of institutional clients is 72.7% in 2023 compared with 74.1% in 2022, a fall of just over 1%. The proportion of assets managed on behalf of retail clients is 26.4%, up from 24.7% the previous year, and assets managed on behalf of private clients remained steady at 0.9%, compared with 1.1% in 2022.

- In 2023, pension funds remained the largest client group, holding 31.5% of industry assets and 43.3% of institutional assets, down from 33.9% and 45.7% in 2022. The proportion of pension fund assets as a percentage of total AUM has consistently declined year-on-year since 2018.

BOX 3: BLURRING OF CLIENT TYPES

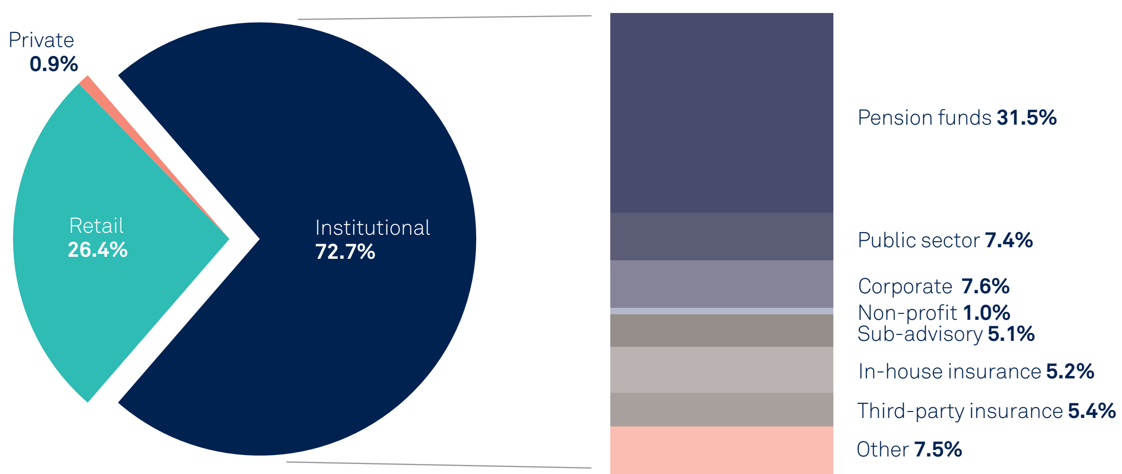
Insurance vs. Pension

Defined Contribution (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, meaning the allocation to pension funds understates actual pension investment.

Retail vs. Institutional

DC pension schemes remain 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 Defined Benefit (DB) scheme, where their pension is based on their salary, the value of a DC pension is determined by the contributions an individual makes to their plan and the investment return they receive. The ultimate investment risk lies with the individual. 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 9: ASSETS MANAGED IN THE UK BY CLIENT TYPE (2023)



Source: The Investment Association

- We have seen a rise in the proportion of assets managed for in-house insurance clients, increasing from 5.7% to 7.3% of AUM, while third-party insurance assets declined from 6.5% to 5.4%. This rise can be partly attributed to developments in DB pension schemes, where the insurance buy-out market saw a record level of deals over 2023 as some schemes moved to full funding as a result of higher interest rates. This has benefited investment managers who are part of insurance companies where investment management has been distributed in-house. (See Chapter 4 for further analysis)

- Retail is the second-largest client group, growing annually since 2019 to reach 26.4% in 2023. The rise in the percentage of assets managed on behalf of retail clients in 2023 is largely the result of flat institutional AUM growth, however retail AUM has also been boosted by a rise in the number of investors through the pandemic.

Chart 10 offers a breakdown of UK-managed assets by client type over the ten-year period to December 2023.

- Retail client assets have seen the largest proportional increase over the last decade, rising from 20% in 2013 to 26% of total UK managed assets and are now the second largest client group. 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 2020, 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.

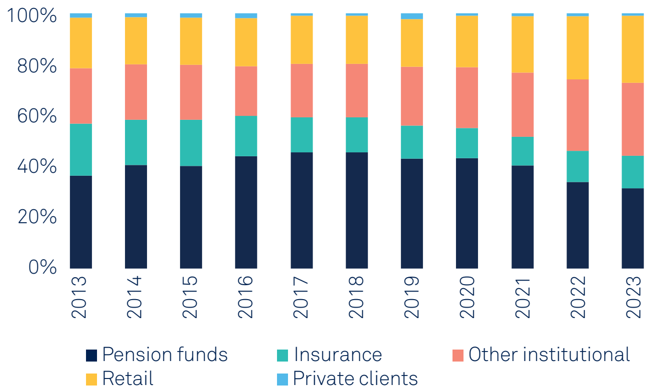
- Whilst pension funds remain the largest client group, the share of assets managed on behalf of pension funds has fallen further in 2023 to 31% of assets from 34% in 2022. The gilt market crisis in September 2022 caused gilt prices to fall steeply and affected the value of pension fund assets. The AUM managed on behalf of pension funds has yet to recover and this has caused the percentage of assets to continue to decline.

- There has been a percentage point rise in the assets managed on behalf of insurance clients to 13%, which has been driven by growth from in-house insurance clients. Insurance assets fell between 2017 and 2021 but the shift to higher interest rates has driven a rise in DB scheme insurance buy outs and has also made the annuity market more attractive, which may account for the growth in in-house insurance assets year on year.

- The 'Other institutional' category has consistently grown each year since 2018 from 21% to 29% of client assets in 2023. Assets managed on behalf of corporate (7.6%) and public sector clients (7.4%) make up the largest segments within the 'Other institutional' category.

- The share of assets managed for private clients has historically fluctuated between 1% and 2% but has held steady at 1% for the past three years.

CHART 10: ASSETS MANAGED IN THE UK BY CLIENT TYPE (2013-2023)



Source: The Investment Association

TRENDS IN ASSET ALLOCATION

IA members invest across all the major asset classes but their involvement varies depending on their expertise and specialisms. As highlighted in Table 2, nearly all survey respondents invest in equities (98%) and most invest in fixed income (85%). Other asset classes, such as cash and alternatives, are more specialised and are predominantly managed by the larger investment managers.

TABLE 2: PROPORTION OF IA MEMBERS INVESTING BY ASSET CLASS IN 2023

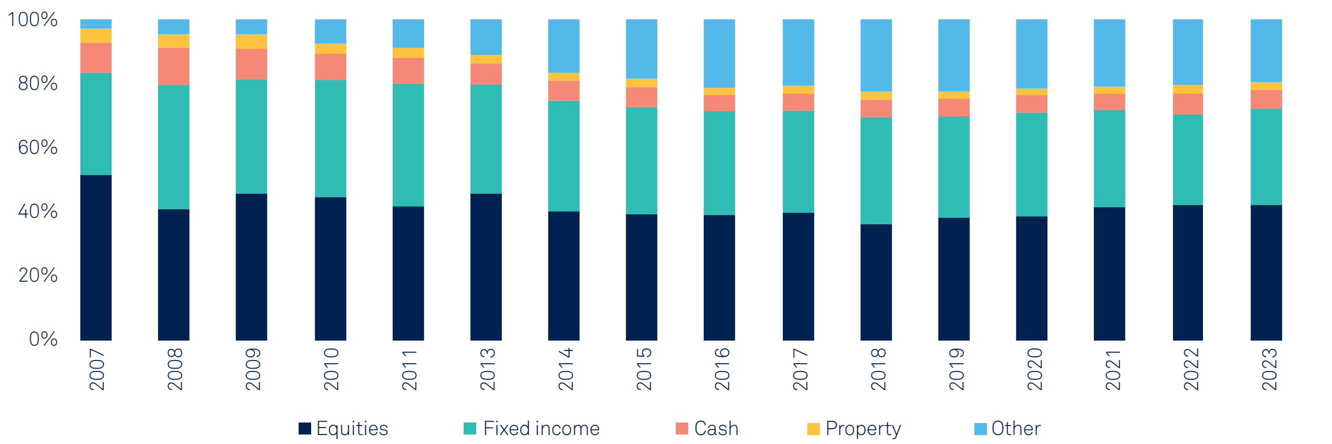
	Share of firms in a given asset class
Equities	98%
Fixed income	85%
Property	68%
Cash	15%
Alternatives (incl. private markets and cryptoassets)	27%

Source: The Investment Association

Chart 11 highlights the breakdown of assets under management by asset class over the last fifteen years. Year on year, asset allocation has hardly changed between 2023 and 2022 although there has been a slight rise of 2% in the allocation to bonds. Looking back longer term, there have been shifts in the allocation of assets and the most significant trend has been the volatility in the percentage of AUM allocated to equities:

- Allocation to equities was 52% in 2007 but the impact of the market downturn through the global financial crisis caused a steep fall to 41% in 2008. Central banks moved to cut interest rates to boost global economies and we see a rebound to 46% through 2009 but this period is indicative of the impact of market performance on equity asset values and allocation. We observe another steep fall through 2018 of 4% from 40% to 36% when markets tumbled following worries over US interest rates rises and global trade tensions between the US and China. However, the percentage of assets allocated to equities has stabilised between 2021 and 2023 at 42%. The market turbulence through the pandemic was relatively short lived and markets rebounded from November 2020. The fall in equity valuations was accompanied by a fall in bond prices in 2022, which may have offset any change to the proportion of assets managed in equities.

CHART 11: OVERALL ASSET ALLOCATION OF UK-MANAGED ASSETS (2007-2023)



Source: The Investment Association

- Fixed income allocation rose by two percentage points to 30% in 2023, following a fall of 2% in 2022. As bond yields rose rapidly following swift moves by Central Banks to raise rates to offset escalating inflation, so bond prices moved inversely to yields. Bonds have consistently remained at around a third of total AUM over the last decade and typically have a stable performance trajectory – 2022's events were exceptional as we moved into a new economic cycle of higher interest rates.
- Allocations to cash remained steady at 6% in 2023. Cash allocations have remained stable at between 5% and 6% over the last ten years.
- Assets in the 'Other' category include LDI and multi-asset strategies and fell by 1% year-on-year. Over the long-term we have seen significant growth, however, as assets in 'Other' rose from 3% of UK-managed assets in 2007 to 20% in 2023.

DETAILED ASSET ALLOCATION

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

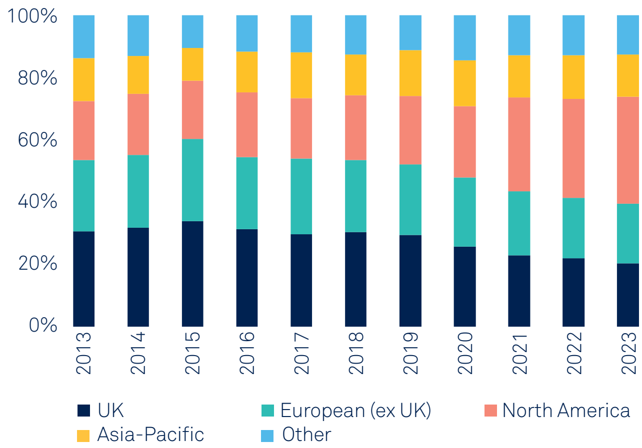
Equities by region

Chart 12 illustrates the change in proportion of equity assets over a ten-year period to December 2023. The growth of AUM in US equities outstrips all other markets accounting for 35% in 2023, compared with a 20% allocation to UK equities:

- The US stock market has significantly outperformed other equity markets over the last fifteen 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 ten years. This reflects the trend over the last fifteen years to greater 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 equity allocation.
- Since peaking in 2015, European equities have steadily declined in allocation, falling from 22% in 2020 to 19% in 2022 and 2023, the lowest levels recorded.

3

CHART 12: ALLOCATION OF UK-MANAGED EQUITIES BY REGION (2013-2023)



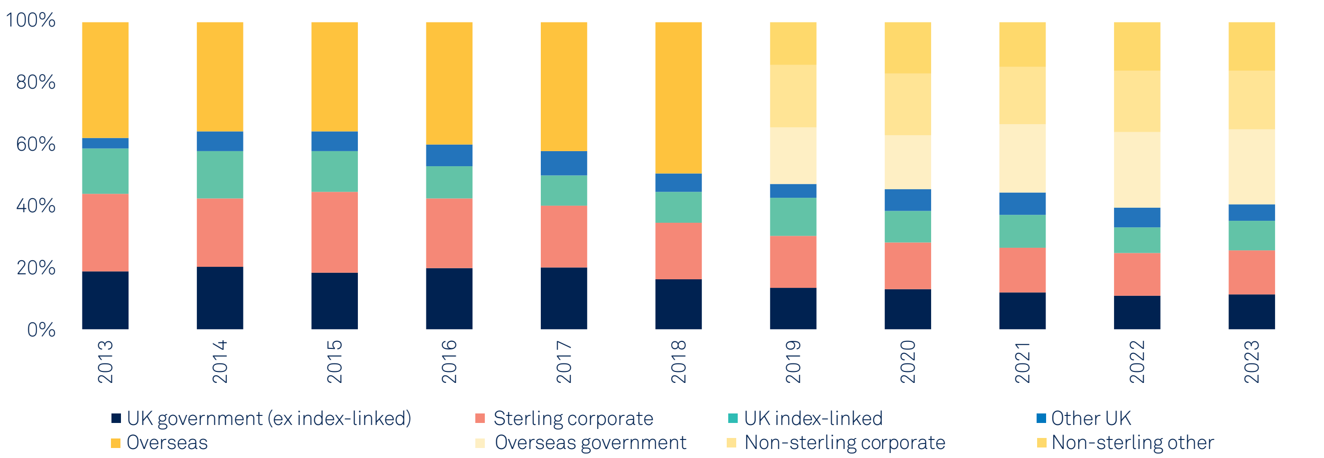
Source: The Investment Association

Fixed income assets by region

Global diversification of fixed income assets has increased over the past decade. Chart 13 highlights the evolving composition of fixed income investment over the past decade.

- Although down by one percentage point in 2023, overseas bonds still dominate fixed income assets, accounting for 59%. This reflects a continued preference for global diversification.
- Allocation to government bonds has dropped from 19% in 2013 to 11% in 2023. Despite the sharp fall in UK gilt prices in September 2022, UK government bond allocation remained steady in 2023.
- Allocation to UK index-linked bonds rose slightly to 9% in 2023 up from 8% in 2022 but has not yet recovered from the impact of the September 2022 fall in gilt prices on allocations. In 2021, the allocation to index-linked bonds, which provide protection against rising inflation, was 11%.
- Sterling corporate bond allocations rose by 1% year on year to 15% in 2023. Allocation has stabilised recently, fluctuating between 14% and 15% since 2020.
- Overall, non-sterling denominated bonds continue to make up a third of fixed income allocations, a 1% fall in 2023. The most significant growth in bond allocations has been to overseas government bonds, which are 24% of fixed income allocations compared with 22% in 2021. This also reflects the impact of the fall in UK gilt prices, which had a greater impact on the value of UK issued and sterling denominated bonds than on overseas government bonds.

CHART 13: ALLOCATION OF UK-MANAGED FIXED INCOME BY TYPE AND REGION (2013-2023)



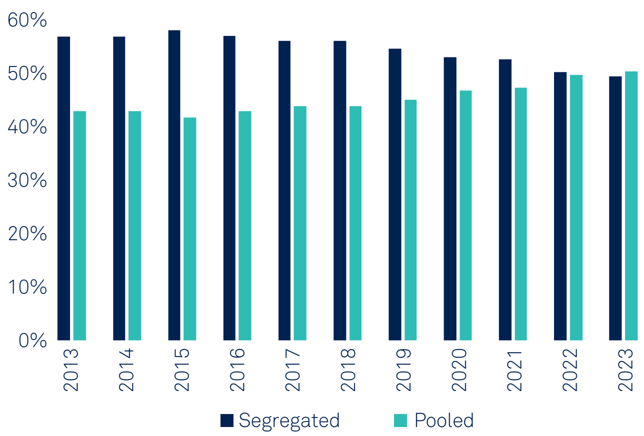
Source: The Investment Association

SEGREGATED VS. POOLED

Chart 14 shows a gradual shift from segregated mandates to pooled investments over the past decade.

The proportion of assets in segregated mandates was 57% in 2013 and held steady until 2016 before gradually falling to 50% by 2022. It has remained at 50% in 2023. Assets in pooled vehicles have risen from 42% in 2013 to 50% by 2022 and there is no change year on year. This trend reflects a shift toward greater use of indexing strategies, which are typically managed through pooled investment structures. We have also seen an increase in the use of products such as ETFs and we look at this trend in more detail later in this chapter.

CHART 14: SEGREGATED VS. POOLED INVESTMENTS (2013-2023)



Source: The Investment Association

INDEXING STRATEGIES

Chart 15 shows the evolution of indexing strategies as a proportion of UK-managed assets. From 2013 to 2022, there was a clear trend towards increasing allocation to passive investment strategies, rising ten percentage points from 23% to 33%. This shift reflects the appeal of lower fees and the strong performance of equity indices in a low-interest rate environment. The introduction of measures such as the charge cap in defined contribution pensions have also been a factor in the growth of indexing as DC schemes have made greater use of indexing strategies to keep costs underneath 75 basis points. Active strategies have seen a decrease in share of AUM from 77% to 67% between 2013 and 2022.

“It's a historical fact that passive is taking a large share out of the active industry, and it's also contributed to pricing coming down. Capacity in the active space has shrunk and probably will continue to shrink. That has consequences in terms of corporate governance, in terms of market efficiency, and in terms of market concentration and momentum investing, which we have seen.”

In 2023, there was a slight reversal in the trend as we saw the consistent growth in passive allocation halt as indexing AUM fell slightly by 1% to 32%. This change may reflect market volatility. Going forward, the outlook for active management may be more positive according to our interviews with senior industry representatives. We are operating in a new interest rate cycle that is less favourable for equity growth stocks and as markets grapple with volatility and greater economic uncertainty, there may be opportunities for active managers to exploit.

“From the global financial crisis till probably about 2021, passive delivered really good outcomes with fairly low volatility and that was all driven by falling interest rates. The reward for just owning beta is going to reduce quite materially.”

CHART 15: INDEXING STRATEGIES AS PROPORTION OF TOTAL UK ASSETS UNDER MANAGEMENT (2013-2023)

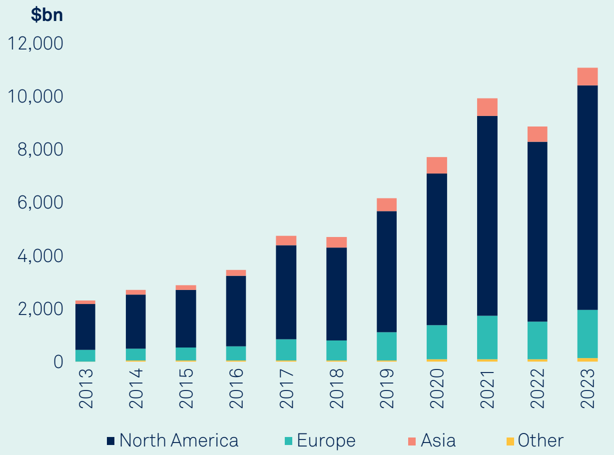
Source: The Investment Association

BOX 4: EXCHANGE TRADED FUNDS MARKET

An exchange traded fund (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, just under a fifth of members manufacture ETFs as part of their product offerings.

Despite an uncertain economic environment over 2023, global AUM in the ETF market reached an all-time high of $11.09 trillion, up 25% from $9.2 trillion the previous year as illustrated in Chart 16. This was a notable reversal of the 11% decline in ETF assets witnessed in 2022 and outpaces the 17% annual growth rate over the past decade. Growth rates remained strong across all ETF domiciles and were highest for Europe, with AUM growing 28% in 2023 to reach $1.8 trillion. For North America and Asia, growth rates were 25% (as AUM reached $1.8 trillion) and 20% (where AUM reached $676 billion) respectively.

CHART 16: ETF ASSETS UNDER MANAGEMENT BY REGION OF DOMICILE (2013-2023)



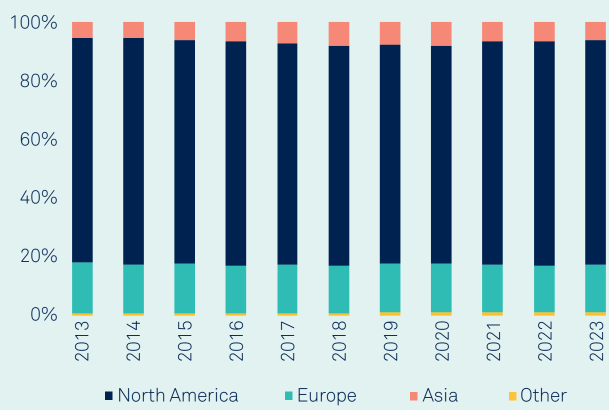
Source: Morningstar

US-domiciled ETFs continue to account for the vast majority of assets in the global ETF market, representing 76% of total North American ETF assets in 2023. High ETF adoption in the US can be explained by tax advantages facilitated by a favourable regulatory environment. Mutual funds are usually required to liquidate their positions to meet client redemptions. Capital gains events associated with buying and selling securities is minimised in ETFs, making them more desirable to US investors relative to mutual funds.

The European regulatory environment does not facilitate tax advantages for ETFs (except for Ireland-domiciled ETFs which benefit from the US-Ireland double-tax treaty rate). The AUM of European-domiciled ETFs lags North America but is growing at a faster rate. The German retail market has seen significant growth in the take up of ETFs. German banks and distributors have offered low-cost portfolios using ETFs that have attracted younger investors to save little and often into these portfolios. One key difference between the UK and Germany is that German ETF issuers are able to cover the execution/trading costs of ETFs for German investors, whereas in the UK this would breach commission and subsidy rules. UK investors can also be charged higher trading costs on some investment platforms as execution costs for exchange traded products are often higher than for mutual funds.

As illustrated in Chart 17, North America-domiciled ETFs continued to represent the largest proportion of total ETFs at 76% in 2023, equivalent to $8.4 trillion. Europe-domiciled ETFs accounted for $1.8 trillion with Ireland-domiciled ETFs the biggest driver of growth, accounting for 70% of European ETF assets which grew by a third over the previous year.

CHART 17: PROPORTION OF ETF ASSETS BY REGION OF DOMICILE (2013-2023)



Source: Morningstar

Despite growth in Asia-domiciled ETF assets lagging other regions, assets still witnessed notable growth of 20% to reach an all-time high of $676 billion. This acceleration in growth rate is consistent with other regions, which have all seen a reversal of last year's asset declines. Changes in ETF assets have been more volatile in Asia with South Korea seeing its highest historical growth rate (51%) whilst Vietnam saw its biggest historical decline in assets (-29%).

Long term trends in ETFs

The growth in the ETF market has been one of the most significant product developments within the investment management industry over the last two decades.

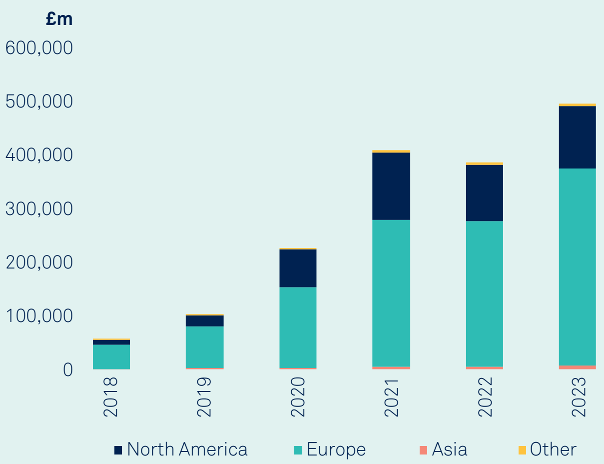
Two significant trends in ETFs in recent years are:

- the rise in sustainable investment ETFs,
- the rise in assets in actively managed ETFs.

1) Sustainable ETFs

Chart 18 illustrates total sustainable ETF assets reaching $495 billion in 2023, a rise of 29% over the previous year. This trend continues to be driven by Europe-domiciled ETFs, which account for 74% of sustainable ETF assets and grew 36% over the previous year. Inflows to European sustainable ETFs totalled $45 billion in 2023. Although this represents a 16% decline on 2022, this is still far higher than other regions including North America ($5 billion outflow) and Asia ($2 billion inflow).

CHART 18: SUSTAINABLE ETF ASSETS UNDER MANAGEMENT BY REGION OF DOMICILE (2018-2023)



Source: Morningstar

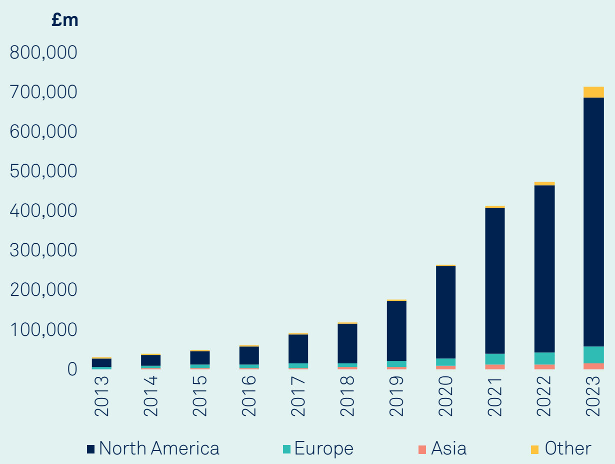
2) Active ETFs

ETFs are a product structure like a mutual fund and can accommodate active management as well as indexing strategies whilst retaining features specific to ETFs such as being traded on exchanges and offering intra-day pricing. Although the active segment remains a smaller part of the market, Chart 19 illustrates the growth in the AUM of active ETFs. Over the past decade, growth in total AUM in active ETFs has consistently outpaced index tracking ETFs, growing at double the rate in 2023 to reach $715 billion.

Asia-domiciled active ETFs grew by 221%, outpacing all other regions in 2023. Asia represents 4% of all active ETFs whilst Europe and North America represent 6% and 88% respectively. In Canada, active ETF issuers do not have to publish holdings on a daily basis, which is a feature of most ETFs. This allows them more protection for proprietary active allocation strategies and has helped to contribute to active ETF growth. The US market accounts for 74% of total active ETF AUM in 2023. In 2019, the US SEC adopted the "ETF rule", enabling ETF providers to more easily bring new strategies to market. Subsequently, active ETF growth is increasingly being driven by active fixed income.

Net flows to active ETFs have also increased year on year, accounting for 20% of the total ETF industry inflow in 2023, equivalent to $166 billion.

CHART 19: ACTIVE ETF ASSETS UNDER MANAGEMENT BY REGION OF DOMICILE (2013-2023)



Source: Morningstar

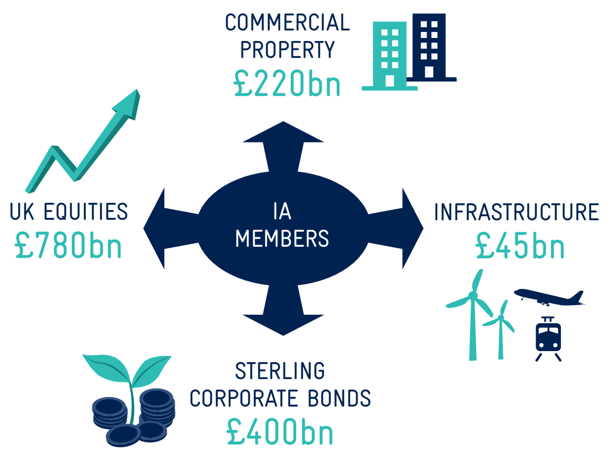
INVESTMENT IN THE UK ECONOMY

The investment management industry plays a significant role in channelling savings to investments in the domestic economy through both public and private markets. This role became more significant with the reduction in bank lending after the global financial crisis. The new Labour Government in the UK is committed to driving economic growth and financing the UK's transition to net zero is a key policy priority. The role of investment managers in financing the UK economy will continue to grow over the next five years.

IA members are helping to finance the UK economy through investments in UK listed equities, sterling denominated bonds, infrastructure and UK commercial property (see Figure 6) totalling £1.4 trillion in 2023. This figure remains stable year on year but is down from the £1.6 trillion in 2021. The proportion invested in UK equities is marginally down on 2022 at £780 billion (assets invested by IA members in UK equities were £815 billion the previous year). This is equivalent to almost one third (32%) of total UK equity market capitalisation.

Sterling corporate bond assets are up by £60 billion in 2023 to £400 billion following the steep fall of almost £100 billion in nominal terms over 2022 as UK bond prices fell sharply in a very tough year for performance across equities and bonds. Investments in UK social and economic infrastructure projects, which we explore in more detail in the next section, total £45 billion as of the end of 2023.

