# INVESTMENT MANAGEMENT IN THE UK 2022-2023

## The Investment Association Annual Survey

October 2023

## CONTENT ENQUIRIES

investmentassociation.survey@theia.org

## CONTRIBUTORS

Evan Grace Frenkel

Jonathan Lipkin

Richard Hale

Sarah Shehabi

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

www.theia.org

@InvAssoc

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# ABOUT THE SURVEY

THE SURVEY CAPTURES INVESTMENT MANAGEMENT UNDERTAKEN BY MEMBERS OF THE INVESTMENT ASSOCIATION (IA) ON BEHALF OF DOMESTIC AND OVERSEAS CLIENTS. UNLESS OTHERWISE SPECIFIED, ALL REFERENCES TO 'UK ASSETS UNDER MANAGEMENT' REFER TO ASSETS, WHEREVER DOMICILED, WHERE THE DAY-TO-DAY MANAGEMENT IS UNDERTAKEN BY INDIVIDUALS BASED IN THE UK. THE ASSET VALUE IS STATED AS AT DECEMBER 2022. THE FINDINGS ARE BASED ON:

- Questionnaire responses from 72 IA member firms, who between them manage £8.8 trillion in the UK (85% 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:

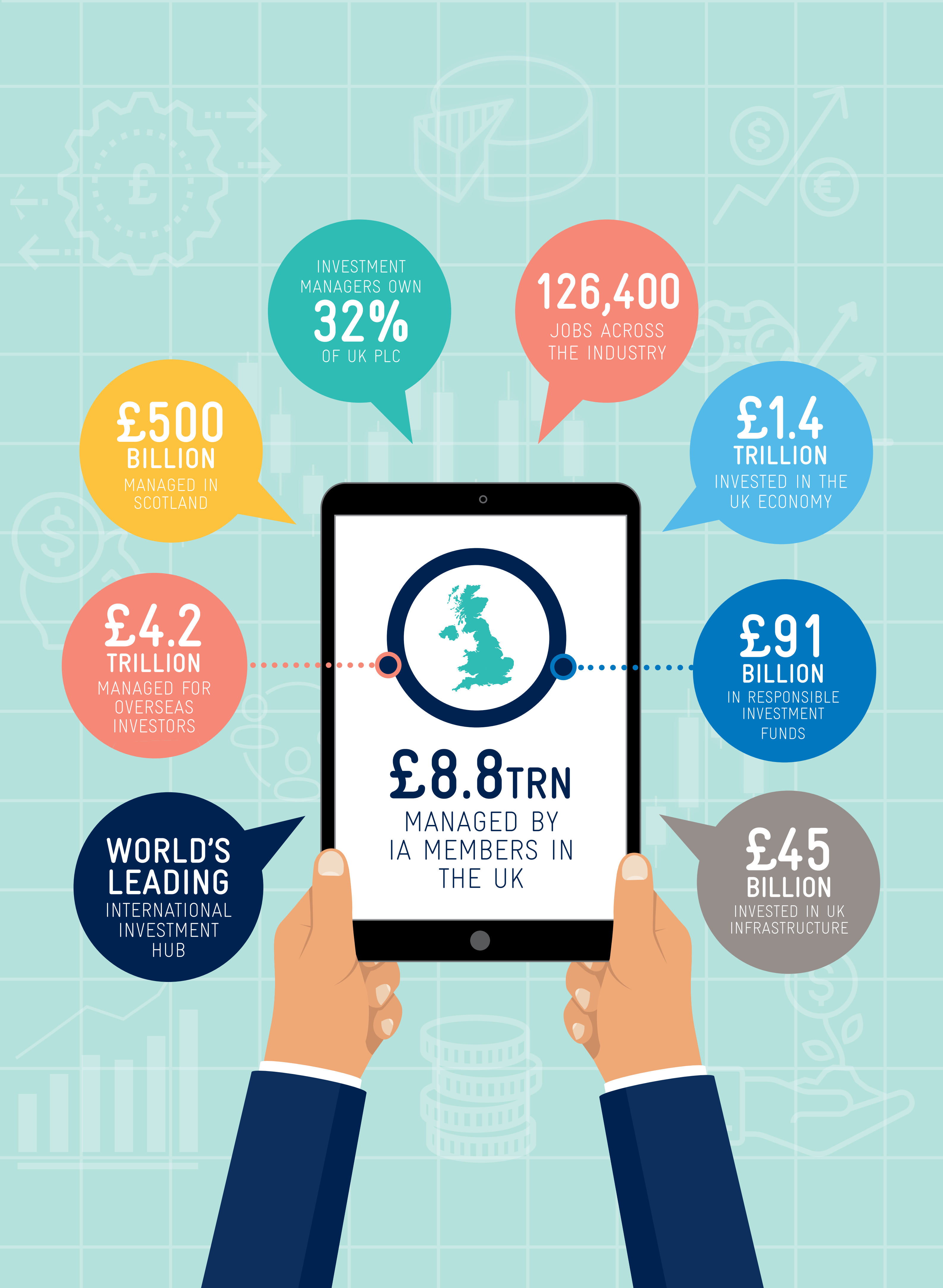
1. UK investment management industry: a global centre
2. Three key themes that will shape the UK industry
3. Trends in client assets and allocation
4. UK institutional client market
5. UK retail funds market
6. Operational and structural evolution

### 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 – August 2023)
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.


INVESTMENT MANAGERS OWN 32% OF UK PLC
126,400 JOBS ACROSS THE INDUSTRY
£500 BILLION MANAGED IN SCOTLAND
£1.4 TRILLION INVESTED IN THE UK ECONOMY
£4.2 TRILLION MANAGED FOR OVERSEAS INVESTORS
£8.8TRN MANAGED BY IA MEMBERS IN THE UK
£91 BILLION IN RESPONSIBLE INVESTMENT FUNDS
WORLD'S LEADING INTERNATIONAL INVESTMENT HUB
£45 BILLION INVESTED IN UK INFRASTRUCTURE

# SURVEY FOREWORD

DURING EACH OF THE SEVEN YEARS THAT I HAVE BEEN IA CHIEF EXECUTIVE, THIS REPORT HAS PROVIDED AN AUTHORITATIVE OVERVIEW OF A UK INVESTMENT INDUSTRY THAT IS CONTINUALLY EVOLVING TO SERVE CUSTOMER NEEDS INTERNATIONALLY. THAT IT REMAINS A GLOBAL POWERHOUSE THROUGH 2022 IS A SOURCE OF PRIDE BUT NEVER COMPLACENCY. PARTICULARLY SO BECAUSE SO MUCH APPEARS TO BE IN FLUX, PRESENTING MANY CHALLENGES BUT ALSO SIGNIFICANT OPPORTUNITIES.

Our exploration of the delivery environment through the 2022-23 report is based on different aspects of three key themes: Adaptation, Resilience and Transformation. Taken together, they represent what we see as the biggest change agenda the industry has ever faced as a range of commercial, economic, environmental, social, political, regulatory, security and technological factors combine to impact firms in the UK and globally.

The central economic point of change is that the monetary policy environment which came to define global market behaviour for almost 15 years has come to what is at least a moment of inflection, and possibly a more permanent turning point. Alongside the human cost of the terrible conflict in Ukraine, we also continue to digest the wider implications of the most significant hot war in Europe in decades, itself coming in the aftermath of a major global pandemic whose impact is still being felt.

The inflection point can be seen first and foremost in the change in the value of assets under management in the UK, which remains at a historically high level of £8.8 trillion, but down 12% year-on-year, reflecting a year in markets which saw unusual correlation in the downward direction of travel for both global equities and bonds. Adaptation and resilience are therefore themes that characterise the experience of 2022 for both retail and institutional customers. Indeed, UK gilt market turbulence created an acute and highly unusual set of difficulties for UK pension scheme investment and for wider UK financial stability through September to October.

For the UK, the post-Brexit adaptation to a new relationship with the EU and with multiple global and regional partners has added an additional layer of complexity to the operating environment for investment managers. As we report in our first chapter, a range of metrics that otherwise look clearly green for our ongoing success as an industry internationally, flash amber and turn red on some aspects of the outlook for the UK going forward. These relate primarily to aspects of the current policy and regulatory environment and in chapter 2 we set out views on the blueprint emerging for how the direction of travel can be improved from here.

At the heart of that blueprint lies the scope for transformation that technology increasingly brings, alongside a reset in how regulators and the industry work together. This time last year, we were focused on tokenisation as a defining new theme. Twelve months later, Artificial Intelligence has shot to the top of the agenda. Wherever we are on the hype curve at this point, it is hard to ignore the extraordinary potential. Many firms are taking action now to transform their operating models and even their conception of what an investment fund looks like in a future that may be characterised by exponential technology-driven change.

Sustainable and Responsible Investment (SRI) is a second particular area of focus for this year as the delivery environment becomes more challenging as a result of a range of political, economic, societal and regulatory pressures. Climate change continues to be a dominant theme around which SRI is organised, and acts as a significant tail-wind on the basis of a broad, if sometimes contested, consensus of the need for increasingly urgent action. However, as recessionary and cost-of-living pressures grow, the UK is starting to see a more divisive conversation around the cost and timing of net zero transition. The industry is extremely aware of the need to balance leadership in this most critical of areas with the realities and imperatives of a fiduciary business model.

Transformation is also of course about culture, and the Equity, Diversity and Inclusion (EDI) journey that the industry is on features again in our report, reflecting operational priorities. In the view of the Investment Association, the combination of cultural and technological change has the potential to turbo-charge the investment management industry for the coming decade, both in the UK and internationally. The analysis in our report underscores the progress made to date on EDI, and the work still needed to further progress and embed EDI considerations more firmly at firm level.

Alongside these major trends, this year's report contains a wealth of data points about many different aspects of the UK industry. While we cannot predict the direction of travel from here, we hope that the analysis will provide you with an interesting and authoritative overview of the key areas and developments within them. There is much that will be keeping the industry and the IA very busy in the coming months and years in order to ensure a world-class industry which continues to deliver for its customers in the UK and globally.

**Chris Cummings**
CEO

IA MEMBERS ARE RESPONSIBLE FOR

£8.8 TRN

FOR UK AND OVERSEAS CLIENTS AS OF THE END OF 2022

# EXECUTIVE SUMMARY

## UK INVESTMENT MANAGEMENT INDUSTRY: ADAPTATION TO A NEW ENVIRONMENT

- Total assets under management (AUM) managed by IA members fell to £8.8 trillion at the end of 2022, a 12% decrease on the previous year. After strong growth in AUM for the past decade, a broad-based market correction has been the main driver of this fall, reflecting monetary policy regime change, hot war in Europe and a range of economic, political and security uncertainties internationally.
- The UK maintains its position as a leading international investment management centre. This is measured on four metrics: overseas clients (48% of total AUM), global investment (78% of shares and bonds invested in overseas markets), internationally-headquartered firms (60% of total AUM) and economic contribution (5.5% of total net services exports).
- Despite the continuing strength of the industry's international position, there is rising concern across the industry about threats to competitiveness and the potential knock-on effect for the domestic market. We cover six themes: stimulating innovation; facilitating cross-border business; focusing on the cost of doing business; modernising the regulatory process; calibrating risk appropriately; and targeting regulation effectively.

## THREE KEY AREAS FOR TRANSFORMATION AHEAD

- With innovation-driven competitiveness and regulatory reform as overarching themes, there are three specific areas that are defining the evolution of the industry's relationship with the wider economy and society.
  1. Technology: In investment management, as elsewhere in the economy, technological development is increasingly focused on Artificial Intelligence (AI) and tokenisation. While AI has been the prevailing theme of 2023, the potential for tokenisation to transform the operational backbone of the fund and wider capital markets remains significant.
  2. Sustainability: Firms are of the view that the Sustainable and Responsible Investment (SRI) agenda will remain a defining one for the industry, particularly with respect to the urgency of tackling climate change. We set out a series of factors that are contributing to a challenging delivery environment for firms both domestically and internationally.
  3. Culture: At the heart of the cultural transformation agenda lies the increasing focus across the industry on Equity, Diversity and Inclusion. We see parallels with sustainability in that there are significant business risks for firms of not getting this right sitting alongside the wider imperative to better reflect and support the society in which they operate.

## TRENDS IN CLIENT ASSETS AND ALLOCATION

- The share of assets managed on behalf of retail clients grew again from 22% to 25%. While the Covid-19 pandemic appears to have increased retail participation and total retail AUM through 2020-2021, a further year-on-year increase through 2022 may be more the result of differential asset class returns across client groups.
- Through 2022, the proportion of assets invested in equities was broadly unchanged in part due to the relatively strong performance of UK equities compared to global peers. The share of fixed income assets fell from 30% to 28% as fixed income assets – especially domestic bonds – fell more sharply than the equity markets.
- Global diversification continues to be a key theme in asset allocation. In 2022, 60% of fixed income assets were held in overseas bonds compared with 55% last year and over a third (37%) of holdings ten years ago. UK equity holdings continue to decline as a proportion of total equities, falling to 22%. North American equities have significantly surpassed UK equities as the largest region for equities managed from the UK (32% from 30% in 2021).
- Indexing strategies now account for a third of total AUM, a one percentage point increase from 2021 and a twelve-percentage point increase over the past decade. Exchange Traded Funds have been an important contributor to the growth of indexing strategies in recent years.

- Investment managers continue to make a major contribution to the domestic economy, managing some £4.6 trillion for UK customers, both retail and institutional. They hold an estimated £1.4 trillion in UK shares, bonds, property and infrastructure.

## UK INSTITUTIONAL CLIENT MARKET

- IA members now manage £3.9 trillion globally on behalf of UK based institutional clients, which represents a fall of 16% from a year earlier, driven by sharp falls in UK bond markets.
- Third-party AUM stood at £3.3 trillion, once in-house mandates are excluded from the institutional data, down from £4.0 trillion in 2021. Pension funds remain the largest client type, accounting for 63% of third-party assets though this is substantially lower than the 69% reported in 2021.
- Total assets in liability driven investment (LDI) strategies fell 28% on a matched basis to an estimated £1.17 trillion, after an exceptionally turbulent period in the UK gilt market. When LDI assets are excluded, specialist mandates continue to be the predominant approach in the third-party institutional market, accounting for 80% of total assets.
- Within specialist third party mandates, the proportion of assets in equity mandates decreased by one-percentage point over the year (to 38%) despite the weak equity performance environment. The share of assets in fixed income mandates fell to 32%, a four-percentage point fall on the previous year and its lowest level in the past decade.

## UK RETAIL FUNDS MARKET

- UK investor funds under management (FUM) fell 14% to £1.37 trillion over 2022. After the second highest inflows on record in 2021, we saw the first year ever to record a calendar outflow, with net redemptions of £25.7 billion.
- Rising inflation and the changing monetary environment played a major role in the dislocation, which was felt strongly across both equity and fixed income markets. The central driver of the fall in FUM was returns (77% of total fall) rather than redemptions.
- SRI was not immune from the correction, although robust in comparison with the wider market. FUM growth remained marginally positive and sales to responsible investment funds remained resilient at £5.4 billion over the year, down from £15.9 billion in 2021.
- 2022 saw a sharp reversal of the resurgence in sales to actively managed funds. Net retail outflows of actively managed funds were a record £36.6 billion, amidst robust sales to trackers of £11.0 billion.
- At the level of total FUM, the share of fixed income (17.4%) fell back to the lowest level in fifteen years. UK equities continued what has become an extraordinary decline as a proportion of total FUM to reach a new low of 12.8%, after accelerating falls since 2016.

