

Asset Management in the UK 2015-2016

The Investment Association
Annual Survey

SUMMARY

THE
INVESTMENT
ASSOCIATION

September 2016



CONTENT ENQUIRIES

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September 2016

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KEY STATISTICS

£ 5.7 TRILLION

[£5.7 TRILLION (REVISED)
IN 2014]

TOTAL ASSETS MANAGED IN THE UK BY THE IA'S MEMBERS
AS AT DECEMBER 2015

£ 2.2 TRILLION

[£2.2 TRILLION IN 2014]

ASSETS MANAGED IN THE UK ON BEHALF OF
OVERSEAS CLIENTS

31 PER CENT

[32 PER CENT IN 2014]

UK DOMESTIC MARKET CAPITALISATION ACCOUNTED
FOR BY THE IA'S MEMBERS' UK EQUITY HOLDINGS

£ 872 BILLION

[£835 BILLION IN 2014]

MANAGED IN UK AUTHORISED FUNDS (OEICS AND
UNIT TRUSTS)

£ 1 TRILLION

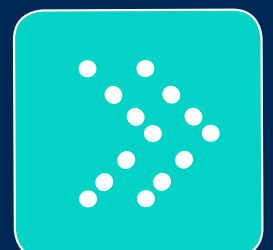
[£895 BILLION IN 2014]

UK-MANAGED FUNDS DOMICILED OFFSHORE

37 PER CENT
IN 2014
(PROVISIONAL)

[37 PER CENT IN 2013]

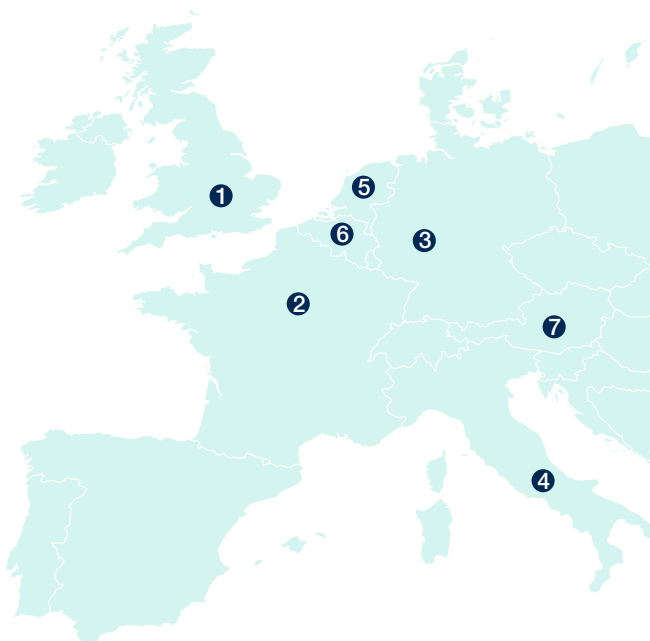
TOTAL EUROPEAN ASSETS UNDER MANAGEMENT
MANAGED IN THE UK AS AT DECEMBER 2014 (LATEST
AVAILABLE).



UK REMAINS LEADING GLOBAL CENTRE

THE UK IS THE SECOND LARGEST CENTRE OF ASSET MANAGEMENT GLOBALLY, SMALLER ONLY THAN THE US. IT IS THE LARGEST CENTRE OF ASSET MANAGEMENT IN EUROPE BY A SIGNIFICANT MARGIN, MANAGING 37% OF TOTAL ASSETS MANAGED IN EUROPE – MORE THAN FRANCE, GERMANY AND ITALY TOGETHER.