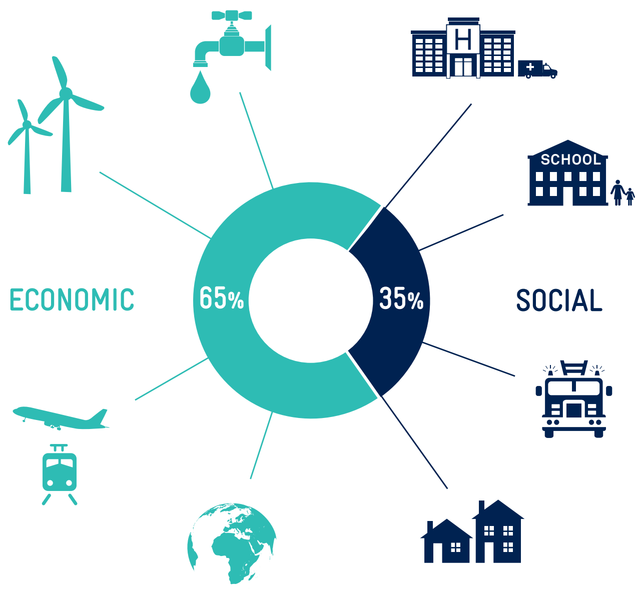
FIGURE 6: IA MEMBER HOLDINGS IN UK ASSET CLASSES (2023)



Source: The Investment Association

INVESTMENT IN UK INFRASTRUCTURE

FIGURE 7: INFRASTRUCTURE INVESTMENT BY IA MEMBERS (2023)



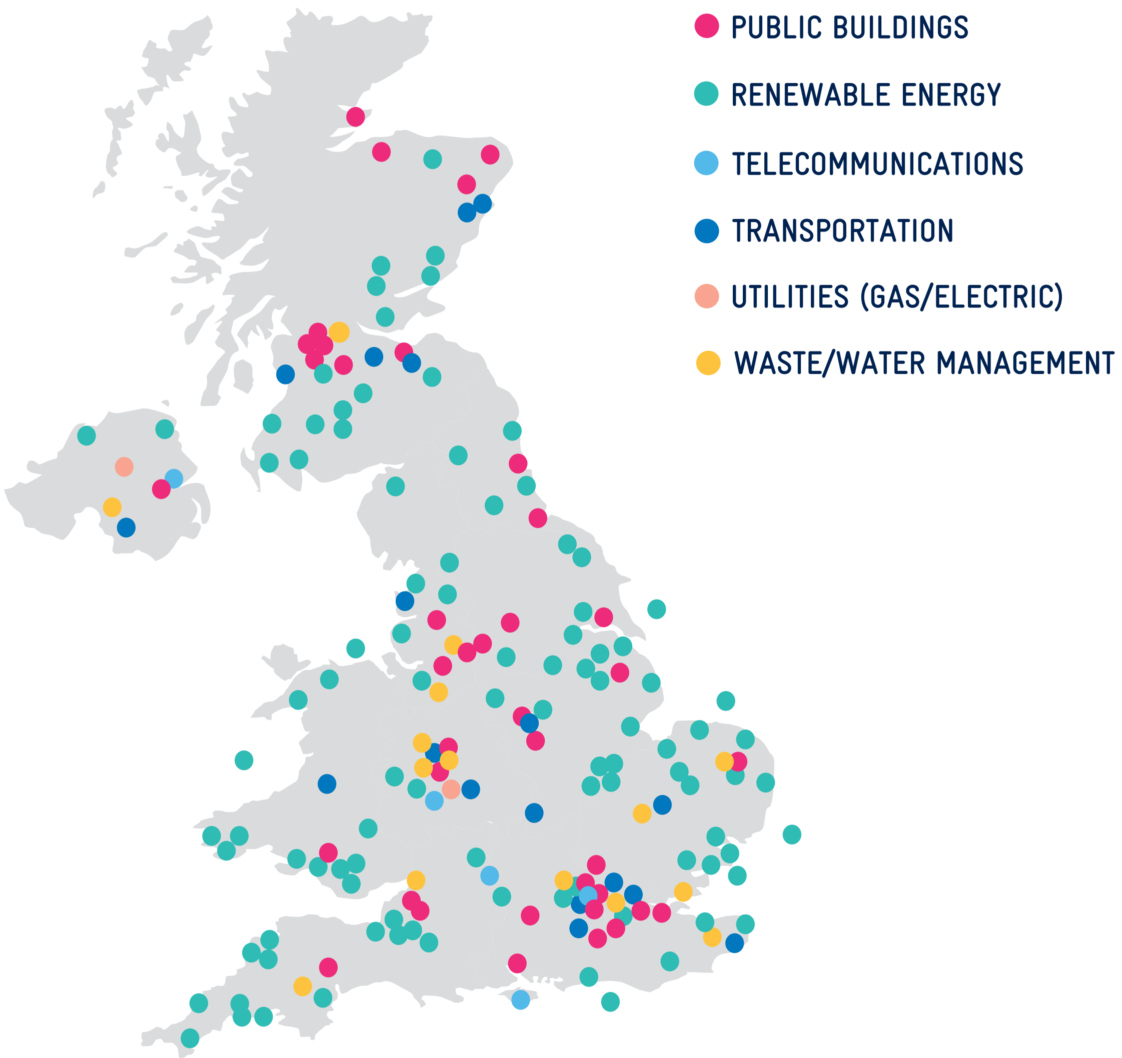
Infrastructure investments can broadly be categorised as economic, which include investments in renewable energy, utilities, transport and telecommunications, or social, which includes public health, education and building, construction and maintenance. It is estimated that the majority (65%) of infrastructure investments are invested in economic projects and a third (35%) are in social projects. IA data suggest that there has been growth in investment by IA members in social infrastructure projects over 2023 including investment in schools in Lancashire and London and in some economic projects including financing renewable energy and the UK fibre-optic network.

As of December 2023, UK asset managers held an estimated £45 billion in infrastructure projects, consistent with the 2022 AUM. From 2022, we have asked member firms to report all infrastructure investments regardless of where the portfolio manager is located.

Though limited to a selection of projects, Figure 8 maps out the types of infrastructure projects facilitated by IA members on behalf of their clients. These investments appear across the length and breadth of the UK, although investments in public buildings are often clustered around major cities.

Renewable energy projects make up a significant proportion of investment in UK infrastructure, which mainly consist of offshore and onshore wind farms. The new Government's election pledge to remove some of the planning obstacles to building onshore wind farms may drive an increase in investment and the development of onshore wind farms. In 2022, we have seen an increase in investment by IA members in social infrastructure projects including in new schools around the country. The map does not cover nationwide initiatives that span the UK but these are a significant area of investment for IA members and include regional waste and water management services, national grids for the provision of fibre broadband and international transportation networks.

FIGURE 8: SELECTION OF UK INFRASTRUCTURE INVESTMENT FACILITATED BY IA MEMBERS (2022)



ONGOING FOCUS ON LIQUIDITY MANAGEMENT

The focus on how to better manage liquidity in open-ended investment funds gained urgency in 2016 following the Brexit referendum when UK direct property funds were forced to suspend in order to meet investor redemption requests. The debate around opening up access to investing in private markets has also reinforced the importance of effective liquidity management in open ended fund structures.

In the near term, a combination of events since the beginning of the pandemic have highlighted the importance of liquidity management in different ways:

- The March 2020 'Dash for Cash' sparked a renewed debate between industry and regulators globally about liquidity measurement and management. In the mainstream investment fund universe, the dynamic illiquidity of corporate bonds was a particular focus for regulators. Investing in direct property, an inherently illiquid asset, was also in the spotlight as funds again had to suspend because of an inability to fairly value commercial property under the conditions of lockdown.
- The start of the Russia/ Ukraine war in February 2022 caused significant challenges for assets held in Russia, Ukraine and Belarus. This initiated a rapid review of the extent to which investment funds had the necessary tools to separate what had become untradeable assets from the rest of the fund. While some jurisdictions had measures in place to permit side pockets where funds could ringfence Russian assets and then wind them down, further work was undertaken by regulators and industry at speed in the UK to enable this.
- Following the UK Fiscal Event of late September 2022, an unprecedented spike in gilt yields created a severe challenge for liability driven investment (LDI) strategies – in both segregated and pooled vehicles – in meeting collateral calls against derivative instruments used to hedge liability risk for DB pension schemes (see chapter 4).

While separate issues requiring distinct approaches to resolution, the 'Dash for Cash' and LDI market turbulence have led to significant central bank concern in the UK about the significance of Non-Bank Financial Institutions (NBFIs) to financial stability. The industry has been closely engaged on ensuring appropriate approaches are put in place to address the challenges arising.

AS OF DECEMBER 2023, UK ASSET MANAGERS HELD AN ESTIMATED

£45BN

IN UK INFRASTRUCTURE PROJECTS

LIQUIDITY MANAGEMENT IN CONVENTIONAL INVESTMENT FUNDS

The focus for the Bank of England, UK financial regulators and other regulators internationally is on a coordinated global regulatory reform agenda to support more effective liquidity management.

In December 2023, the Financial Stability Board and International Organisation of Securities Commissions (IOSCO) published Policy Recommendations to Address Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds. There are four key recommendations:

- **Fund liquidity bucketing:** the revised recommendations place funds into three buckets based on the liquidity of the assets held (e.g. liquid, less liquid and illiquid). The liquidity bucket that a fund is placed in will inform its redemption terms and conditions with less liquid funds moving away from daily dealing. This recommendation is intended to achieve greater adoption of anti-dilution liquidity management tools (LMTs)[12] and consistency in the use of anti-dilution LMTs in normal and stressed market conditions.

- **Availability of liquidity management tools:** this recommendation emphasises the need for authorities to make available a broad set of LMTs for use by funds in both normal and stressed market conditions.

- **Use of anti-dilution LMTs:** this recommendation aims to increase the use of anti-dilution LMTs and make use of LMTs more consistent in both normal and stressed market conditions. The FSB attempts to achieve this by imposing the explicit and implicit costs, including of any significant market impact on redeeming investors. UK authorised funds already use anti-dilution LMTs as part of their day-to-day management but use is not as widespread as in other jursidictions.

- **Disclosure:** to improve investor awareness of liquidity management measures, the FSB will require clearer public disclosures from managers on the availability and use of LMTs in normal and stressed market conditions.

In the UK in June 2024, the Bank of England announced that it was undertaking the second round of its system-wide exploratory scenario exercise (SWES). This exercise is aimed at better understanding the behaviours of banks and NBFIs[13] in stressed conditions. It is designed to help the Bank understand the risks in the system and how different actors interact. The results of this exercise will be published at the end of 2024.

The UK industry is broadly supportive of the objectives of strengthening the liquidity management toolkit available to fund managers, although still stresses that funds are not the central drivers of redemptions during crises. The implementation of new standards of liquidity management combined with the ability of investment platforms to accommodate tools such as notice periods, where investors have to give notice before a redemption rather than being able to deal that day, will shape the evolution of the liquidity management toolkit. This will affect the way in which access is provided to less liquid asset classes and strategies such as direct property or private assets in the DC and retail markets.

[12] Liquidity management tools include tools such as swing prising or anti-dilution levies. Swing pricing is designed to protect existing investors in the fund from the costs incurred when other investors buy or sell units in that fund. A dilution levy is an explicit charge that a fund manager can choose to apply to a client's dealing or trading activity. It is designed to counteract the effects of a 'dilution' or reduction in the net asset value of the fund due to dealing costs.

[13] Investment managers fall into the category of NBFI.

BOX 5: DEEPENING ACCESS TO PRIVATE MARKETS, AMIDST REFORM TO PUBLIC MARKETS

Private market assets have seen significant growth globally over the last decade. Preqin data sizes global assets under management in alternative investment strategies at $17 trillion in 2023, up from $7 trillion in 2010. However, as we move into a new economic cycle and leave behind the benign conditions of the last decade where low interest rates and quantitative easing helped to support asset growth in public and private markets, we must determine how the growth in private markets could be affected by the shift to higher interest rates.

"Private equity has been favoured by strong tailwinds of falling interest rates. It's not a growth business over the next 10 years. For a lot of people, it's going to be a shrinking business because there's going to be a very difficult refinancing period for some of the existing investments."

Over the past decade, investors have also experienced low yields from conventional fixed income - private credit, infrastructure and real estate have provided a diversified yield. This is changing as interest rates have risen, substantially improving bond yields. This could dampen the search for diversified sources of yield through private markets, although in 2024, it is likely that we have reached the peak of the interest rate cycle and rates will come down.

Structurally, however, there remain important drivers of growth in private markets. There are simply fewer companies listing and many companies are choosing to stay private for longer, which means that private equity and venture capital offers the opportunity to investors to access companies through their lifecycle of development and growth. In private credit, high capital requirements under Basel III for banks is also reducing the appetite of banks to lend to companies and private credit is providing vital private lending.

"There has definitely been a rotation to private credit. It makes sense because there has been a huge amount of readjustment and companies have not been able to deal with some of the repayment cycles."

Private investment can also play a key role in helping the Government to meets its levelling up and net zero objectives, supporting infrastructure and social projects. According to the UK's National Infrastructure Commission, around half of infrastructure investment is financed and delivered through the private sector, with much of this being delivered through private markets funding. The Government's Net Zero Strategy estimates that an additional £50-60bn per year in capital investment will be needed in order to achieve net zero, with most of this coming from private capital. The development of a National Industrial Strategy, to complement the work of the National Infrastructure Commission, should help to unlock investment opportunities in UK infrastructure.

"Approximately 64% of institutional investors are still looking to increase allocation to private markets over the next two years. That's been a great area for us and there are lots of positive trends out there in the UK. The Mansion House Compact, the Solvency II reform, and potential National Growth Fund of a new government are all very positive for increasing institutional investment into private markets in the UK against the positive backdrop of lower interest rates and inflation."

Private markets are structurally now a much more significant part of the investing landscape and this is reflected in the emergence of new vehicles that are designed to better accommodate less liquid private assets such as the UK Long-Term Asset Fund (LTAF) and the overhauled EU vehicle, the European Long-Term Investment Fund (ELTIF). It is perhaps an inevitable consequence of the growth in private markets that regulators are now scrutinising liquidity, fee structures and the valuation of private assets more closely. In March 2024, the FCA sent a Dear CEO letter to investment managers announcing its intention to review the way that investment funds value private assets. This reflects a maturing market.

"You have got private assets that are locked up for a 10-year period and you can in many ways determine the price because you're best placed, you know the company and investors better than anyone else....The experts that really truly know how to value private assets are the actual owners."

Tokenisation also has the potential to transform access to private assets by bringing down minimum investment levels and allowing fractionalisation to help to improve liquidity.

The shift to greater private market finance requires a range of measures to open up demand and one critical element for broadening the UK customer base will be DC pension scheme participation, which has been constrained historically by a range of factors including:

- A highly cost-focused investment governance process, which does not easily accommodate access to alternative asset classes;
- An incomplete set of fund vehicles for pooled investment;
- Insufficient scale for certain kinds of direct investment; and
- A distribution infrastructure focused predominantly on providing access to daily-dealing investment funds.

"I'm convinced that alternatives will continue to be an asset class that is looked at very carefully by institutional investors. It's an area in which I would expect the pension sector in the UK will have more appetite for risk."

As we embrace the new Government's vision of driving UK economic growth, our industry is ready to deploy capital for attractive investment opportunities but this also requires the UK to address the shortage of investible projects that have hampered growth in recent years.

However, some of these obstacles are now being addressed in the UK, notably:

- The authorisation and launch of the first Long Term Asset Funds (LTAFs) in the UK.
- The publication of rules allowing broader distribution of LTAFs to retail investors, including advised and discretionary managed retail investors by enabling LTAFs to be held in ISAs.
- The completion of the Productive Finance Working Group's work to facilitate greater access to private markets for DC decision makers.
- Further momentum to deliver the Autumn 2022 Mansion House reform agenda to unlock pension capital so that it can flow into UK companies including private assets.

Both DB and DC schemes are cautious – understandably – about the kinds of funding needs that they are prepared to support and are sometimes critical of prevailing fee structures. There remains quite a significant road to travel to engineer the cultural shift necessary to embed greater private market investment into DC default strategies. Further challenges remain in operationalising access to private assets as firms grapple with infrastructure that is not set up to cater to differing notice periods and new fund structures. The investment industry will be engaging closely with policymakers and regulators to facilitate further change.

4 UK INSTITUTIONAL MARKET

KEY FINDINGS

MARKET OVERVIEW

- IA members manage £3.9trn in UK institutional client assets globally. Institutional assets declined 16% between 2021and 2022 following market turbulence and the September 2022 gilts crisis, which notably affected the LDI market. However, in 2023 asset levels stabilised.
- Estimates for 2023 suggest aggregate outflows of approximately £80bn, primarily from Liability Driven Investment strategies. In contrast, 2022 saw estimated inflows of £65bn.
- UK institutional client assets are still dominated by pension and insurance clients, comprising 82% of institutional AUM—a figure unchanged from the previous year.
- The proportion of assets managed on behalf of UK pension funds (56%) has fallen since the peak in 2019, when pension fund assets accounted for 65% of UK institutional AUM. The last time pension assets were as low as 56% of AUM was in 2014.

EVOLUTION OF THE PENSIONS MARKET

- UK pension fund assets managed by IA members remained at £2.2trn in 2023, unchanged from 2022 but 22% lower than the £2.9trn recorded in 2021.
- 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 but below 2021's £4.2trn estimate.
- DB pension assets were £1.9trn in 2023, broadly unchanged over the year. 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.
- DC pension workplace assets rose by an estimated 10% to £600bn in 2023. Individual and self-invested assets were marginally up from £725bn to £750bn.
- Annuity-backed assets held on insurers' balance sheets grew by 14% to £365bn in 2023. Annuity sales surged 46% in 2023 to the highest level since the introduction of pension freedoms in 2014, totalling £5.2bn.

THIRD-PARTY MANDATES

- Third-party client assets managed by IA members globally reached £3.4trn, up from £3.3trn in 2022. Pension funds account for 62% of total third-party assets, down from 70% in 2021, reflecting a shift in asset distribution. Third-party insurance assets have grown significantly, rising from 14% of third-party assets in 2021 to 18% in 2023.

MANDATE TYPES

- 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. LDI mandates accounted for 33% of total mandates down from 36% in 2022, reflecting ongoing changes in asset allocation strategies.

This chapter takes a detailed look at the UK institutional client market. Please note that Chapter 4: UK Institutional Market differs from previous and subsequent chapters of the report in two key respects:

- It covers all assets irrespective of whether they are managed from the UK or offices overseas. We estimate that at least 90% of the assets are managed in the UK.
- The primary focus is on the nature of a mandate rather than on the underlying assets. For instance, a global equity mandate is presented as such, without further breakdown into the underlying constituent countries.

Full details of the asset allocation and investment strategy for the entire institutional market are available in Appendix 2 of this report.

MARKET OVERVIEW

IA members manage £3.9 trillion of UK institutional client assets globally. This is broadly unchanged from 2022 and although assets didn't fall through 2023, it compares with a return to growth of 3% in assets under management overall. Nevertheless, there was a 16% fall in institutional assets between December 2021 and end December 2022. Whilst asset levels are flat in 2023, they have stabilised following the market turbulence of 2022 and the gilts crisis of September 2022, which hit pension scheme AUM particularly hard.

Estimates for UK institutional flows indicate aggregate outflows over the year totalling approximately £80 billion, with money coming largely out of Liability Driven Investment strategies. In 2022, we estimated that there were institutional inflows of £65 billion. As assets haven't fallen in 2023, the overall outflow suggests that client demand in 2023 was weak but that improved market performance helped to maintain assets at 2022 levels.

CLIENT BREAKDOWN

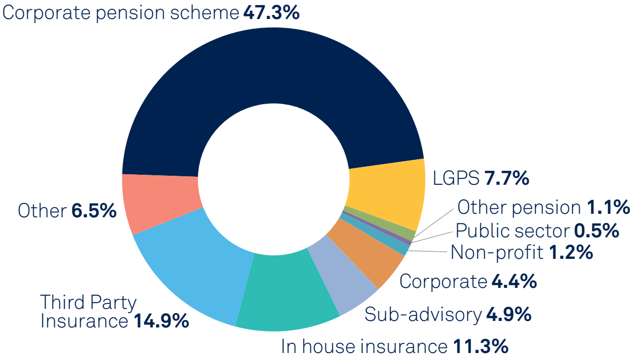
Chart 20 provides a breakdown of the £3.9 trillion by client type. The majority of institutional assets are managed on behalf of pension and insurance clients but corporate pension assets continue to fall as a proportion of institutional assets.

- UK institutional client assets are dominated by pensions and insurance clients (82%) and this remains unchanged year on year.
- UK pension fund assets continue to fall but by a modest 1% from 57% to 56% compared with the major shift in 2022 when assets fell by 5% from 62% in 2021. This was mainly driven by a fall in corporate pension assets, which were down 2% year on year. Growth in Local Government Pension Scheme (LGPS) assets runs counter to this trend, having increased over the year to 7.7% of assets (up from 6.8% the previous year).
- Assets managed for UK insurers rose, increasing one percentage point to 26%. Third party insurance assets were up from 13.9% to 14.9% over the year, whereas in-house assets remained at just over 11% of institutional assets.

Our interviews suggest that in-house insurance assets are set to grow as assets move from being managed for defined benefit pension schemes into insurance buy outs as more DB schemes reach full funding.

"Being owned by an insurance company is fantastic these days, 10 years ago...there's no distribution coming from your insurance parent. Now times have turned, we do have distribution from our insurance parent. The insurers are buying out all the pension schemes so their external client base is shrinking whilst the internal client base is great."

CHART 20: UK INSTITUTIONAL MARKET BY CLIENT TYPE (2023)

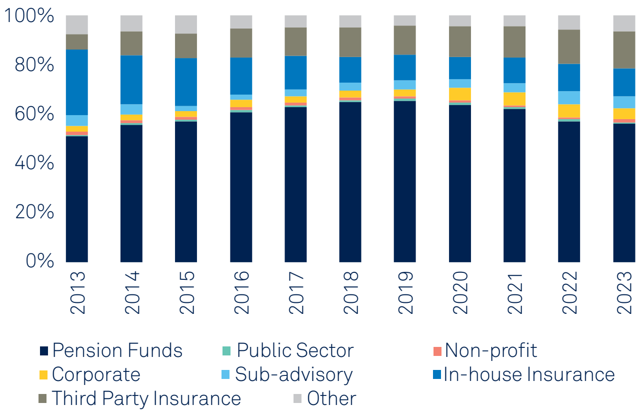


Source: The Investment Association

Chart 21 illustrates the change in distribution of UK institutional market assets by client type over the past ten years. Notable trends include:

- **Pension funds:** the proportion of assets taken up by UK pension funds (56%) has fallen year on year since the peak in 2019, when pension fund assets accounted for 65% of UK institutional AUM. The last time pension assets were as low as 56% of AUM was in 2014. Assets fell incrementally in 2023 by 1%, the data show that the share of AUM has remained relatively stable between 2022 and 2023 rather than decreasing substantially.
- **Insurance:** the share of assets managed on behalf of insurers had been progressively falling in the period between 2013 and 2020 from 36% to a low of 22%. From 2022, we have seen steady increases reaching 26% in 2023, the highest reported level in seven years. The 1% growth in 2023 in relative terms of the share of assets reflects a 9% increase in the value of insurance assets.
- **Other client groups:** institutional assets managed on behalf of other clients (including corporate and sub-advisory) has fluctuated between 12% and 18% over the past ten years and rose to 18% in 2022. In 2023, it stands at just over 16%. Much of the growth over this period has come from corporate clients who represent 4.4% of assets (up from 2.4% in 2013).

CHART 21: UK INSTITUTIONAL MARKET BY CLIENT TYPE (2013-2023)



Source: The Investment Association

EVOLUTION OF THE UK PENSIONS MARKET

Using both proprietary IA data and third-party data, this section presents a detailed overview of the UK pensions market, looking at assets managed within both Defined Benefit (DB) and Defined Contribution (DC) schemes and 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 of December 2023, UK pension fund assets managed by IA members amount to £2.2 trillion unchanged from 2022. Whilst assets have stabilised, we have yet to see a return to growth and pension fund assets remain 22% lower than the £2.9 trillion recorded in 2021. Global data[14] suggest that the recovery in assets in the UK pension market was among the weakest globally in 2023. Of the 22 countries the Thinking Ahead Institute tracks in its annual survey of global pensions assets, the UK's growth in pensions assets was the third lowest compound annual growth over 2023.

IA member managed pension fund assets can be grouped into the following three categories:

- **Corporate pension funds**, which can be either DB or DC schemes, account for the majority of UK pension fund assets and are estimated to stand at £1.9 trillion. Corporate pension funds include an estimated £140 billion managed by Occupational Pension Scheme managers.
- **The Local Government Pension Scheme** is a DB pension scheme with almost 6.5 million members and is responsible for over £300 billion in assets managed by IA members – making it the largest public sector pension scheme in the UK. Using recent market value estimates for the LGPS[15], IA members are responsible for managing approximately 85% of LGPS assets.
- **Other pension funds**, include both DB and DC assets managed for pension schemes that do not fit into either category listed above, such as pension schemes run for not-for-profit organisations. Other pension fund assets account for an estimated £45 billion (equivalent to just 2% of pension assets).

[14] TAI Global Pension Assets Survey, compound annual growth rate in local currency of P22 countries.
[15] According to the Local Government Pension Scheme Advisory Board for England and Wales in its Scheme Annual Report 2023, "total closing net assets for the year end were £354,047 million".

SIZING THE MARKET

Given the complexity around the distribution of DC and personal pension products, we cannot provide a breakdown of assets by type of pension fund. Using third-party sources, however, we are able to map out the UK pension landscape and provide estimates for the size of the UK DB and DC pensions markets.

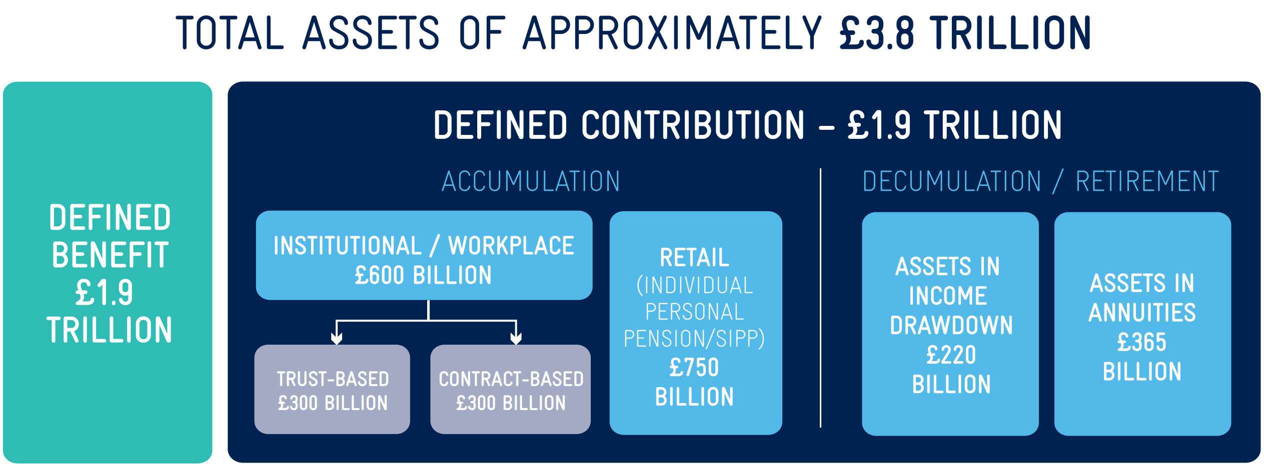
We have broadly split DC pension assets into two categories (Figure 9):

- Assets in the **accumulation** phase of pension saving covers the growth stage over which the aim is to increase the value of contributions made through a workplace pension or a retail pension product until the time of retirement (or drawdown from one's pension pot).
- Assets in the **decumulation** phase pertain to the holdings of retirees who are drawing down their pension savings to generate income during their retirement. This income can be derived through various methods such as income drawdown strategies or the purchase of an annuity, which guarantees a fixed annual income until the end of their life.

Our estimate for the size of the UK pensions market is £3.8 trillion, up 2% from our 2022 estimate of £3.7 trillion but still below the £4.2 trillion recorded in 2021.