## OPERATIONAL AND STRUCTURAL ISSUES

- Total industry revenue after commission stood at £23.3 billion in 2022 while costs stood at £18.3 billion. Operating profitability dropped to 22%, reflecting faster drops in revenue than in costs.
- As of 2022, the UK investment management industry supports approximately 126,400 jobs, of which approximately 46,200 people are directly employed, a 3% increase on the previous year. We estimate that a further 80,200 people are indirectly employed in supporting industries.
- Despite accelerating M&A activity, the UK investment management industry remains relatively unconcentrated. Total assets managed by the top five and the top ten firms stood at 43% and 58% respectively.

# 1 UK INVESTMENT MANAGEMENT INDUSTRY: A GLOBAL CENTRE

## KEY FINDINGS

### UK SECTOR SIZE AND SCALE

- The value of assets under management (AUM) managed by members of the Investment Association (IA) stood at £8.8 trillion in 2022. This is a 12% decrease on £10.0 trillion recorded in the previous year, mainly attributed to asset depreciation, with broad-based declines in equities and bonds internationally. The fall in AUM is the first since 2008 and comes after a 9% compound average annual growth rate over the period saw AUM nearly triple.

- In the context of resurgent inflationary pressures, a change in monetary policy stance globally has raised uncertainty about the direction of markets and hence the near-term outlook for total AUM through 2023-2024. Both IA and external data shows that investment performance is a fundamental underpin for AUM.

- Total AUM in Scotland by IA members fell faster than the industry average to £500 billion by the end of 2022, which takes total AUM back to the same level in nominal terms as a decade earlier. This represents 6% of total AUM, with Edinburgh the largest investment management centre outside London.

- IA members account for an estimated 85% of total AUM by the UK investment management industry. Including non-IA members, we estimate total assets under management at £10.3 trillion.

### UK INDUSTRY IN A GLOBAL CONTEXT

- Global AUM fell 10% to $98 trillion during 2022, with North America falling 14% and the European fund market (ex UK) down 10%. With 11% of total global AUM, the UK continues to be a leading centre for excellence in investment management – the largest industry in Europe and second only to the United States worldwide.

- Some 48% of UK AUM is now managed on behalf of overseas clients. Between 2012 and 2018, overseas client assets averaged 39% before rising steadily since then. However, there is a range of drivers in this data. The latest increase through 2022 results from overseas client AUM falling less significantly than domestic AUM over the year, amidst significant market and exchange rate effects.

- The majority of overseas client assets are European (56% of the total), with North American clients being the second largest group (20%) and Asian clients rising marginally to 16% in 2022.

- The strong growth in assets managed for overseas-domiciled funds, relative to the size of the domestic fund market, continues. Since 2012, the share of assets in overseas domiciled funds has increased from less than half (45%) to just over two thirds (67%) of all fund assets, partly reflecting significant growth in the ETF industry.

1

## MAINTAINING INDUSTRY COMPETITIVENESS

While the data continues to be positive on the UK's international position as reflected in client behaviour, sentiment across the UK industry is more cautious. The most important detractor in sentiment has been the incremental cost and complexity of the UK regulatory environment. In the context of the wider pressures in the operating environment, the scale of regulatory change over the past five years is of significant concern. It has already led some firms to look differently at the role the UK plays in their global operations.

In considering current challenges and opportunities, we look at the industry competitiveness agenda through the lens of six themes:

1. Stimulating innovation

2. Facilitating cross-border business

3. Focusing on the cost of doing business

4. Modernising the regulatory process

5. Calibrating risk appropriately

6. Targeting regulation effectively

The industry is also closely engaged in the wider capital market reform discussion, supporting efforts to improve the UK as an attractive listings environment. This in turn links to the wider debate around strengthening the UK as a renewed source of domestic risk capital alongside overseas investment.

IN 2022, THE VALUE OF ASSETS UNDER MANAGEMENT MANAGED BY IA MEMBERS STOOD AT

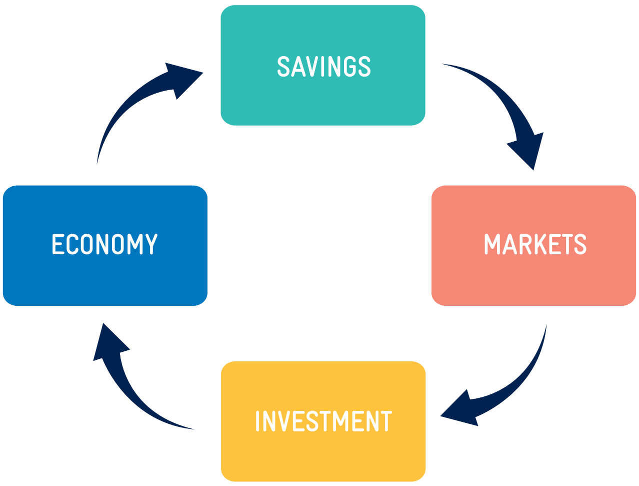
£8.8 TRN

This chapter offers a comprehensive look into the investment management industry in the UK. It places the industry within a European and global context while highlighting 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 critical role in the economy by directing savings towards investment opportunities. Figure 1 illustrates the process by which capital is mobilised to facilitate economic growth.

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




The primary purpose of investment managers is to deliver good outcomes to their clients, whether these are individual savers or institutional entities like pension schemes. This includes providing expertise in areas such as risk management, achieving economies of scale, and providing access to a wide range of assets that would normally be out of reach for individual investors. The ultimate goal is to provide customers with a well-rounded portfolio consisting of shares, bonds, and other assets, such as property, which can generate returns over the long term while mitigating undue risks.

Beyond facilitating the investment process, the role of the industry includes ensuring the efficient functioning of capital markets. Investment managers play a pivotal role in maintaining properly priced markets and effective transactions between buyers and sellers. Efficient markets are essential for the growth and stability of market economies. They allow for accurate pricing of information, which is crucial for informed decision-making and fair value determination. Investment managers thus contribute to stainable economic growth by actively participating in and promoting the efficiency of capital markets, benefitting their clients 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. As we discuss in Chapter 2, this responsibility now extends beyond traditional considerations to encompass broader issues such as environmental sustainability and executive remuneration.

## INDUSTRY SIZE AND SCALE

Total assets under management (AUM) in the UK stood at £8.8 trillion at the end of 2022, almost double the level a decade earlier, but a drop of 12% from the record level of £10.0 trillion seen in 2021. This fall comes at a time of intensifying dislocation and uncertainty in the global economy, partly reflecting a much more unstable wider political and security environment.

Since 2016, the UK investment management industry has navigated a series of significant domestic and international shocks, notably:

- **June 2016 – EU referendum** result and uncertain terms of exit from the Union ahead of the December 2020 Trade and Cooperation Agreement.
- **March 2020 – Dash for Cash** amidst the intensifying Covid-19 pandemic crisis which dominated 2020-21.
- **February 2022 – Russian invasion of Ukraine.**
- **September 2022 – UK Fiscal Event** and aftermath for the UK gilt market.

*"I remember when crises seemed to happen once a decade. We now seem to be operating in an environment where every year there seems to be something new and systemic happening."*

Despite the increasing level of turbulence, it was not really until last year that total assets and funds under management start to signal the more challenging environment with the Russian invasion of Ukraine, rising inflation and a decisive turning point in the global interest rate cycle.

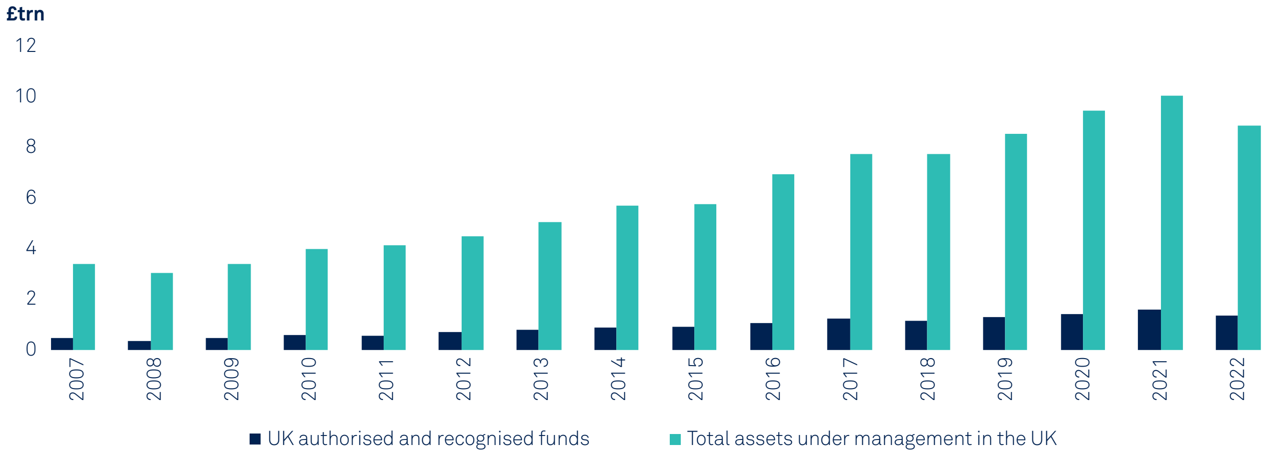
Unusually, returns turned negative across both bond and equities over the year as markets adjusted to higher interest rates and quantitative tightening (see Box 1 for more detail on capital market performance). In response to rapidly rising inflation, we have seen an ongoing and intensifying shift in monetary policy globally. In the UK, the Bank of England raised rates eight times over 2022 from 0.25% to 3.5% and a further four rate rises followed in 2023, with rates reaching 5.25% by late summer. Central bank commentary also shifted from an original narrative of transient inflation (and hence a shorter period of monetary tightening) towards a 'higher for longer' expectation even as headline inflation started to fall back.

**FIGURE 2: WHO ARE THE RESPONDENTS OF THE INVESTMENT ASSOCIATION'S SURVEY?**

Respondents to the survey can be broken down into **five broad groups**:

1. **Large investment management firms** (both UK and overseas-headquartered), which may be independent or part of wider financial services groups such as banks or insurance companies. They undertake a wide range of investment management activities across both retail and institutional markets and manage substantial amounts for overseas clients in the UK. Such firms will typically be managing >£100 billion from the UK, but a number of international firms have a smaller UK footprint.
2. **Small and medium-sized investment management firms** primarily focused on UK and/or European clients, which undertake a diverse range of activities, of which investment management is a constituent part.
3. **Fund managers** whose business is based primarily on authorised investment funds.
4. **Private wealth managers and specialist boutiques** typically with a specific investment or client focus.
5. **Specialist pension scheme managers** both Occupational Pension Scheme (OPS) managers running in-house investment management services for a large scheme, and Local Government Pension Scheme (LGPS) pools, supporting the LGPS investment process.

**CHART 1: TOTAL ASSETS UNDER MANAGEMENT IN THE UK AND IN UK FUNDS (2007-2022)**




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

*"It feels more like a changing of the guard, a more permanent change in the economic weather of markets than previous crises which might have seen short term spikes before things settle down again."*

*"The speed at which we went back to a world where money had a price again was a shock to the system. From an industry perspective, we will need to relearn how to operate effectively and serve our customers and our shareholders back in the world many of us recognise from 20-25 years ago."*

The 12% decrease in AUM between 2021 and 2022 is the highest year-on-year fall since the IA started collecting data over 20 years ago and is in stark contrast to the 9% compound average growth rate for the prior ten years. The only other annual fall in AUM was during the Global Financial Crisis (GFC) in 2008, which saw an 11% drop before recovering through 2009.

The value of UK investment funds under management (FUM) also fell through 2022, ending the year at £1.4 trillion, 14% lower than the £1.6 trillion recorded at the end of 2021.[1] This year-on-year contraction is eclipsed by the 23% fall in FUM recorded in 2008.

Chart 1 tracks the evolution of industry AUM and FUM over the past two decades. We observe a trebling of industry assets over the post-global financial crisis (GFC) period. In 2022, as central banks hiked interest rates and began unwinding asset purchases, the critical question arises as to the extent to which further or sustained tightening may impact upon global economic activity and market returns and the potential timing of any easing.

While we do not have historic flow data for the institutional market, IA UK investment fund data suggests that portfolio performance accounts for two thirds of the total increase in funds under management over the two decades since 2002, with a significant element therefore determined by underlying market performance. Boston Consulting Group suggests an even stronger performance-related driver at global level, calculating that some 90% of returns since 2006 have been market rather than flow-driven.

The deterioration in AUM during 2022 illustrated the limits on assumptions around the industry's ability to continue growing at the pace that we have seen over the last two decades. In an environment where recession risk continues to loom, firms must adapt to an increasingly unpredictable return environment, at

[1] More information on FUM performance and trends in 2022 available in chapter 5 on the UK retail market (page 74).

least in the near term. However, among those we spoke to, the view of 2022 being an exceptional year was not universally shared, with some industry figures placing it alongside dislocations in earlier periods.

*'There will always be something periodically. You go back to the Global Financial Crisis, the Asia debt crisis, the Eurozone crisis, dot com crisis- pick a period. Our job is to navigate through those moments of intensity on behalf of our clients - that is the deep, profound, fiduciary obligation that we have. In that sense, I don't think last year was different. It was just its own version of a very intense phase."*

*"On a 10–20-year view, the long-term trends that support the continued growth of the industry and the continued need for us to serve our customers into channelling their money to the real economy haven't changed."*

To some extent, these differing viewpoints highlight the challenge in predicting what happens next, and the potential impact upon total assets under management. A more permanent 'higher for longer' environment could see a further downward adjustment in AUM, based on the interaction of several factors:

- Lower market returns, driven by a combination of higher discount rates and weaker economic growth expectations reflected in forward valuations.
- Constraints on new money flows derived from higher cost of living, notably higher mortgage rates.
- Competing products (bank, building society accounts, annuity contracts) leading to redemptions, notably in the retail funds market.

Alternatively, a softer landing on inflation and cuts in interest rates could lead to a different trajectory. Some firms also point out that the fall in a number of markets, especially the UK equity market, also offers up significant opportunities for longer term investors.

*"Many markets on a mean reversion basis look cheap. The reality is that if you're a retail investor, investing on a 20-30 year time horizon, it looks like there are a lot of appealing market entry points."*

*"We're starting to see clients put their toes back into the water with equity growth strategies. We think it will accelerate, but it will be a slow burn."*

IA member experiences of investor behaviour was varied depending on the types of clients served and the asset class composition of those firms. Clearly, 2022 presented some exceptionally difficult moments, most notably for LDI managers and their clients in the Autumn (see chapter 4 on the UK Institutional Market). However, overall firms that we spoke to felt that the investment management industry as a whole had weathered the storm well to date, with redemptions in the retail market often a result of challenges around cost of living rather than concerns related to market performance and distrust.