FIGURE 3 IN FULL SURVEY
ASSETS UNDER MANAGEMENT IN EUROPEAN COUNTRIES (DECEMBER 2013)

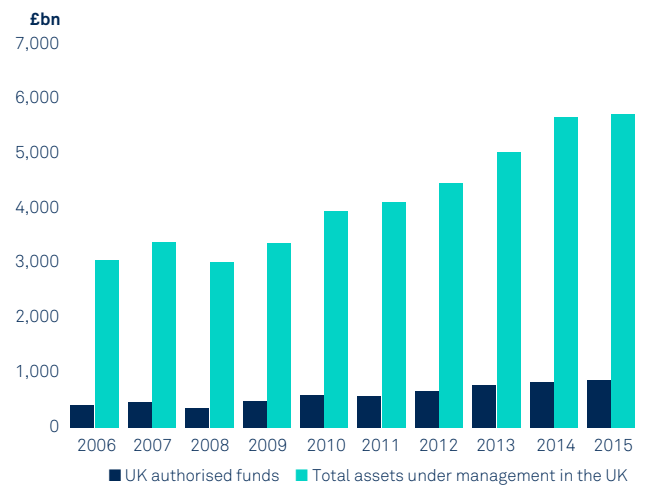


Country	Net assets (€bn)	Market share
UK	6,101	37%
France	3,258	20%
Germany	1,613	10%
Italy	881	5%
Netherlands	469	3%
Belgium	229	1%
Austria	85	1%
Other	3,820	23%
TOTAL	16,456	

Source: EFAMA

- Assets under management reached £5.7 trillion by the end of 2015, representing growth of 8% per annum over the last decade and bringing the size of the industry to over 320% of UK GDP, compared to a European average of 114%.

CHART 1 IN THE FULL SURVEY
TOTAL ASSETS UNDER MANAGEMENT IN THE UK AND IN UK AUTHORISED FUNDS (2006-2015)



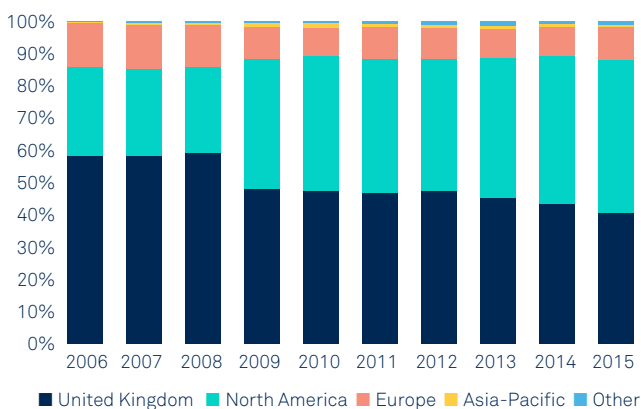
- The UK asset management industry has a global reach. £2.2 trillion is managed in the UK for overseas clients, £1.2 trillion of which is managed for European (ex-UK) clients. £310 billion is managed for clients based in the US and the remaining £660 billion is managed for clients in locations spanning the rest of the globe.

FIGURE 2 IN THE FULL SURVEY
OVERSEAS CLIENTS



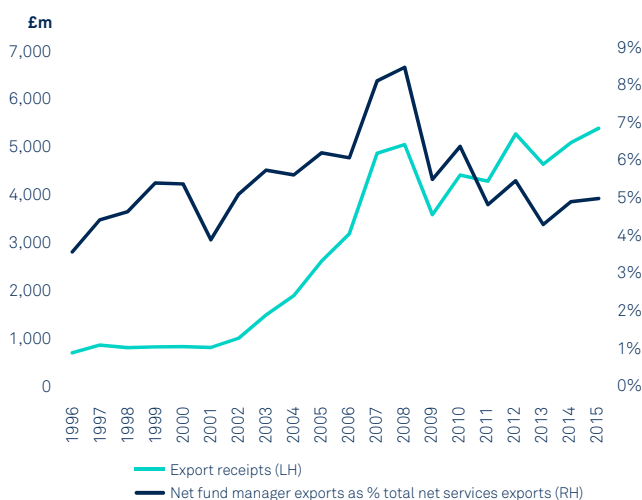
Overseas-owned asset managers accounted for 58% of assets managed in the UK in 2015, up from 40% a decade ago.