- DB pension assets continued to fall in 2023, despite a recovery in capital markets. Total DB assets stood at £1.9 trillion at the end of 2023, unchanged from the previous year, but 21% lower than the level recorded at the end of 2021. In the UK in 2022, the surge in gilt yields following the mini Budget caused gilt prices to plummet. UK DB schemes typically have a high exposure to UK gilts and data from the Pension Protection Fund suggests that in 2022, DB scheme assets fell by 22%. The gilts crisis also led to a 39% fall in liabilities (according to PPF data) and enabled many schemes to look at de-risking options such as pension buy-outs. In 2023, data from Hymans Robertson show that there were a record number of DB pension buy ins and buy outs. Many DB pensions schemes that had become fully funded sought to transfer scheme risk to insurers using insurance-based options such as bulk pension annuitisation. Hymans Robertson reports buy-in and buy-out deals of approximately £50 billion in assets taking place in 2023.[16]

FIGURE 9: OVERVIEW OF THE UK'S PENSION LANDSCAPE (2023)



Sources: The Bank of England, Department for Levelling Up Housing & Communities, Financial Conduct Authority, The Investment Association, MoreToSIPPs, Office of National Statistics, Pensions Policy Institute, Pensions Protection Fund 7800 Index

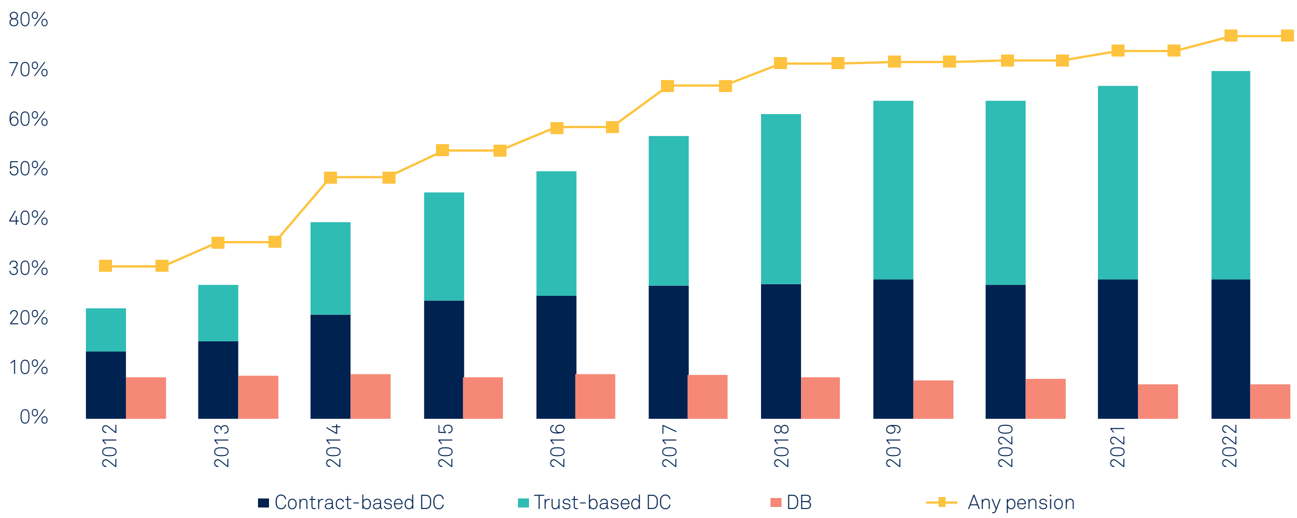
[16] Hymans Robertson, Risk Transfer Report 2024.

- DC assets in the accumulation phase increased in 2023: we estimate that while individual and self-invested assets were marginally up from £725 billion to £750 billion, DC workplace assets managed through trust-based or contract-based schemes increased by 10% to reach £600 billion. DC assets have grown by almost 30% since 2019.
- For decumulation assets, assets in income drawdown were approximately £220 billion at the end of 2023 according to data collected by the FCA. This is unchanged from the level reported in 2022.
- Assets backing annuities, which sit on insurers balance sheets, grew 14% over the year from £320 billion to £365 billion, though the growth was not enough to recover the losses recorded in 2022 when assets fell 25% over the year. Data from the ABI show that annuities are back in vogue-as interest rates increased to 5.25% in 2023, so annuity rates have become more attractive.

Insurers tend to use bonds to back annuities and bond returns are improved by higher interest rates. The attraction of buying an annuity is that it provides a guaranteed annual income for the life of the person taking out the annuity. In 2023, sales increased 46% totalling £5.2 billion, the highest sales year since the pension freedoms were introduced in 2014.[17]

In the private sector, the shift in new members and asset flows has moved toward DC schemes, with DB and DC scheme assets now broadly equal, as illustrated in Figure 9. According to data from the Pensions Regulator, the number of active DB scheme members in employer sponsored private sector schemes was 440,000 in 2022 (the latest data). This is approximately 7% of total DB scheme members in private sector pensions. By comparison, there are around 16 million active DC members. The latest data from DWP on people accessing private pensions show that nearly half (49%) in 2023/24 were taking a lump sum or another DC product, which illustrates the ongoing shift from DB to DC in the private sector.

CHART 22: PENSION PARTICIPATION FOR PRIVATE SECTOR JOBS (2012-2022)



Source: The Pensions Regulator and The Office of National Statistics

[17] The Pension Freedoms removed the requirement in the UK to annuitise at the age of 75. As interest rates were low, the annuity rates that could be obtained were not attractive. Allowing assets to continue to be invested in decumulation enabled portfolios to grow, with the potential to provide a better annual retirement income than annuity rates at the time. The freedoms also gave the option to annuitise when rates became more attractive rather than being forced to take out an annuity by a fixed date.

Chart 22 shows pension participation rates in 2022 for private sector jobs[18] broken down into DC and DB participation. It is based on the number of active members and shows the significant growth in membership of DC schemes, the highest growth in active membership coming from DC master trust schemes:

- Private sector DB scheme participation remains at 7% in 2022. In the decade preceding 2021, participation in DB schemes had fluctuated between 8% and 9%.

- DC pension participation rates have risen from 22% to 70% over the last decade coinciding with the introduction of auto-enrolment for large employers in 2012. The phased roll out meant that by 2017, all eligible employees were automatically enrolled into a workplace pension. Many small and micro schemes were enrolled into NEST, the government backed master trust scheme that has a public service obligation to take on all UK employers and this is part of the reason that active members in master trust schemes are a higher proportion of active DC scheme membership. The latest data on opt out rates from the Department for Work and Pensions show that while opt out rates from active savers remain stable and very low at less than 1%, there continues to be some volatility for new member opt out rates. There was a spike in opt-out rates in 2020 to approximately 11% at the height of the COVID-19 pandemic, up from 8-9%. With members facing sustained cost pressures while inflation remains elevated, the proportion of newly enrolled employees opting out of their workplace pension rose again to 10.2% in 2022 but has fallen back to just over 8% in the third quarter of the 2023/24 financial year.

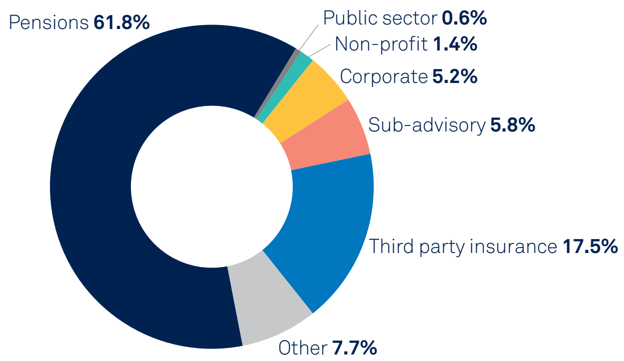
TRENDS IN THIRD-PARTY INSTITUTIONAL MARKET

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 for insurance parent groups and occupational pension schemes.

Excluding in-house insurance mandates, total third-party client assets managed by IA members globally stands at £3.4 trillion as of 2023. This is up from £3.3 trillion in 2022 but assets have not recovered from a sharp fall through 2022 driven by capital market performance, and in the UK, exacerbated by the gilt market shock in September 2022. Third party client assets remain well below the £4.0 trillion managed at the end of 2021.

In Chart 23, we see that pension fund assets account for an even larger share of the third-party market.[19] At almost two thirds of total assets (62%), this is broadly unchanged from 2022 although this is significantly down from 70% in 2021. Much of the lost share in pension assets has gone to the third-party insurance category which has seen two percent growth to 18% of third-party AUM (up from 14% in 2021). This may be indicative of the rise in DB pension scheme buy-outs where assets would move to be managed by insurers who would either contract mandates in-house or appoint third parties to manage mandates.

CHART 23: THIRD-PARTY UK INSTITUTIONAL CLIENT MARKET BY CLIENT TYPE (2023)



Source: The Investment Association

[18] All 2022 data in Chart 21 is based on TPR scheme returns as at December 31 2022 except DC workplace contract data, which is based on the ONS ASHE survey data (2021) and where we have assumed no change in the percentage year on year. Data between 2011 and 2021 is based on the ONS ASHE survey, which was last published in April 2022.

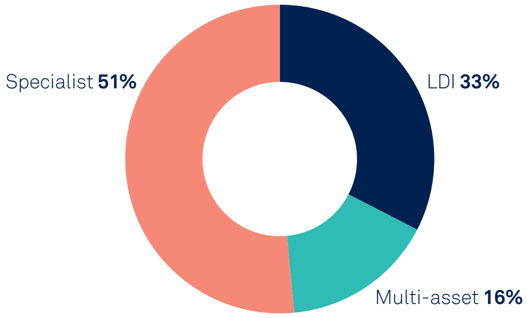
[19] Across all institutional assets pension funds account for 56% of AUM. See chart 23: Third-Party UK Institutional Clent Market by Client Type (2023).

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 2023, assets managed in single asset strategies fell one percentage point to 51% of mandates.
- **Multi-asset, or 'balanced' mandates**, which cover a number of asset classes and regions. Balanced mandates were used in 16% of assets managed by third-party clients at the end of 2023, up three percentage points since 2022.
- **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 continued to fall in 2023 accounting for 33% of total mandates, down three percentage points from the previous year.[20] We cover LDI assets in more detail in the next section.

CHART 24: UK THIRD PARTY INSTITUTIONAL MANDATES INCLUDING LDI (2023)



Source: The Investment Association

UK DB PENSIONS SECTOR AND THE STATE OF LIABILITY-DRIVEN INVESTMENT STRATEGIES

Chart 25 shows the total notional value of the assets hedged using LDI strategies over the last decade. LDI assets increased each year from £520 billion in 2013 to a peak of £1.5 trillion in 2021. The notional value of assets has since fallen to £1.1 trillion as of the end of 2023.[21]

CHART 25: NOTIONAL VALUE OF LDI (2013–2023)

Source: The Investment Association

Last year's edition of the survey explained in detail how liability driven investment strategies have played an increasingly important role in managing DB assets as schemes have sought to match investment assets to their future liabilities in order to hedge their interest rate and inflation risk. It also covered the impact of the September 2022 gilt crisis on LDI strategies. Here we summarise the main factors affecting LDI strategies in 2022. For a more detailed analysis, please refer to the Investment Management Survey 2022-23.

[20] The share of UK third- party institutional mandates managed using LDI strategies fell by 4 percentage points between 2021 and 2022.
[21] The number of LDI managers is concentrated so IA data is likely to represent a top range estimate.

The impact of the UK Gilt shock

In September 2022, following the unfunded spending plans proposed in the mini Budget, the yield on UK government debt ("gilts") rose by 130 basis points over three days – an unprecedented rise. The price of gilts moves inversely to the yield, so asset values fell sharply.

This had a significant impact on DB schemes using LDI strategies. DB pension schemes are significant holders of gilts, which offer stable, albeit low returns and regular interest payments with a very low risk of default. DB schemes have, over much of the 21st century, struggled to close their deficits meaning that the assets managed through the scheme are not sufficient to cover scheme liabilties: the guaranteed level of income in retirement for scheme members. To manage this, schemes must find ways to reduce their deficit. As major holders of UK gilts, DB schemes used the gilt repo market to raise cash to invest in higher growth assets such as equities (see Box 6 for a detailed explanation of leverage, collateral and repo in LDI strategies). This involves an agreement with a counter party to sell the gilts for cash on the condition that the gilts are repurchased at a future date for a set price agreed with the counterparty. In order to manage the counterparty risk of defaulting on the agreement to re-purchase the gilts, schemes must post collateral with the counterparty that is retained if the scheme defaults. The level of collateral that is required increases as the value of the gilts falls.

The September 2022 UK gilts shock triggered collateral calls for gilts repo arrangements, commonly used as part of LDI strategies. This meant that schemes had to sell assets for cash to meet these collateral calls or raise further cash via the repo market. In many cases, schemes sold other liquid assets such as corporate bonds and equities but some schemes sold gilts, pushing more gilts onto the secondary market and further depressing prices. However, in other cases some schemes either did not have liquid assets to sell (or chose not to) and instead cut their hedging levels to reduce collateral calls. This was achieved by reducing their exposure to gilt repos, effectively selling gilts. This caused more gilts to flood the market further driving down prices. As a result, we reported a 24% fall in LDI assets on a matched basis in 2022. The data for 2023 suggests that assets in LDI strategies continue to fall, down a further 7% based on a matched sample of respondents.

The fall in LDI assets is not necessarily an indication that pension schemes are moving away from using LDI strategies. Indeed, in the aftermath of September 2022, the Bank of England's Financial Policy Committee worked with the FCA and the Pensions Regulator to increase the resilience of LDI strategies by raising collateral buffers to cover yield increases from 100 bps to around 370 basis points in 2024.[22] Pension schemes are now required to respond to an event that requires recapitalisation within 5 days, speeding up operational timelines and further boosting LDI resilience.

We have also seen scheme liabilities significantly reduced by the rise in long-term interest rates and overall DB pension schemes have benefited from higher gilt yields. 2023 data from the Pension Regulator show that the number of pension schemes with 100% or greater funding levels has risen from 2,565 at the end of 2022 to 3,620 in 2023 and scheme deficits have more than halved over the same period. The Pension Protection Fund measures the aggregate funding ratio of DB pension schemes, which stood at 127% in August 2022 and is 143% as of December 2023.[23]

[22] Bank of England, Financial Stability Report, June 2023.

[23] The PPF's liabilities are lower than the 'technical provisions' measure of liabilities that schemes fund towards, so this is an optimistic picture. The PWC buyout index measures scheme funding ratios at 119% as at December 2023. However, both indices show that funding ratios have risen.

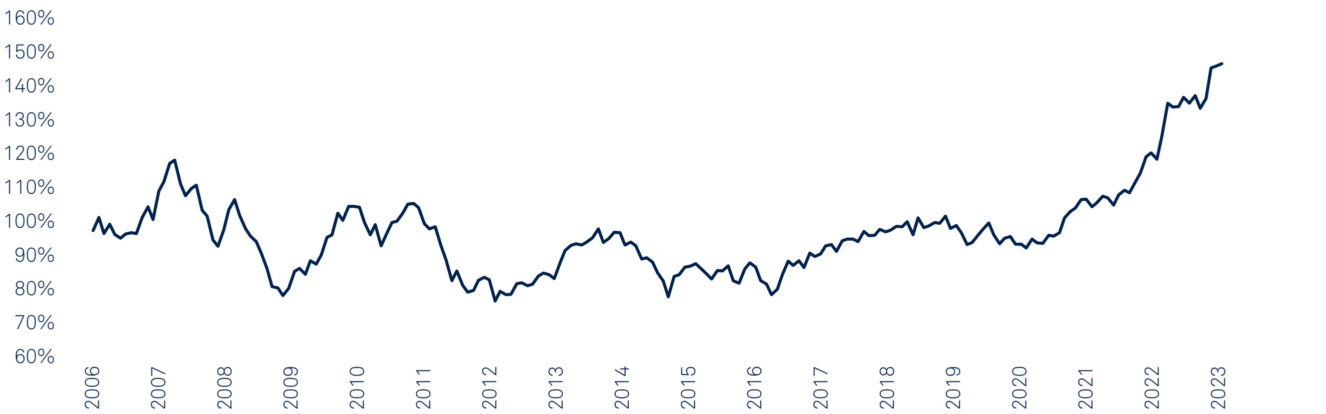
This has shortened the journey to scheme buyout, where the scheme enters into an insurance buy-out arrangement to fully transfer the liabilities from the company balance sheet. This is often done through taking out an insurance policy that passes on the pension scheme's responsibilities to its beneficiaries to an insurer through a bulk annuity arrangement. According to a PWC survey[24] of UK DB pension schemes for almost a third of schemes, the long term funding target is buy-out.

Data from LCP suggest that buy out volumes increased substantially over 2023 to just under £50bn, compared with about £30bn in each of the five years prior. They project pension buy-out volumes to reach c.£400 to £600bn in the next decade, which will see demand in the bulk annuity market rise. Longer term, this would cause assets in LDI strategies to continue to fall, however we would make two observations that could have an impact on the level of assets managed in LDI strategies in the future.

(i) We have reached the top of the interest rate cycle. Further falls may see some of the progression towards buy out unwind and cause some worsening of funding depending on the degree of hedging employed. Whilst TPR research[25] suggests that 55% of schemes have a long-term objective of buy-out, of the schemes wanting to pursue a buy out strategy, 48% have a time-frame of more than 5 years to achieve it when interest rates could look quite different.

(ii) There are moves to encourage schemes to run on rather than go to an insurance buy out. This could happen individually or through a DB superfund. With plans to allow sponsors to capture previously trapped funding surpluses, there is now an incentive for schemes to run on instead of pursuing an insurance buy out option.

CHART 26: DB PENSION SCHEME FUNDING RATIOS (2008-2023)



Source: PPF7800 Index

[24] https://www.pwc.co.uk/pensions/insights/uk-defined-benefit-pensions-survey.html.
[25] The Pensions Regulator,Defined Benefit Schemes Survey Research Report.

BOX 6: WHAT IS LDI?

Liability-driven investment (LDI) is an investment strategy that Defined Benefit (DB) pension schemes use to manage the financial risks they face in their provision of pension benefits.

LDI strategies invest in assets that have interest rate and inflation sensitivities which broadly match those of the scheme's liabilities. This strategy ensures the scheme's funding position (i.e. the difference between its assets and liabilities) remains more stable as it is hedged against movements in interest and inflation rates. Such liability hedging is a normal part of risk management by DB schemes and has been extensively used in the UK with the approval and encouragement of regulators.

The role of leverage, repo and collateral

Gilts are heavily used in LDI strategies as they provide exposure to interest rates and inflation without introducing significant additional risks. However, underfunded DB schemes also need to invest in growth-seeking assets to close any deficits. In order to have sufficient money to invest in these assets, schemes use leverage to gain greater exposure to the gilt market, freeing up more money for investing in growth assets. One way for DB schemes to create leverage is by entering into gilt repo agreements, under which they sell gilts to a counterparty in exchange for cash and an agreement to repurchase those gilts at a pre-agreed price in the future. The cash they receive can then be invested elsewhere, for example in growth assets such as equities or in more gilts.

The repo facilitates exposure to the change in the value of gilts which schemes seek in order to gain the exposure to interest rates and inflation to match that of their liabilities. However, in entering into this agreement, both sides in the transaction face the risk of the other party failing to complete the agreement at its termination. This counterparty risk arises because as the price of the gilts in the repo changes, the pre-agreed re-purchase price becomes more or less attractive to one or other of the parties.

To mitigate this counterparty risk, collateral must be posted as the repo position changes in value. The party for whom the repo agreement has become less valuable will post collateral which will be retained by the other party in the event that the counterparty fails to re-purchase the gilts. The amount of collateral required to cover leveraged LDI positions has generally been low and relatively predictable as gilt yields do not typically change significantly over short periods of time. However, in extreme market conditions collateral calls can be higher than expected.

MULTI-ASSET VS. SPECIALIST MANDATES

Given that LDI strategies are used almost exclusively by DB pensions, their inclusion in the data can mask some interesting trends in the broader market. The analysis presented in this section excludes the value of LDI mandates to allow us to uncover some of these trends.

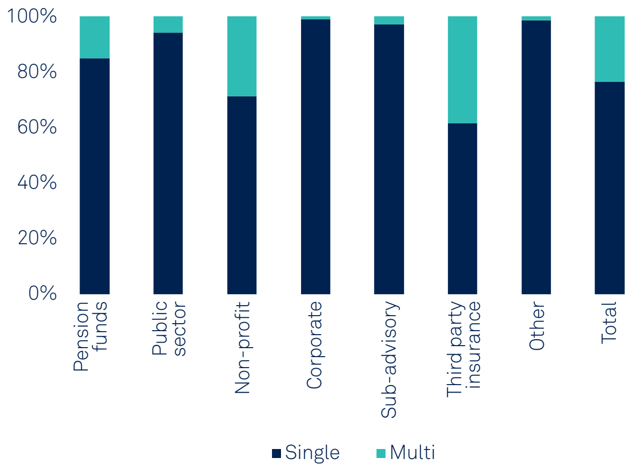
- UK institutional clients continue to have a strong preference for single asset or specialist mandates, which make up 76% of all third-party mandates, excluding LDI. Over the long term, single asset mandates have dominated but we have seen the proportion of mandates managed on a single asset basis fall by four percentage points in 2023 as a higher proportion of assets are managed in multi-asset mandates.

- The data show that the rise in the proportion of assets managed using multi-asset mandates has occurred across different client groups with the highest share of multi-asset mandates being managed on behalf of third- party insurance clients and non-profit organisations (29%)

- The use of multi-asset mandates is most prevalent among third-party insurance clients, accounting for almost two fifths (39%) of assets managed for this group, it is also where the biggest shift has occurred year on year, increasing from 34% in 2022.

- A high proportion of pension fund assets are managed in single asset mandates but the proportion managed in multi-asset strategies rose by 2 percentage points year on year to 15%.

CHART 27: UK THIRD-PARTY INSTITUTIONAL CLIENT MANDATES: MULTI-ASSET VS. SPECIALIST (2023)



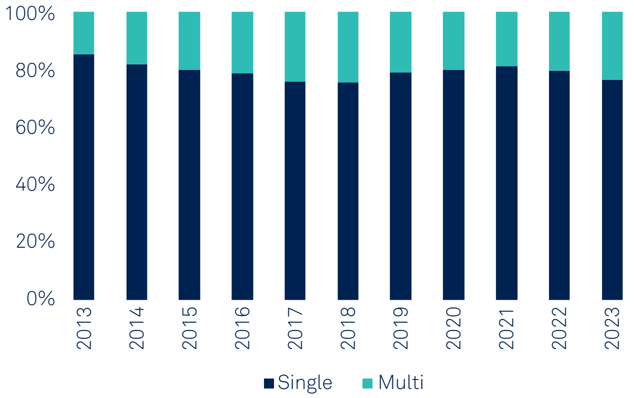
Source: The Investment Association

Chart 28 (overleaf) shows that whilst multi-asset mandates have always made up a smaller proportion of the assets managed for third-party institutional clients, there was a steady rise in the share of multi-asset mandates between 2013 (13%) and 2018/2019 when multi-asset mandates accounted for 24% of client mandates. Some of this growth may be attributed to DC pension default arrangements making greater use of multi-asset mandates.

From 2020, we saw this trend reverse as the share of multi-asset mandates fell to 19% in 2022. Growth in multi-asset mandates used by default funds halted and many pension schemes have opted for investment consultants to build allocation strategies using single asset mandates rather than using multi-asset mandates where investment managers set the allocation. 2023 marks the first year since 2018 that we have seen growth in the share of assets managed through multi-asset mandates, albeit incremental growth of one percentage point. The most significant growth has been in the use of multi-asset mandates by third-party insurance clients. Third party insurers are not required by law to take investment advice from consultants, unlike pension schemes, which may mean that they have more freedom to use multi-asset strategies. New product launches using the LTAF structure have also mainly been multi-asset strategies and longer term, as more LTAFs are launched, this could support growth.

4

CHART 28: UK THIRD-PARTY INSTITUTIONAL CLIENT MANDATES: MULTI-ASSET VS. SPECIALIST (2013–2023)



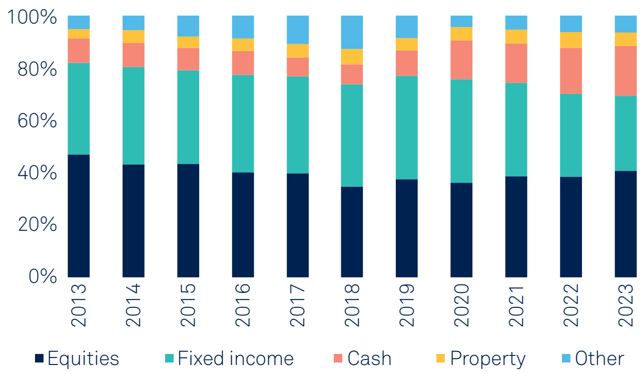
Source: The Investment Association

ASSET ALLOCATION TRENDS WITHIN SPECIALIST MANDATES

Chart 29 shows a breakdown of specialist or single strategy mandates by asset class over the last ten years.

- The share of assets in **fixed income mandates** continues to fall, now accounting for 29% of assets managed through specialist mandates. This is the lowest level recorded in our data, down from a peak of 40% in 2019 and represents a fall of 3% from 2022. This suggests that in 2023, the performance of fixed income mandates had not yet recovered from the challenging market conditions for bonds in 2022.
- Whilst higher interest rates continued to affect the performance of equities in 2023, with a challenging outlook for equity growth strategies, if a globally diversified equity mandate matched the return of the MSCI World benchmark, it would have returned 16% in 2023 as markets recovered from 2022. The share of assets in **equity mandates** increased 3 percentage points in 2023 to reach 41%.
- The increasing use of specialist **cash mandates** among UK institutional clients continues for the sixth year in a row, accounting for 19% of all assets in single asset third party mandates. Market turbulence in recent years has increased the demand for liquidity and UK institutional clients have been through a number of notable liquidity stress periods over the last decade including the Brexit referendum in 2016, the 2020 'Dash for Cash' and the 2022 gilt crisis. In 2023, LDI pooled funds are also now required to hold a higher cash buffer level, moving from a 100 bps buffer to 370 bps. It's reasonable to assume that some of this increase is being held in cash-like strategies such as money market funds.
- The proportion of assets in **other specialist mandates** increased marginally from 6.3% to 6.5%. This was largely driven by an increase in allocation to private debt and infrastructure.

CHART 29: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS (2013-2023)



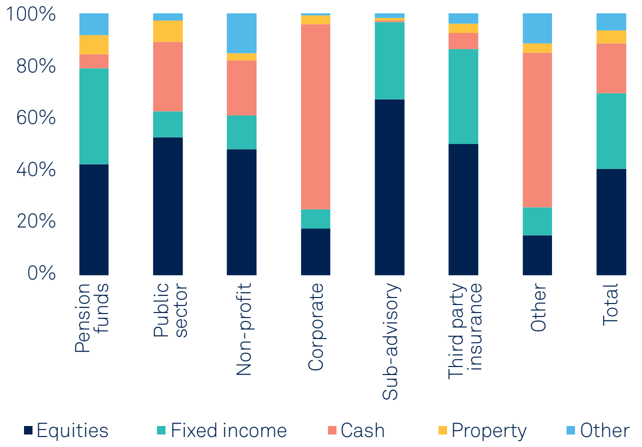
Source: The Investment Association

Asset allocation patterns differ quite substantially across different segments of the institutional market as each client segment has differing long-term investment objectives. Chart 30 highlights some distinct differences in the asset allocation profiles for each client group:

- Pension funds and third-party insurers have similar asset allocation profiles. Both invest just over a third of assets in fixed income strategies. Pension funds allocate 42% of assets to equities with third-party insurers allocating 50% to equities. Both client groups saw marginally higher allocations to equities compared with the previous year and insurance clients saw a five percentage point fall in the allocation to fixed income.

- Corporates hold a substantially higher proportion of highly liquid assets for cash management purposes with almost three quarters (71%) of assets invested in cash in 2023, which is up from 65% in 2021.

CHART 30: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS (2023)



Source: The Investment Association

Defined benefit (DB) schemes still make up the vast majority of UK pension assets, although the number of DB schemes has fallen by 68 over the last year from 5,131 to 5,063 schemes eligible to use the Pension Protection Fund (PPF). This is as a result of schemes winding up, schemes merging and some schemes entering the PPF assessment period.[26] We use data collected by the PPF to look at the asset allocation patterns of funded DB schemes more closely and at how allocation has changed over the last twenty years. The latest data shown in Chart 31 is as of 31 March 2023 and shows the weighted average allocation of assets by DB schemes.[27] This data captures the impact of the market turbulence in 2022, precipitated by the Russia/Ukraine war, and the gilts market shock in September 2022:

- Fixed income has fallen as a percentage of assets year on year from 72% to 69%, the highest fall of any asset class. Bond prices fell across 2022 following rising yields as central banks raised base rates. The highest fall in fixed income AUM came from index-linked fixed interest, which fell by 4%. The gilt shock in September 2022 is also a factor and government fixed interest fell by 2.5% as a proportion of fixed income assets. However, corporate bond allocations in fixed interest portfolios rose by over 6% year on year.