*"I didn't pick up a sense of distrust in the industry or that the industry let investors down, whether among wholesale retail or institutional clients. Because of the breadth of capability that the industry now offers, we could continue to remain relevant even in an environment where the status quo has been turned up in the air."*

*"We're seeing more cost of living-oriented behaviour. We've seen the same number of people making monthly contributions, but the amount they've saved has decreased by 40%. The question is: how much of that is they just had excess cash in the pandemic and we're just seeing "back to normal" or how much of that is the cost of living crisis impact? It is hard to parse that out."*

*"We feared a huge percentage of our clients would be seeing their first market downturn. All of our clients that have started investing in the last three years have seen a net decrease in their portfolios, but they have not made one move. Less than 2% of our clients traded out of the market."*

## BOX 1: GLOBAL CAPITAL MARKET PERFORMANCE IN 2022

Chart 2 highlights the 2022 performance of selected regional equity and bond market indices.[2] Both equity and bond markets turned negative amid geopolitical conflict and rising inflation. Russia's invasion of Ukraine in February, and subsequent sanctions, had a particularly large impact on energy and food prices globally.

### EQUITY MARKETS

In a very challenging macroeconomic environment, most major regional equity indices recorded negative returns in 2022. Global equities fell 7%, contrasting with the 20% return recorded in 2021. UK equities were the only exception and remained marginally positive at 0.3%, the first time in a decade that the UK outperformed global and US equity markets.

The relative resilience of **UK equities** is largely a reflection of a higher weighting towards certain sectors such as energy and healthcare. By contrast, **US equity** returns were down 9%. High growth tech stocks, which make up a substantial proportion of total US equity market capitalisation, had a particularly difficult year.

**European equities** fared marginally better than US equities, down 7% in 2022. The continent's reliance on Russia for natural gas caused energy prices to spike sharply in the middle of the year exacerbating inflationary pressures and impacting economic growth.

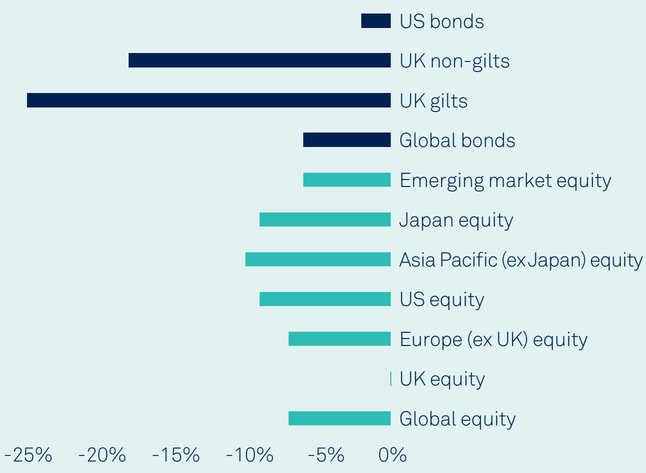
**Asia Pacific** and **Japan** exhibited the worst performance of 2022, ending the year with negative returns of -10% and -9%, respectively. Much of the downturn was driven by the poor performance of Chinese equities. When China retired its zero-Covid policy in Q4, Asia Pacific equities rallied, though not enough to recover earlier losses.

### BOND MARKETS

Investors – and portfolio constructors – have become used to an inverse relationship between equity and bond prices. In 2022, equity and bond prices moved down in tandem. The Bloomberg Global Aggregate index for global bond markets recorded negative returns of -6% over the year.

It was a particularly difficult year for the UK bond market. UK Gilts and UK Non-gilts recorded market returns of -25% and -18%, respectively. Although exposed to the same headwinds of rising inflation and rising interest rates, investors in UK bonds were also faced with exceptional turbulence following the Fiscal Event on 23 September. Central bank intervention brought some stability, but yields remained elevated.

### CHART 2: TOTAL RETURNS ON SELECTED INDICES IN 2022




Source: Morningstar

[2] These are presented on a total return basis. Total returns include income distributions through dividends or share buyback as well as the rise and fall of stock or bond prices that are measured through capital returns.

## SCOTLAND AS A MAJOR CENTRE

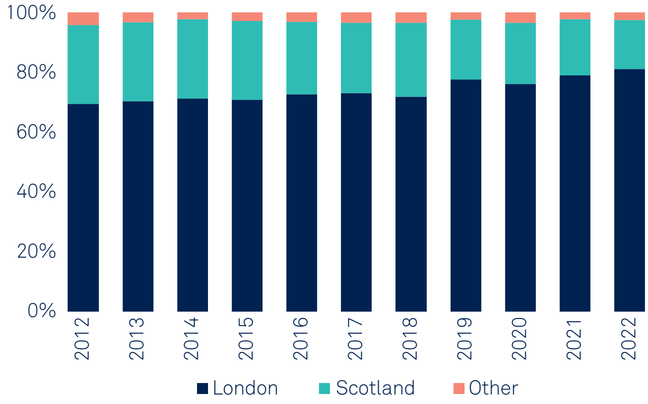
While London continues as the undisputed investment management centre in the UK, the second most important city remains Edinburgh, reflecting the wider importance of Scotland as a centre for the industry. The share of UK assets managed from Scotland fell by one percentage point between 2021 and 2022, accounting for 6% of UK AUM. However, this masks quite a sharp fall in nominal AUM year-on-year from £700 billion to just under £500 billion, almost 30%, reflecting differential operating experiences across UK-based firms through recent volatility.

Over the past decade, the share of Scottish AUM as a percentage of UK AUM has fallen by almost half (11% in 2012). This in part reflects some major changes in the corporate, and in consequence, operating structure of the Scottish asset management industry. It also reflects differential growth rates. Over the same time period, the total value of UK AUM has more than doubled. This suggests that the overall decrease in the proportion of UK AUM directly managed in Scotland is a reflection of faster relative growth in London and elsewhere in the UK, rather than a significant fall in Scottish managed assets in nominal terms.

Chart 3 looks at the regional distribution of assets managed by firms headquartered in the UK. Over the past ten years, there has been a gradual decrease in the share managed by firms headquartered in Scotland, from a quarter in 2012 to 16% in December 2022. Over the same period, firms headquartered in London have come to manage 81%, up from 70% in 2012.

The concentration of assets managed in the UK to firms headquartered in London fits in with a broader pattern we see in our employment data. Specifically, business operations have become more centred in Scotland, while portfolio management has become increasingly concentrated in London.[3]

### CHART 3: UK-MANAGED ASSETS BY UK REGIONAL HEADQUARTERS (2012-2022)




Source: The Investment Association

[3] Data on regional employment trends available in Chapter 6: Operational Resilience (page 98).

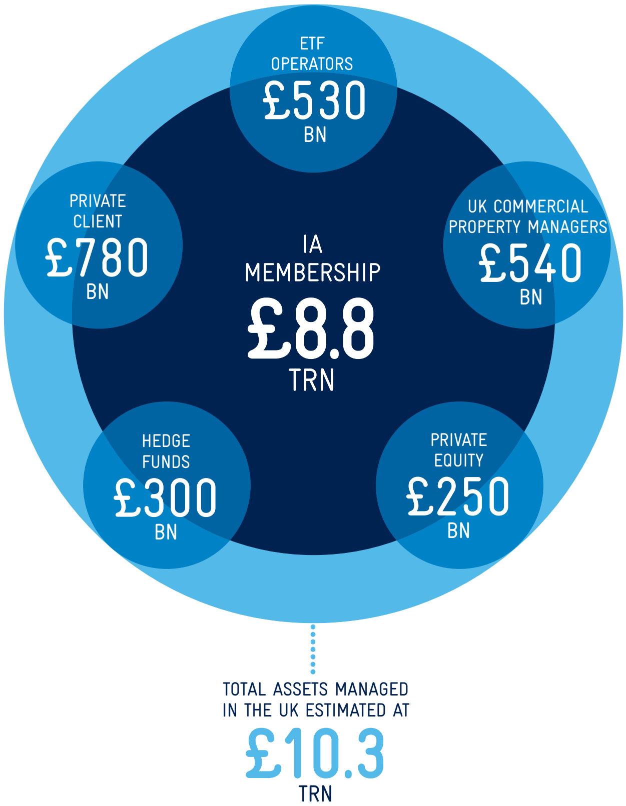
## SCALE OF WIDER INDUSTRY

The Investment Association's membership is diverse and far-reaching. Together, IA members are responsible for an estimated 85% of all investment management industry assets managed in the UK.[4] Firms not covered in this report will belong to one of the following 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.
- **Firms outside full IA membership.** Investment management firms that sit outside the IA membership other than those listed above is a difficult group to accurately size due to the lack of consistent third-party data.

Using third-party data and proprietary estimates, we estimate the wider industry at £10.3 trillion, down from £11.6 trillion in December 2021. Figure 3 provides estimates and illustrates how wider parts of the industry contribute to total assets under management in the UK.[5]

**FIGURE 3: WIDER UK INVESTMENT MANAGEMENT INDUSTRY IN 2022**




Source: The Investment Association, Pitchbook, Preqin

[4] Additional information on IA membership and industry trends regarding the type of firms that make up the investment management industry available in Chapter 6: Operational and Structural Evolution (page 93).

[5] A large share of IA member firms are active participants in the industry niches featured in Figure 3, so please account for a minimal degree of overlap between the wider industry figures.

## THE UK IN GLOBAL CONTEXT

The impact of a tough macroeconomic environment was not confined to the UK investment management industry. Global assets under management in 2022 fell 10% from \$109 trillion to \$98 trillion.[6] The UK still maintains its position as the world's second-largest investment management centre, overseeing 11% of global assets under management. Assets under management in the US, which account for nearly half of global AUM, fell 14% year-on-year to \$47 trillion.

Estimates for the European funds market (ex UK) suggests that total European fund assets were down around 10% through 2022 in local currency terms.[7] Together, the US, UK and Europe are responsible for over four fifths (86%) of global AUM. Japan stands out as a significant centre for investment management in the rest of the world, itself responsible for 7% of global AUM.

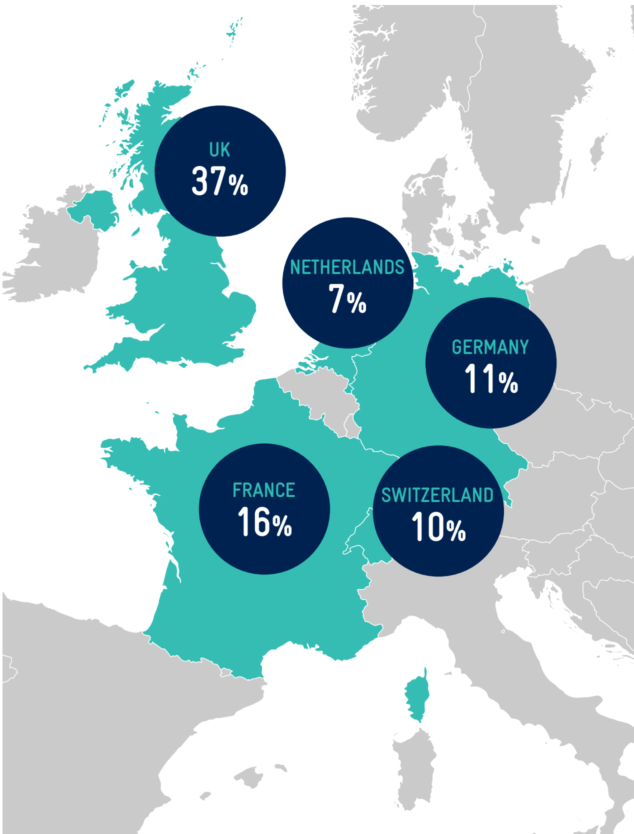
### TABLE 1: GLOBAL ASSETS UNDER MANAGEMENT IN 2022

| | Assets under management (local currency) | Assets under management (£ equivalent) |
|---|---|---|
| United States | \$47 trillion[8] | £39 trillion |
| Europe | €28 trillion[9] | £25 trillion |
| Japan | ¥888 trillion[10] | £6 trillion |

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

At a European level, the UK's investment management industry has a market share of 37%[11], which is equivalent to that of the next three largest European markets combined. As illustrated in Figure 4, the UK is followed by France (16% of European AUM), Germany (11%) and Switzerland (10%). Since entering the ranks of the top five largest European investment management centres in 2020, the Netherlands remains the next largest centre (7%).

### FIGURE 4: ASSETS UNDER MANAGEMENT IN EUROPEAN COUNTRIES (DECEMBER 2021)




Source: EFAMA

[6] Boston Consulting Group, The Tide Has Turned: Global Asset Management 2023.
[7] EFAMA, International Statistics Release, Q4 2022 and Q4 2021.
[8] Boston Consulting Group, The Tide Has Turned, Global Asset Management 2023.
[9] EFAMA, Our industry in numbers (data estimated as of September 2022).
[10] Japan's Asset Management Business 2022-23, NRI (data as of December 2021).
[11] At the time of publication, 2022 data is not yet available on a pan-European basis. These estimates are as of December 2021, based on data published by EFAMA.

## MULTIPLE DIMENSIONS OF INTERNATIONAL ACTIVITY

A key driver of the scale of total assets under management is the international nature of the UK investment management industry, both in terms of the customers and businesses served and the underlying assets. Figure 5 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

UK retail and institutional investors continue to account for the majority of AUM in 2022, contributing £4.6 trillion to total UK managed assets, while assets managed on behalf of overseas clients stood at £4.2 trillion. As a proportion of total assets, AUM for overseas clients rose two percentage points and now account for almost half (48%) of total assets.

Identifying drivers of change in the overseas client number is challenging in the absence of flow data at AUM level. It will reflect a series of factors, including client behaviour, operational decisions regarding investment management capabilities, capital market returns and exchange rate movements.

In the case of the 2022 increase from 46% to 48%, the main driver appears to be the differential rate of change in overseas and domestic customer AUM. While assets for both UK and overseas clients fell over the year, UK client assets fell by 16% compared with a 7% fall in assets managed on behalf of overseas clients.

Looking back over the past five years, Chart 4 shows the consistent rise in the proportion of assets managed on behalf of overseas investors since 2018, following a period during which overseas client AUM averaged some 39% of total AUM.

**FIGURE 5: FOUR MEASURES OF A GLOBAL INDUSTRY IN 2022**

**CUSTOMERS**
**48%** of total assets managed in the UK are for overseas customers. Over half of those are in the rest of Europe.

**MARKETS**
**78%** of the shares managed in the UK are invested in overseas markets – for domestic and overseas customers.

**COMPANIES**
The UK attracts firms from around the world. Companies headquartered outside the UK are responsible for **60%** of total assets managed here.