CHART 4 IN THE FULL SURVEY
ASSETS UNDER MANAGEMENT BY REGION OF PARENT GROUP HEADQUARTERS (2006-2015)



Asset management contributes 6% to net service exports in the UK. Asset managers also contribute directly to UK economic growth via efficient allocation of capital, and stewardship and engagement activity with individual companies.

CHART 5 IN THE FULL SURVEY
EXPORT EARNINGS OF FUND MANAGERS AND CONTRIBUTION TO SERVICES EXPORTS (1996-2015)



Source: ONS

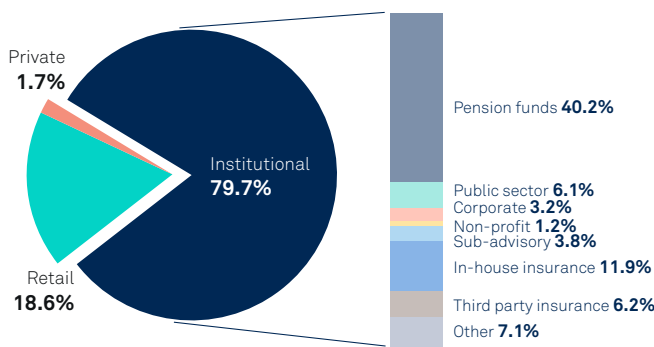
The UK's decision to leave the European Union is a source of major regulatory and political uncertainty for the asset management industry, which is highly international but simultaneously highly integrated within the EU. The future of the UK as a centre of excellence for asset management will depend on its ability to adapt to the new world.



CLIENT GROUPS CONTINUE MOVE TOWARDS SOLUTIONS

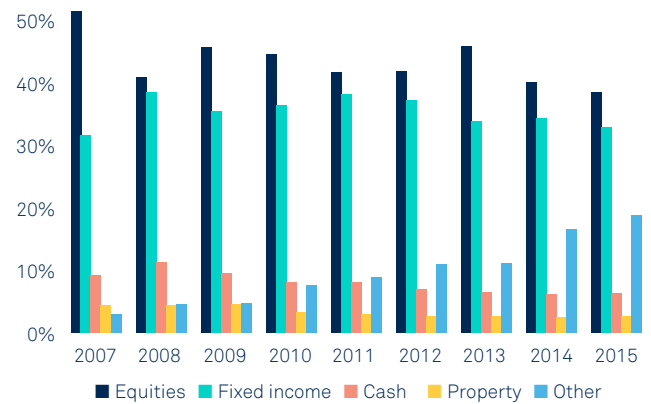
EIGHTY PERCENT OF ASSETS CONTINUE TO BE MANAGED FOR INSTITUTIONAL CLIENTS. PENSIONS REMAIN THE LARGEST CLIENT TYPE AT 40% BUT THE PROPORTION OF ASSETS MANAGED FOR INSURANCE COMPANIES STABILISED IN 2015 AT 18% AFTER FALLING CONSISTENTLY OVER THE LAST DECADE.

CHART 6 IN FULL SURVEY
ASSETS MANAGED IN THE UK BY CLIENT TYPE



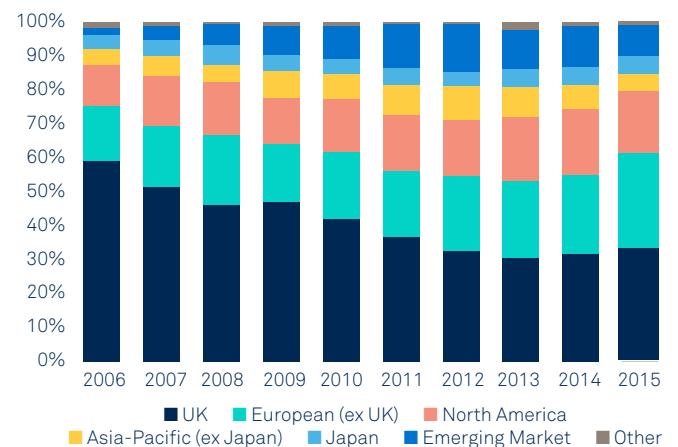
- At asset level, allocations outside the mainstream asset classes continued to increase, reaching 19% by the end of 2015. More than half of assets in this category are now represented by 'solutions-based' strategies as both institutional and retail investors diversify more widely and focus more on investment outcomes.
- Equity allocations fell by one percentage point year on year to 39%. The allocation to fixed income also fell by one percentage point to 33% as clients increasingly look outside traditional fixed income for reliable sources of income.
- Property and cash holdings remained stable at 3% and 6% respectively.