- Assets in equities also fell by 1.5% to 18.0% overall. Rising interest rates create challenging market conditions for equity strategies, which had also benefited from QE through the previous decade. Within equities, assets allocated to private equity grew as a percentage of total AUM to 5.3%, up from 4.2% the previous year – private equity assets now represent a third of equity AUM in DB schemes, up from 12% five years ago. The growth in share of private equity assets may in part be due to a lag in private equity valuations compared with listed equity, which mean that asset values are higher and we could see a re-balancing across private and public equity in coming years. UK listed equities have fallen further and are now down to 1.4% from 1.7% in 2022. UK listed equities as a percentage of equity AUM account for 7.6%, significantly below the 20% allocation for total industry equity AUM (See Chapter 3).

The year 2022 marked the end of an economic cycle that had started during the Global Financial Crisis in 2008 and was characterised by low interest rates and a cycle of quantitative easing by central banks. These conditions favour strong equity performance. Market conditions have had an impact on DB scheme allocation patterns but over the longer term, so does the age profile of DB scheme members. As many schemes have closed to new joiners, scheme members are ageing and regulatory requirements have driven a higher allocation to fixed interest. In 2001, allocation to fixed interest was just 20% of total assets whereas allocation to equities was 71% of AUM.

In 2023, fixed interest accounted for two thirds of assets and equity fell to just under a fifth of DB scheme AUM.

[26] The PPF assessment period occurs when an employer becomes insolvent and the fund assesses whether the defined benefit pension scheme will receive compensation. It typically runs for 2 years.

[27] Whilst PPF data counts cash and property under other investments in the Purple Book, we have broken these asset types out in the chart. Other excluding property and cash represents assets in annuities, diversified growth funds, absolute return strategies and miscellaneous.

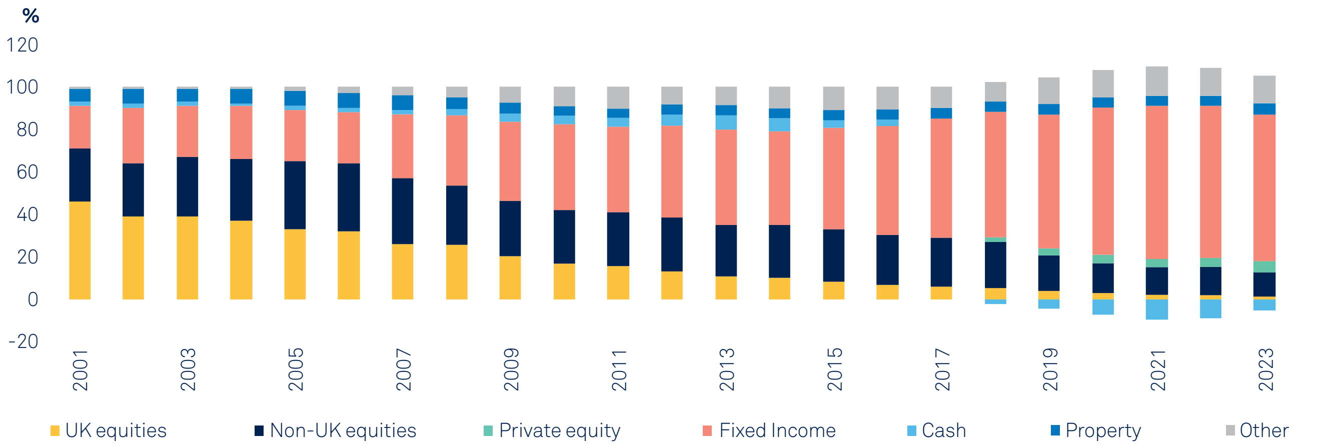
We observe two important long-term trends within these asset classes:

- UK DB schemes were heavily invested in equities in 2001, making up 71% of total assets, of which 46% was invested in UK equities. By 2023, the total equity allocation had fallen to 18% with UK equities accounting for 1.4% of total AUM and 7.6% of equity AUM. The fall in allocation to UK equities has happened across the institutional and retail markets. UK equities have underperformed other global equity markets over the longer term, although in 2023 the relative performance of the UK has improved. This is a factor in the fall in allocation but the main driver of this trend is a move to de-risk portfolios through more global diversification.
- Over the long term, DB schemes have looked to manage inflation risk by allocating a higher proportion of assets to index-linked fixed interest, which are linked to an underlying consumer or retail price index. Index-linked bonds are 44% of fixed income assets up from 34% in 2008. Government bonds (excluding index linked) have fallen to 19.5% from 33% over the same period.

Whilst DB scheme assets make up the majority of pension fund assets, defined contribution pension schemes have seen significant growth as more DB schemes outside the public sector close to new joiners and as UK working adults are automatically enrolled into DC pensions. Chart 32 compares the asset allocation of DC savers in the accumulation phase of pension saving, with 30 years to retirement, with savers that are 5 years away from retirement and the final cohort of savers who are at retirement. This chart is based on the average asset allocation for master trust and group personal pension default fund strategies and the data is derived from the Corporate Adviser Master Trust and GPP Defaults report.

- **At retirement:** 31% of assets are invested in equities for DC savers at retirement. The share of overall allocation to UK equities is just 2.35% with overseas equities making up the lion's share at 28.2%. Fixed income makes up 43.0% of allocations – corporate bonds (27.2%) are the highest bond allocation for DC savers at retirement but allocations to government bonds (11.7%) and index-linked bonds (4.1%) are also higher than allocations for savers with 5 years until retirement. Savers have the option to take their 25% cash lump sum from their pension at retirement and the allocation to cash is high at 16.5%.

CHART 31: UK DEFINED BENEFIT SCHEME ASSET ALLOCATION (2000–2023)

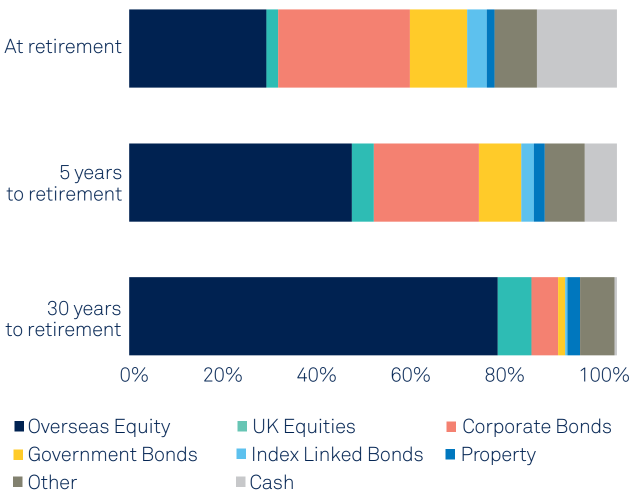


Sources: UBS Pension Fund, Pension Protection Fund – The Purple Book 2022.

- **5 years to retirement:** The allocation to equities is beginning to reduce as pension funds move to limit the impact of equity market volatility on the value of pension pots near retirement. Equities are 50.2% of assets, just over 30% lower than the allocation to equities for savers 30 years from retirement. Overseas equities account for 45.7% of total allocation. Fixed income now makes up a third of assets and corporate bonds are 21.6% of overall allocation, the highest of the three bond types. The proportion invested in cash is 6.6%.

- **30 years to retirement:** For these savers, the main objective is to deliver the best risk-adjusted growth for a cohort with long retirement horizons. The vast majority of assets are allocated to overseas equities at 75.6%, which also provides good diversification across different regions and helps to manage risk. UK equities make up just 6.9% of assets. Corporate bonds are again the largest category of bond but are just 4.5%. The allocation to fixed income is 7.4% overall and cash makes up just 0.5% of the portfolio. Allocations to property are 2.5% and 'Other' represents 7.1%. The allocation to property and 'Other' remains steady across all three cohorts.

CHART 32: UK DEFINED CONTRIBUTION SCHEME ASSET ALLOCATION (2023)



Source: Corporate Adviser, Master Trust & GPP Defaults report,

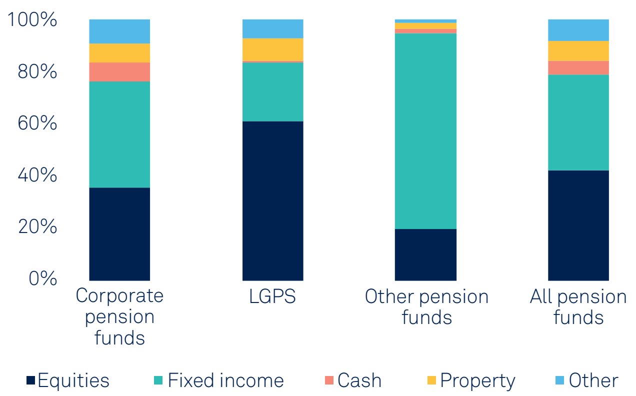
Local Government Pension Scemes (LGPS) are DB schemes that are open to new members. We can compare the asset allocation of the LGPS with the asset allocation of corporate pension funds, which represent a mix of assets managed through DB and DC schemes but where DB assets make up the largest proportion.

- LGPS have a significantly higher weighting to equities (61%) than fixed income (22%). This is far higher than the 18% allocation to equities by DB schemes overall (See Chart 33). LGPS remain open to new members and so have a younger age profile with longer retirement horizons. This allows the LGPS to make greater use of equity strategies to drive asset growth to meet long term funding needs. The LGPS also operate under a different regulatory framework and don't need to match assets to liabilities –LDI strategies are not used by LGPS.

- Corporate pension funds in this chart represent both DB and DC assets and have almost double the proportion invested in fixed income (40%) and almost half the proportion invested in equities (36%) compared with the LGPS. This higher allocation to fixed income indicates that private sector DB assets currently make up a higher proportion of corporate pension fund assets than DC.

- The equity allocation of corporate pension funds is up by 3% over the year. Fixed income allocation has fallen by 2%. This is likely to be related to market performance but we will see a shift in the balance of the assets of corporate pension funds as DC schemes become a more significant component.

CHART 33: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS AMONG UK PENSION FUNDS (2023)



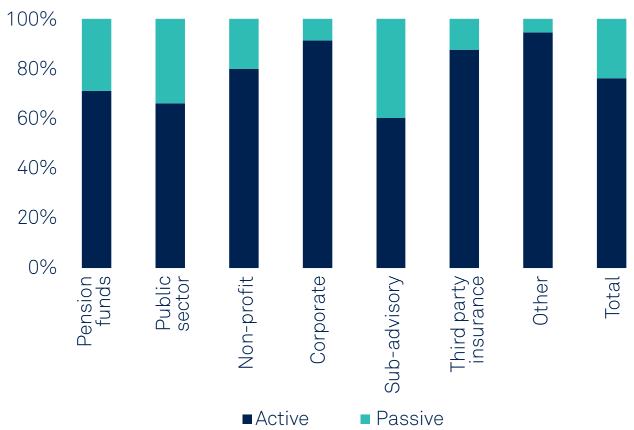
Source: The Investment Association

ACTIVE VS. INDEXING

Growth in indexing strategies has been a stand out trend in the investment industry over the last ten years as investors have opted for low cost exposure to equity and fixed income indices. Passive AUM now stands at 32.4% of total industry AUM. However, growth in indexing strategies has been slower for mandates managed on behalf of third party institutional clients. Overall, indexing strategies account for 24% of assets and we have seen a fall of 6% year on year as active strategies reach 76% in 2023. Over the five years preceding 2023, active assets had fluctuated between 72% and 69% of third party institutional mandates.

Pension funds and sub-advised mandates remain the client types with the highest allocation to indexing strategies at 29% and 40% respectively. We have also seen a notable increase in indexing strategies managed on behalf of the public sector through 2023 to 34%. This is partly to do with structural changes in the way that assets are managed on behalf of public sector schemes. Indexing assets remain outside the LGPS pooling process, mainly because they are already very low cost and so there is little cost advantage in driving scale through pooling. The pooling process means that the LGPS legally becomes the asset manager and then appoints investment managers to manage assets on their behalf. This is having some impact on the reducing proportion of active third-party mandates managed for public sector schemes.

CHART 34: ACTIVE AND INDEX THIRD-PARTY MANDATES BY CLIENT TYPE IN 2023 (SAMPLE ADJUSTED)



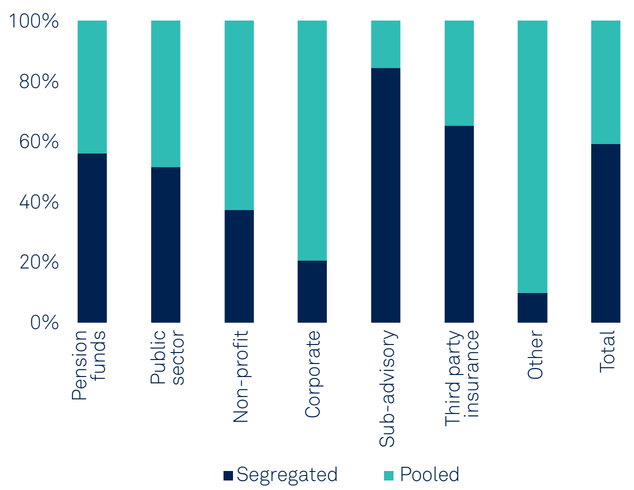
Source: The Investment Association

SEGREGATED VS. POOLED

Segregated mandates continue to account for the majority of assets managed on behalf of third party institutional clients at 59% compared with pooled assets[28] (41%). However, we have seen a rise of 8% in the proportion of pooled assets between 2022 and 2023. Growth in pooled assets occurred across every client segment barring sub-advisory.

One of the advantages of segregated mandates is that they offer a bespoke asset allocation approach for third party clients. However, for larger pension schemes, a fund of one structure is becoming increasingly popular. The fund is bespoke to the pension scheme but gives the protection of being invested in an authorised vehicle as well as being simpler to administer because it does not require a separate relationship with a custodian. We count this structure as pooled in our data and the growth of the fund of one structure is contributing to the increase in the share of pooled assets for pension schemes, which is now 44%. Not all pooled strategies are bespoke, however, and the high proportion of pooled mandates run for corporate and non-profit clients may reflect a focus on using scale to bring down costs over a bespoke segregated mandate approach.

CHART 35: SEGREGATED AND POOLED MANDATES: THIRD-PARTY INSTITUTIONAL CLIENTS (2023)



Source: The Investment Association

[28] Pooled assets can be run through mandates or funds. As part of the LGPS pooling process some LGPS have chosen to create their own pooled funds and are FCA regulated investment managers.

5 UK RETAIL MARKET

KEY FINDINGS

MARKET OVERVIEW

- In 2023, UK investor funds under management (FUM) increased by 4%, rising to £1.43trn from £1.37trn in 2022. However, FUM remained 10% below the 2021 peak of £1.59trn.
- Net outflows (institutional and retail) continued for the second consecutive year, reaching £57.8bn, up from £50.3bn in 2022.
- Net retail sales were -£24.3bn in 2023 as retail investors grappled with the impact of higher interest rates. Higher cash savings rates drew some capital away from funds and for many investors, monthly expenditure on paying off mortgages and credit cards increased affecting the ability of some to save and invest.

ASSET ALLOCATION

- Equity FUM has remained relatively stable dropping from 57.7% of total FUM in 2008 to 53.6% in 2023. The shift toward overseas equities has continued and allocations have increased from 28.1% in 2008 to 42.0% in 2023, while UK equity allocations have declined sharply from 29.6% to 11.5%.
- Over the long-term, FUM in fixed income has been broadly stable fluctuating between 18% and 22% from 2008 to 2021. However, the 2022 depreciation in bond prices saw fixed income FUM drop below 18% for the first time to 17.4% at the end of 2022, rising slightly in 2023 to 17.7%.

RETAIL INVESTORS IN 2023

- In 2023, 39% of UK adults actively invest, according to IA & Ipsos survey data. Of these investors, around a third began investing during the pandemic.
- UK investors are younger than the wider population with just under half (42%) aged 18-35 years old compared with 35% of all UK adults. A higher proportion of investors are men (63%) compared with women (37%). 17% of investors are from ethnic minorities: 18-24 year olds are the most diverse group with 32% of investors from non-white backgrounds.
- Younger investors (18-24) are more likely to hold cryptocurrencies: 46% report holding cryptocurrency, compared with just 7% of investors aged 55-65. Younger investors view cryptocurrencies as a core part of their portfolios and peer influence plays a key role in adoption. However, 38% of young investors also invest in funds and a further 44% hold a stocks and shares ISA.
- The average fund holding period for retail investors is 3.6 years in 2023.

INDEX TRACKERS

- In 2023, 22.7% of UK investor FUM was in index tracking funds (excluding ETFs). FUM in index tracking funds has grown every year for the past fifteen years, with average annual growth of 9.1%.
- Over 2023, net retail 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.

5

RESPONSIBLE INVESTMENTS

- 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, which most sustainable and responsible funds exclude.

NET RETAIL SALES BY INVESTOR OBJECTIVE

- In the period following the Global Financial Crisis, sales to **equity growth funds** benefited from low interest rates and strong market performance. As market conditions have shifted, equity growth funds account for the majority of outflows in 2023 at £15.4bn.
- **Equity income strategies** were popular through the early 2010s but demand for equity income fell between 2017 and 2021. Equity income funds saw a brief return to inflow in 2022 (£1.3bn) but in 2023 retail investors pulled £1.9bn from funds pursuing this objective.
- Appetite for **fixed income** funds remained broadly strong through the 2010s with the highest inflow of £14.0bn recorded in 2017. In 2022, rapidly rising interest rates hit bond prices and investors withdrew £4.8bn but in 2023 bond prices stabilised and fixed income funds saw inflows of £2.4bn.
- **Outcome and allocation** funds have attracted strong sales over the last decade as investors have increasingly opted for funds providing investment solutions and diversification across asset classes. Between 2012 and 2021 they accounted for 46% of all fund inflows. In 2023, however, outcome and allocation funds recorded their first annual outflow of £6bn following weak sales of £2.1bn in 2022.

DISTRIBUTION TRENDS

- Investment platforms, which have historically dominated fund distribution, saw their first outflow in 2023 as UK investors withdrew £2.4bn, following inflows in 2022 of £5.7bn. Platform outflows in 2023 are only a tenth of the total outflow for the year, however. The discretionary managers channel saw net withdrawals rise to £6.4bn and other intermediaries including IFAs saw net retail outflows of £12.7bn.

THE UK IN THE CONTEXT OF THE EUROPEAN FUNDS MARKET

- UK domiciled FUM was £1.26trn in 2023, incorporating assets managed on behalf of both UK and overseas clients. This is up 5% on 2022. UK investor FUM in overseas domiciled funds was £228bn in 2023 – unchanged year on year.
- In 2023, FUM for funds domiciled in Luxembourg was €5.8trn and €4.1trn for Irish domiciled funds according to data from EFAMA. FUM in UK domiciled funds was €1.9trn. Of the three domiciles, only Ireland ended 2023 with higher FUM than at the end of 2021, following 12% growth in 2023.

Chapter 5 explores the UK funds market, focusing on trends in funds under management and net sales, with a particular focus on sales through retail investment channels. The data in the chapter differs from the rest of the report in that it represents UK investor funds under management in UK authorised and recognised funds that are domiciled both in the UK and overseas.

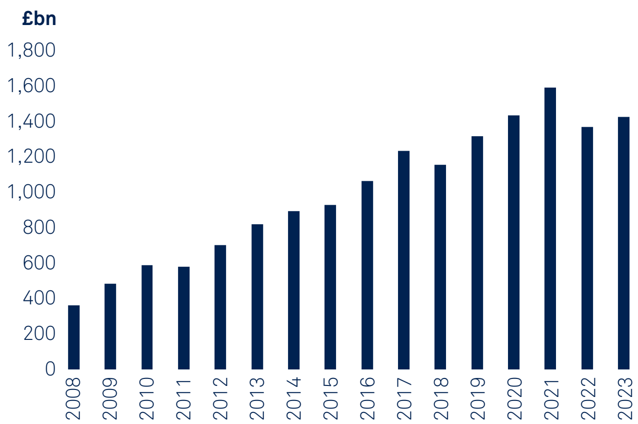
The chapter examines UK investor patterns of asset allocation across the major asset classes over the long term and how net retail sales have been affected by more challenging market conditions through 2022 and 2023. It also considers the evolution of sales to index trackers and sustainable investment funds and looks at sales by the major distribution channels. Lastly, it places UK funds in a European context assessing how the UK's growth as a fund domicile compares with the cross-border centres of Luxembourg and Dublin.

This year, we also look at how the UK investor base is changing, using data from a comprehensive study of UK investors conducted with Ipsos in 2023. The focus of the Investment Management Survey is on long-term trends in the retail funds market over the last 15 years. For a more detailed exploration of trends in the retail funds market through 2023, please see our report, "UK Funds Market – 2023 Year in Review."[29]

FUNDS UNDER MANAGEMENT

UK investor FUM partially recovered in 2023, reaching £1.43 trillion by the end of the year[30]. This is up 4% on FUM of £1.37 trillion at the end of 2022, a £56 billion increase in absolute terms, and is a similar percentage increase to AUM, which grew by 3%. However, FUM remained 10.2% below the 2021 peak of £1.59 trillion . Over the course of 2022, FUM fell by 13.8%, in line with the 12% fall in AUM.

CHART 36: TOTAL INDUSTRY FUNDS UNDER MANAGEMENT (2008-2023)



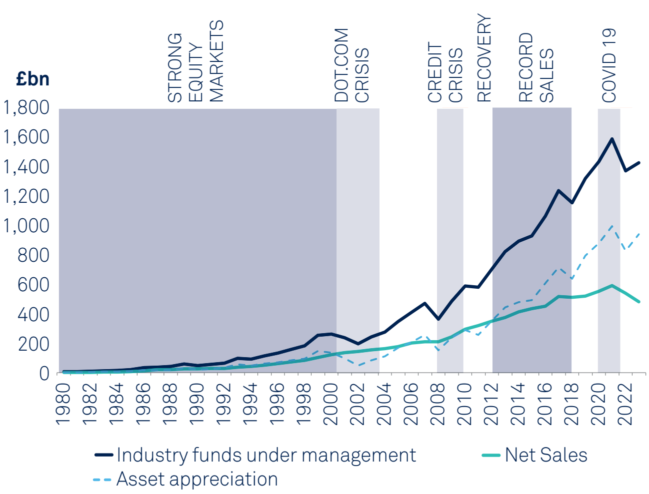
Source: The Investment Association

[29] Please see here for our UK Fund Market 2022 Year in Review: https://www.theia.org/sites/default/files/2024-09/market-insight-commentary-2023-and-q1-2024.pdf
[30] Investment Association funds under management data includes both retail and institutional assets.

Chart 37 shows the growth of the UK funds market since 1980 and demonstrates the role played by both asset appreciation and net sales showing that since 2012, asset appreciation has been the largest contributor to FUM growth. For this chart, net sales includes both retail and institutional flows:

- Over the longer term when markets perform well, driving asset appreciation, net sales also increase. In the high growth years of 2017 and 2021 assets appreciated by 10.0% and 8.1% and sales rose by 6.3% and 2.6%. However, in 2023, whilst markets recovered, outflows continued. This is the first time that we see this trend in the data.
- When markets performed poorly in 2008, as a result of the Global Financial Crisis, sales helped to support FUM growth because a significant cut in interest rates made cash savings relatively unattractive and capital flowed back to funds. In 2018, while assets depreciated by 6.1%, net sales were flat with only minimal outflows.
- 2023 saw a disconnect between asset appreciation and net sales. While market performance meant asset appreciation resumed the pre 2022 upwards trend, outflows continued at a similar pace to 2022. With institutional flows included, outflows rose from £50.3 billion in 2022 to £57.8 billion in 2023. 2023 is only the third year of negative net sales[31] and the first time we have seen two consecutive years of outflow.
- The impact of higher interest rates on investor behaviour in 2023 is a significant factor. For retail investors, this meant higher cash savings rates drawing capital away from funds and for many investors, the cost of paying off mortgages and credit cards rose in 2023. Higher interest rates also meant that investors were adjusting to a new market cycle after nearly 15 years, which favours different types of asset and investment strategies. Yet, whilst inflation was beginning to calm it remained persistent, presenting an uncertain outlook.

CHART 37: DRIVERS OF INDUSTRY GROWTH (1980-2023)



Source: The Investment Association

UK INVESTOR FUM GREW 4.1% THROUGH 2023, REACHING

£1.43 TRN

BY THE END OF THE YEAR

[31] In 2018, institutional and retail sales combined were also in net outflow at £5.8 billion.

BOX 7: A NEW RETAIL AGENDA

While just a quarter of all UK managed assets are managed on behalf of retail investors, this proportion has been rising steadily since 2020 and there continues to be a push among policy makers in the UK and Europe towards encouraging greater retail investor participation in capital markets.

Given the growing prominence of retail investor assets in a heavily intermediated market, it is becoming ever more important to understand the profile of UK investors, including the demographics of the investor base, their appetite for different products, investment goals and potential barriers to entry. In 2023, the IA commissioned Ipsos to carry out a survey to provide some insights on UK retail investors.

RETAIL INVESTOR PARTICIPATION RATES IN THE UK

Much comparison has been made between capital market participation rates in the UK and US. The perception of a more active culture of investing in the US stems from data that suggests that two thirds (61%) of American adults have money invested in the US stock market according to Gallup. While many older UK adults were introduced to share ownership through the privatisation of nationalised industries in the 1980s, this failed to convert the majority of adults into becoming more active investors. The IA survey found that as of 2023, less than half (39%) of the adult UK population were actively investing in products such as individual stocks and shares, stocks and shares ISAs, investment funds and trusts, individual investment bonds and cryptocurrencies. Of these investors, about a third began investing in the period following the start of the COVID-19 pandemic in early 2020.

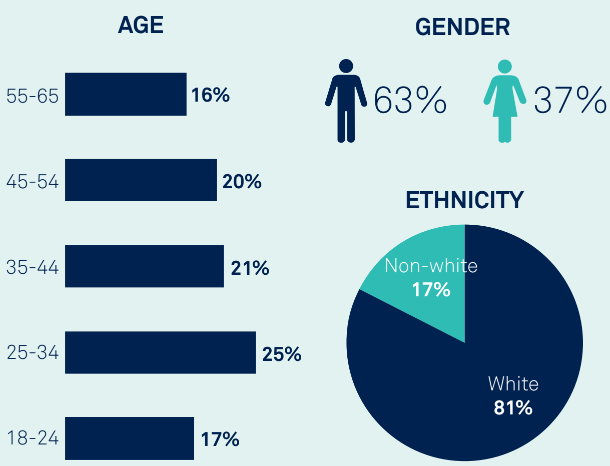
DEMOGRAPHICS OF THE UK INVESTOR BASE

Figure 10 provides a more detailed snapshot of the UK investor base in2023, with a focus on age, gender balance and ethnicity.

We find that:

- UK investors are younger than the wider population with just under half (42%) of the investor base aged 18- 35 years old compared with 35% of all UK adults under the age of 65.
- The investor base in the UK is dominated by male investors, who account for 63% of all investors compared with 37% of female investors. Research by Boring Money finds that the gender investment gap in the UK stands at £567 billion as of January 2024. Our survey suggests a slightly improved balance among those who began investing post-pandemic (41% of new investors being women) but there needs to be a bigger push to encourage more female participation if we want to see greater gender parity in investing.
- Overall, non-white investors are a slightly higher proportion of UK investors compared with the UK adult population, accounting for 17% of investors compared with 14% of the general UK population. The youngest cohort of investors (18-24 year olds) is the most diverse, with 32% of investors from non-white backgrounds and this compares with just 5% of the 55-65 year old group of investors.