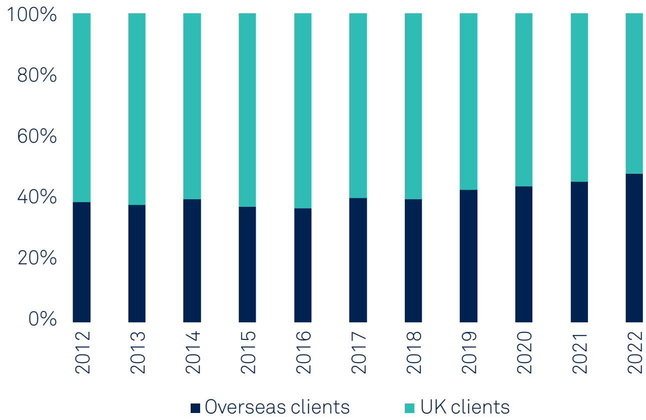
**ECONOMIC CONTRIBUTION**
**5.5%** of total UK service exports from the investment management industry.

The distribution of the £4.2 trillion of overseas client assets by region is illustrated in Figure 6. In terms of the top three regions:

- European clients continue to make up the majority (56%) of overseas client assets, from 59% in 2021. Of the £2.4 trillion managed on behalf of European clients, the majority (91%) is managed on behalf of clients in the European Economic Area, approximately £2.1 trillion.
- North American clients account for approximately 20% of the UK industry's overseas client base, broadly unchanged in relative terms from 2021.
- The share of total overseas client assets for Asia-Pacific clients increased by one percentage point over the year, accounting for 16% of assets as of December 2022.

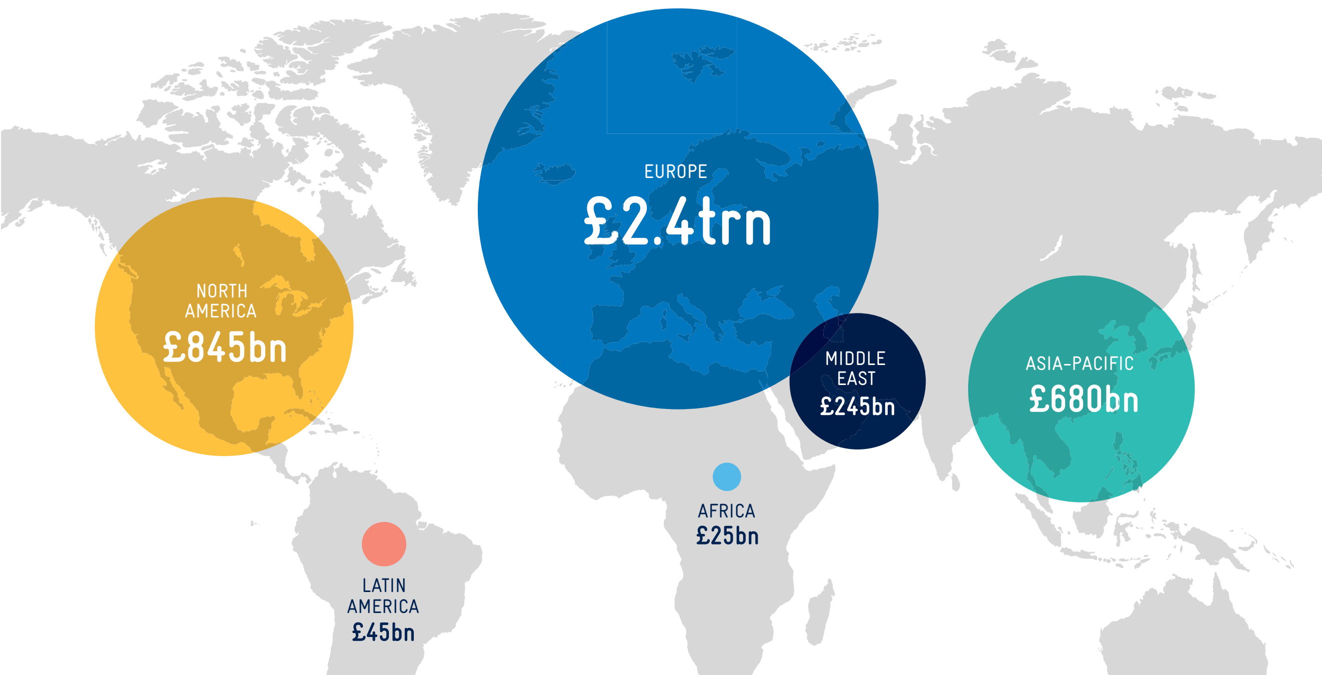
Assets managed on behalf of clients from other regions experienced little change between 2021 and 2022. Middle East client assets continue to account for 6% of overseas client assets. Latin American and African client assets continue to each account for approximately 1% of overseas client assets.

**CHART 4: CHANGE IN PROPORTION OF UK AND OVERSEAS CLIENTS (2012 - 2022)**




Source: The Investment Association

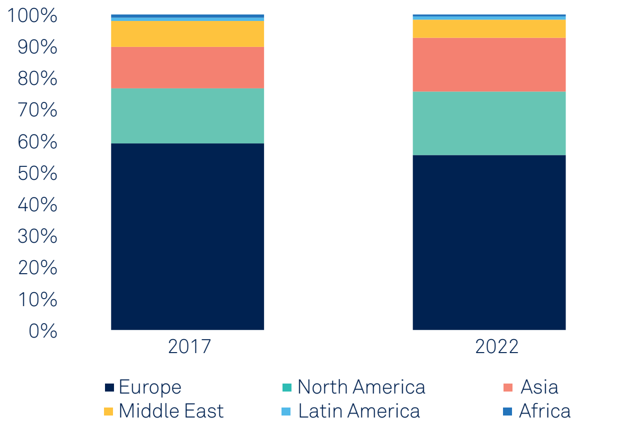
**FIGURE 6: ASSETS MANAGED ON BEHALF OF OVERSEAS CLIENTS IN 2022**




1

Taking a slightly longer perspective, Chart 5 illustrates how the distribution of overseas client assets has evolved over the past five years. Broadly, assets managed for European clients (down two percentage points to 56%) and Middle Eastern clients (down two percentage points to 6%) have both decreased in relative terms. In contrast, North American (up from 17% to 20%) and Asian (up from 13% to 16%) client assets have increased.

### CHART 5: OVERSEAS CLIENT ASSETS BY REGION (2017-2022)




Source: The Investment Association

## SERVICES TO OVERSEAS FUNDS

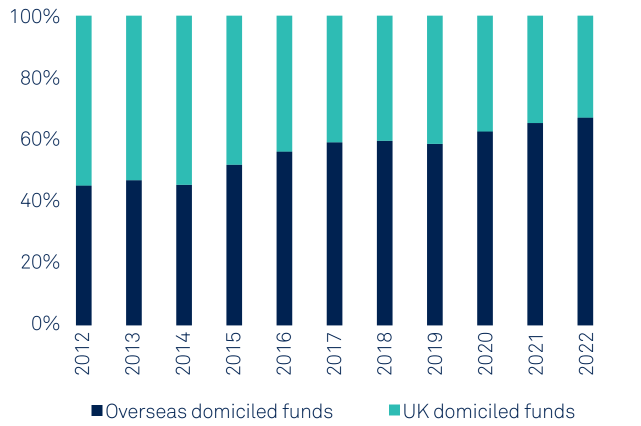
Total assets in UK-managed investment funds stood at £4.0 trillion at the end of 2022, marginally down from the £4.1 trillion reported in the previous year. The majority (67%) of these assets sit in funds domiciled overseas, with the portfolio management taking place in the UK:

- Ireland is a key location for overseas domiciled assets accounting for a third (33%) of total fund assets, the same proportion of assets that sit in UK domiciled funds.
- Luxembourg is the third largest country of domicile accounting for 15% of total fund assets.
- The remaining fifth of assets sit in funds domiciled in the EEA (8%) and outside the EEA (12%)

Looking back over the last ten years, Chart 6 highlights the growing significance of the UK as a centre of excellence in portfolio management for international investment funds, relative to the scale of the domestic funds market. Since 2012, the share of assets in overseas domiciled funds has increased from less than half (45%) to just over two thirds (67%) of all fund assets.

It should be noted that our funds data includes assets in open ended funds, investment trusts, ETFs, hedge funds and money market funds (MMFs). Some of these products, most notably institutional MMFs and ETFs, are almost exclusively domiciled overseas. While we have seen assets in UK domiciled funds increase in nominal terms over the last decade, the significant growth of ETFs over the past five years has significantly contributed to the growth in the share of assets sitting within overseas domiciled funds (see Box 4 for more detail on trends in the ETF market).

### CHART 6: PROPORTION OF ASSETS MANAGED IN UK AND OVERSEAS FUNDS (2012-2022)




Source: The Investment Association

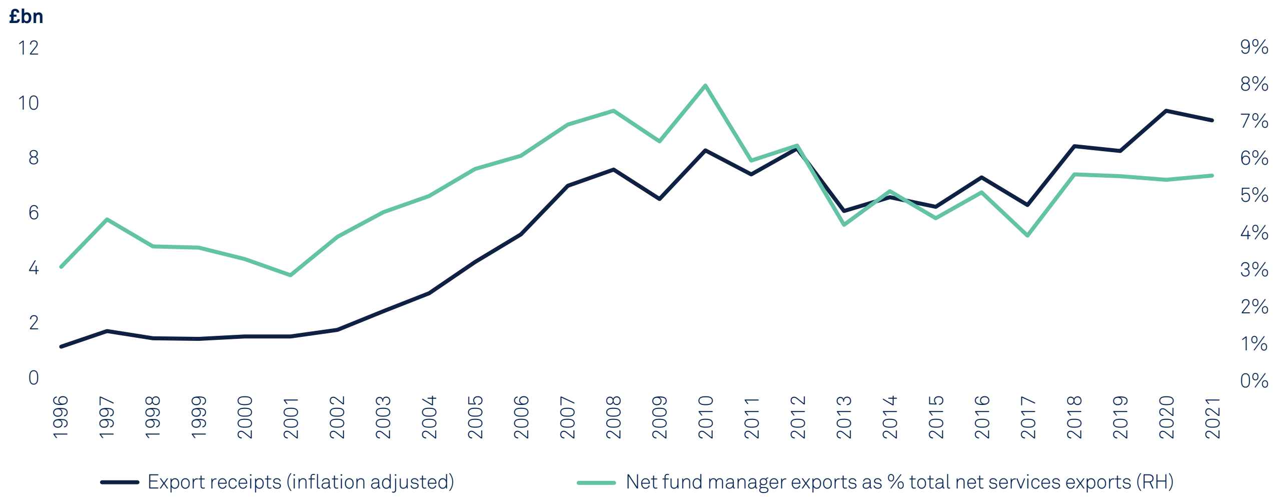
## IMPORTANCE TO UK SERVICE EXPORTS

The internationalisation of UK investment management presents an important opportunity for the industry to export its services globally. This is supported by the continued growth in assets within overseas domiciled funds where portfolio management is delegated to UK based portfolio managers in addition to the industry's increasingly international client base (see charts 6 and 4, respectively).

Chart 7 looks at the investment management industry's contribution to the UK's total export earnings since 1996. Once adjusted for inflation, the contribution to the UK's total export earnings stood at £9.4 billion in 2021, which is marginally down from £9.7 billion in 2020. The revised[12] ONS data show a consistent increase in the value of exported services from 1996 to 2008 (from approximately £1.2 billion to £7.6 billion). Post-2008 the data show more fluctuations but overall, the value of exported services has grown to reach £9.4 billion.

The right-hand side of Chart 7 tracks the contribution of fund manager exports to total net exports. ONS data show that, since 2018, fund manager exports account for approximately 5.5% of total UK net exports. This is higher than the average 3% recorded in the 1990s (the last period of sustained growth), but still below the 6% to 8% recorded between 2006 and 2012.

### CHART 7: INDUSTRY EXPORT EARNINGS AND RELATION TO UK SERVICES EXPORTS (1996-2021)




Source: The Office of National Statistics

[12] Data revisions by the Office of National Statistics means we have seen a reversal in the trend we have been reporting for the past few years. Whereas we had been a reporting a decrease in the contribution of fund managers to exported services, this has stabilised over the past five years.

## MAINTAINING INDUSTRY COMPETITIVENESS

Although the data presented in this year's report remains broadly positive on the international standing of the industry at a time of significant challenge, sentiment in the industry about the UK as a place to do business is less so. This partly reflects the scale of policy and regulatory change that has coincided with the challenging global economic, political and security environment that we explored in the earlier part of this chapter. In a rapidly changing world, there is real concern that the UK is already losing ground as firms look elsewhere to innovate and establish new capacity that could otherwise be located in the UK.

In early summer 2023, the Investment Association set out six regulatory objectives for the UK investment management industry to remain competitive:[13]

- Stimulate innovation
- Facilitate cross-border business
- Focus on the cost of doing business
- Modernise the regulatory process
- Calibrate risk appropriately
- Target regulation effectively

The comments made in interviews conducted for the Survey echo these objectives, but with a particular emphasis on the threat to innovation and the UK's future as a cross-border hub for the best talent in investment management if the cost of doing business in the UK is not addressed with a more efficient and proportionate regulatory system. More positively, there is an emerging alignment between industry and regulators on key aspects of the reform agenda, notably around the need to enable technological innovation and a less prescriptive approach to important aspects of the customer experience.

### STIMULATING INNOVATION

As we discuss in more detail in the next chapter, there are different drivers of innovation, with firms seeing the central importance of cost efficiencies alongside potentially significant advances in quality of decision-making, operating infrastructure and customer interaction.

*"The tokenisation of assets and funds could transform this industry and make access even easier. Being able to harness AI and enhance the use, quality and access to data will be transformational."*

As part of this process, the industry is strengthening at pace the dialogue with policymakers and regulators. Notably, a new Technology Working Group was established in early summer 2023 as part of the UK Asset Management Taskforce, which will help to identify the main opportunities in areas such as tokenisation and distributed ledger technology.

Firms also continue to see an obvious link between innovation and the sustainable investment agenda, with the potential for the UK industry to lead the way in which the decarbonisation imperative is embedded into the investment and capital market delivery infrastructure. This extends from issuance – e.g. how the green bond market develops – through to use of data for investment decision-making and portfolio or fund construction.

Linking to other aspects of prioritisation, notably the importance of cross-border business for a significant part of the investment management sector, there remains limited appetite for regulatory innovation to move the foundations of the UK fund regime too far from the established UCITS standards and a widespread desire for close alignment with the EU regime. At the same time, there is a recognition and ambition in certain areas to ensure the UK has the bench strength to deliver in accelerating areas such as private markets, which requires a new generation of fund vehicle such as the Long-Term Asset Fund.

[13] Investment Association response to FCA Discussion Paper 23/2, Updating and improving the UK regime for asset management.

*"The EU fund regime is an extraordinary export story for the EU and we should be extremely careful about diverging away from that. We should be as closely aligned as possible because it has been a global kitemark for 35 years for quality. It balances the ability to generate exciting investment returns with high quality investor protection. That is the gold standard."*

## FACILITATING CROSS-BORDER BUSINESS

The critical importance of portfolio management at the heart of the UK investment management industry continues to be a central message from firms. They emphasise the need for ongoing vigilance and determined promotion of open borders in a global environment increasingly characterised by re-localisation and re-regionalisation and a degree of protectionism in a number of key strategic sectors.