CHART 9 IN FULL SURVEY
OVERALL ASSET ALLOCATION OF UK-MANAGED ASSETS (2007-2015)



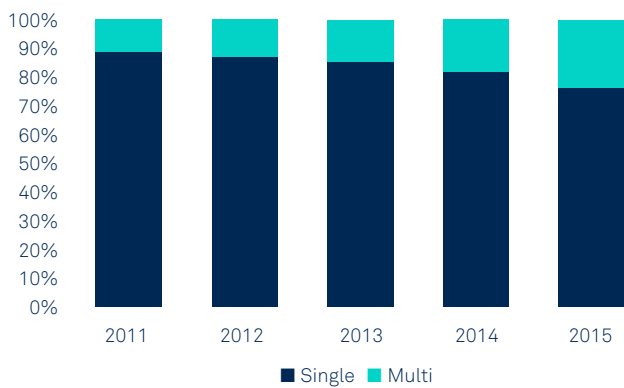
- Allocations to UK equity rose to 33% of total equity, cementing indications from last year that the decline in UK equity holdings had finally halted.

CHART 10 IN FULL SURVEY
UK-MANAGED EQUITIES BY REGION (2006-2015)



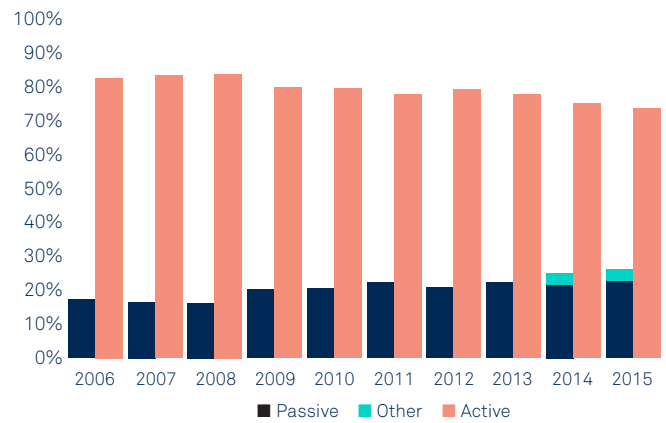
- Institutional investors are shifting away from specialist portfolios back to multi-asset mandates. By the end of 2015 institutional assets managed in multi-asset mandates had increased to 23%. This is likely to reflect, at least in part, the greater use of multi-asset strategies in defined contribution (DC) default funds, as pension assets continue to shift from defined benefit (DB) to DC. The shift to DC in turn continues to blur the definitional boundary between retail and institutional business.

CHART 22 IN FULL SURVEY
UK INSTITUTIONAL CLIENT MANDATES: MULTI-ASSET VS. SPECIALIST (2011-2015)

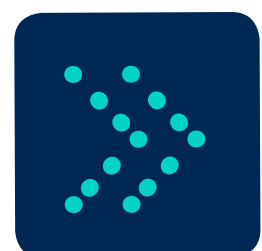


- The drift towards passive persisted into 2015, with total assets managed on an indexed basis rising by one percentage point to 23% by the end of the year. There was no change in assets managed in strategies which fall between active and passive, such as smart beta (3%). However, IA data excludes much of the ETF market, where smart beta strategies are prevalent.