FIGURE 10: DEMOGRAPHIC SNAPSHOT OF THE UK INVESTOR BASE (2023)

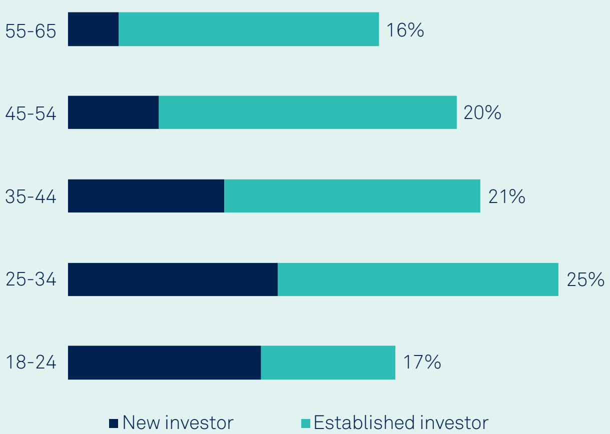


Source: The IA and Ipsos

A NEW GENERATION OF INVESTOR – RETAIL INVESTORS ARE GETTING YOUNGER

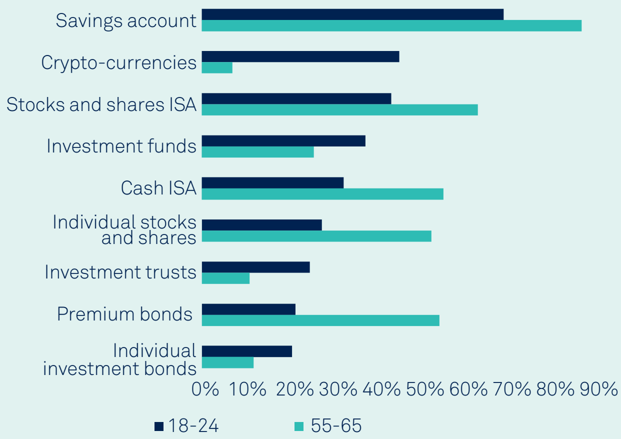
During the COVID-19 pandemic, many young working adults were able to build up their savings pots over successive lockdowns. The rise in savings, combined with time and increased focus on investing via a number of different social media channels, were key drivers of the growing interest in investing over that period. Today, this has contributed to a younger investor profile, with over half (58%) of post-pandemic first time investors falling in the 18-34 year old bracket. It is therefore important to investigate the differences in attitudes towards investing among older investors, who currently account for the majority of wealth, and the younger investors who are set to become the biggest inheritors of wealth.

CHART 38: THE PROPORTION OF UK INVESTORS IN DIFFERENT AGE GROUPS SPLIT BY NEW AND ESTABLISHED INVESTORS (2023)



Source: The IA and Ipsos

CHART 39: THE PROPORTION OF 18-24 YEAR OLDS HOLDING DIFFERENT SAVINGS AND INVESTMENT PRODUCTS COMPARED WITH THE 55-65 AGE GROUP (2023)



Source: The IA and Ipsos

The survey finds that the products younger investors use to save and invest are changing compared with those of older investors aged 55 to 65. Chart 39 contrasts the products held by the youngest investor segment by age, the 18-24 year olds, with the oldest age group, the 55-65 year olds. Cryptocurrencies are held by 46% of 18-24 year olds compared with just 7% of investors aged 55 to 65. This is higher than the percentage of younger investors who hold a cash ISA (33%). Premium bonds are the third most popular savings and investment product for the over 55's (55%) but are not on many younger investors' radar – 22% hold them. Among the oldest age group, ownership of individual stock and shares is high, with over half (53%) of investors in this cohort directly owning shares in companies compared with 28% of young investors.

Young investors (38%) do invest in funds and a further 44% hold a stocks and shares ISA. Indeed, tax efficient investing through ISAs is the most popular choice of product across all age groups except the youngest cohort of investors, who have a slight preference for cryptocurrencies.

BOX 7: A NEW RETAIL AGENDA (CONTINUED)

MAINTAINING MOMENTUM: MAKING INVESTING MORE ACCESSIBLE TO YOUNGER INVESTORS

Our research suggests that younger investors see cryptocurrencies as a standard product in their investment toolkit and that investor take-up of cryptocurrencies accelerated through the pandemic. In aggregate, in 2023 over a third (37%) of UK investors hold cryptocurrencies within their portfolios. The majority of investors holding cryptocurrencies (65%) made their first investment at some point after the COVID-19 pandemic and two-thirds hold the asset alongside other savings and investment products.

The survey shows that 41% of investors who are educated to Master's degree level or above hold cryptocurrencies compared with 36% who hold investment funds, although 59% of the best educated group hold a Stocks and Shares ISA. We also found that 41% of investors earning over £45,000 hold cryptocurrencies, classed as higher earners based on national average earnings, suggesting that cryptocurrency investors are often highly educated and relatively high earners. They are also more likely to be men as 40% of male investors hold cryptocurrencies compared with 30% of female investors. This compares with 41% of male investors holding investment funds and 56% holding S&S ISAs. Although over half (55%) of young investors (aged 18-34) are invested in crypto, the survey suggests that the asset is not, as is often perceived, predominantly the domain of the young, with 41% of investors aged 35-54 also investing in the asset class.

By analysing some of the reasons that younger investors are opting for cryptocurrencies, we can think about ways to improve access to investment funds:

- It is easy to set up accounts and start investing through neo brokers that take a digital/mobile first approach. The ability to access and manage investments through a mobile app is key to attracting investment from the younger and middle cohort of investors. Over half of investors below the age of 44 invest primarily through a mobile app, which drops to 20% among investors aged 55-65.
- Younger investors often want to invest small amounts more frequently and can build up their investments in cryptocurrencies with low, or no trading fees. Over half (53%) of investors in cryptocurrencies invested less than £500 at the time of making their first investment (of which 28% started off with less than £100). Investors in cryptocurrencies are aware of the risks of losing it all but once they start to build up meaningful investment portfolios, they think about protecting their investments and may look to funds or ETF model portfolios to diversify their assets and to manage their investment risk. We find that direct fund investors typically make their first investment with significantly larger pots, with over half investing at least £1000, and a third investing at least £5000 on their first investment.
- Cryptocurrencies are the most likely savings and investment product to be recommended by other people at 36% compared with 23% for a S&S ISA and 27% for investment funds. Investors trust peer recommendations and social media amplifies positive messaging about cryptocurrencies. For funds and investments the lack of clarity over the line between advice and guidance has created an advice gap and hampers the industry's ability to create a conversation about investing and funds.

We believe that there are four important measures that need to be implemented to help us to engage younger investors to drive better long-term investment outcomes:

- Focus on genuinely decision-useful information for customers as part of digitally and likely AI-enabled delivery.
- Work towards building a simpler but still fully accountable and transparent system and leave behind the focus on complex issues such as MiFID costs and charges.
- Create more opportunities to have a different kind of conversation with customers to nudge behaviours.
- Clarify the boundary between advice and guidance.

NET RETAIL FLOWS IN CONTEXT

Chart 40 shows net retail sales annually from 2008 to 2023, demonstrating that the long term trend of healthy inflows to funds through retail channels has been disrupted in the past two years. Over time, funds under management have grown and the industry in 2023 is considerably larger than it was in 2008. To better compare the scale of net sales in 2008 with 2023, the line on the chart shows net sales as a percentage of industry size (FUM), tracking the right-hand axis.

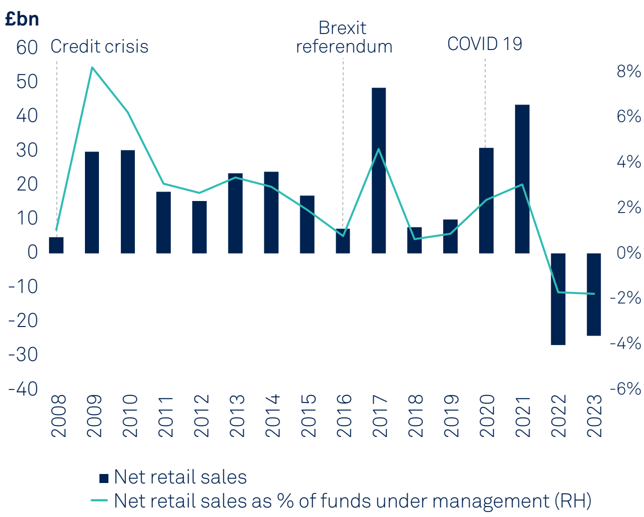
Following the Global Financial Crisis in 2008, the funds industry saw strong sales in 2009 and 2010 of £30 billion annually, as low interest rates on cash savings products and weakened trust in the banking system among some investors helped draw investors to place their capital into funds. Net retail sales in 2009 equate to 8.2% of FUM and to 6.2% in 2010. This demonstrates the strength of the recovery in net retail sales following the Global Financial Crisis. Although net retail sales were higher in 2017 and 2021, they accounted for 4.6% and 3.0% respectively of industry FUM.

Inflows again surged to £44 billion (3.0% of FUM) during the COVID-19 pandemic as in the UK, the US and Europe, central banks cut interest rates further to kick start stagnant economic growth following lockdown. The announcement of a successful vaccine trial in November 2020 saw market performance recover globally, while households forced to curtail discretionary spending by lockdown measures were able to save more and many chose to invest, boosting inflows.

The pattern of inflows changed in 2022, as persistently high inflation towards the end of 2021 triggered a cycle of interest rate rises from central banks. Then in February 2022, the Russia-Ukraine war caused a market shock, sending inflation soaring amid an energy price spike in Europe due to Russia's influence over gas supply. This market turbulence and the monetary policy response to raise rates further caused the price of equities and bonds to fall in tandem, meaning that cautious investors holding a high percentage of bonds in their portfolios saw steep falls in performance. In 2022, investors pulled a record £26.9 billion from funds – 1.7% of FUM. Despite the market disruption seen following the September 2022 gilt crisis, particularly among pension funds employing LDI strategies, the impact on retail investors was muted with only one month of modest outflows from the UK Gilts sector in October 2022 (of £339 million) before a return to inflow to the sector in November.

2023 saw other factors at play that contributed to the second consecutive year of outflows. Outflows have eased slightly compared with 2022 (£26.9 billion to £24.3 billion) but make up a slightly increased percentage of a smaller industry FUM (1.7% to 1.8%). Rather than being directly linked to performance, outflows in 2023 will have been more heavily influenced by alternative draws on investor capital such as high rates on cash savings and the increased costs of paying off debt.

CHART 40: TOTAL NET RETAIL SALES AND NET RETAIL SALES AS A PERCENTAGE OF FUM (2008-2023)



Source: The Investment Association

THE FACTORS INFLUENCING THE 2023 OUTFLOW

Capital markets began to recover through 2023 and the long-term trend, as shown in Chart 40, is to a recovery in sales when market performance rebounds. This did not happen in 2023 and here, we examine why. Higher interest rates had a significant impact on retail investor behaviour, the Bank of England (BoE) continued to raise the base rate incrementally until August 2023 reaching 5.25%, the highest rate since February 2008. In the US and Europe, we saw a similar pattern of rate rises from the Fed and the ECB through 2023.

There are three important ways that this may have influenced net retail sales in 2023:

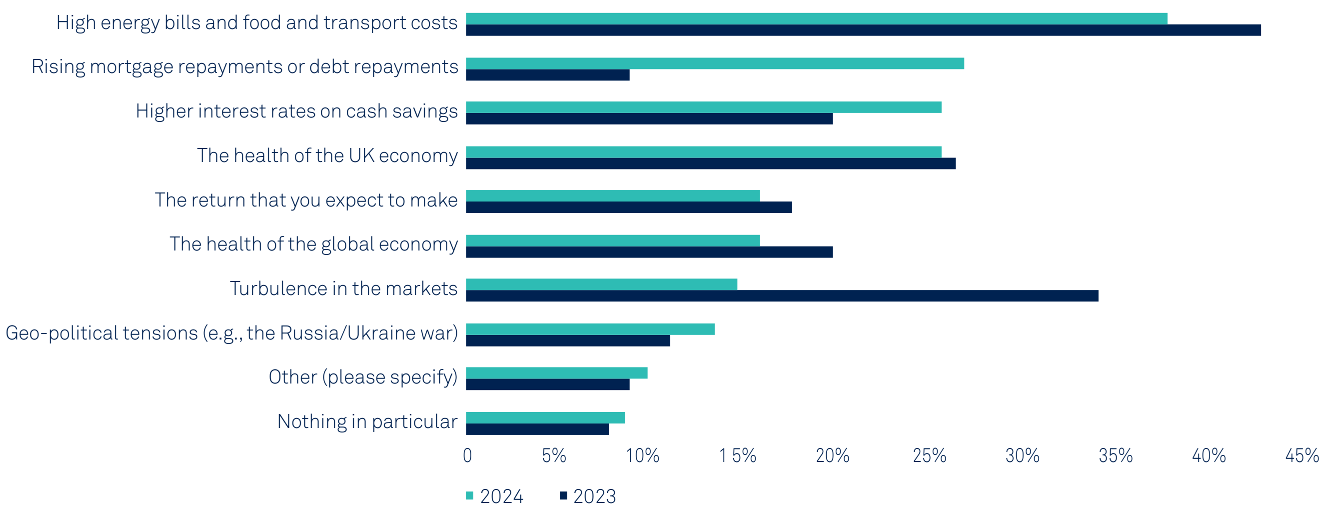
- **Equity market performance:** higher interest rates can negatively affect company earnings (apart from in the financials sector) and companies that are valued on their future earnings or cash flows (so-called growth-stocks) see their valuations fall further because their future cash flow is discounted at a higher rate. In 2023, outflows from equities were the highest of any asset class at £22.4 billion.
- **Higher cash savings rates:** fixed rates for new cash ISA customers peaked at 5.35% in October 2023 and according to BoE data, inflows to cash ISAs in 2023 were £47.2 billion. This drew some investors away from funds into cash.
- **Higher interest rates on debt repayments:** Investors now have higher repayment rates, which could make it harder for them to put money aside to invest. In the UK, the gilts crisis in September 2022 also had a significant impact on pushing up available mortgage rates. Bank of England data show that 1.43 million people re-mortgaged in 2023 and 57% were re-mortgaging from rates of 2% or less and were likely to experience a significant increase in monthly repayments.

THE FACTORS INFLUENCING INVESTORS WHO INVESTED LESS IN THE 2023/24 TAX YEAR

Chart 41, taken from investor research conducted by the IA alongside Opinium, shows the reasons given by investors decreasing their allocations to stocks and shares ISAs in the tax year ending in April 2024. It is important to note that only a minority (14%) of investors stated they were decreasing their allocations.

- For those who were cutting back on investment, higher bills and household expenses remained the top concern, though slightly less so than in 2023.

CHART 41: FACTORS AFFECTING INVESTORS WHO HAVE REDUCED STOCKS AND SHARES ISA ALLOCATIONS (2023-2024)



Source: The Investment Association, Opinium

- Turbulence in the markets has fallen away significantly as a source of investor concern as the impact of the rapid cycle of interest rate rises fades and as we move further away from the February 2022 market shock following the start of the Russia-Ukraine war.

- Rising mortgage or debt repayments have become increasingly important for some investors. Many mortgage holders have fixed term mortgages, meaning that the effective interest rate on the outstanding stock of mortgage debt of UK households (£1.7 trillion) continues to rise. According to Bank of England data the effective rate rose 0.86% over 2023, to 3.36%.

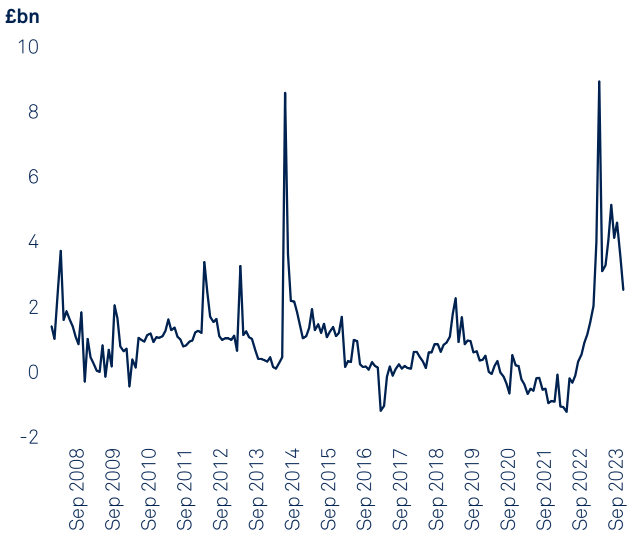
- Higher rates on cash savings are increasingly drawing investors away from funds. As interest on cash savings have increasingly caught up with the Bank of England base rate, cash has become a more attractive alternative to investment in funds.

THE IMPACT OF HIGHER CASH SAVINGS RATES ON NEW INVESTORS

According to Bank of England data, illustrated in Chart 42, cash ISAs received inflows of £47.2 billion in 2023, more than the total inflows of the previous eight years and surpassing the previous record of £28 billion in 2001. Alongside the improved rates on cash savings, cash also offers investors liquidity and a fixed return against the more variable short terms returns of investment funds. Investors anticipating changes in circumstances within a couple of years might therefore be inclined to opt for cash. However, over the medium to long term (5+ years) investments in funds traditionally outperform cash. According to our analysis, over the ten years from 2013 to 2023, investing £10,000 in a cash ISA would have left the cash saver with £8,448 at the end of the period adjusting for inflation. If the £10,000 had been invested in a mixed portfolio of stocks and bonds, it would have been worth £10,686 over the same period and investing into a typical global equity fund would have netted the investor £18,140.

When we asked 1000 investors in our survey with Opinium about their primary motivation for investing in a stocks and shares ISA, 50% said that it was because they believed that investing would deliver them a better return than cash over 5 years and 77% agreed that they take a long-term view of investing irrespective of the rise and fall of markets. However, there were differences in the data. 62% of seasoned investors with 10 years or more experience used a stocks and shares ISA because they believed that investing would beat cash over 5 years. For new investors with one year's experience or less, this fell to 38%. Just 29% of 18-34 year olds chose investing beating cash as a major motivation for using a stocks and shares ISA compared with 61% of over 55s. Younger or inexperienced investors may be less prepared to experience short-term investment volatility if they can get a decent, stable return on cash and so it is important to reinforce the message that investing will deliver better returns over five years or more.

CHART 42: NET MONTHLY CASH ISA DEPOSITS (2008-2023)

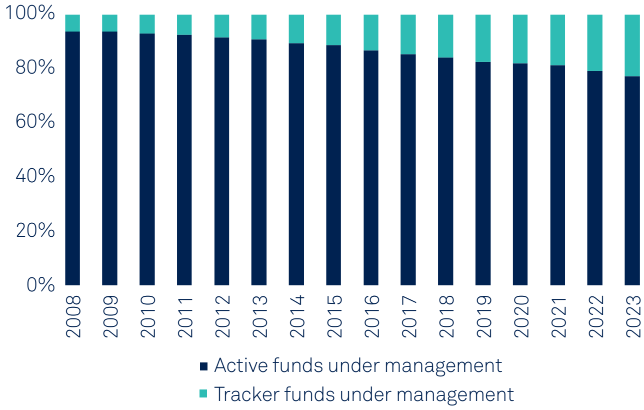


Source: The Bank of England

INDEX TRACKERS

Chart 43 illustrates the share of funds under management in index tracking funds. By the end of 2023, 22.7% of industry funds under management was in index tracking funds, growing from 20.8% at the end of 2022.[32] The chart shows a steady growth in the market share of index tracking funds, which has increased every year for the past fifteen years, with an average year on year growth of 9.1%.

CHART 43: ACTIVE FUNDS AND TRACKER FUNDS AS A PROPORTION OF TOTAL FUNDS UNDER MANAGEMENT (2008-2023)

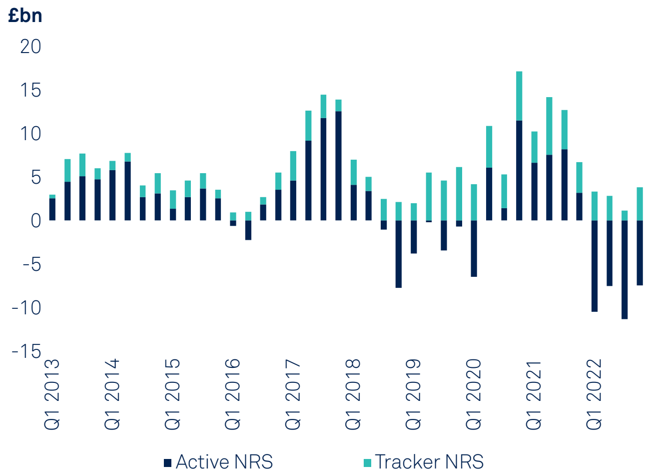


Source: The Investment Association

Underneath the headline retail outflows of 2022 and 2023, inflows to index trackers have continued as active funds have seen substantial net outflows, a key driver of the steady growth of index tracker market share. Chart 44 shows net retail sales to active and index tracking funds:

- Over 2023, outflows from active funds were £31.8 billion and sales to index trackers were far more resilient with a £13.8 billion inflow. This compares with -£37.9 billion from active and £11.0 billion into index trackers in 2022.
- The strongest sales to index trackers occurred in 2020 (£18.4 billion) and 2021 (£18.3 billion), also years of high inflows to active funds. The data suggest that index trackers do well in periods of strong performance, as do active funds, but sales are more resilient through challenging periods of market performance when active funds move into outflow.
- Over the longer term, the past decade has seen net retail sales of £21.1 billion to actively managed funds, whereas index tracking funds have seen £116.5 billion in inflows. The average annual inflow to trackers between 2013 and 2021, at the peak of the last market cycle, was £10.9 billion.

CHART 44: NET RETAIL SALES TO ACTIVE AND INDEX TRACKING FUNDS (2013-2023)



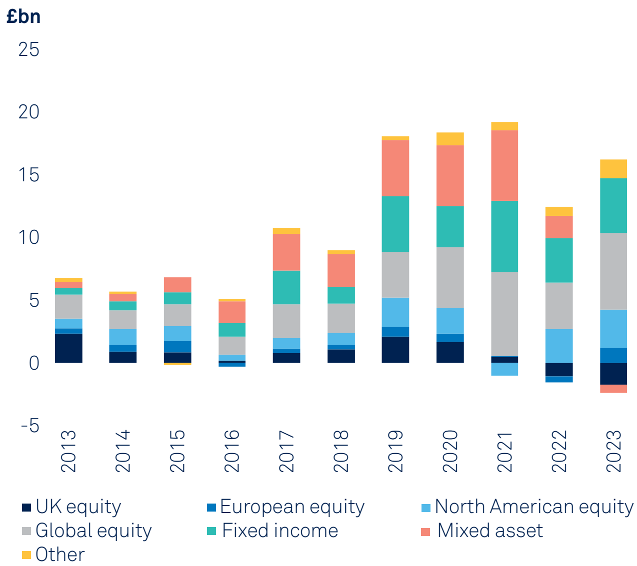
Source: The Investment Association

[32] The data in this chapter does not include Exchange Traded Funds, which tend heavily towards index tracking. The data therefore underestimates the full usage of index trackers by UK investors.

Chart 45 provides additional detail on investor preferences for different indices, with flows broken out into asset classes, and in the case of equities, by geographic region:

- Demand for Global equity index trackers recovered in 2023 with net inflows of £6.1 billion. Global equity index trackers have seen consistent demand over the past decade from investors seeking exposure to diversified equites at a low cost.
- North American equity index trackers benefited from a second year of strong sales in 2023, with net retail sales of £3.0 billion, up from £2.7 billion. As one of the most developed regions for index tracking with 55% of FUM in index trackers, long term demand for North American index trackers partly reflects demand for US equities overall. Over the past decade US equities have outperformed, with the MSCI USA returning 303% against 213% for the MSCI World.
- Although overall flows into equity index trackers in 2023 were £8.6 billion, UK equity index trackers remained in outflow. Outflows accelerated in 2023 to £1.7 billion, from £1.1 billion in 2022. Net outflows from UK equity index trackers were far more modest than from actively managed UK equity funds however - outflows reached £11.9 billion in 2023. While actively managed UK equity funds have seen consistent yearly outflows since 2016, funds tracking UK indices continued to attract inflows until 2021.
- Inflows to bond index trackers remained strong through 2023 with net inflows of £4.3 billion. Bonds was the second bestselling asset class for index trackers, as was the case in 2022 when inflows were £3.6 billion. Fixed income trackers have enjoyed sustained popularity with investors, accounting for 27% (£21.4 billion) of tracker inflows over the past five years from 2019-2023, against 18% (£6.6 billion) for the preceding five years.
- In 2023, there were outflows from mixed asset trackers of £704 million. This compares with a £1.7 billion inflow in 2022. Over the last five years, inflows are £16 billion.

CHART 45: NET RETAIL SALES OF TRACKER FUNDS BY INDEX INVESTMENT TYPE (2013-2023)

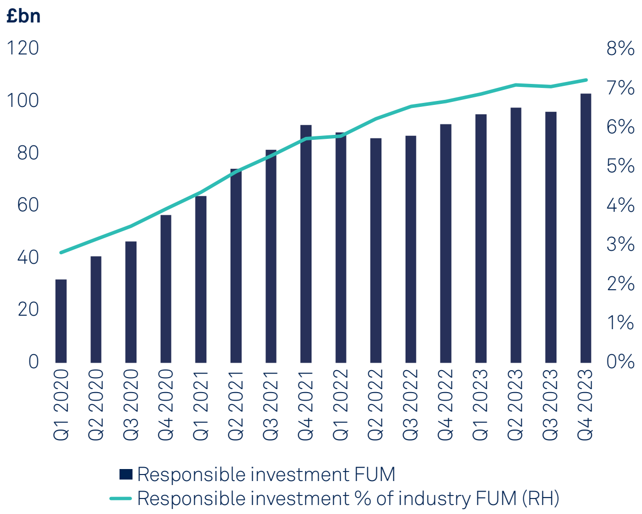


Source: The Investment Association

RESPONSIBLE INVESTMENT

Responsible investment funds within the IA universe had a combined FUM of £102 billion as of the end of 2023, accounting for 7.2% of industry FUM. Chart 46 shows the growth of sustainable and responsible investment funds between 2020 and 2023, when the IA started collecting data according to the IA's Responsible Investment Framework (see Box 8). Following a period of rapid growth in responsible investment FUM in 2020 and 2021, driven by strong sales and fund launch activity, growth in FUM has flattened as flows have turned negative and fund launch activity has slowed. Over 2023, there were 58 responsible investment fund launches, down from 83 in 2021 and 100 in 2022. Fund launches have also slowed as managers wait for the introduction of SDR in the UK. As of the end of 2023, there were 458 responsible investment funds within the IA universe across UK and overseas domiciled funds.

CHART 46: RESPONSIBLE INVESTMENT FUNDS UNDER MANAGEMENT (2020-2023)



Source: The Investment Association

BOX 8: 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:

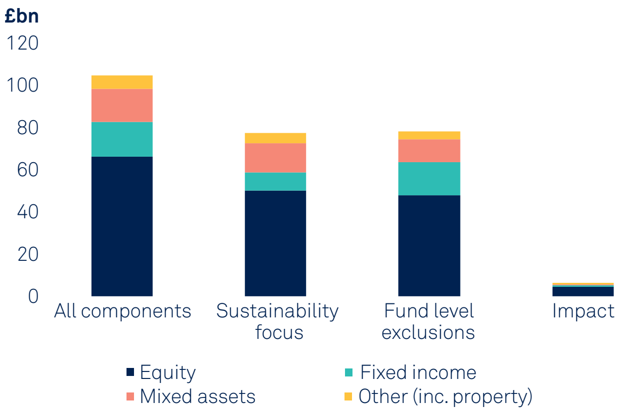
- Fund specific exclusions – prohibition of certain investments beyond any firm level policy, and beyond a prohibition on controversial weapons.
- Sustainability focus – An investment policy with sustainability criteria as a core part of the investment approach.
- Impact Investing – Investment made with 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 responsible investment data. Funds included within this data are those identified by managers as meeting the above criteria, with verification conducted by the IA.

Chart 47 shows the asset allocation across funds applying exclusions, funds with a sustainability focus and impact funds. As more than one component can apply to each fund, the sum of each component is greater than all components combined.

- Across all responsible investment funds, equity funds make up 63% of FUM, rising to 70% of impact investment funds. For context, 54% of FUM in the wider industry is in equity funds.
- Bond funds account for 15% of responsible investment FUM, compared with 18% in the wider industry. They are more prominent among funds employing fund level exclusions however, where they make up 20% of assets.