*"The part of the value chain that creates really high paying jobs and drives the economy forward is the investment management component. At the moment, even by adding cost and launching EU fund structures, we're still able to access global investors everywhere using our UK fund managers. The most important thing is that continues."*

*"The UK must not take for granted its position. We have a whole ecosystem around the investment management industry in the UK: sell side, accountants, lawyers, auditors. That ecosystem allows us to serve millions of customers globally."*

At the same time, at product level, potentially diverging UK and EU regulation is also an obstacle to effective cross-border business. This has several specific ramifications:

- For UK and EU fund products, where portfolio management takes place in the UK, different approaches can significantly complicate delivery. For example, SDR and SFDR both have requirements that impact the way in which SRI portfolios are constructed and report.
- For EU fund products sold into the UK, having a different UK regime can lead to much more complicated requirements if a high degree of equivalence is needed in key areas of governance and reporting. The industry is awaiting the new Overseas Fund Regime, which will determine the parameters of the UK's import regime in this area.

*"For the UK asset management industry, the biggest opportunity is still managing assets or pools of assets that sit outside the UK. The ability to still delegate asset management into the UK is by far the biggest asset we have and that is what we export."*

Getting the regulation and the terms of trade right in this area remains a significant – and sensitive – challenge for policymakers, regulators and industry.

## FOCUSING ON THE COSTS OF DOING BUSINESS

The question of costs and complexity – for example, through the layering of new regulation onto similar existing requirements – elicited the strongest response in Survey interviews on competitiveness this year. Over the past seven years, the UK has seen an unprecedented degree of new regulation affecting the sector, including:

- FCA Asset Management Market Study (2015-2017, with implementation 2018-2019), FCA Platform Market Study (2017-2019) and CMA Investment Consultants Market Investigation (2017-2019)
- Implementation of MiFID II in 2018
- Senior Managers and Certification Regime (applying to sector from December 2019)
- LIBOR Transition with final use at end of 2021
- Consumer Duty (in force from 2022)
- Sustainable Disclosure Regime (policy statement expected by Q4 2023)

Regardless of size, business model and ownership type, there is a widespread view that costs have increased to a point where the UK is becoming a much more difficult place to do business as a fund management and/or investment management business.

Firms point out that there are other jurisdictions, including the US, which provide high consumer protection regulation and a lower regulatory compliance burden that could see the UK's global competitiveness reduced, particularly in a post-Brexit environment, where access to the European market is less certain.

*"I worry that the default now is to add regulation on top of regulation. It is suppressing innovation."*

*"The UK part of the business is about one third of total assets under management and revenue of the global business, but my regulatory bill is around four times the rest of the organisation. What that means is if you look at me as a standalone business, I'm far less profitable than my APAC business or our North American business. A lot of that is to do with cost of regulation."*

*"The impediments to success are a whole load of things from the treatment of VAT on asset management services to the regulatory agenda. If we have to jump through hoops that other countries don't have to jump through, is it easier just to deal with different jurisdictions?"*

In terms of the practical consequences of this rising cost, the risk is that innovation happens elsewhere, which has implications for the talent pool and the UK's wider ability to attract the brightest and best as has historically been the case for UK financial services.

*"There's only a finite amount of capital available... and we could invest in generative AI for better product design or other things that I think could really benefit the UK economy and the consumer."*

*"The challenge is that with cost of regulation, on top of all of the headwinds we are facing in markets and the economy, margins are going down and UK-based firms can't invest so much back into their business. It will then be harder to retain talent and that could be quite a significant impediment. We could find that we will fall behind our competitors."*

## MODERNISING THE REGULATORY PROCESS

Linking closely to the frustration over rising costs and complexity is a desire to see a different approach put in place to ensure the most effective regulatory process. One central theme, echoed already in industry calls for a new Investment Management Regulatory Forum, is the desire for better structures for dialogue between regulators and industry. At the same time, there is recognition by some that the relationship between firms and regulators is moving in a more positive direction, as reflected in a number of recent regulatory initiatives.

*"We need rule-makers who listen to the industry and work with the industry to make it a competitive vibrant market. We all want good consumer outcomes. My business would go bust tomorrow if we don't have good customer outcomes."*

*"We recognise that there is good dialogue underway, a willingness to adapt, evolve and learn from some of the things that went wrong. From listing reform to the permissioning that has enabled the first LTAFs to be out in the market. All of those things underpin that embrace of the future."*

A further point, again echoing observations made over many years by the industry, is the importance of predictability and stability at a political level. Inevitably, governments will change, and elections will bring about new priorities. But for firms – and their customers – increasingly making funding commitments in areas such as energy infrastructure that stretch out over decades, it is both regulatory and political certainty that matters, such that the terms of trade do not unexpectedly change.

*"We need to invest for the long term in our systems and our infrastructure. In order to do that, we need to understand and have confidence in the regulatory agenda. The regulatory agenda is in many parts driven by the political agenda. If that agenda keeps on changing, can we ever get that alignment and planning that we need?"*

## CHANGING RISK CULTURE

Members also highlighted that while consumer protection remains a core tenet of their retail businesses, risk is an inherent component of investment. Some felt that the direction of regulation has been to constrain the ability to take risk in some areas, which will limit investment options for consumers. At the same time, there is a recognition of progress being made in changing approach by the FCA, with industry support for the FCA's identification in recent years of high cash holdings by some savers as a potential source of harm as a result of missing out on investment opportunity.[14]

*"If we aspire for a world which is about risk elimination, we're not going to go anywhere. We're in the business of taking the right risk on behalf of our clients and it's only through that, that we will generate the returns necessary to safeguard their future financial requirements. Every now and then the zeitgeist feels quite hostile to that. We've got to try to reset that."*

The changes needed to boost the UK's risk culture include more decisive action on resolving what has become a long-running debate over improving access to guidance alongside greater use of regulated financial advice. Again, 2022-23 has brought signs of progress with both a new consultation on simplified advice and a cross-stakeholder review, sponsored by HMT and FCA, to examine potential solutions to the advice/guidance boundary conundrum.

It is clear that the regulatory parameters need to be addressed as an initial priority. This could be particularly important in helping to facilitate the further development of regulated personalised guidance: e.g. tools to nudge investors towards certain options. As we discuss in the final section of this chapter, there is also scope for AI to facilitate enhanced customer services in this area.

[14] FCA Retail Investment Strategy (2021) noted that out of 8.6m consumers holding over £10k in cash, half could potentially benefit from investing.

## TARGETING REGULATION EFFECTIVELY

Finally, in an era of what may become a more principles-based regulatory environment (eg. through the Consumer Duty), firms are keen to look again at the overall rule book and see where there is scope for simplification of what has become an ever more complex set of requirements.

*"There's an opportunity to think through the rulebook and look at where do we have lack of proportionality and how can we simplify some of the regulations. If we're going to be principles based and outcomes oriented, we have to go to the process-oriented rules that the FCA - on a day-to-day basis – does function on. Some of those processes and rules have to be simplified."*

*"We have a productivity lapse in part because we have over-regulated, and we could have a productivity boost if we actually simplified some of the regulations and rely instead on the governance put in place for Consumer Duty."*

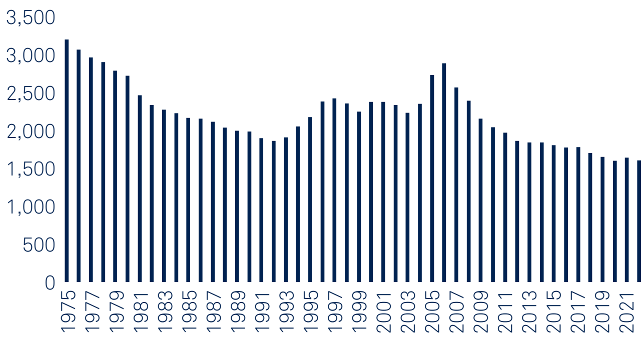
There are signs that this is starting to happen. An initial FCA discussion paper in 2022 (DP22/6) on the future of disclosure has begun to explore how to get the balance right between a consistent foundation and the scope for firms to tailor materials to customers without the kind of prescription that has characterised retail documentation. The potential for innovation and better customer outcomes recognising the needs of different individuals or groups is significant. The UK industry's current position is to find a way to preserve the advantages of consistency (for example, a standard way of presenting key metrics such as charges or performance) while allowing greater freedom for manufacturers and distributors in how they present wider information as part of the investment process, both pre-sale and reporting.

## THE FUTURE OF PUBLIC MARKETS AND THE UK LISTINGS REVIEW

Beyond sector-specific issues, the industry is also closely engaged on the wider shape of the UKs capital markets, which are critical to long-term wider competitiveness. A central concern in the UK in recent years has been the decline of new listings in London, and in particular the loss of a number of innovative, high-growth companies to listings in other jurisdictions, notably the UK.

This concern has led to a number of reviews, including the Kalifa, Hill, Secondary Capital Raising, UK Prospectus Regime and UK Wholesale Markets Reviews, all of which have had the aim of attracting and retaining high-quality companies to the UK and unlocking more capital to be allocated to such companies.

**CHART 8: NUMBER OF UK LISTED COMPANIES (1975-2022)**




Source: World Bank, London Stock Exchange Group

Following these Reviews, in 2023 the FCA made a number of announcements aimed at furthering these objectives, namely a new regime for public offers and admissions to trading, and proposals for reforms to the UK Listings Regime. The FCA's proposed new regime for public offers and admissions to trading aims to simplify and reform the current regime so that:

- Issuers can raise capital in an effective and efficient way.
- Costs are reduced for issuers and investors.
- Investors have sufficient reliable information on companies' securities.
- There are fewer barriers to participation.
- There is appropriate monitoring and verification of issuers and securities.

The proposed reforms to the Listing Rules regime come after concerns were raised that the current Listing Regime is overly restrictive and acts as a deterrent to companies looking to list in the UK. The main proposed reform is the combination of the current premium and standard listing segments into a single segment for equity shares in commercial companies.

*"We have British companies deciding to go and list in the US because it's too hard here. You have asset managers now starting their businesses and doing any business outside the UK because it's too hard to register and too hard to start up."*

*"The challenge is finding the right balance between attracting companies and maintaining regulatory rigour – it can be the best market in the world from a governance perspective, but it's not much use if no one will raise money here."*

The IA continues to engage with the FCA on these topics, and is broadly supportive of the reforms, but notes the need for a balance between:

- UK competitiveness.
- The needs of companies and their ability to raise capital on public markets.
- The fundamental role of investment managers to deliver sustainable returns and protect value on behalf of their clients.
- The risk appetite and needs of society and the economy to ensure the integrity of and public confidence in well-functioning public markets.

*"We should definitely try to be more competitive and try to remove bureaucratic barriers to making the UK an attractive place to list. What we shouldn't do is compromise on the quality benchmark of our standards. The Goldilocks point is standards that are high and have value to investors and investor protection whilst minimising bureaucracy and governance overhead."*

The IA is working with the FCA and other key stakeholders to identify ways to encourage high-growth and high-quality companies to operate in the UK while ensuring key investor protections remain in place.

On the demand side, the industry is also closely engaged with the 2022 Mansion House reform agenda designed to focus the debate onto the importance of risk capital for UK economic growth more broadly, whether for private or public companies (see further discussion on Private Markets in Chapter 3).

# 2 THREE KEY THEMES THAT WILL SHAPE THE UK INDUSTRY

## KEY FINDINGS

### 1. ACCELERATING IMPACT OF TECHNOLOGICAL ADVANCE

- In Chapter 1, we set out the central importance of innovation to the industry's agenda. Here, we explore in more detail the transformative potential of AI and tokenisation. We also look at some operational resilience challenges arising from this new technological environment.
- Through 2023, AI has raced to the top of the agenda for businesses globally. The likely scale of impact for investment managers is seen as very high for an industry dependant on the interpretation and manipulation of data to build its products and services. There is also clear recognition of the emerging use cases for improving the customer interaction side, ranging from communication to better support and guidance.
- While AI has dominated this year, the potential for tokenisation to transform the operating infrastructure of both the funds industry and capital market is moving up the agenda for an increasing number of firms. The UK is reaching a critical point in defining its approach, with clearer regulatory foundations expected in the near term.
- With many firms still assessing how they might engage with a more tokenised delivery infrastructure, an avant-garde is moving ahead more quickly and foresees ramifications for the future of the investment fund as a concept. This hinges particularly on mass customisation of portfolios. Although tokenisation is not a pre-requisite, it is seen by some as a powerful tool to drive transformation, especially in less liquid markets.
- Opportunity also brings risk and firms are working at pace to enhance their operational resilience at multiple levels, including dependence on critical third parties in the technology market and ever more sophisticated – and AI-enabled – cyber threats.

### 2. EVOLUTION OF SUSTAINABLE AND RESPONSIBLE INVESTMENT AGENDA

- After a period during which SRI assets under management and flows have grown very rapidly, SRI appears to be entering a new and more challenging phase of development. We explore this under three headings.

**Client behaviour and the impact on flows.**

- After a strong 2020-2021, flows to SRI funds in the UK have tapered, partly reflecting the same cost of living concerns that have adversely impacted flow across the funds market. At the same time, relative performance in 2022 was impacted by a market pull-back in the tech sector and stronger performance in oil and gas, aerospace, and defence stocks. This has served as a reminder that allocation momentum has different drivers, with a range of motivations and preferences among individual investors and asset allocators.

**Complexity of delivery environment.**

- Looked at through the lens of blockers and drivers, the industry faces several issues, notably:
  - The wide range of individual and institutional preferences across the themes covered by the SRI umbrella. Always a reality, this has become more evident in debates over energy security and weapons investment after the invasion of Ukraine.
  - A more significant debate about the implications of the fiduciary / agency model for the leadership role of the investment management industry in this space.
  - Increasing signs of tension over the distribution of transition costs in the context of a more challenging economic environment, which have the potential to amplify the discussion about industry role.

None of these factors are seen by firms as challenging what is widely regarded as a 'mega trend' in SRI, driven by the urgent need to tackle the global climate crisis. However, they are changing aspects of how the conversation takes place with some clients in some jurisdictions and are likely to continue to do so.

**Evolving regulatory expectations.**

- Regulators internationally are continuing their focus on SRI with an increasing emphasis on disclosure standards. In the UK, the next step will be a labelling approach under the Sustainable Disclosure Requirements (SDR) regime. While there is strong industry support for the overall objective, there has been a significant gap between the reality of the SRI process and the ability of a small number of labels to capture this in a way that can be both helpful to customers and operationally viable. One critical issue to resolve in all eventualities will be availability and consistency of data, which remains a central challenge internationally.

## 3. ONGOING IMPORTANCE OF CULTURAL SHIFT

- Attention to Equity, Diversity & Inclusion (EDI) continues to be a growing industry priority and lies at the heart of the cultural transformation agenda. Together with the embrace of new technology, success in EDI is widely seen as central to the industry remaining relevant to younger generations with a different set of expectations and tolerance, as well as contributing to the wider corporate and social good that EDI delivers.