CHART 14 IN FULL SURVEY
ACTIVE AND PASSIVE AS PROPORTION OF TOTAL UK ASSETS UNDER MANAGEMENT (2006-2015)



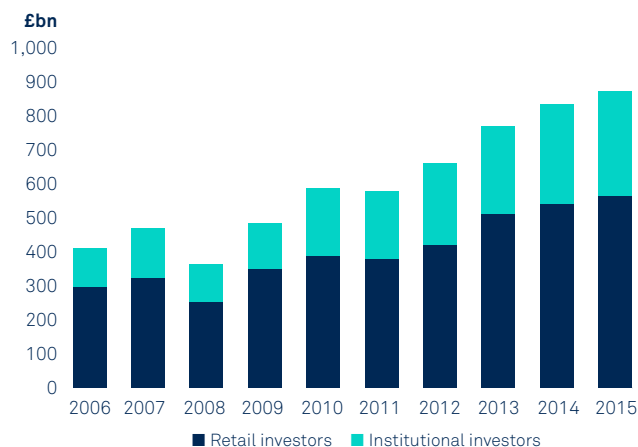
- Interest in 'liquid alternative' investments continued to increase as investors look to manage volatility. For the first time in 2015 growing interest was reported among retail investors.
- While ESG strategies remain a small part of the overall market, there are signs of an increase in demand in this area, particularly from younger savers.



UK RETAIL MARKET RESILIENT AMID DEMAND SHIFT

AUTHORISED FUNDS REACHED ANOTHER NEW HIGH, WITH FUNDS UNDER MANAGEMENT INCREASING TO £872 BILLION BY THE END OF 2015, UP FROM £835 BILLION IN 2014.

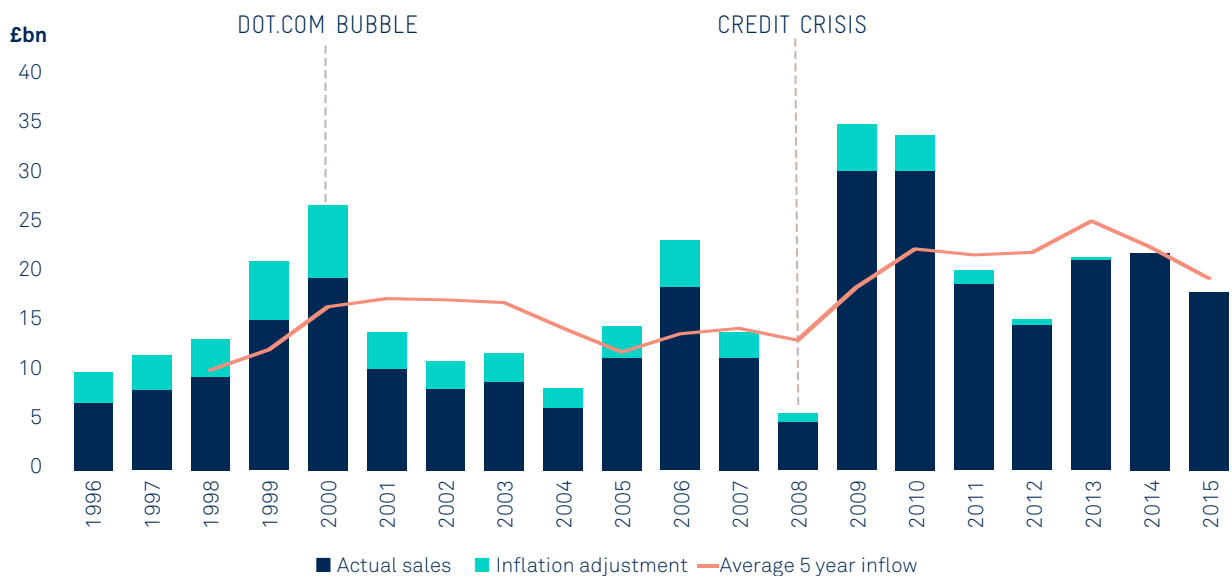
CHART 40 IN FULL SURVEY
INDUSTRY FUNDS UNDER MANAGEMENT
(2006-2015)



● Net retail flows into authorised funds in 2015 were £17.6 billion, a drop from the £21.6 billion seen in 2014. The average five year flow level has fallen in the past two years, standing at £19 billion in 2015. This may reflect a move back towards levels seen before the 2008 crisis.