CHART 47: RESPONSIBLE INVESTMENT FUNDS UNDER MANAGEMENT BY ASSET CLASS AND COMPONENT (2023)

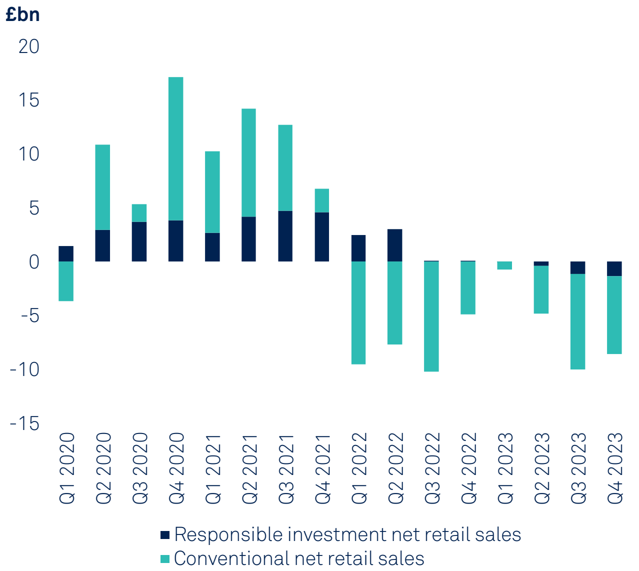


Source: The Investment Association

Investor sentiment towards responsible investment funds was positive when markets were performing well through 2021 and sales were £16 billion, a third of net retail sales in a record year. We saw a peak in monthly inflows in September 2021, in the run up to COP 26 in November 2021, held in Glasgow, as positive news about the path to net zero transition and significant coverage combined with strong performance conditions. However, investors pulled £3 billion from responsible investment funds in 2023 as more challenging performance conditions for equities overall combined with the outperformance of funds investing in oil and gas stocks through 2022. As funds moved into outflow at the beginning of 2022 as interest rates began to rise, responsible investment funds initially remained in inflow, and even as inflows dried up in the second half of the year, responsible investment funds avoided outflows.

84% of responsible investment funds are actively managed and sales in 2022, though low, were far more resilient than outflows from the broader active fund market. However, the challenging performance conditions for responsible investment funds, which typically exclude oil and gas sectors, which were the strongest equity sector performers through 2022, mean that they moved into an outflow of £2.6 billion in H2 2023.

CHART 48: NET RETAIL SALES TO RESPONSIBLE INVESTMENT AND CONVENTIONAL FUNDS (2020-2023)



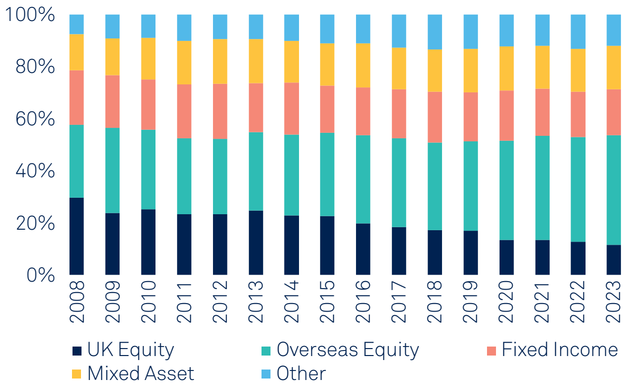
Source: The Investment Association

ASSET ALLOCATION

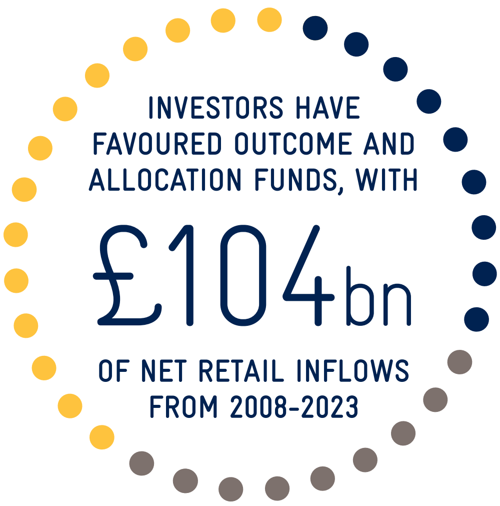
Chart 49 shows how asset allocation by UK investors has evolved over the past fifteen years by looking at the percentage of UK investor FUM held in the major asset classes. It breaks equities into UK and overseas equities to show how UK investors have shifted from a bias to holding funds invested in the domestic market to a more global outlook for equities:

- There is an ongoing shift away from UK equities. UK equity funds have declined from 29.6% of assets at the end of 2008 to 11.5% in 2023. The drop in UK equity allocations has been largely matched by increased allocations to overseas equities, which now account for 42% of FUM compared with 28.1% in 2008. Overall, equity FUM has remained relatively stable as a proportion of total FUM, dropping by 4.2% from 57.7% in 2008 to 53.6% in 2023. The drivers behind the shift from UK to overseas equities reflect a long-term investor preference for managing equity risk using more globally diversified funds rather than allocating to the UK, which is a single country.
- Over the long-term, fixed income allocations have been broadly stable fluctuating between 18% and 22% from 2008 to 2021. However, the 2022 depreciation in bond prices saw allocations drop below 18% for the first time to 17.4% at the end of 2022. Fixed income allocations have stabilised in 2023, with the percentage of FUM held in bonds remaining steady at 17.7%. The cycle of interest rate rises through 2022 hurt bond performance as higher interest rates meant higher bond yields, which move inversely to prices, resulting in capital losses for bond fund investors. However, as rates were kept steady in the second half of 2023, this helped to stabilise bond prices.

CHART 49: FUNDS UNDER MANAGEMENT BY ASSET CLASS (2008-2023)



Source: The Investment Association



NET RETAIL SALES BY INVESTOR OBJECTIVE

Chart 50 (overleaf) shows long term sales trends grouped by investor objective and asset class. Sales to equities are split into funds with a growth objective and funds delivering equity income to investors. Over the long-term, investors have favoured outcome and allocation funds (see Box 9), with £104 billion of net retail inflows from 2008-2023. Rather than traditional single asset class funds, these funds offer investors either a diversified mix of assets in the case of allocation funds (also referred to as mixed asset), or a targeted outcome in either return or volatility, with more discretion given to the fund manager. Fixed income funds have also been popular with net inflows of £62 billion in the last fifteen years. Equity growth funds, which had seen inflows of £47 billion from 2008 to the end of 2021, have seen heavy outflows in 2022 (£24 billion) and 2023 (£15 billion), reducing the inflow to just £8 billion between 2008 and 2023.

Looking in more detail at sales trends by investor objective, we see that:

- In the period following the Global Financial Crisis, sales to **equity growth funds** generally benefited from low interest rates and strong market performance seeing inflows in all but three years (2008, 2016 and 2019) between 2008 and the peak of the last market cycle in 2021. In 2021, UK interest rates fell to their lowest rate at 0.1% and inflows to equity growth funds made up 47% of annual sales, the highest proportion of inflows since 2001. The most significant outflow of £8.6 billion came in 2016 as UK and European equity sales were affected by uncertainty surrounding the Brexit referendum. As the market cycle has shifted following higher interest rates and the unwinding of quantitative easing, withdrawals from equity growth funds account for the majority of outflows in 2023 at £15.4 billion, down from 2022's £23.9 billion but still making up the largest outflow by investment objective. The change to a higher interest rate environment has weakened the outlook for equity growth strategies through a combination of higher borrowing costs for companies, lower economic growth and a higher discount rate on the value of future earnings.

BOX 9: OUTCOME AND ALLOCATION FUNDS

Allocation funds, also referred to as mixed asset funds, offer investors a diversified mix of equities and bonds. Allocations to equities and bonds are maintained by the fund manager within a defined range and rebalanced as appropriate.

Outcome funds are those whose primary objective is to provide the investor with a set outcome, with the freedom to select the best asset classes and investment strategy to achieve this. Within the IA sectors, the Targeted Absolute Return sector and Volatility Managed sector are the primary examples of funds pursuing a specific outcome.

- **Equity income** strategies were popular through the early 2010s, with net retail sales peaking at £7.3 billion in 2014. However, equity income fell out of favour from 2017 to 2021 as market conditions and the long period of low interest rates favoured equity growth strategies. Additionally, during the pandemic many companies cut dividends or, in the case of UK banks, were forced to suspend dividends, which affected the performance of equity income funds. Equity income funds saw a brief return to inflow in 2022 with net sales of £1.3 billion. These funds saw interest from investors during volatility in the equity and bond markets when many industry sectors were able to pay dividends even if share prices were more volatile, making dividends an important component of total return. However, equity income funds returned to outflow in 2023 as retail investors pulled £1.9 billion.

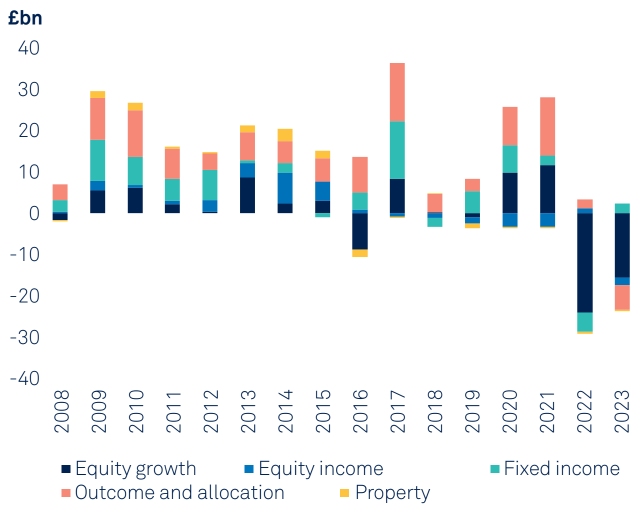
- The immediate aftermath of the Global Financial Crisis saw strong fixed income funds sales boosted by investors seeking income, with inflows as high as £10.0 billion in 2009. Appetite for bond funds remained broadly strong through the 2010s with the highest inflows of £14.0 billion recorded in 2017. When interest rates rise, so do bond yields, which are based on the bond's coupon payments divided by its market price. As coupon payments are fixed for bonds, bond prices move inversely to yields, so a steep rise in bond yields causes a corresponding fall in prices.

We saw this in 2022 as rapidly rising interest rates hit bond valuations and investors withdrew £4.8 billion from fixed income funds through the year. However, in 2023 bond prices stabilised and fixed income funds saw inflows of £2.4 billion. With rates having settled in 2023, bonds are now more attractive for income investors looking for a predictable rate of income and for investors who prefer less volatile portfolio performance especially as we continue to see some volatility in the performance of equity markets.

- **Outcome and allocation funds** enjoyed strong net retail sales through the 2010s and into 2021 as investors increasingly opted for funds providing investment solutions, where the investment manager makes the asset allocation decision within the fund. Between 2012 and 2021 these funds accounted for 46% of all fund inflows with the peak inflow of £14.1 billion in 2017. In 2023, outcome and allocation funds recorded their first annual outflow within IA data. Outflows of £6.0 billion followed weak sales of £2.1 billion in 2022. Recent outflows over 2022 and 2023 have been driven largely by mixed asset funds, particularly funds from the mixed investment 20-60% shares sector. Equity and bond valuations fell in tandem in 2022, negatively affecting the performance of these more balanced strategies and this has continued to impact investor sentiment through 2023.

We have also seen a shifting investor preference for different types of outcome funds over the last fifteen years. Targeted Absolute Return funds saw strong sales from 2013 to 2017 totalling £18.3 billion as investors were attracted by the promise of seeing a return irrespective of market conditions. From 2018 onwards Targeted Absolute Return (TAR) funds have been in consistent outflow with investors pulling £17.9 billion as some TAR funds have struggled to deliver on their investment objectives. In 2023, TAR fund outflows were £3.3 billion. Volatility Managed funds, the other major category of outcome fund, have seen consistent inflows since the sector's 2017 launch with net retail sales totalling £20.6 billion between 2017 and 2023. In 2023, inflows to Volatility Managed funds were £2.7 billion. These funds, which invest in a mixture of equities and bonds and manage returns within set volatility parameters, are popular with advisers as they map to client risk profiles.

CHART 50: NET RETAIL SALES BY INVESTOR OBJECTIVE (2008-2023)

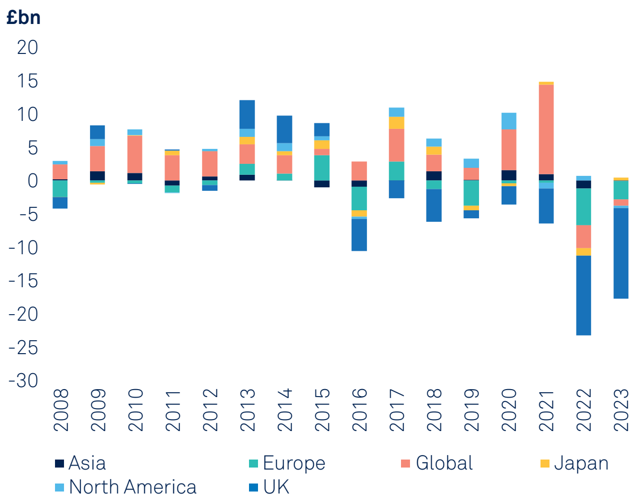


Source: The Investment Association

EQUITY FUND SALES BY REGION

Chart 51 shows the long-term sales trends to equity funds by geographic location. Over the last fifteen years, investors have shown a strong preference for geographic diversification opting for funds that invest in global companies that are spread across different countries and regions of the world. This helps to reduce the risk of high exposure to single countries or industries. Over the long term, there has been an ongoing shift away from UK equity funds as investors have reduced their allocations to funds investing in single countries. The move away from a UK home bias has also been driven by the performance of the UK market, which has substantially lagged the US market following the Global Financial Crisis. US companies make up a significant proportion of many global equity funds and the MSCI World index now has a 72% weighting to the US.

CHART 51: **EQUITY FUNDS, NET RETAIL SALES BY REGION (2008-2023)**



Source: The Investment Association

Global:[33]
Over the decade from 2012 to 2021, equity funds with a global mandate enjoyed strong net sales of £42.0 billion, only slightly below the £46.0 billion total retail inflow to equity funds. Sales to funds with a global mandate have likely been boosted by investor demand for diversification. By opting for geographically diversified funds, investors can mitigate country specific risk, as well as accessing a broader investment universe. 2022 marked the first outflow from global equity funds with investors pulling £3.4 billion. Outflows continued into 2023 as investors pulled £907 million. In a very challenging environment for equity sales, these outflows have been relatively modest, however.

Asia:[34]
Equity funds investing in Asia saw flat net sales in 2023, with a minimal outflow of £73 million, following a sharp £1.2 billion outflow in 2022. Asian equity funds saw annual inflows between 2018 to 2021 – barring a modest outflow in 2019 – and this corresponds with a period of strong economic growth for China. Investors in Asian equities faced headwinds through 2022 however, with the prolonged pursuit of a zero COVID policy in China restricting economic activity as other regions opened up. While the zero COVID policies were lifted at the start of 2023, sustained geopolitical tensions, notably US China trade tensions, negatively impacted sentiment, while an ongoing crisis in the Chinese property sector has weighed upon China's domestic economy.

We observe continued investor movement away from Chinese equities with a £287 million outflow for 2023. The performance of Chinese equities continues to struggle with the MSCI China index returning -16.2% over 2023 compared with 16.8% for the MSCI World.

As flows to Chinese equities wane, we have seen positive sales to Indian equities. In 2023, Indian equity funds have seen net retail inflows of £259 million into a relatively small sector by FUM of £4.6 billion. The 2023 inflow equates to 6% of FUM. India's GDP grew 7.6%[35] in 2023 compared with global GDP growth of 2.7%[36], making it among the fastest growing major economies of 2023.

[33] Sectors included are: Global, Global Equity Income, and Global Emerging Markets, alongside the industry specific sector of Financials and Financial Innovation, Healthcare, and Technology and Technology Innovation.
[34] Sectors included are: Asia Pacific excluding Japan, Asian Pacific including Japan, China/Greater China and India/Indian Subcontinent. Japan focused equity funds and considered separately.
[35] Source: World Bank.
[36] Source: World Bank.

Europe:
Sales to European equities have struggled in recent years with heavy outflows in 2016 (£3.5 billion) and 2019 (£3.7 billion). Outflows may reflect investor disappointment in performance, with the MSCI Europe ex UK index returning 259% over the past fifteen years, against 462% for the MSCI World. European equity funds saw a record annual outflow of £5.5 billion in 2022. The Russian invasion of Ukraine and the subsequent sanctions regime placed significant pressure on European economies, especially those with a heavy dependency on Russian natural gas, hurting stock market performance. European equity outflows did ease in 2023 but investors still pulled a net £2.8 billion, exceeded only by the outflow from UK equities.

Japan:
Japan was the only equity region to see inflows in 2023, with net sales of £466 million coming after record outflows of £1.2 billion in 2022. Over the longer term, Japanese equity funds have seen modest inflows of £4.2 billion from 2008 to 2023. Sales have been volatile as Japan has grappled with deflation and lacklustre economic growth. However, the outlook for the Japanese economy is improving as it shakes off its prolonged period of deflation and moves into strong nominal GDP growth of 3.5% in 2023 beating the US (2.5%) and this helps to explain the 2023 inflow.

North America:
Over the past fifteen years, North American equity funds have seen inflows of £11.3 billion – only global equity funds have seen higher sales over the same period. North American equity growth has far outstripped other developed markets, with the S&P 500 returning 702% over this period. Strong market performance has been driven by rising valuations in the US tech sector and the superior performance of the magnificent seven tech stocks, which weathered the market downturn in 2022 as the Fed responded to escalating US inflation by raising interest rates. The US was also relatively cushioned from the impact of energy price rises in Europe and the UK following the Russia/ Ukraine war with energy self-sufficiency supported by access to shale gas and oil. More recently, in 2023 North American equities have seen mild outflows of £379 million despite the MSCI USA returning 19.3% in sterling terms over the year. Investor caution in 2023 has affected equity inflows across every region – only Japan saw positive sales in 2023.

UK:
As shown in Chart 51, since 2016, UK equities have seen continuous net outflows with a combined £47.2 billion withdrawn between 2016 and 2023. Uncertainty over the long-term consequences of Brexit on UK economic growth and trade relations have been coupled with a period of political change with five Prime Ministers from Cameron to Sunak overseeing the UK's withdrawal from the EU. Investors' have found it challenging to navigate this uncertainty, preferring to diversify using global equity funds. The scale of the outflows has also been driven by a preference from UK discretionary fund managers for global equity strategies – we have seen a rise in the proportion of advisers outsourcing model portfolio investment strategies to discretionary managers and according to data from Platforum, model portfolios account for just over a quarter of advised assets in 2024. Over the longer term, the performance of the UK stock market has struggled to keep up with the US. Looking at the FTSE All-Share on a capital return basis over the last fifteen years, which strips out the impact of dividends and share buybacks on total returns, the price return has been 92% compared with the US Russell 3000 at 495%. Returns have been affected by the types of company listed on the FTSE: the percentage of technology companies listed on the FTSE All-Share is just 2% and the UK has struggled to ensure that technology start-ups developed in the UK list on its capital markets. The US markets have attracted a significant proportion of the highest growth tech company listings. Despite ongoing outflows from UK equities, however, UK equities still account for 21% of equity FUM. The MSCI World index weighting to the UK isjust 3.7%. This suggests that UK investors do retain a reasonable exposure to their domestic market.

FIXED INCOME

In 2023, inflows have returned to bond funds with net retail sales of £647 million as investors have opted for lower risk investment strategies. This follows a challenging 2022, when UK investors withdrew a record £4.8 billion, over twice the previous record outflow of £2.0 billion in 2018.

Bonds are sensitive to interest rate changes because as interest rates rise, bond yields go up and bond prices fall. This is because newly issued bonds have a higher yield making existing bonds issued at a lower rate less attractive. In 2022, central banks responded to high inflation with a cycle of rapid interest rate rises: the Bank of England raised rates 8 times in 2022 from 0.5% to 3.5% and consequently bond prices fell. In 2022, outflows were highest in the first quarter at £6.0bn, as the rate hiking cycle began. The return to inflow to fixed income funds in 2023 was dominated by government bond funds, which saw net retail sales of £4.0 billion. Government bond funds had already seen resilient sales through 2022, maintaining a £1.1 billion inflow, indicating that for some investors at least, security was the primary concern. Debt issued by governments in developed markets is traditionally considered the lowest risk type of bond given the low risk of default.

CHART 52: FIXED INCOME FUNDS, NET RETAIL SALES (2008-2023)

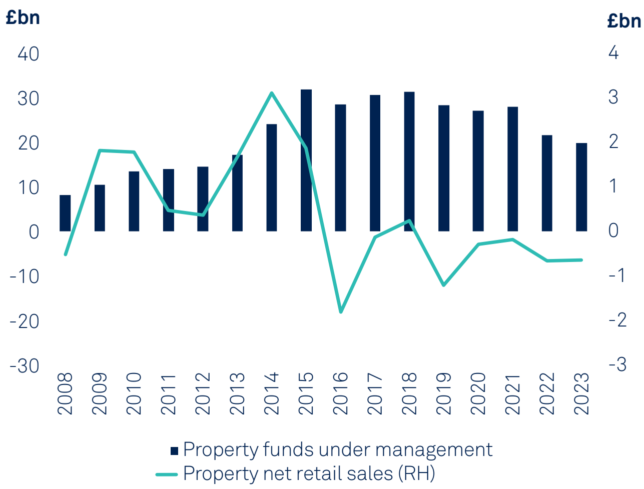
Source: The Investment Association

PROPERTY FUNDS

Chart 53 shows the pattern of FUM and net retail sales for property funds. From a peak of £32.0 billion in 2015, FUM has declined to £19.8 billion in 2023. In 2023, FUM dropped 9% from £21.6 billion, easing on the 23% decline in 2022.

The beginning of the consistent decline in property FUM started in 2016 when many funds investing directly in UK property were forced to suspend withdrawals because of rising redemption requests from investors following the result of the Brexit referendum. Retail investors are able to deal open ended property funds daily. To meet redemption requests, property funds needed to sell property to generate cash but wanted to ensure that they would receive a good price for the property sale, which led to suspensions to effectively manage the process. Whilst falling FUM is affected by asset performance, open-ended direct property funds have seen fund suspensions followed by outflows, which have contributed to Property FUM nearly halving since the end of 2015.

CHART 53: PROPERTY FUNDS UNDER MANAGEMENT AND NET RETAIL SALES (2008-2023)



Source: The Investment Association

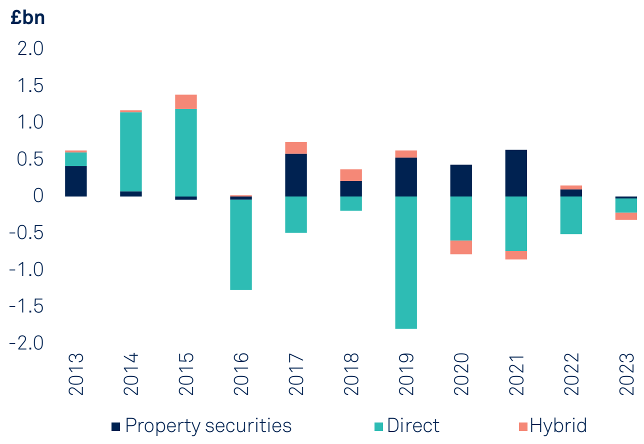
Direct property funds were again forced to suspend during the pandemic because of valuation uncertainty caused by lockdown, which affected the outlook for commercial property as many people worked from home and could not travel to city centres to shop or eat out. The long-term decline of the UK high street and the adoption of remote working have impacted the decline in FUM of UK direct property funds, which have higher weightings to retail and office commercial real estate. When funds were suspended during the pandemic, outflows from the UK Director Property Sector were £582 million – two thirds of outflows came in the last quarter of 2020 when property funds began to lift suspensions.

Sales to property funds have been negative since 2016, with combined outflows of £4.7 billion from 2016 to 2023. This contrasts with strong sales and growth from 2008 to 2015, between the Global Financial Crisis and the Brexit referendum, which saw property FUM increase fourfold to peak in 2015 at £32 billion.

The overall flow data hides a more detailed picture across different types of property funds. As shown in Chart 54, outflows have primarily hit direct property funds, with a total outflow of £5.7 billion since 2016.

Funds investing in more liquid property securities (rather than directly owning physical property), were not forced to suspend in 2016 or 2020. Listed property funds have seen consistently positive net retail sales through 2017 (£587 million) with high sales coming in 2021 as economies returned to growth and low interest rates continued to support the value of property. Since 2021 we have seen net sales fall to £99 million in 2022 and a £23 million outflow in 2023 as economic growth has cooled and higher interest rates have hit property valuations. This suggests that the outflows from direct property funds are due to liquidity issues rather than negative sentiment towards property as an asset class. Additionally, securitised property funds tend to have a more diversified geographic allocation, with most being exposed to global property rather than focused on just the UK. As of the end of 2023, 96% of funds under management in property security funds was in funds with a global investment approach.

CHART 54: NET RETAIL SALES BY TYPE OF PROPERTY FUND (2013-2023)



Source: The Investment Association

FUNDS OF FUNDS

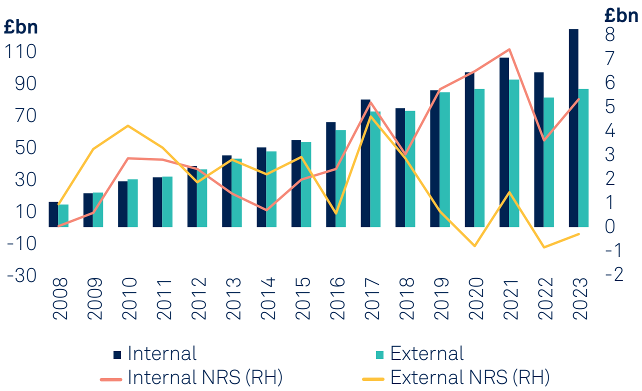
Chart 55 illustrates the growth of the funds of funds market. FUM in funds of funds overall is £211 billion in 2023, a sevenfold increase from 2008. Funds of funds are divided between internal, which invest primarily into funds run by the same asset manager, and external, which invest primarily into funds run by other asset managers. FUM in externally managed fund of funds was £87 billion in 2023 – it has not yet recovered to 2021 levels. In contrast, FUM in internally invested fund of funds has seen significant growth year on year rising by 28% to £124 billion in 2023. This is higher than FUM of £106 billion in 2021 and a significant increase of 682% over the last fifteen years.

Investors have consistently favoured internally invested funds of funds for five years, helping to drive the proportion of FUM to 59% of fund of fund FUM.

In two extremely challenging years for net retail sales overall, investor demand remained robust. Net retail sales to internally invested funds of funds through 2023 were £5.4 billion, up from £3.6 billion in 2022. Externally invested funds of funds saw flows remain negative at -£290 million in 2023, improving from a £835 million outflow in 2022.

Internally invested funds will frequently make use of internal index tracking funds to bring down costs. The consistent appetite for lower cost investment products, mirrored in the ongoing demand for index trackers, has supported higher sales to internal funds of funds.

CHART 55: FUND OF FUNDS, FUNDS UNDER MANAGEMENT AND NET RETAIL SALES (2008-2023)

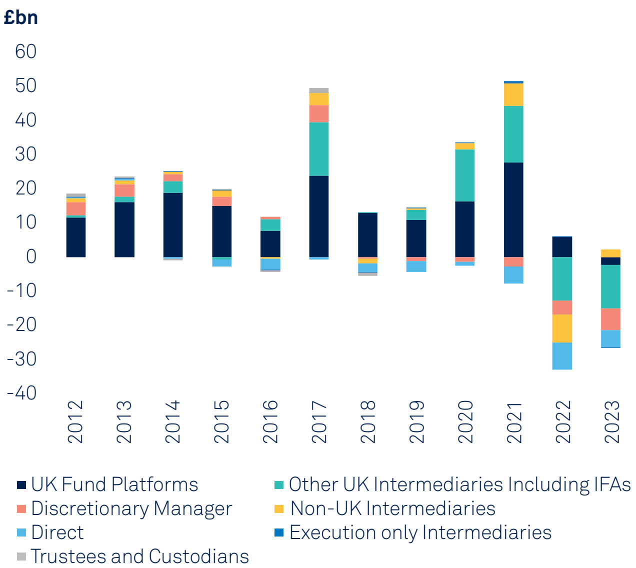


Source: The Investment Association

DISTRIBUTION CHANNELS

Chart 56 shows the pattern of net flows for UK investors through the main retail distribution channels over the past decade.

CHART 56: NET RETAIL SALES BY DISTRIBUTION CHANNEL (2012-2023)



Source: The Investment Association

- Investment platforms, which have historically dominated fund distribution, saw their first outflow in 2023 as UK investors withdrew £2.4 billion, following weak sales in 2022 of £5.7 billion. Platform outflows in 2023 are only a tenth of the total outflow for the year, however. Whilst the IA does not split adviser and direct platform sales, a higher proportion of retail assets are held on adviser platforms. Platforum estimated adviser platform assets under administration at £721.7 billion at the end 2023 compared with £325.9 billion on D2C platforms (September 2023).

- The discretionary managers channel sustained a sixth consecutive year of outflows as net withdrawals rose to £6.4 billion. Part of the outflow from discretionary managers may stem from a trend towards these firms making greater use of segregated mandates with investment managers to use their scale to negotiate competitive fees. These assets would be counted under AUM. A greater percentage of assets in discretionary model portfolios are also being managed on platform and so sales would appear through the platform channel.