- The focus is shifting away from diversity characteristics alone towards creating an inclusive culture that promotes belonging and psychological safety across the organisation and throughout the entire employee experience. Here too, data matters enormously and firms are placing more emphasis on gathering breadth and depth of workforce data so that firms understand where they are currently, and how to move forward effectively.

- From a UK regulatory perspective, an important next step will be an FCA Consultation Paper on Diversity and Inclusion in the financial sector, building on an earlier Discussion Paper. The CP is anticipated in the second half of 2023 and in the meantime, industry continues to make progress in EDI initiatives.

- Areas that require further attention include the need to ensure sustainable change, particularly in executive decision-making and investment roles. We expect much more activity in the years ahead to further progress this critical agenda.

In Chapter 1, we outlined an adaptation challenge in what increasingly looks like a new macro-economic and macro-financial environment. This has been driven by a series of crises that have both destabilised the existing global political and security order and contributed to a change of direction on global monetary policy that has had significant consequences for markets. Looking to the medium and longer term, the industry has set out an agenda for maintaining competitiveness that prioritises innovation, but also requires a range of further changes to be successful.

In this chapter, we look at three key themes that are a focus in this new environment. We start with accelerating technological change, then look at sustainability and EDI. These themes have something important in common, notably their resonance well beyond financial services and investment management. They are critical areas that are now at the heart of the wider global policy agenda and increasingly, in the case of both sustainability and EDI, creating points of polarisation and disagreement. Getting new technology, sustainability and culture right is therefore a challenge that will take the industry beyond its comfort zone in multiple different ways, but will ultimately define its relationship with wider society, both in terms of the product set itself and in terms of wider values and political alignment.

## ACCELERATING TECHNOLOGICAL ADVANCE

Although the direction and precise pace of innovation continues to be difficult to predict, there is an increasing consensus that investment management, as part of wider financial services and the economy, is about to experience transformative change. The debate through 2022 and into 2023 has been increasingly dominated by artificial intelligence (AI), but the potential offered by tokenisation / digitalisation still appears significant, albeit with a range of views about the pace of adoption and impact. This section of the report looks both at AI and tokenisation.

### A NEW INDUSTRIAL REVOLUTION?

The explosion of generative AI onto the scene in late 2022 is widely seen as the beginning of a transformative phase in technological development. AI promises to provide significant productivity benefits from a general business perspective, potentially altering the investment outlook across a range of investee sectors and companies, as well as reshaping the internal workings of member firms. A number of comments in the Survey interview process reflected the recognition of the scale of potential change ahead.

*"AI is revolutionary. It's been just six months now since chat GPT, but it has the potential to have an earth-shattering impact upon us. It presents an opportunity for a significant increase in productivity across the entire economy."*

Done properly, AI-enabled utilisation of data will significantly change how products are built, the level and mode of interaction between companies and their employees, and between companies and their customers. Many firms have experimented in the early part of 2023 with new AI tools to identify the ways in which greater data insight can be achieved.

*"Investment in data, both in terms of actual data as well as the analysis, driving that through to decision making will be critically important."*

It has also provided a new lens through which to imagine other changes within the industry, for example how AI can be paired with distributed ledger technology, or with customer interfaces, to accelerate innovation through the distribution chain. For example, generative AI could help to provide explanation and information for actual or future investors. While this would not replace the sophistication or nuance of regulated financial advice, it could help facilitate some elements of the investor journey in an accessible and scalable manner.

*"Generative AI can really help to reduce the advice gap. One of the big barriers is people feeling there is a huge information wall to climb before deciding whether to take formal advice. AI could really help a consumer to navigate through those challenges."*

*"If you're a wealth manager right now, you have got to be really thinking about what is going to happen with generative AI and the ability to interact with your client on a digital basis."*

## TOKENISATION / ASSET AND FUND DIGITALISATION

Developments in this area were somewhat overshadowed by the rise of AI in the period. However, activity is accelerating internationally, and the UK Asset Management Taskforce now has a Working Group looking closely at the practicalities of fund tokenisation with a view to removing regulatory blockers in the near future. This area has not moved quickly so far in the UK and there is considerable caution in some parts of the investment community. However, there is increasing recognition of the long-term transformative potential and the need to put foundations in place today.

*"With tokenisation, people will love the concept. But, until they can actually feel comfortable that it is delivering what they hope and expect, I'm not sure that you will get rapid, broad adoption. There's a long way to go before people trust in that technology."*

*"Over a longer time frame, it will totally change how capital markets operate but also how individuals choose to run and support their investment portfolios."*

There are multiple potential advantages of tokenisation of both funds and underlying assets, using distributed ledger technology (DLT) as the foundation. Importantly, we make a distinction in the discussion here between tokenisation as part of a delivery infrastructure and cryptocurrencies which may or may not have a valuable role to play. While some firms within the investment management industry are looking at funds that provide direct exposure to crypto, the real focus is on the infrastructure. This has the potential to generate significant efficiencies through the capital market delivery chain, from asset origination to investment fund operation, as well as a potential for greater transparency and liquidity in certain markets, notably private markets.

*"I'm very confident that tokenisation has a significant part to play for two key reasons. First, it allows customisation of risk exposures in a way that can't be done today. The ability to tokenise assets and to compile portfolios in a different way has to be a good thing in terms of client access. The second is in the book of record. You compare and contrast the ease of that blockchain technology relative to all the complications in terms of custodians, beneficial ownership and mutual fund wrappers. Ultimately, the client experience can be cheaper, and will be better."*

Development internationally is seeing a focus on both capital marks 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.

## TOWARDS A MUCH MORE CUSTOMISED PRODUCT SET?

For some firms, the debate has gone further still with the question of whether the traditional concept of the investment fund itself may now be challenged by a combination of societal preferences for customisation and a delivery infrastructure that can accommodate this securely and at scale. This would, in effect, see the extension of Separately Management Accounts (SMAs) widely used today in the US at an industrialised scale. However, there is no consensus about whether Investment Fund 3.0, as the IA has called the concept, will go this far, or whether DLT is needed to deliver it. For some firms, it would be delivered using more flexible building blocks such as ETFs in combination with more modern portfolio construction and distribution technology. For others, DLT and tokenised funds represent the way forward.

*"The challenging part is how do you run custom portfolios in very small pots, at scale, for large numbers of retail investors, creating hyper granular portfolios and matching that to really specific tailored needs on the customer's side? Marrying that in a way that is true to label is a really intensive heavy duty data challenge. Most of the industry systems as they stand today don't allow you to do it, but that is where the ball is headed."*

*"Eventually, we're going to see much more customisation. I want to have a set of stocks, that reflect my own personal wishes and as the manager we have to be able to provide that somehow. The answer to that question is a combination of ETFs and technology. You can't do it in a mutual fund."*

Whatever the precise shape of Investment Fund 3.0, and whatever the technology that ultimately powers the manufacture process, there does seem to be a consensus that the net result will be a much greater focus on the value of the investment management component through the lens of the investment IP – in other words, how portfolios are constructed and risk is managed.

*"Our content will remain our content. Tokenisation is about facilitation and delivery."*

In sum, it seems clear that AI, DLT and consumer interactivity could converge to change the relationship between the customer and their portfolio, increasing participation and altering the nature of delegation to a professional investment manager. All of this will rest also on the ability better to bring together a whole range of wider preferences in a package that is understandable and totally transparent.

*"The importance of understanding evolving client expectations whether you're talking about institutional or indeed, whether you're talking private investors; the requirement to demystify; the requirement to, wherever possible, customise, and show the potential to make returns within a prescribed volatility path, within a given liquidity, for a given fee rate, with sustainability credentials. That's what future success must look like."*

## OPERATIONAL RESILIENCE AND EMERGING TECH

With emerging technologies poised to reshape the underlying operating models of firms, as well as the broader financial market infrastructure on which they rely, wider resilience considerations clearly arise with that reshaping. The potential sources of disruption and vulnerabilities will likewise evolve and are already doing so. The implication is that current mapping of a firm's people, systems and processes could soon become outdated. Firms are now working at pace to ensure their future operating models are resilient by design, and it will be important that resilience teams are embedded into technology change projects and innovation drives going forward.

As of today, there is a particular focus on two areas in particular: the accelerating importance of third-party technology providers and the increase in cyber risk. Neither of these are unique to investment management nor even financial services. However, the scale of client assets under management and the global inter-connectedness of investment management firms with others in the FS sector means that resilience is a preoccupation for both individual firms and regulators.

### Role of third-party technology providers

The financial services industry is increasingly reliant on third party technology providers which are underpinning operating models.

There are numerous benefits, as well as risks, inherent to such arrangements. These providers offer services at scale, which drive capability, efficiencies and scale in a number of business areas. Examples of services provided by third party technology vendors include cloud computing; data centres; information, communication and technology (ICT) services; software; information streams; and, increasingly, artificial intelligence capabilities.

From an operational resilience perspective, outsourcing and third-party service provision changes the firm's risk profile, and in many cases results in greater resilience. At the same time, it can pose risks that need to be managed.

Firms relying on third parties need to be able to demonstrate that they are effectively managing the risk of disruption and harm to their customers and end consumers. 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 of 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 disruption at a third party providing key services to multiple firms could cause.

In the UK, the FCA, Bank of England and PRA published a Discussion Paper regarding Critical Third Parties (CTPs) to the finance sector in July 2022. The DP contained proposals that are intended to manage the systemic risks presented by large technology providers to the BoE, PRA and FCA's objectives of UK financial stability, market integrity and consumer projection. The proposals are likely to capture major cloud service providers and other technology providers.

The proposals will complement the regulators' UK Operational Resilience Rules. They are motivated by HMT's assessment that the regulators' current powers are not sufficient to tackle the systemic risk that disruption at a third party providing key services to multiple firms 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 FS clients.

### Cyber threat

The risk of disruption stemming from cyber-attacks is a persistent serious threat to the industry. What marks cyber out as unique in the catalogue of the many sources of potential disruption is 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 this year such as the Log4J zero-day vulnerability, the MOVEit vulnerability and a ransomware attack that interrupted derivatives trading for around one week, 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 further develop incident response plans should the firm need to protect their staff and 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.

## EVOLUTION OF RESPONSIBLE AND SUSTAINABLE INVESTMENT

Sustainable and responsible investment (SRI) continues to be a dominant theme for the investment management industry, regulators and customers. There is little doubt among those we spoke to for the IA Survey or across the industry more broadly that recognition of the realities of climate change for the global economy, and engagement to mitigate and adapt to those changes, will remain a central focus for investment management firms. However, the near-term outlook from a product and broader investing perspective has become more challenging. We focus our analysis on three themes:

- Client behaviour and the impact on flows to responsible and sustainable investment funds
- The interaction of current economic and political developments with the ESG momentum of recent years
- Evolving regulatory expectations, especially around data and disclosure

### CLIENT BEHAVIOUR, PERFORMANCE AND FLOW

The performance of SRI strategies, both in terms of attracting new flows and generating returns, was particularly strong through 2020 and continued to grow through 2021. Two features of 2022 in the funds market have dampened that positive narrative:

- As inflation pressures have intensified and interest rates were raised, flows to SRI funds in the UK have tapered, partly reflecting the same cost of living concerns that have adversely impacted flow across the funds market. However, the extent of the retrenchment is less marked, suggesting that SRI flow does remain stickier in the retail market, as well as in institutional.
- Relative performance has been impacted by weaker performance in the tech sector and stronger performance in oil and gas, aerospace and defence stocks. Despite the recent strength of commitment among investors to SRI funds, there is evidence from IA consumer research as well as other research that financial objectives continued to outweigh non-financial objectives for many retail investors.

*“When the cost of living crisis really started to kick in and people started to question whether they could afford to make that trade, we saw a flattening of interest in SRI products both in the UK and outside the UK.”*

*“There is a core who have stayed in those strategies because they believe it's the right thing to do and are prepared to take that financial hit over the short term. However, some investors bought for the upsides and were not prepared to withstand crises and wanted to jump ship at that point.”*

*“The idea that because something's badged sustainable, it means that people are going to be committed forever is misguided. Sustainable investment is not immune from the ebb and flow of people's attitudes to committing risk capital.”*

Firms that we spoke to this year agreed that interest in SRI strategies is likely to build over the long term, though views were divergent on the ultimate drivers of demand. Some firms are of the view that the growth of such strategies is largely driven by heightened demand from customers to align portfolios to their values, while others highlight the role of regulation and intermediaries in directing capital to SRI products.

*“We have seen a huge shift towards SRI demand – but it's not demand from retail consumers, it's a push from providers and from regulators.”*

Whether a result of regulation or customer demand, the industry agrees that SRI is an area of continued growth, with some firms envisaging that the products will become mainstream in the future as climate change in particular becomes more of a challenge.

*“The long-term structural need for clients to have someone who sells them attractive risk-adjusted products that builds SRI in at the right price, culturally aligned with who they are, is a trend that isn't going away, that's structural.”*

*“You can envisage a scenario where sustainable investment products are the only option for investors. That continuation from SRI being the niche product toward SRI being the mainstream product will continue despite the flows that we saw last year.”*

## COMPLEXITY OF DELIVERY ENVIRONMENT

Looked at through the lens of societal drivers and blockers, the investment management industry faces a number of challenges as it seeks to further develop SRI strategies:

- **Range of preferences.** Clearly, a central focus globally is on climate change. However, climate is only one of a number of themes within the environmental sphere. Extended to the social sphere (as exemplified by the UN Sustainable Development Goals), SRI covers multiple different themes with a vast number of combinations of individual preferences and priorities across environmental and social issues. The debate over energy security and investment in weapon production in the aftermath of the Russian invasion of Ukraine illustrated some of the differences over definition and prioritisation.

- **Blurred boundary between public and private sector agency.** The UN SDGs cover critical areas of social and environmental policy that may be politically contested and/or the normal domain of government and public policy. One of the issues facing investment management firms in some jurisdictions, notably the US, is a challenge by some clients to their legitimacy in these areas. While the US debate has focused on climate change amidst strengthening political division on the issue, it raises a broader point about what fiduciary responsibility means and the role of investment managers and market-driven agency in engineering change more broadly.

- **Political and economic tension over transition costs.** Tensions have arisen between broad public support for the net zero transition and opposition to individual policies which involve a personal financial cost. This has become more evident in UK politics as a combination of rising inflation and cost of credit over the last 12-18 months have ignited a more divisive political conversation about the cost and timing of transition (see Box 2 on Climate change and the UK context). To date, the political conversation has not reduced overall support for the transition but with a general election imminent, there is potential for a knock-on effect with respect to the wider political environment in which investment managers operate.

In research for this report, and in other industry research covering similar topics, the prevailing view is that current challenges will not divert what has been described as a 'secular mega-trend' which puts a focus on SRI issues, especially tackling climate change, at the heart of the investment process.[15] However, to the extent that SRI is about much more than just climate, and to the extent that political and cultural polarisation are becoming more entrenched in certain jurisdictions, notably the US , the investment industry will need to navigate these drivers and blockers with care.