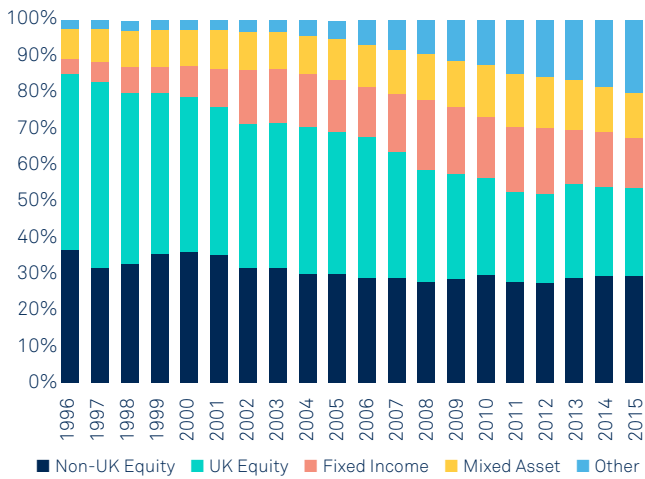
CHART 45 IN FULL SURVEY
NET RETAIL SALES (1996-2015)



Source: IA, ONS

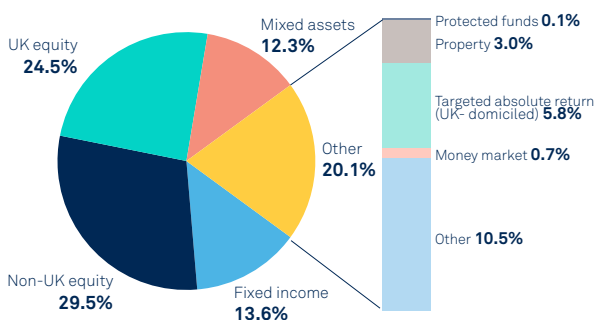
● Retail allocations to equity funds remained stable into 2015. However, equity allocations have fallen from 87% twenty years ago, to 54% in 2015. This fall has primarily been driven by a reduction in UK equity allocations as the non-UK share has remained steady and retail investors have gradually diversified their investments into other asset classes.

CHART 44 IN FULL SURVEY
CHANGE IN FUNDS UNDER MANAGEMENT BY ASSET CLASS (1996-2015)



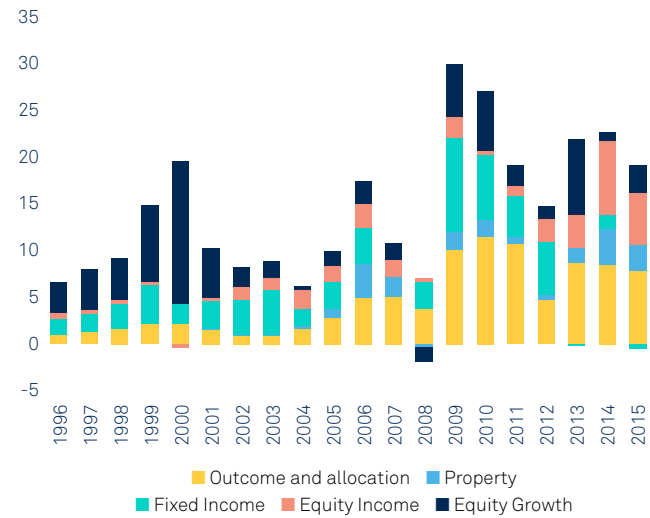
● Equity funds made up 54% of total assets, unchanged from 2014. Fixed income funds made up 14% of all assets, down slightly from 15% in 2014. The allocation to absolute return funds continued to grow, from 4.7% in 2014 to 5.8% by the end of 2015. Property remained a popular asset class, increasing its share of the fund market from 2.6% to 3%.