- Other intermediaries including IFAs saw strong inflows in 2017 (£15.7 billion), 2020 (£15.2 billion) and 2021 (£16.6 billion) but have now been a significant driver of outflows over the past two years with net retail outflows of £12.9 billion and £12.7 billion.

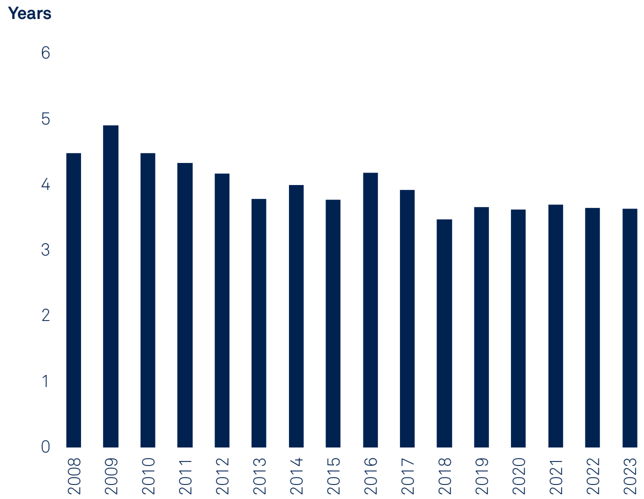
- The direct fund channel, where investors interact directly with fund companies, has been in persistent outflow over the past decade as the former model of investors buying funds directly from a fund manager has faded in favour of intermediation through either advisers or platforms. This channel continues to see net outflows with £4.9 billion withdrawn in 2023.

RETAIL INVESTOR HOLDING PERIODS

Implied investor holding periods for funds remained steady at 3.6 years in 2023. As shown in Chart 57, following a fall in holding periods over the early 2010s, holding periods have remained stable over recent years. The increased use of fund platforms will have reduced barriers to buying, selling, and switching, reducing average holding periods. Additionally, the use of model portfolio services may have acted to bring down holding periods. Model portfolios see investor assets placed across a range of different funds and are typically rebalanced quarterly, increasing turnover and so decreasing holding periods.

However, holding periods have stabilised in recent years and this suggests that there may be a floor of three years.

CHART 57: RETAIL INVESTOR AVERAGE HOLDING PERIODS (2008–2023)



Source: The Investment Association

THE UK IN THE CONTEXT OF THE EUROPEAN FUNDS MARKET

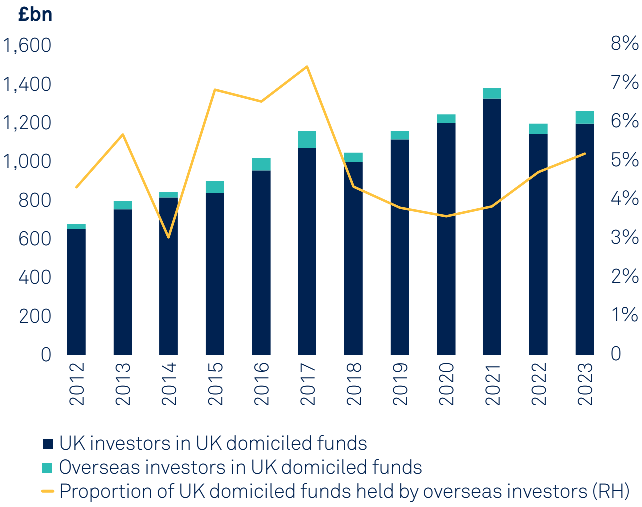
UK domiciled funds make up a higher percentage (84%) of UK investor FUM than funds domiciled overseas. Following the Brexit referendum, we have analysed the evolving profile of investors in UK domiciled funds to gauge if the number of overseas investors in UK domiciled funds continues to fall. We also track the UK's growth as a fund domicile compared with the two largest European centres of fund administration, Ireland and Luxembourg.

OVERSEAS INVESTORS IN UK DOMICILED FUNDS

UK domiciled funds under management was £1.26 trillion in 2023, incorporating assets managed on behalf of both UK and overseas clients. As shown in Chart 58, this is up 5% on £1.20 trillion in 2022, with the increase driven by asset appreciation as capital markets partly recovered from 2022.

- FUM held on behalf of UK investors within UK domiciled funds increased to £1.20 trillion in 2023, from £1.14 trillion in 2022.
- Assets held in UK domiciled funds on behalf of overseas investors increased by 16% over 2023, from £57 billion to £66 billion. As a result, the share of UK domiciled fund assets held by overseas investors climbed to 5.2%, from 4.7% the previous year. The sharp drop in the percentage of assets held by overseas investors in 2018 occurred as firms moved overseas clients to predominantly Luxembourg domiciled funds ahead of the initial Brexit deadline in 2018. Although recent years have seen some increase in the share of FUM held by overseas clients, it remains below the 7.5% peak of 2017.

CHART 58: UK AND OVERSEAS INVESTORS IN UK DOMICILED FUNDS (2012–2023)



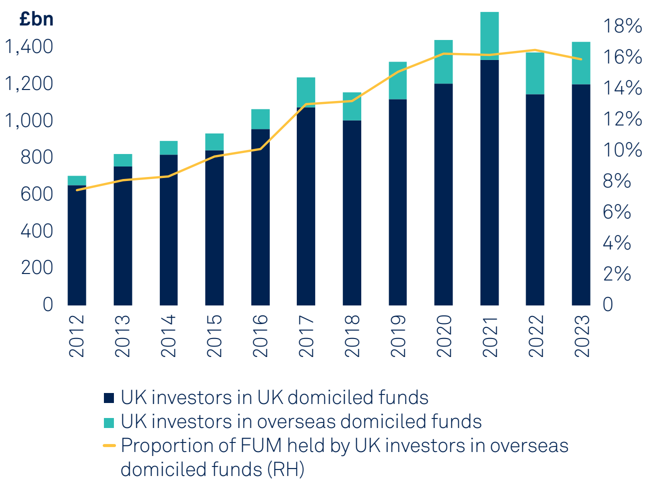
Source: The Investment Association

UK INVESTORS AND OVERSEAS DOMICILED FUNDS

UK investor FUM in overseas domiciled funds was £228 billion in 2023 and was unchanged year on year. In contrast, UK investor FUM in UK domiciled funds increased 5% over 2023 to £1.2 trillion. Consequently, the share of assets in overseas funds fell to 16%, from a 17% peak in 2022. Up to the end of 2020, we observed steady growth of the share of funds domiciled overseas, averaging 11% growth per year. However, from 2021 that growth appears to have stalled.

It is worth reiterating that the data in Chart 59 does not include assets in ETFs, which are entirely domiciled overseas, mainly in Ireland. Given the growth of the ETF market (see Box 4 on page 48), it is likely that UK investor assets in overseas domiciled funds are higher than illustrated in Chart 59. We do not include ETF assets as we cannot isolate the country of origin of ETF investors to make a like-for-like comparison with mutual funds.

CHART 59: UK INVESTORS BY FUND DOMICILE (2012-2023)

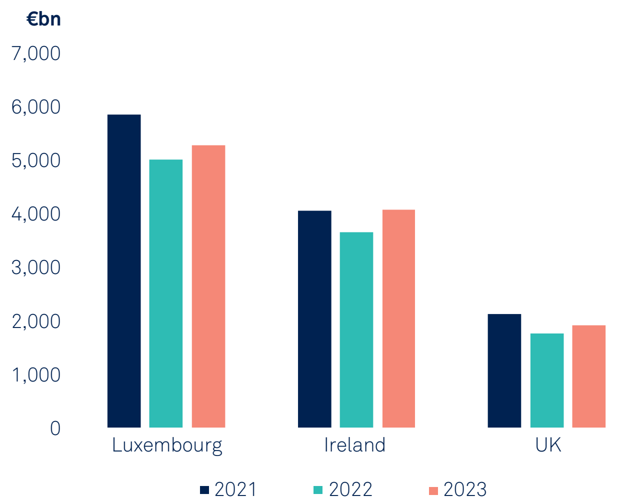


Source: The Investment Association

Chart 60 looks at recent developments in funds under management by domicile for the UK and the two largest European fund domiciles, Luxembourg and Ireland. While funds domiciled in the UK are mainly distributed to UK investors, funds domiciled in Luxembourg and Ireland see extensive cross border distribution.

All three domiciles saw a sharp drop in assets in 2022, ranging from the 18% fall in UK domiciled funds under management to a 10% drop in Ireland domiciled FUM. While all three domiciles saw recovery in in 2023, Ireland was the only country to end 2023 with higher FUM than at the end of 2021, following a 12% growth in assets. Ireland is an important European ETF domicile and the growth of Ireland as a fund domicile partially reflects the increasing use of ETFs. As of the end of 2023, funds domiciled in each jurisdiction were €5.8 trillion in Luxembourg, €4.1 trillion in Ireland and €1.9 trillion in the UK.

CHART 60: ASSETS IN UCITS AND AIFS BY DOMICILE (2021–2023)



Source: EFAMA

6 OPERATIONAL AND STRUCTURAL EVOLUTION

KEY FINDINGS

INDUSTRY PROFITABILITY

- Industry profitability decreased to 20% in 2023, down from 22% in 2022. Revenues rose by 2.6% and costs grew by 3% overall, outstripping revenues – a trend observed across firms of all sizes. Operating profit margins varied widely, ranging from -33% to 70%, with an average margin of 18%, a decline from 24% in 2022.

INDUSTRY EMPLOYMENT

- The UK investment management industry supports approximately 124,800 jobs with 45,800 people directly employed by investment management firms. The remainder are employed in industries such as custodian banks, transfer agents and wealth managers.
- Headcount has grown nearly 4% year on year from 2009 to reach 46,300 in 2022. In 2023 headcount fell by 1% to 45,800, the first annual fall since the Global Financial Crisis.
- Of the 45,800 people employed by investment managers, 23% of employees work in investment management roles, 18% work in business development and client services and 16% in operations and fund administration. The highest proportion of investment management roles (27%) are in London, whilst the highest number of operations and fund administration roles are located in Scotland (24%). A quarter of business development roles are located outside London and Scotland indicating that many firms continue to employ regional teams.

INDUSTRY FIRM SIZE

- As of June 2023, the mean AUM is £62bn and the median AUM is £11bn.
- Small firms (<£15bn AUM) make up 57% of IA membership and medium-sized firms (£15-£50bn AUM) are a fifth of IA members. Large firms (>£50bn AUM) account for 22% of IA member firms.

INDUSTRY CONCENTRATION

- The UK industry remains relatively unconcentrated. In 2023, the top five firms managed 42% of total assets, slightly down from 43% in 2022. The top ten firms managed 58% of assets, unchanged from the previous year.

INVESTMENT MANAGER OWNERSHIP

- Over the last decade, the share of assets managed by UK-headquartered firms has declined as the share of assets managed by North American headquartered firms has increased. In 2023, UK-headquartered firms managed 38% of assets and North American headquartered firms managed 51% of AUM.
- The share of assets managed by independent investment managers has steadily increased to 46% of assets in 2023, up from 21% in 2009. Assets managed by firms with an insurance company parent have declined from 34% to 23% over the same period. Retail bank owned AUM fell substantially from 18% in 2008 to 9% in 2009 and has been 2% of industry AUM since 2014.

This chapter looks at the operational and structural evolution 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 industry concentration.

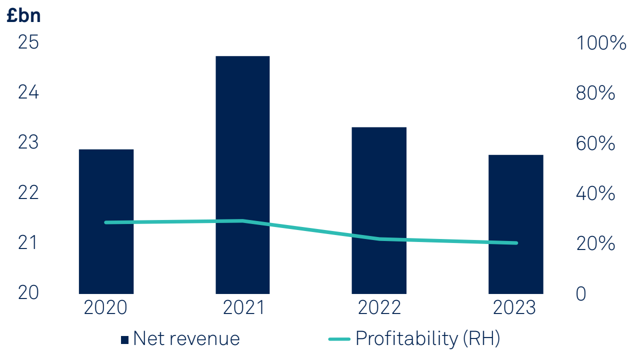
INDUSTRY PROFITABILITY

In this section, we look at the aggregate revenue and cost figures of the industry, covering both in-house and third-party business. Chart 61 illustrates the development of net revenue and profitability at an industry level over the past four years.

Industry revenue stood at £22.6 billion as of December 2023, equivalent to 29 basis points (bps) of total assets under management (AUM). Meanwhile operating costs stood at £18.1 billion, equivalent to 19 bps.

Overall, the industry's headline profitability declined slightly to 20% in 2023, down from 22% in 2022, marking a substantial drop from 29% in 2019. The matched sample of IA member data suggests that this fall was driven by a higher level of operating costs (up 3% on a matched basis). Revenues were higher in 2023 (up 2.6% on a matched basis) with the increase being marginally lower than that of operating costs. Industry profitability has fallen sharply over the last four years from 29% in 2019 to 20% in 2023. High net revenues in 2021 did not result in a significant improvement in average profitability (29%) and this suggests that operating costs need to fall further in order to support improved profitability.

CHART 61: INDUSTRY NET REVENUE AND PROFITABILITY (2020–2023)

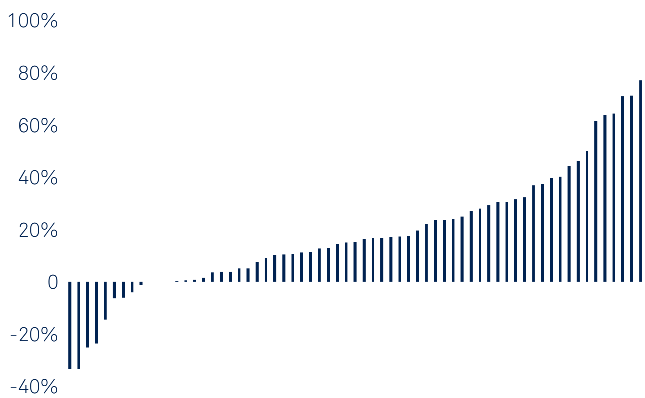


Source: The Investment Association

Whilst average profitability is a useful measure of overall industry profitability, it can mask the variation in profitability across investment managers who operate different business models in a diverse environment. Chart 62 illustrates the profitability distribution of IA member firms. We observe the following:

- Operating profit margins in 2023 ranged from -33% to 70% whilst in 2022 they were between -17% and 82%. Relative to 2022, investment managers were less profitable at both the higher and lower ends of the scale.
- The upper and lower quartile for operating profitability stood at 30% and 4% respectively, compared to 2022 when the upper and lower quartiles were 35% and 11%.
- Average operating margins came in at 18%, six percentage points lower than the 24% recorded in 2022. Operating profit margins have not returned to the levels they reached in 2021 (32%).

CHART 62: DISTRIBUTION OF INVESTMENT MANAGER PROFITABILITY (2023)



Source: The Investment Association

6

EMPLOYMENT IN THE INVESTMENT MANAGEMENT INDUSTRY

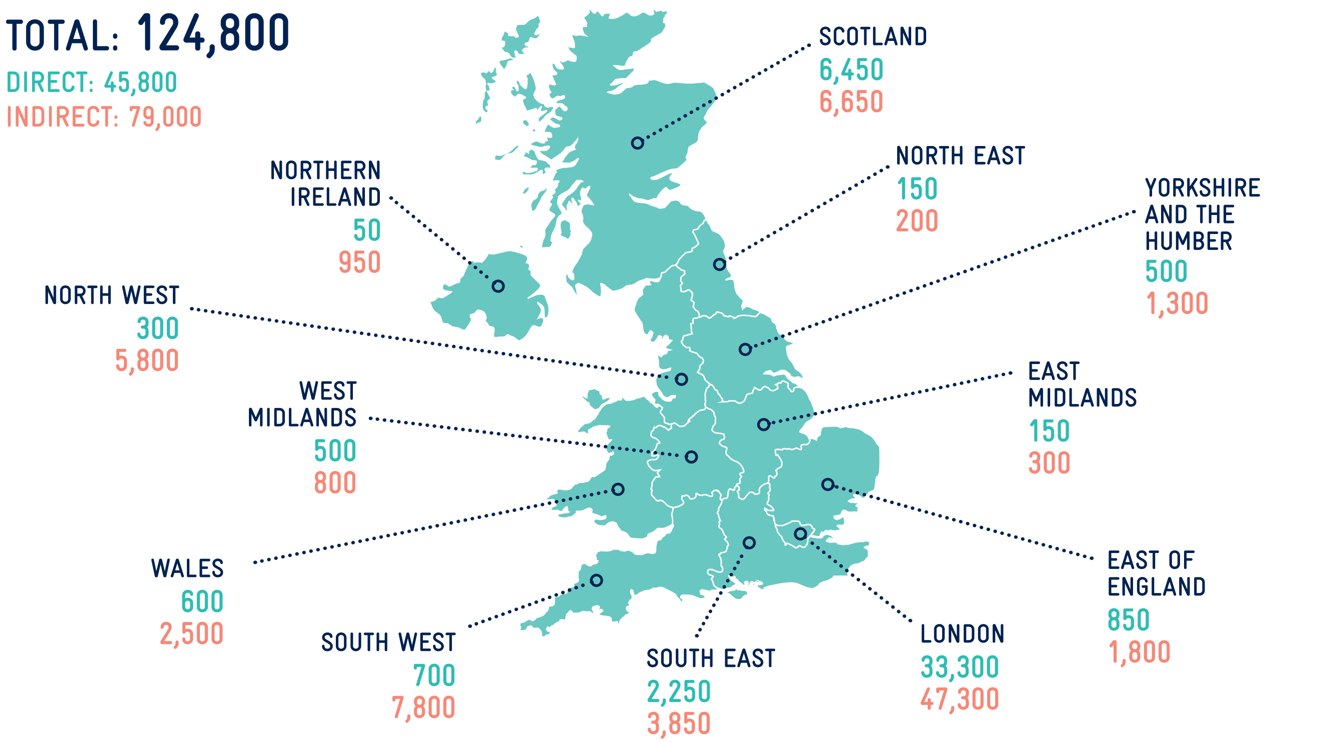
For the past fifteen years, the IA has been tracking direct employment numbers in the investment management industry. In 2006, an “indirect employment” category was introduced to assess the value of the investment management industry more accurately as a source of employment in the UK. Indirect employment 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 2023, the UK investment management industry supports approximately 124,800 jobs, of which 45,800 are directly employed by investment management firms and the remainder (79,000) are employed either by affiliate IA members, wider administration services, or in securities and commodities dealing activities.

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

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

FIGURE 11: MAP OF DIRECTLY AND INDIRECTLY EMPLOYED STAFF ACROSS THE UK (2023)



Sources: Investment Association estimates are from information provided directly by member firms and publicly sourced information. All regional numbers have been rounded to the nearest 50 and therefore may not add up to exact total.

BOX 10: ACCESS TO TALENT AND CREATING THE RIGHT CULTURE

Enabling access to the right talent is a critical success factor in maintaining the UK's position as the largest global centre of investment management and in all our interviews with industry leaders, they stressed the importance of attracting the best people from around the world to work in investment management in the UK.

Amid the rapid pace of industry change, organisations are closely monitoring their evolving talent needs as they adapt to technological advancements, revenue pressures and geopolitical shifts. Current talent shortages are partly due to the demand for new skill sets, with a strong emphasis on attracting globally experienced professionals to fulfil both skills and senior leadership requirements. With headcounts tightened, the need for greater efficiency has led to an intensified focus on reskilling the workforce in tech and AI skills to boost productivity.

A strong emphasis remains on creating a supportive work environment that nurtures growth, adaptability and wellbeing – not merely as a perk but as an essential strategy for maintaining talent engagement, productivity and retention. As such, most organisations have continued to offer hybrid working models.

Cultivating an inclusive workplace culture that promotes belonging and psychological safety is an industry priority given the direct link between healthy cultures and positive business outcomes. Moreover, the long-term success of efforts to enhance representation and build diverse teams is increasingly recognised as dependent on a healthy business culture, aligned policies and a shared commitment to accountability.

We are seeing a shift towards integrating equity, diversity and Inclusion (EDI) into organisational talent initiatives, evolving from isolated 'diversity' efforts to a more cohesive and embedded approach. Firms have become more intentional about measuring EDI progress, focussing on improving the integrity and quality of their diversity data to ensure it accurately represents their workforce. However, a significant challenge remains in encouraging higher employee response and disclosure rates, and there's still considerable work to be done in this area. While quantifying progress remains a challenge for many firms, there has been notable advancement in conversations and accountability.

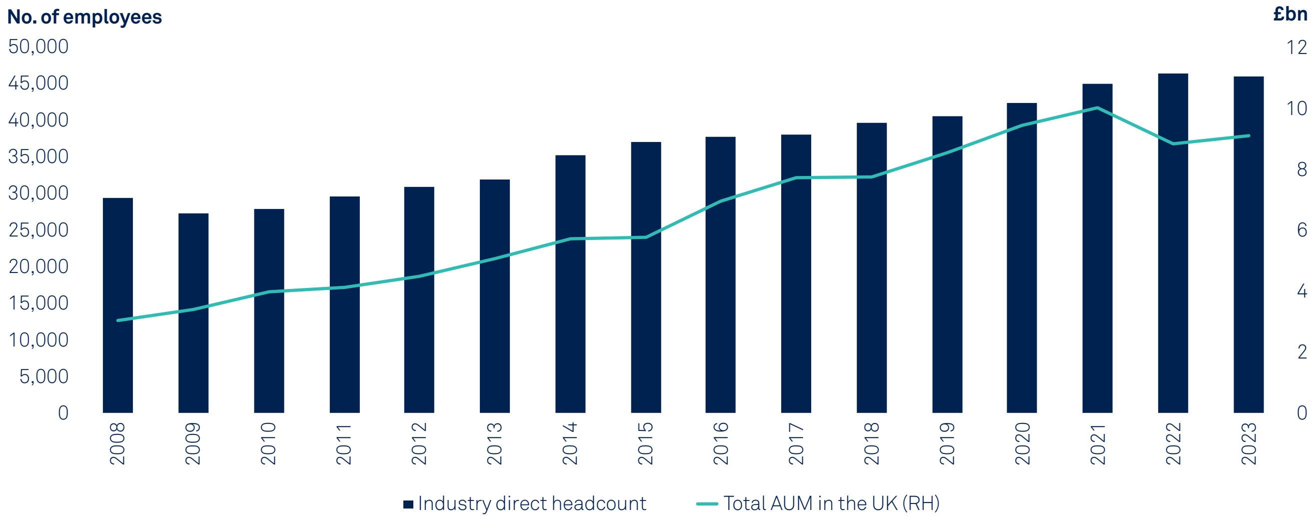
There has been significant interest from the UK regulators, the FCA and PRA, on diversity and inclusion, setting out proposals requiring firms to develop diversity and inclusion strategies and to collect, report, and disclose diversity demographic data, which helps to set targets to address under-representation. While many of these proposals were not new in themselves, their scale is unprecedented. Following significant consultation, the regulators need more time to evaluate the proposals due to the complexity of the issues they aim to address and the potential impact they could have. While there has been a pause on the diversity and inclusion proposals, they are pressing ahead with proposals relating to non-financial misconduct. Furthermore, the new Labour Government has introduced a series of EDI proposals likely to significantly reshape the current landscape. While we await details of the proposals, they include ethnicity and disability pay gap reporting for organisations.

DIRECT EMPLOYMENT

The Investment Association (IA) estimates that approximately 45,800 people are directly employed within the investment management industry in the UK. Chart 63 looks at the growth in direct employment alongside growth in AUM. We make the following observations:

- In 2023, employment in the UK investment management industry decreased slightly by 1%, with the headcount falling to 45,800, while AUM saw a modest recovery of 3%, reaching £9.1 trillion. The simultaneous slight recovery in AUM and a reduction in workforce suggest that investment management firms are leveraging technology to improve efficiency or have reduced headcount and implemented recruitment freezes as cost control measures in line with the decline in industry operating profitability over the period.
- Over the longer term, headcount in the UK investment management industry has been trending upward from 2009. Headcount has grown nearly 4% year on year to reach 46,300 in 2022, with only a slight 1% dip in 2023 to 45,800, although this is the first year that industry headcount has fallen since the Global Financial Crisis. The gradual increase in both employment and AUM reflects the asset management industry's recovery from the 2008 financial crisis and its expansion in the following decade.

CHART 63: INDUSTRY HEADCOUNT ESTIMATES VS. UK ASSETS UNDER MANAGEMENT (2008-2023)



Source: The Investment Association

In Table 3, we provide a breakdown of people directly employed in the industry by job function. The distribution of staff by activity experiences little change year on year. As has been the case since the IA began collecting direct employment data, approximately a quarter of people directly employed by the industry work in front office investment management roles, which includes portfolio/fund managers, investment analysts, product teams and traders. The remaining three quarters work in roles in operations, business development, compliance and client services.

TABLE 3: DISTRIBUTION OF STAFF BY ACTIVITY IN 2023

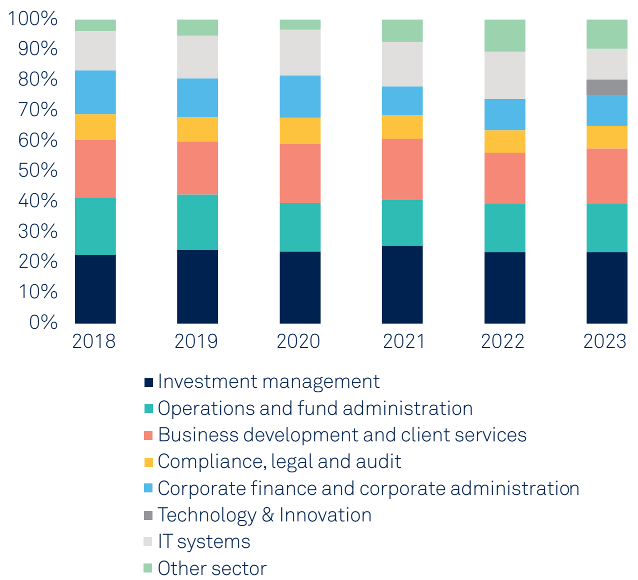
Activity	Share of total headcount
Investment management	23%
Operations and fund administration	16%
Business development and client services	18%
Compliance, legal and audit	7%
Corporate finance and corporate administration	10%
Technology and innovation	5%
IT systems	10%
Other sector	10%

Source: The Investment Association

The medium-term trends in employment activity are illustrated in Chart 64. Industry staffing trends include:

- Investment management roles remained steady at 23% in 2023, maintaining a stable range of 23% to 26% over the past five years.
- The proportion of employees in operations and fund administration roles fell from 19% in 2018 to 15% in 2021, stabilising at 16% over 2022 and 2023.
- The share of employees in business development and client services roles has fluctuated between 17% and 20% over the past five years, indicating variability in demand for these roles. The proportion has settled at 17% and 18% in 2022 and 2023 respectively.

CHART 64: DIRECT EMPLOYMENT BY STAFF SEGMENT (2018-2023)



Source: The Investment Association

The IA tracks industry employment by function but also by location. London is the largest hub for investment management in the UK, followed by Edinburgh as the second largest. Table 4 shows the distribution of roles across London, Scotland and other regions:

- The majority of investment management roles are located in London, with 27% of front office functions based in the capital. This has remained steady, ranging from 26% to 28% over the past five years. Other notable developments in the share of employment in London include:
  - The proportion of employees in operations and fund administration roles has gradually decreased from 14% in 2018 to 12% in 2023.
  - There has been a slight upward trend in business development and client services roles, rising from 17% in 2022 to 20% in 2023 as some firms have moved to centralise business development teams.
- The proportion of investment management roles in Scotland has fluctuated between 16% and 20% over the past five years, reaching 18% in 2023, the same as five years ago. While roles in business development and client services have remained at stable levels in Scotland, others like operations and fund administration have shown more variability:
  - Business development and client services has fluctuated between 15% and 17%, reaching 16% in 2023.
  - The share of operations and fund administration roles has moved between 21% and 29%, reaching 24% in 2023.
- The greatest proportion of roles outside London and Scotland were in business development and client services (24%) and operations and fund administration (23%), indicating that a number of firms continue to employ business development teams based in the regions. This reflects the regional dispersion of financial advisers and wealth managers across the UK. Institutional clients such as the LGPS are also located across the country.