Awareness of this challenge is apparent in a number of comments made in interviews for this report, reflecting the evolving debate on what fiduciary means in the context of an 'agency' business model and a sensitivity to the central importance of Government policy and electoral preferences in shaping the parameters for change. The net zero transition in particular has been identified by policymakers as a necessary process of transformation for the global economy. There is a widely shared view that the first responsibility of the industry is to respond to this transition, assessing both risks and opportunities, but that it is for individual firms to decide the extent they wish to be regarded as responsible for driving the transition. Some firms wish very clearly to define what they stand for in SRI terms, and others look to customer preferences as a central guide for their direction of travel.

*"It's really important to remember that we're fiduciaries – it's not our money. We can inform clients as to the risk and reward and the material risks represented by climate change. Every business should be thinking about incorporating material risk factors. It's not for us to say what you can and cannot invest in."*

*"The asset management industry is more of a reflection of the real economy rather than something that actually creates the real economy. Whose social goals are we supposed to be pursuing? That's for governments and democratically elected officials to decide, not for the asset management industry."*

[15] See, for example, ESG Investing: Short-Term Shocks Will Not Detail a Secular Mega-Trend in Asset Management, a short perspective by McKinsey & Company in EFAMA, Asset Management in Europe, December 2022.

## BOX 2: CLIMATE CHANGE AND UK POSITIONING

Fading memories of Glasgow hosting COP26, political uncertainty linked to the brief Truss premiership, and the instability in energy markets associated with the war in Ukraine have all led to an uncertain environment for climate-related investment and policy.

In her short period as Prime Minister, Liz Truss launched a wholesale review of net zero and its compatibility with economic growth. The subsequent publication of the Skidmore Review (which was ultimately submitted to Rishi Sunak's Government) reiterated the firm link between the UK's net zero policies and growth, but the intervening months caused some to reassess the UK's previous leadership on the subject and contributed to delay to Government work on climate-related policy, including the updated Green Finance Strategy. In June, the annual progress report of the UK's statutory Climate Change Committee warned that the UK was losing its international climate leadership role and showing a lack of urgency in domestic policy.

Momentum had been somewhat regained since the publication of the Green Finance Strategy in March, with much of the focus remaining on initiatives first announced at COP26, including incorporating the work of the International Sustainability Standards Board in the UK, and promoting the UK's Transition Plan Taskforce and its efforts to define a "gold standard" for transition plan disclosure.

Greater attention has fallen on biodiversity, aided by progress in the work of the Government-sponsored Taskforce on Nature-related Financial Disclosures and the decision in the new Financial Services and Markets Act to require financial regulators to have regard for the UK Government's legally binding environmental and net zero targets.

The UK-based investment management industry also awaits the outcome of consultations on the regulation of ESG ratings providers, a labelling regime for ESG funds, and the introduction of a green taxonomy. Taken together, and alongside the volume of new climate-related regulatory initiatives in the EU, investment managers are being required to dedicate significant resource to understanding and integrating changes in the public policy environment.

It will be hoped that the culmination of this phase of policy making will be followed by a period in which changes are allowed to settle and bed in, allowing the industry to focus on serving its clients growing demand for climate-related investment and anticipating the ways in which climate change will cause economic disruption. Policymakers would similarly have the opportunity to bring renewed urgency to the transition to net zero across the whole economy, setting clearer pathways for the transformation of high emitting sectors and providing new opportunities for investment from private finance.

An anti-ESG political movement in the United States has caused ripples in the UK and Europe but it may be in industrial policy that the US provokes a political following. The current political consensus appears to make a like-for-like response to the spending and incentives of the US Inflation Reduction Act unlikely in the UK, with the preference for a market-led, information-driven transition persisting. A looming General Election is stimulating a debate about potential trade-offs between fiscal credibility and green policies which may test this consensus.

*"As an investment house you have to tailor your product offering to your customer base, but you also have to be clear about what you stand for and what your investment beliefs are."*

Firms also point to the ongoing importance of communication and education about the financial implications of climate-related risks, as set apart from ethical considerations that guide some customer and firm approaches to broader SRI investment priorities.

*"It's important that investors understand, completely separate from any ethical or moral viewpoint of the world, that there is real stranded assets risk in oil and gas companies, and therefore the discounted cashflows that create those share prices might not be as robust as the market currently assesses it. That is a pure financial risk which is expressed in ESG terms. You would be remiss if you weren't having that conversation with your clients, even if it isn't under the heading of ESG."*

In terms of government expectations and public policy, the US has adopted quite a distinct approach to interventionism with the fiscal package set out in the Inflation Reduction Act (IRA). As we set out in Box 2, this stands in contrast to the less certain direction of travel recently in evidence in the UK. Equally, it highlights the ongoing central role of government in galvanising action that may yet become much more apparent in the UK and elsewhere in Europe. Recent UK government consultations on pension reform and the possible re-direction of long-term capital into areas of strategic importance for the domestic economy also point the way to other forms of possible intervention in due course on sustainability issues.

## EVOLVING REGULATORY EXPECTATIONS

Regulators internationally are continuing their focus on the sustainability and responsible investment space with an increasing emphasis on higher disclosure standards for such products. In the UK, following a Discussion Paper in 2021, the FCA has been progressing its Sustainable Disclosure Requirements (SDR) regime and labelling framework, aimed at allowing investors to identify such products more easily and to give them greater confidence that their investments match their preferences and expectations.

*"The main risk around ESG as a whole is about being true to label. It's about your customers buying what they think they're buying. Pure green and brown to green are really different portfolios in terms of ESG exposure, financial return, volatility. As you push further and further into retail, the importance of making sure you're being really explicit about what you're selling and what they should expect only increases."*

With the industry broadly supportive of a label approach, the UK debate has focused primarily on how to operationalise a labelling system that will work for both the market and the end customer. There have been many central discussion points between firms and the FCA:

- How to create a label that accommodates the increasingly important 'transition' dimension of the economy without creating unrealistic expectations of what individual investment firms can deliver at investee company level.
- How to accommodate multi-asset or blended strategies that may not conform easily with minimum thresholds for a given sustainable investment label.
- How to capture the breadth of legitimate sustainable investment approaches adopted in the space without unduly restricting investor choice through strict marketing rules for investment products that will not get a sustainable label.

This has all in turn highlighted ongoing limitations in access to consistent and high-quality sustainability-related data and ratings, which is a key requirement of forming SRI strategies. A widespread and growing proliferation of providers of the data has led to a number of well-versed challenges, including the timeliness, accuracy and reliability of the output from sustainability-related rating and data providers. Furthermore, a lack of comparability and bias of the data and potential for conflicts of interest, particularly associated with providers both evaluating companies and offering paid advisory services to those same companies, is an ongoing concern.

A further critical issue for the UK industry, especially in a post-Brexit environment, is the interoperability between SDR and other international regimes, notably the Sustainable Finance Disclosure Regulation (SFDR) and supporting measures. This matters for a number of reasons relating to cross-border distribution and manufacture arrangements, where international investment management firms operating from the UK find it increasingly challenging to navigate multiple, high-touch regulatory regimes. For UK customers investing in both UK and EU-domiciled funds, there is an added issue of differences in both disclosure and potentially investment approach.

*"If SDR carries on as it is, a whole section of funds is going to be crushed. There is a hygiene factor for all the RFP requests that come in – it will be "do you have an SDR label?" Exactly the same as "are you SFDR 8 or 9?" If you don't have the badge, they'll screen you out even if you are managing your portfolio in a way that could align with their values."*

*"I do wonder whether the end client will get a proper choice in the marketplace. With the SDR labels you're narrowing down the universe to such a small proportion of what you could have been looking at."*

*"One of the challenges is the regulators are using quite broad buckets for these products because you can't have 10,000 ESG labels. What's really important for the industry is within those broad buckets, that we're really explicit and clear about what it is that this fund does which could be very different from what another fund does, even though they are under the same regulatory classification."*

## CULTURAL SHIFTS AND THE IMPORTANCE OF THE EDI PROCESS

Attention to Equity, Diversity & Inclusion (EDI) over the past few years continues to be a growing industry priority as part of the cultural transformation agenda. Alongside the growth in societal expectations of fostering a more equitable, diverse and inclusive society, businesses are responding to the expanding body of research showing that diverse teams produce better results because they offer broader perspectives and lower risks. There is also a wider commercial risk of being unable to connect with different groups of customers as a result of negative perceptions arising from the composition of the workforce.

Furthermore, the regulators have expressed their expectations that businesses capture, measure and address workforce diversity and inclusion as part of good governance and risk mitigation. In addition, firms are increasingly being evaluated by stakeholders against a wider set of criteria, which includes the diversity of their workforce and being able to evidence this with data across different parts of the business and different levels of seniority.

*"Equity diversity and inclusion is super important. We don't focus on it because the government is forcing us to or because we have a social contract. It's because our clients are diverse. We know that diverse people make better decisions because you don't have group think."*

While member firms have increased their commitment and investment to act on advancing EDI, collective progress is taking time. To make meaningful and sustainable change, there are several complex issues that businesses are addressing.

*"It's easy to manage people that all agree with you and all look like you and think the same way. A team of diverse thinkers is a harder team to manage, so you've got to be prepared to put the effort in."*

*"There's true understanding that we are a better organisation and deliver better client outcomes through being a truly diverse organisation. In order to be truly diverse, we need to be better at both the hiring and identifying potential. In hiring we as an industry need to be much braver in terms of how we construct role descriptions for example. We also need to get bolder around potential, embrace not the risk but the opportunity and put our money where our mouth is."*

The focus is shifting away from diversity characteristics alone towards creating an inclusive culture that promotes belonging and psychological safety across the organisation and throughout the entire employee experience. A growing number of businesses are recognising that sustainable impact in EDI, from junior recruitment through to senior level progression, relies on a healthy business culture, aligned policies, accountability and a shared commitment to success.

Firms are placing more emphasis on gathering breadth and depth of workforce data so that firms understand where they are currently and can consider the root causes behind their data and can use it to measure future progress. The IA, in partnership with Thinking Ahead Institute, have undertaken a campaign to gather richer EDI data across the UK investment management industry and have received a strong response from the sector. The data will, for the first time, provide a more detailed overview of the demographic makeup of the UK investment management industry, allow firms to benchmark their progress and have greater clarity on where to focus their investments.

*"You can't enact change without having data and then teeth. We've been talking about this now for 25 years and I don't think it's meaningfully improved."*

To provide context around workforce data, there is also a growing emphasis on collecting and understanding employee sentiment by capturing real-time employee insights, such as through pulse surveys, enabling firms to identify and respond to important needs early on.

While there has been progress in addressing industry workforce underrepresentation in certain areas, such as gender, ethnicity and socioeconomic characteristics, there is a recognition that more needs to be done to ensure sustainable change, particularly in executive decision-making and investment roles. We expect much more activity in the years ahead to further progress this critical agenda.

*"As a firm, our diversity at graduate level and in non-investment roles is good. We have diverse teams until you get into the investment team. Finding diverse candidates for investment roles is really hard. You have to develop your own. You are going to have to take a risk to bring people into the industry who have a different set of experiences if you want to be diverse. We've got to continue to be really conscious and to challenge our recruiters about how to make jobs accessible to people who aren't the 'ideal candidate' in terms of a CV and experience."*

From a UK regulatory perspective, the FCA finalised rules in 2022 requiring listed companies to disclose board and executive committee diversity to improve transparency with investors. During 2023, an important next step will be an FCA Consultation Paper on Diversity and Inclusion in the financial sector, building on an earlier Discussion Paper. It is anticipated in the second half of 2023 and in the meantime, industry continues to make progress in EDI initiatives.

# 3 TRENDS IN CLIENT ASSETS AND ALLOCATION

## KEY FINDINGS

### ASSETS BY CLIENT AND MANDATE TYPE

- In 2022, institutional client assets continued to fall as a proportion of total UK assets under management (AUM), down to 74% from 77% in 2021. Retail assets decreased in nominal terms but grew to account for a quarter of AUM, up from 22% in 2021. Unlike previous years when stronger inflows appeared to be driving retail, especially during and immediately after the Covid-19 pandemic, the data this year suggest relative falls in AUM are the main reason for change, as total institutional AUM fell faster than retail.

- Assets managed on behalf of pension clients, the single largest client group, fell over the year to 34%, which is eleven percentage points lower than in 2018. The sharp reduction in both relative and absolute terms of assets under management for pension schemes between 2021 and 2022 reflects the asset mix, particularly for UK defined benefit (DB) schemes heavily investing in fixed income. As discussed further in Chapter 4, these AUM falls need to be seen in the context of a rapidly improving funding position as discount rates rise.

- The proportion of assets that sit within segregated mandates versus pooled investment vehicles has evolved over the last five years as pooled vehicles have grown to account for 50% of total AUM (up from 47% a year ago). There are likely to be a range of drivers, but the ongoing rise of both indexing funds and Exchange Traded Funds (ETFs) are central structural drivers over the longer term.

### TRENDS IN ASSET ALLOCATION

- The proportion of the asset base invested in equities (reaching 42%) increased for the fourth year in a row, as the share of fixed income assets fell again through 2022 (down to 28%). Fixed income is now closer as a share of total assets to levels seen before the financial crisis of 2008. In contrast, equity holdings are significantly below headline levels in 2007. On an adjusted basis, however, the relative levels of equities and fixed income look similar to those last seen in 2007.

- Looking at a regional breakdown of equity holdings, the largest change in 2022 was a rise in the proportion of North American equities, compared to both Europe and the UK. Despite better relative performance against both the US and European markets, the share of UK equities as a proportion of total equities continued to fall, down to 22%. Compared to ten years ago, the relative weights of North American (32% in 2022 from 17% in 2012) and UK equities (22% from 33%) have changed dramatically.

- We also see ongoing diversification of holdings in the regional fixed income holdings. Some 60% of fixed income assets are now held in overseas bonds, compared to one third of holdings a decade ago. In contrast to the UK equity market experience through 2022, poor UK bond market returns are likely to have been a significant influence on the shift towards overseas fixed income. This might evolve further as the market environment itself evolves.

3

## GROWTH OF THE INDEXING MARKET

- Indexing funds now account for a third of total UK AUM, up from a little over a fifth a decade ago. Within our sample, AUM for indexing products fell slightly more slowly than for active funds and mandates over the year, leading to a small year-on-year increase to 33% (from 32% a year earlier).

- A very significant structural factor in this growth of indexing in recent years has been the accelerating importance of Exchange-Traded Funds (ETFs). Nonetheless, during 2022, it was growth in active ETF assets globally that remained positive amidst further momentum in this sector. Overall, ETF AUM fell 11%, mirroring the pull back in the wider markets.

## INVESTMENT IN THE UK ECONOMY

- Total investments in the UK reached £1.4 trillion, amidst greater emphasis from all sides of the UK political spectrum on the need to support future domestic investment, both through public and private markets. This remains closely linked to the climate change agenda and the need for greater capital deployment to help the UK economy adjust to meet emission reduction targets.

- While economic slowdown and rising rates are having a chilling effect on what has been a strong growth story in private markets in recent years, the emphasis on facilitating greater access to private markets remains strong, especially for DC schemes and retail investors. The first Long-Term Asset Funds are now starting to emerge, but there are wider cultural and delivery infrastructure shifts that will be a pre-requisite for success in this area.