CHART 43 IN FULL SURVEY
FUNDS UNDER MANAGEMENT BY FUND/ASSET TYPE



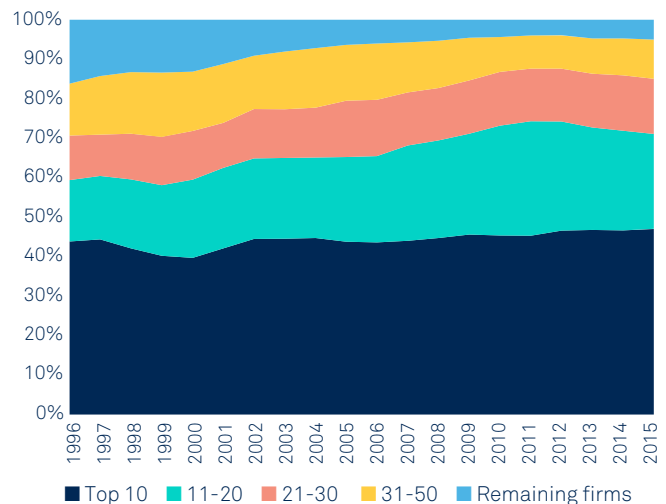
● The demand for outcome-focused funds continued in 2015, with £8 billion of net retail flows into these funds. Among equity funds, investors continued to favour equity income over growth funds. Equity income funds received positive net flows of £5.6 billion during the year.

CHART 46 IN FULL SURVEY
NET RETAIL SALES BY DIFFERENT INVESTMENT OBJECTIVE (1996-2015)



● The UK funds industry maintained its low concentration level in 2015 with the top ten firms' share of the market holding at 47%.

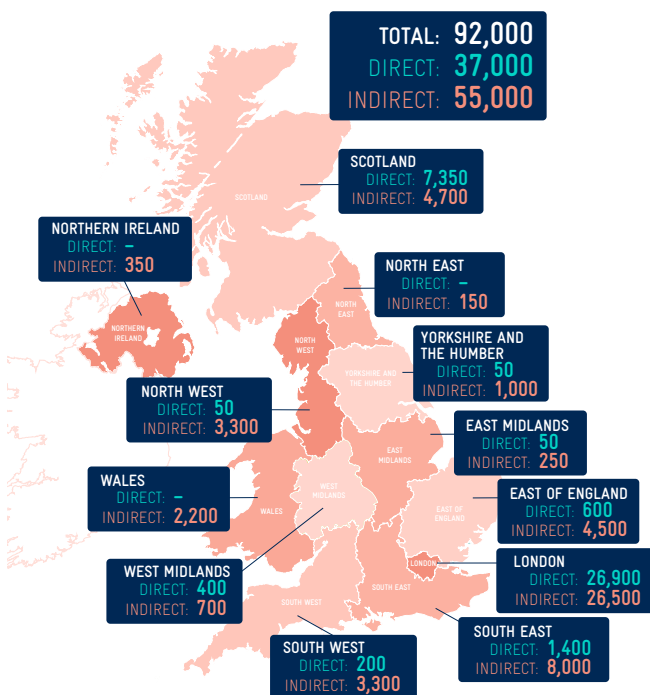
CHART 66 IN FULL SURVEY
COMBINED MARKET SHARES OF TOP FIRMS BY FUNDS UNDER MANAGEMENT (1996-2015)



INDUSTRY STRUCTURE

AN ESTIMATED 92,000 WERE EMPLOYED IN ROLES EITHER IN OR LINKED TO ASSET MANAGEMENT IN 2015. 37,000 OF THOSE WERE DIRECTLY EMPLOYED BY ASSET MANAGEMENT FIRMS, WITH THE INDUSTRY OUTSOURCING MANY MIDDLE AND BACK OFFICE ACTIVITIES.