TABLE 4: DISTRIBUTION OF INVESTMENT MANAGEMENT JOBS BY REGION (2023)

Activity	London	Scotland	Elsewhere in the UK
Investment Management	27%	18%	19%
Operations and fund administration	12%	24%	23%
Business development and client services	20%	16%	24%
Compliance, legal and audit	7%	7%	5%
Corporate finance and corporate administration	10%	11%	10%
IT systems	10%	17%	5%
Technology and innovation	7%	2%	5%
Other sector	8%	5%	8%

Source: The Investment Association

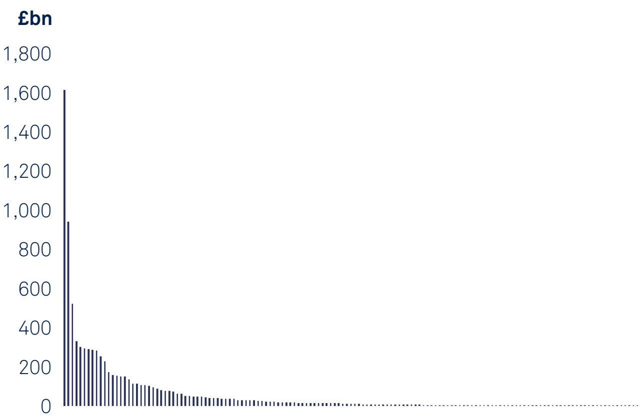
INDUSTRY FIRM SIZE

This section focuses on investment manager firm size as measured by assets under management.

Chart 65 ranks IA member firms by total UK assets under management. It shows a steep downwards curve from a small number of very large firms to a long tail of medium- and small-sized organisations – a strong indication of a competitive industry.

As of June 2023, the mean AUM was £62 billion while the median comes in at a much smaller £11 billion. This is consistent with Chart 65, showing that a high proportion of AUM is managed by a small number of large investment managers. In 2022, the mean was £59 billion while the median was unchanged at £11 billion, implying that larger firms grew assets at a faster rate.

CHART 65: MEMBERS OF THE INVESTMENT ASSOCIATION RANKED BY UK ASSETS UNDER MANAGEMENT (JUNE 2023)

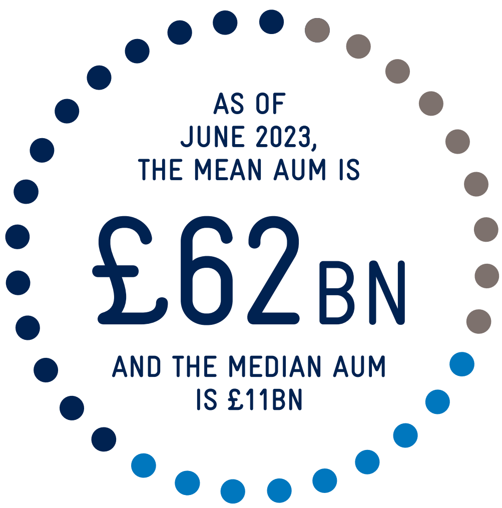


Source: The Investment Association

Table 5 illustrates the distribution of assets under management for IA member firms over a five year period ending in June 2023. Our observations are:

- Small firms (<£15 billion AUM) continue to make up the largest proportion of firms in 2023 at 57%. This has dropped two percentage points since 2018 with little fluctuation over that period.
- Medium-sized firms (£15-£50 billion AUM) make up a fifth of IA member firms, the lowest recorded level over the past five years indicating that consolidation has been concentrated in mid-sized firms.
- Large firms (>£50 billion AUM) account for 22% of IA member firms, recording a one percentage point increase since June 2022.

"I think there's going to be greater consolidation among mid-sized asset managers. Those boutiques that are strong will continue to be strong because they're subject matter experts. The cleanup will be in the part of the market where asset managers have insufficient scale or do not have a niche or expertise."



6

TABLE 5: ASSETS MANAGED IN THE UK BY IA MEMBERS BY FIRM SIZE (2016-2021)

AUM	% of firms (June 2018)	% of firms (June 2019)	% of firms (June 2020)	% of firms (June 2021)	% of firms (June 2022)	% of firms (June 2023)
>£100bn	12%	11%	12%	13%	14%	15%
£50-100bn	8%	7%	9%	9%	9%	7%
£25-50bn	14%	11%	9%	9%	11%	11%
£15-25bn	8%	12%	14%	12%	9%	9%
£1-15bn	49%	45%	48%	47%	49%	48%
<£1bn	10%	10%	8%	10%	8%	9%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

ROLE OF BOUTIQUES

Small firms within the IA membership represent a range of businesses models. Our definition of a boutique firm is based on the following criteria:

- Independent ownership
- Managing under £5 billion in AUM
- Providing a degree of investment specialisation
- Self-define as a boutique

There are 10 IA members meeting the criteria to qualify as a boutique firm (this number is unchanged from 2022 but compares with 13 in 2021). In recent years, the number of boutiques in the IA membership has fallen. This has been driven by M&A activity but our interviews with senior industry representatives suggest that it is becoming increasingly hard for boutique firms to establish themselves in the UK, meaning that we are not seeing a pipeline of new boutiques coming through. The cost of regulation and the resource required to implement new regulation has been cited as a factor making it more difficult for boutiques to set up and operate in the UK. However, there was greater optimism that boutiques with a specialism, particularly in private assets, can thrive as growth in demand for private assets looks set to continue (See Chapter 3).

"There's still space for boutiques to capture market share but I would say mostly in the alternative space. I'm a little bit more sceptical about boutique asset managers in the traditional space because margins will continue to come down. Simultaneously, costs will continue to go up because regulation unfortunately is not always proportionate to the size of the business."

"The level of investment in technology is going to make it very difficult to compete if you're a small boutique. There is going to be place for small firms that are in niches and good at what they do."

BOX 11: M&A AND BROADER OPERATIONAL IMPLICATIONS

The data in this chapter shows a picture of falling revenue and lower operating margins as firms have not yet recovered from the impact of the sharp falls in AUM through 2022. To succeed in investment management, having scale or specialist expertise has proved to be an advantage, According to the prescient barbell theory put forward by Huw Van Steenis nearly two decades ago, the investment management firms that would take the largest market share would be scale players, who could offer more commoditised index strategies at very low cost. He also predicted that at the opposite end of the universe, smaller firms with the expertise to drive superior returns would remain competitive, particularly in the alternative investment space.

Mid-sized firms that do not have the scale to succeed in indexing, or in a proposition that aligns with industry growth areas, most notably private assets where firms can drive higher revenues, have been among the hardest hit by rising regulatory costs.

"Some firms have historically been asset gatherers because they've got a brand or because they've been able to sell solutions. The Consumer Duty obligation is going to force them to really look long and hard about whether they've really got the right resources on the pitch to be charging active fees for certain areas. Either they'll then go passive or they'll outsource aspects of their portfolio management to people that are doing it well."

Indeed, the most significant trend in M&A in recent years has come from larger firms buying boutiques with expertise in private markets, which has been a significant growth area and revenue opportunity for investment managers.

"Private markets are tricky for more standard asset managers to get into because it's cost intensive and very different in structure to more standard fund structures and therefore this part of the market is always going to be more niche. If you're successful in private assets, you can have lower AUM and still keep your overall income because margins are higher. Money is flowing from active to passive but not from private to passive."

However, M&A between traditional investment firms hasn't accelerated in the last two years despite challenging economic and market headwinds. The Herfindahl-Hirschmann Index (HHI) index, a measure of industry concentration, shows that the investment management industry remains diverse and relatively unconcentrated. Even in challenging market conditions, unlocking the value from mergers and acquisitions and exploiting synergies between merging companies can be complex and costly.

"Mergers themselves have a lot of elements related to merging two different cultures, two different groups of people. Two different ways of doing business results in high costs whilst the economies of scale resulting from a merger can be overestimated by investment bankers and consultants."

"Cultures often don't align and it's a real problem to integrate. There have been various examples of organisations combining for the benefits of scale only and they haven't been successful."

This view suggests that building scale is not enough to create a competitive merged entity. The most successful examples of M&A in the investment industry have either provided access to distribution through merging with firms that offer investment platforms, advice, wealth management capabilities or all of the above. Another area where acquisitions have proved successful is acquiring firms that enable investment managers to offer new products or services including ETFs or expertise in private assets.

"Good M&A deals have a distribution or a manufacturing enhancement."

6

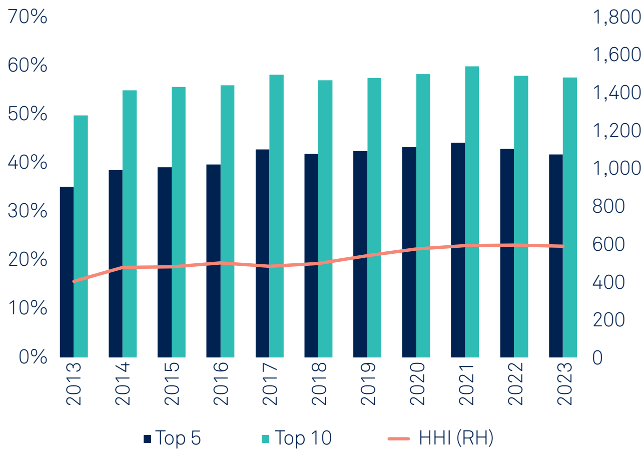
MARKET SHARE OF LARGER FIRMS

The evolution of UK-managed assets by the five and ten largest investment managers in the industry is illustrated in Chart 66:

- The top five investment managers managed 42% of AUM in 2023, a one percentage point decrease from 2022. Although there was a decrease, the share of AUM managed by the top five firms was still marginally higher in 2023 than over the last decade (41%).
- No change was recorded in the proportion of assets managed by the top ten firms in 2023 (58%). Over the past decade, the proportion of assets managed by the top ten firms increased by eight percentage points from 50% in 2013.

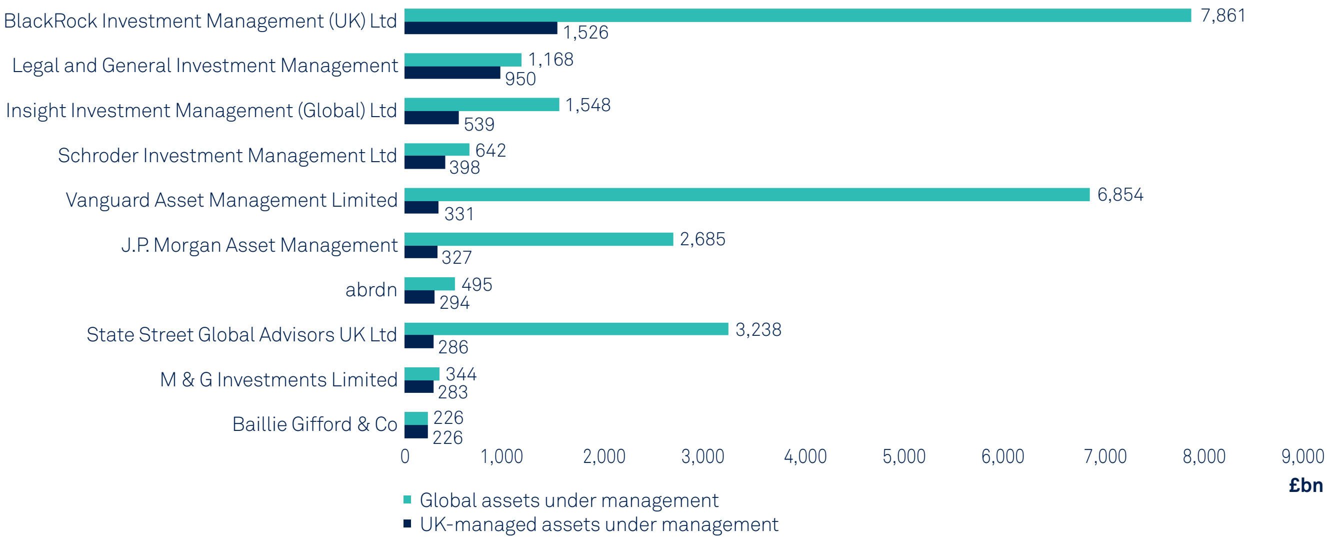
The Herfindahl-Hirschmann Index (HHI) calculation is also included in Chart 66, a commonly used measure of market concentration. The UK investment management industry's HHI saw a slight decrease from 598 in 2022 to 592 in 2023, marking the first decline since 2017. This represents a small reversal of the long-term trend of increasing market concentration, which has risen from an HHI of 406 in 2013 to 592 in 2023. However, the industry remains well below the threshold of moderate concentration which is set at an HHI of between 1000 and 2000.

CHART 66: MARKET SHARE OF LARGEST FIRMS BY UK ASSETS UNDER MANAGEMENT VS. HHI (JUNE 2014-JUNE 2023)



Source: The Investment Association

CHART 67: TOP TEN FIRMS BY UK-MANAGED AND GLOBAL ASSETS UNDER MANAGEMENT (2023)



Source: The Investment Association

Chart 67 presents the top ten IA member firms ranked by UK-managed assets. 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 primarily indexing strategies are represented in the top ten. Four out of the top ten firms have a US headquartered parent company.

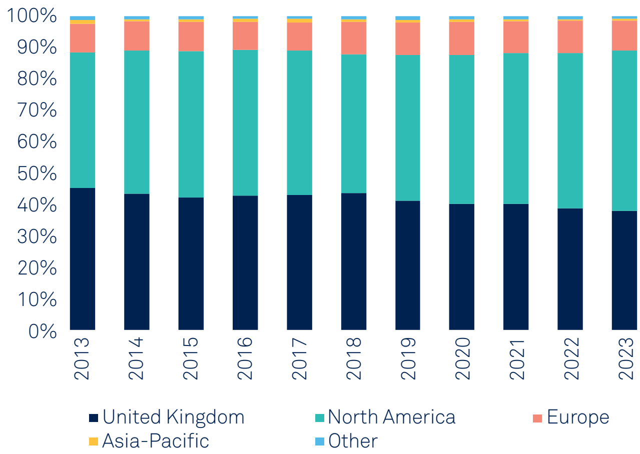
While some of these firms have a large global footprint, UK AUM accounts for the majority of assets for most of the top ten firms. There have been movements between the top ten firms but no new entrants over 2023. Over the past decade, there have been some new entrants to the top ten as mergers have resulted in firms building scale.

INVESTMENT MANAGER OWNERSHIP

In this last section, we examine the ownership structures of IA member firms. Chart 68 offers a breakdown of UK-managed assets by headquarter location of their parent company – a key metric illustrating the increasing globalisation of UK investment management. The following trends emerge:

- The proportion of assets managed by firms with parent companies headquartered in the UK was 38% in 2023, down one percentage point from the previous year. This is in line with the steady decline observed over the past decade with assets down from 45% in 2013.
- North American headquartered firms represent an increasing proportion of UK-managed assets, managing over half (51%) of assets for the first time in 2023. This is up from the 45% recorded in 2013.
- The share of assets managed by firms headquartered in Europe, Asia-Pacific and elsewhere has remained steady over the period. European headquartered firms have been responsible for managing around 10% of assets over the last decade and the proportion of assets managed by Asia Pacific firms has remained at circa 1%.

CHART 68: BREAKDOWN OF UK ASSETS UNDER MANAGEMENT BY REGION OF PARENT GROUP HQ (2013-2023)



Source: The Investment Association

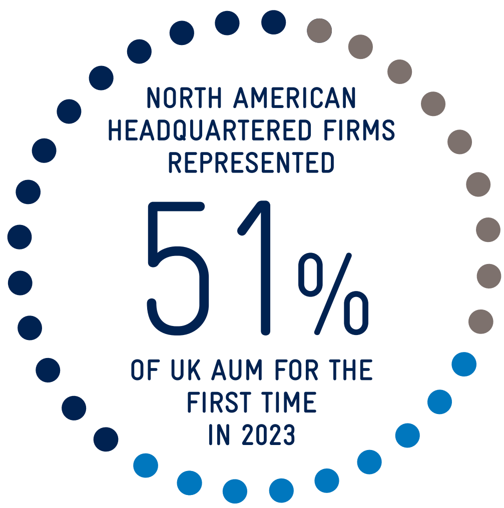


Chart 69 presents a breakdown of UK-managed assets by parent company type, providing a comparison of the size of assets managed by independent investment managers with investment managers that are subsidiaries of wider financial services groups. We observe the following:

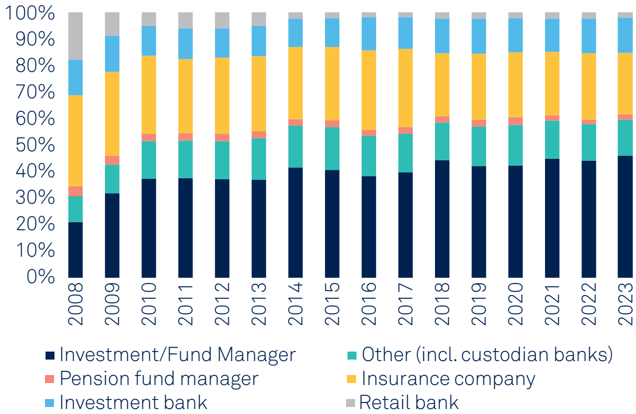
- The share of assets managed by independent investment managers has steadily increased to reach 46% of assets in 2023, up from 21% in 2009. Investment management is the only parent type which has increased share of AUM consistently over the period evidencing an increasingly independent industry.

  The success of overseas investment firms in building competitive investment management businesses in the UK has been a factor in this growth, as is the trend for asset management arms splitting from their insurance parent companies to become independent.

- The proportion of assets managed by firms with an insurance company parent has declined from 34% to 23% over the past fifteen years. This is as a result of demergers of insurance companies from their investment management arms.

- The proportion of assets managed by investment managers with retail bank parent companies fell substantially from 18% in 2008 to 9% in 2009 and has remained at 2% of industry AUM since 2014. This contrasts with the success of this model in Europe. The Global Financial Crisis forced retail banks to focus on core banking and the introduction of the Retail Distribution Review in the UK in 2013 meant that many banks exited the financial advice market and largely lost access to investment distribution.

CHART 69: BREAKDOWN OF UK AUM BY PARENT TYPE (2008-2023)



Source: The Investment Association

APPENDICES

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

	TOTAL
Assets under management in the UK (£m)	**9,068,573**
Segregated or pooled (%)	
Directly invested on a segregated basis	**49.4%**
Managed on a pooled basis	**50.6%**
Active or passive (%)	
Actively managed	**66.8%**
Passively managed	**33.2%**
Asset allocation (%)	
Equities *of which:*	**42.2%**
UK	20.3%
Europe (ex UK)	19.0%
North America	34.5%
Pacific (ex Japan)	7.6%
Japan	5.7%
Latin America	1.1%
Africa	0.3%
Emerging market	10.1%
Other	1.4%
Fixed Income[2] *of which:*	**30.1%**
UK Government	11.2%
Sterling corporate	14.6%
UK index-linked	9.5%
Other UK	5.4%
Overseas government	24.4%
Non-sterling corporate	19.1%
Non-sterling other	15.8%
Cash/Money market	**5.8%**
Property	**2.4%**
Other	**19.5%**

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

INSTITUTIONAL								ALL INSTITUTIONAL	RETAIL	PRIVATE CLIENT
Pension funds	Public sector	Corporate	Non-profit	Sub-advisory	In-house insurance	Third party insurance	Other institu-tional			
2,855,761	670,479	691,217	93,682	458,785	658,276	485,848	682,082	6,596,130	2,391,133	81,311
31.5%	7.4%	7.6%	1.0%	5.1%	7.3%	5.4%	7.5%	72.7%	26.4%	0.9%

Appendices

APPENDIX 2
SUMMARY OF DATA FROM THE UK INSTITUTIONAL MARKET[2]

	TOTAL
Total Institutional Market (£m)	**3,940,778**
Assets directly invested on a segregated basis	61.4%
Assets invested on a pooled basis	38.6%
Active or passive (%)	
Actively managed	77.6%
Passively managed	22.4%
Multi-asset, LDI or Specialist (%)	
Multi-asset	**14.6%**
LDI (notional)	**28.9%**
Single-asset / specialist *of which:*	**56.6%**
Equities	**36.7%**
Fixed Income	**33.0%**
Cash/Money Market	**16.4%**
Property	**6.6%**
Other	**7.3%**

[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							
1,862,037	305,217	44,852	20,206	48,194	175,110	193,425	446,358	588,342	257,036
47.3%	7.7%	1.1%	0.5%	1.2%	4.4%	4.9%	11.3%	14.9%	6.5%
67.4%	50.5%	50.3%	51.6%	20.6%	37.3%	84.3%	78.7%	65.2%	9.9%
32.6%	49.5%	49.7%	48.4%	79.4%	62.7%	15.7%	21.3%	34.8%	90.1%
70.8%	88.9%	71.0%	79.4%	92.7%	72.3%	61.9%	99.8%	86.4%	93.7%
29.2%	11.1%	29.0%	20.6%	7.3%	27.7%	38.1%	0.2%	13.6%	6.3%
16.0%	**3.2%**	**4.1%**	**5.7%**	**1.2%**	**28.2%**	**3.0%**	**4.1%**	**37.2%**	**1.6%**
55.3%	**19.3%**	**28.2%**	**5.7%**	**2.2%**	**1.7%**	**0.0%**	**0.0%**	**3.4%**	**3.1%**
28.7%	**77.6%**	**67.7%**	**88.7%**	**96.7%**	**70.1%**	**97.0%**	**95.9%**	**59.4%**	**95.4%**
35.8%	**61.2%**	**20.0%**	**52.8%**	**17.8%**	**48.1%**	**67.2%**	**20.4%**	**50.1%**	**15.1%**
40.4%	**22.4%**	**74.7%**	**9.8%**	**7.3%**	**12.8%**	**29.4%**	**50.6%**	**36.3%**	**10.8%**
7.5%	**0.6%**	**1.8%**	**26.6%**	**70.8%**	**20.9%**	**0.6%**	**5.3%**	**6.1%**	**59.2%**
7.2%	**8.7%**	**2.4%**	**8.1%**	**3.4%**	**2.8%**	**1.1%**	**13.3%**	**3.6%**	**3.5%**
9.1%	**3.1%**	**0.0%**	**0.3%**	**0.8%**	**15.3%**	**1.7%**	**10.5%**	**3.9%**	**11.4%**

APPENDIX 3
NOTABLE M&A DEALS IN THE UK INVESTMENT MANAGEMENT SECTOR (2009-JUNE 2024)

2023-2024

ACQUIRER	PURCHASE
Abrdn	Interactive Investor
Amundi	Lyxor AM
Asset Co	River and Mercantile
Asset Co	SVM Asset Management
Aviva	Succession Wealth
Bank of Ireland	Davy Group
BlackRock	Prequin
BlackRock	Avaloq
Brooks Macdonald Group	Adroit Financial Planning
Carne Group, Vitruvian Partners	GAM Holding (Fund Management Services Business)
Evelyn Partners	Arena Wealth
Evelyn Partners	Dart Capital
Franklin Templeton	Alcentra
Lansdowne Partners	Crux Asset Management
M&G	responsAbility Investments
MetLife Investment Management	Affirmative Investment Management
Momentum Global Investment Management	Crown Agents Investment Management
Phoenix	Sun Life UK
Rathbones	Investec Wealth & Investment
Raymond James	Charles Stanley
Royal Bank of Canada	Brewin Dolphin
Schroders	Minority stake in Forteus
Schroders	Majority shareholding in Greencoat Capital
Schroders	River and Mercantile (solutions business)
Stephens Financial Services	CRUX Asset Management
Tatton asset management	8AM global
UBS	Credit Suisse

2022-2023

ACQUIRER	PURCHASE
Abrdn	Interactive Investor
Amundi	Lyxor AM
Asset Co	River and Mercantile
Asset Co	SVM Asset Management
Aviva	Succession Wealth
Bank of Ireland	Davy Group
M&G	responsAbility Investments
Raymond James	Charles Stanley
Stephens Financial Services	CRUX Asset Management
Tatton asset management	8AM global
Evelyn Partners	Arena Wealth
Franklin Templeton	Alcentra
Lansdowne Partners	Crux Asset Management
Momentum Global Investment Management	Crown Agents Investment Management
Phoenix	Sun Life UK
Rathbones	Investec Wealth & Investment
Royal Bank of Canada	Brewin Dolphin
Schroders	Minority stake in Forteus
Schroders	Majority shareholding in Greencoat Capital
UBS	Credit Suisse
BlackRock	Avaloq
Brooks Macdonald Group	Adroit Financial Planning
Carne Group, Vitruvian Partners	GAM Holding (Fund Management Services Business)
MetLife Investment Management	Affirmative Investment Management
Schroders	River and Mercantile (solutions business)

2021

ACQUIRER	PURCHASE
abrdn	EXO investing (AI investment platform)
Affiliated Managers Group (AMG)	Parnassus (the largest pure-play ESG mutual fund company in the U.S.)
AssetCo	majority stake (63%) in Rize ETF (investment company)
AssetCo	30% of Parmenion Capital Partners
Close Brothers Asset Management	PMN Financial Management
Columbia Threadneedle	BMO's EMEA business
Federated Hermes	remaining 29.5% of Hermes Fund Managers
Goldman Sachs Asset Management	NN Investment Partners
GTCR LLC and Reverence Capital Partners, L.P	Wells Fargo Asset Management
JP Morgan Asset Management	Campbell Global LLC
Liontrust	Majedie Asset Management
Mattioli Woods	Maven Capital Partners
Momentum Global Investment Management Limited	Seneca Investment Managers Limited
Morgan Stanley	Eaton Vance
PineBridge Investments	Benson Elliot Capital Management
Polar Capital	Dalton Strategic Partnership
Schroders	River&Mercantile's solutions division
Schroders	75% of Greencoat Capital (specialist manager dedicated to renewable energy infrastructure)
Vontobel	Remainig 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 Dolfin	Epoch Wealth Management
	Investec's Wealth Management Business in Ireland
	Mathiesen Consulting
Charles Stanley	Myddleton Croft
F&C	Thames River Capital
Franklin Templeton	Material stake in Embark Group
Goldman Sachs	S&Ps Model Portfolio business
Hargreaves Lansdown	£765m stake of retail ISA assets from JPM Chase
Invesco	RedBlack
Liontrust	Neptune Investment Management
Merian Global Investors	Kestrel Investment Partners multi-asset business
Mitsubishi UFG Trust and Banking	First State Investments
Premier Asset Management	Miton Group
Quilter	Charles Derby
	Lighthouse
Sanlam	Astute Wealth Management
	Thesis Asset Management
Schroders	Thirdock
	Majority stake in BlueOrchard Finance
SJP	Havest Financial Services
Standard Life Aberdeen advice firm – 1825	Grant Thornton advice code
Sumitomo Mitsui Financial Group	TT International
Waverton Investment Management	Timothy James & Partners

Appendices

2018

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

2017

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

2016

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

2015

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

2014

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

2013

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

2012

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

2011

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

2010

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

2009

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

APPENDIX 4
DEFINITIONS

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

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

FUND OF FUNDS
Funds whose investment objective is fulfilled by investing in other funds rather than investing directly into assets such as cash, bonds, shares or property. These may also 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

Appendices

Aberforth Partners LLP
Abrdn plc
AllianceBernstein Limited
Allianz Global Investors UK Ltd
Amundi (UK) Limited
Aviva Investors
AXA Investment Managers
Baillie Gifford & Co
BlackRock Investment Management (UK) Ltd
Border to Coast Pensions Partnership Ltd
Brooks Macdonald Asset Management
Candriam
Capital World Investors
Carmignac Gestion
CCLA Investment Management Limited
City of London Investment Management Company Ltd
Columbia Threadneedle
EdenTree Investment Management
Federated Hermes Limited
Fiera Capital (UK) Limited
FIL Investment Management Limited
Franklin Templeton Fund Management Limited
Guinness Asset Management Funds plc
HSBC Global Asset Management (UK) Limited
Independent Franchise Partners LLP
Insight Investment Management (Global) Ltd
Invesco Ltd
J O Hambro Capital Management Limited
J.P. Morgan Asset Management
Janus Henderson Investors
Jupiter Investment Management Limited
Lazard & Co., Limited
Legal and General Investment Management
Lindsell Train Limited
Liontrust Fund Partners LLP
Lombard Odier Investment Managers
M&G Group Limited
Margetts Fund Management Ltd
Martin Currie Investment Management Ltd
McInroy & Wood Ltd
Morgan Stanley Investment Management
Newton Investment Management Limited
Ninety One plc
Nordea Asset Management
Northern Trust Asset Management
Premier Miton Group plc
Rathbone Unit Trust Management
RBC Brewin Dolphin Limited
Redwheel
Royal London Asset Management
Sarasin & Partners
Schroder Investment Management Ltd
Slater Investments Ltd
State Street Global Advisors UK Ltd
T. Rowe Price International Ltd
Troy Asset Management Ltd
Vanguard Asset Management Limited

THE
INVESTMENT
ASSOCIATION

The Investment Association
Camomile Court, 23 Camomile Street, London, EC3A 7LL

www.theia.org
@InvAssoc

October 2024