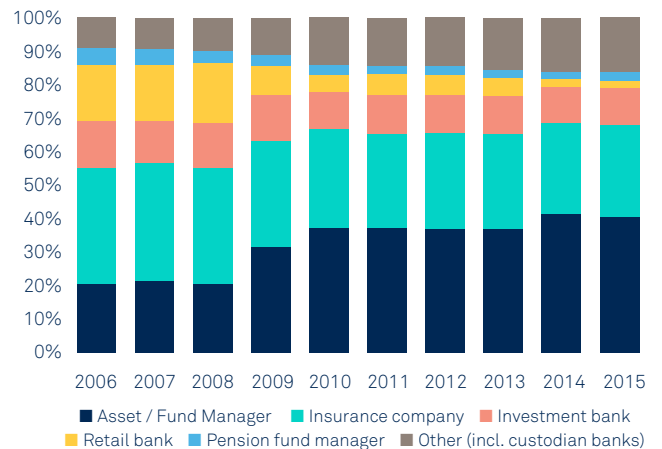
FIGURE 4 IN FULL SURVEY
DIRECT AND INDIRECT EMPLOYMENT ACROSS THE UK



Source: IA estimates from information provided by members and publicly sourced information. All regional numbers have been rounded to the nearest 50 and therefore may not add to exact total.

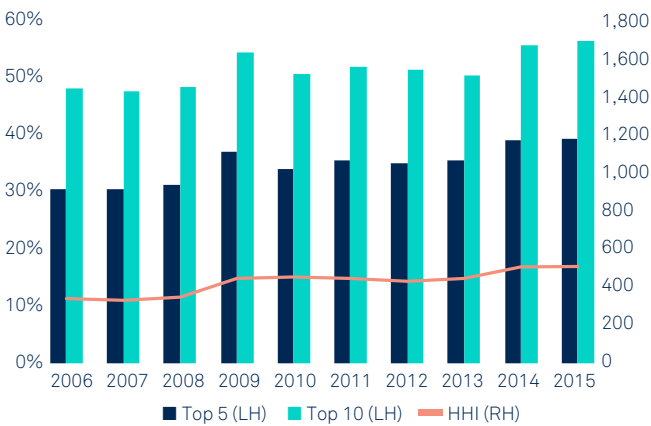
- Merger and acquisition activity has been stimulated by a number of factors. Operational issues, such as running costs could have ramifications for future entrants to the industry.
- The proportion of assets run by independent asset managers was almost unchanged at 40% (41% in 2014).

CHART 85 IN FULL SURVEY
BREAKDOWN OF UK ASSETS UNDER MANAGEMENT BY PARENT TYPE (2006-2015)



- The concentration of the UK asset management industry as a whole remains low. Assets managed by the top five firms was unchanged from 2014 at 39%. Assets managed by the top ten firms in 2015 increased one percentage point to 56%.

CHART 82 IN FULL SURVEY
MARKET SHARE OF LARGEST FIRMS BY UK ASSETS UNDER MANAGEMENT VS. HHI (JUNE 2006-2015)



- Ongoing developments in technology offer huge opportunities for asset managers increasingly keen to communicate directly with underlying investors. However, the security of client data has been identified as a key risk to both reputation and trust, and asset managers are committing substantial resources to protect themselves against cyber-attacks.



- The number of boutique managers has dropped to 24 as a result of relatively higher asset growth among boutique managers and ongoing merger and acquisition activity.

- Despite improvements in digital technology, the ‘direct to consumer’ proposition, including robo-advice is still primarily an option for those asset managers that form part of a vertically integrated offering. For others, external distribution channels will remain key.

AVERAGE ASSETS UNDER MANAGEMENT AT JUNE 2015