## ONGOING FOCUS ON LIQUIDITY MANAGEMENT

- The March 2020 'dash for cash', the February 2022 Russian invasion of Ukraine and the gilt market turbulence of autumn 2023 have all shone a spotlight on investment fund liquidity management, albeit in very different ways. Amidst some ongoing differences of view and emphasis, industry and regulators are working closely on enhancing the liquidity management toolkit. Within the mainstream investment fund space, this has particular ramifications for pricing and the wider use of tools such as notice periods.

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

## CLIENT TYPES

The clients that member firms of the Investment Association serve are primarily 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 provides a breakdown of assets by client type, and we note the following year-on-year changes:

- As of the end of 2022, the proportion of total assets managed on behalf of **retail** clients grew three percentage points to 25% (from 22% in 2021), with a corresponding fall in assets managed on behalf of institutional clients (74% from 77%). This shift was driven by differential falls in total institutional and retail assets, with the latter more resilient.
- Within the institutional segment, **pension fund** assets saw the biggest change, decreasing six percentage points between 2021 and 2022, down from 40% of total assets to 34%. This is equivalent to a £1.0 trillion fall in assets in nominal terms.

## BOX 3: BLURRING OF CLIENT TYPES

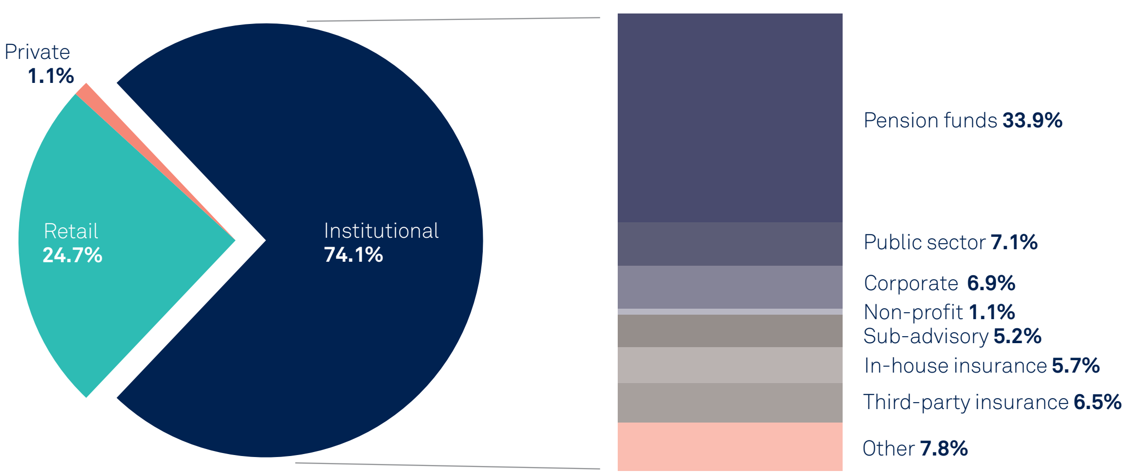
### Insurance vs. Pension

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 2022**




Source: The Investment Association

The data suggest that the fall in pension fund assets was broad-based, driven significantly by a decline in UK bond valuations.

- **Public sector** client assets was the only category to see an increase in nominal terms over 2022. Against a fall in total industry assets, the £80 billion rise in public sector assets meant that the client group now represents 7.1% of AUM, up from 5.5% the previous year.

Chart 10 illustrates the breakdown of UK-managed assets by client type over the last decade. We observe a number of changes over the past ten years:

- From 2014 to 2019, assets managed on behalf of retail clients remained flat at 19%. Since 2020, the proportion of assets managed on behalf of retail clients has been rising each year, reaching 25% in 2022. However, while the increase in retail assets during and after the Covid-19 pandemic appeared to reflect changes in retail market participation, the growth through 2022 appears to be more the result of differential returns, reflecting a heavier bond – especially UK bond – weighting within the institutional asset base.

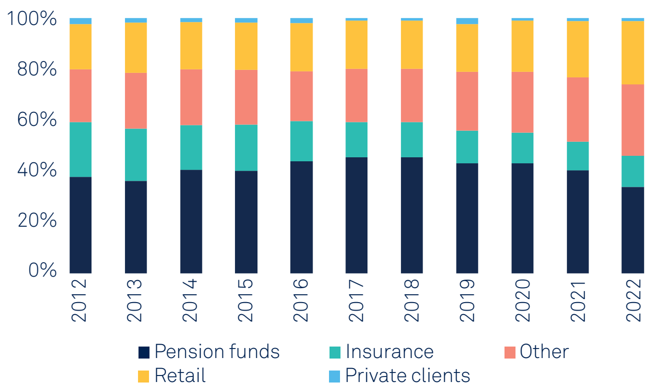
- Although pension funds continue to be the largest individual client group in terms of AUM, the 34% of total AUM recorded in 2022 is the lowest level in the last decade. The last time pension funds made up this proportion of industry AUM was in 2006.

- The share of assets managed on behalf of insurance clients has fallen by eleven percentage points over the past decade, down from 21% of total UK AUM in 2012 to 12% in 2022. The small relative rise in insurance assets to 12% (from 11% the previous year) is the first increase recorded since 2015. The biggest fall over the last decade has been in the in-house insurance category, which is down from 18% to 6% of total AUM. Third-party insurance assets have fluctuated between 6% and 8% since 2014.

Even with the shifting relative contributions to total AUM, retail clients, pension fund and insurance clients have always been, and remain, the three largest client segments. However, the industry has diversified its client base over the past decade. Within the other institutional client groups, corporate assets have contributed the most to the growth, increasing steadily from 3% in 2012 to 7% 2022. Public sector assets have also seen their contribution to total AUM rise from 5% to 7%.

3

**CHART 10: ASSETS MANAGED IN THE UK BY CLIENT TYPE (2012-2022)**




Source: The Investment Association

AS OF 2022, ASSETS MANAGED FOR RETAIL CLIENTS ACCOUNT FOR

25%

OF TOTAL AUM

## TRENDS IN ASSET ALLOCATION

Members of the Investment Association are invested across all major asset classes, though to varying degrees given different specialisations. In Table 2, we observe close to all respondents to the Survey are invested in equities (97%) and the majority are also invested in fixed income (80%). Other asset classes, such as cash and alternatives, are more niche, and are primarily managed by larger IA members.

### TABLE 2: PROPORTION OF IA MEMBERS INVESTING BY ASSET CLASS IN 2022

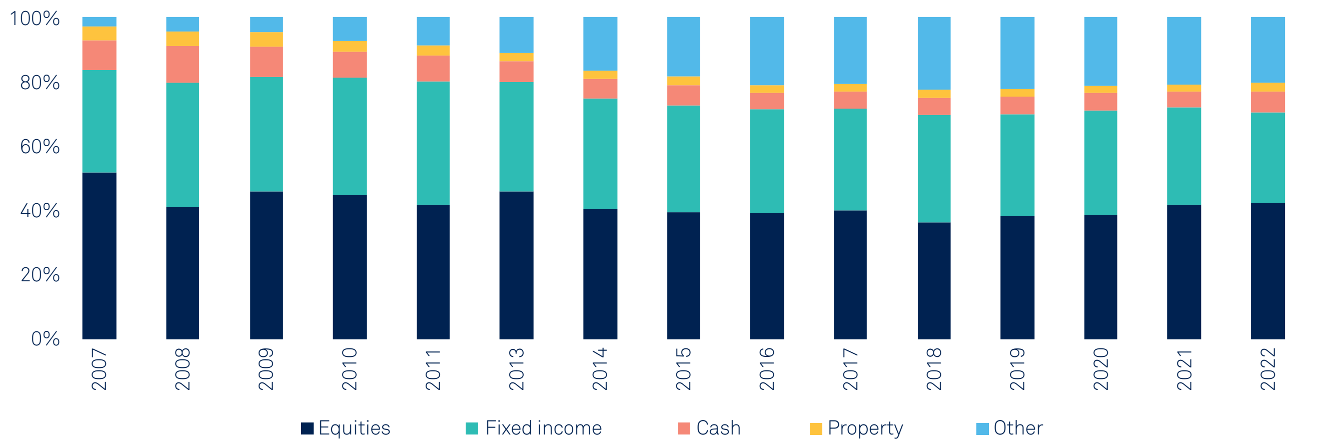
| | **Share of firms in a given asset class** |
|---|---|
| Equities | 97% |
| Fixed income | 80% |
| Property | 41% |
| Cash | 19% |
| Alternatives (incl. private markets and cryptoassets) | 22% |

Source: The Investment Association

The evolution in the breakdown of industry AUM by asset class over the last fifteen years is shown in Chart 11. There have been some notable shifts in asset allocation:

- Total assets held in **equities** were marginally higher year-on-year at 42% of total AUM despite a 10% fall in nominal terms. This marks the fourth year in a row where the share of equity assets has increased, though still considerably lower than the 52% recorded in 2007.
- The proportion of **fixed income** assets in 2021 and 2022 were the lowest levels on record at 30% and 28% of total AUM respectively. Rising inflation and the turn in the interest rate cycle hit fixed income values, particularly UK bonds, at the end of 2021 and through 2022. Looking back over fifteen years, this is quite a long way off the 39% peak in 2008.
- Having remained firmly at 5% for the last six years, assets held in **cash** increased to 6% of total AUM in 2022. This was a result of a rise in assets in nominal terms over the year fuelled by a higher risk-free rate of return as well as increased demand for liquidity in a highly volatile market environment.

### CHART 11: OVERALL ASSET ALLOCATION OF UK-MANAGED ASSETS (2007-2022)




Source: The Investment Association

- Assets in the **'Other'** category remained unchanged over 2022 at 21% of total AUM but is substantially higher than the 3% recorded in 2007. Most of the assets in this category sit in solutions type strategies, including liability driven investment assets (LDI) and Multi-Asset strategies, that have experienced strong growth over the last fifteen years. A small proportion sit in alternative assets which includes assets such as infrastructure and cryptoassets.

Given that 'Other' assets will include equity, fixed income, cash, property and alternative investments, excluding these assets can shift the balance across asset classes over time. On an adjusted basis, the 2022 balance between equities and fixed income is returning to levels recorded in 2007, when 53% of AUM was in equities and 33% in fixed income.

## 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

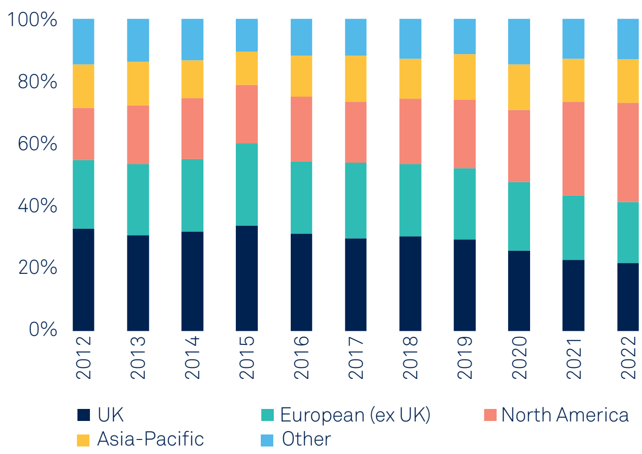
The regional composition of equity holdings over the last ten years is illustrated in Chart 12. Some striking changes can be observed:

- The proportion of total equity assets held in **UK** equities fell for the fourth year in a row to 22%. This is a one percentage point fall year-on-year and eleven percentage points lower than a decade ago. The long term trend towards greater portfolio diversification as well as the relative underperformance of UK equities in recent years, have contributed to the falling allocation to UK equities shown in Chart 12. In 2022, however, the UK was the only major market to record a positive – albeit marginal – return over the year. Even so, AUM in UK equities decreased 13% in nominal terms over the year, suggesting that investor withdrawals are likely to be the main driver of the fall in 2022.

- Buoyed by strong relative performance, the **North American** share of total equity assets has seen the most dramatic change over the last decade, almost doubling to 32% by the end of 2022. This is a two-percentage point increase on the previous year, and the fifth consecutive rise. The rise in 2022 comes despite a particularly challenging performance year for US tech stocks, which made it one of the worst performing equity markets of 2022.[16]

- The proportion of equity assets invested in **European** equities was broadly stable at 22-23% for most of the last decade, however the last two years have seen this fall to 21% in 2021 and a further two percentage point fall to 19% in 2022.

**CHART 12: ALLOCATION OF UK-MANAGED EQUITIES BY REGION (2012-2022)**




Source: The Investment Association

[16] See Box 1 on global capital market performance on page 20 for more information.

## Fixed income assets by region

Fixed income exposure, which was heavily domestically focused a decade ago, has become increasingly diversified. Chart 13 illustrates the changing composition of UK managed fixed income assets over the last decade:

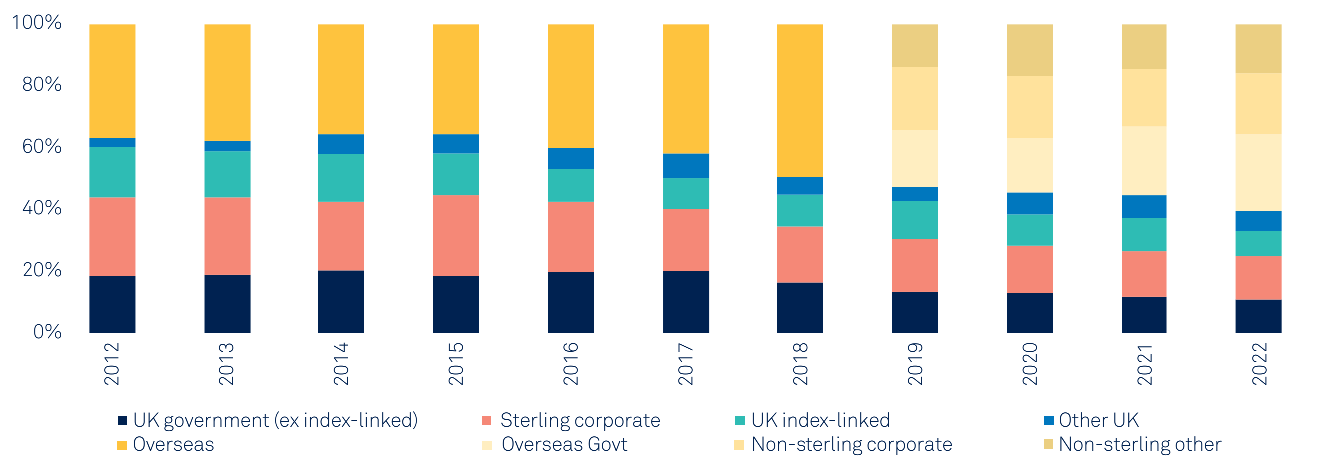
- **Overseas bonds** now account for the majority of fixed income assets reaching 60% in 2022, compared with 35% in 2012. The rise in the proportion of overseas bonds accelerated in 2022, rising five percentage points year-on-year. The shift was driven primarily by poor market returns, particularly UK bond market returns which experienced 18-25% falls over the year.[17]

- The long-term trend shown in Chart 13 has been a shift away from **UK government bonds**, which accounted for over a third (35%) of fixed income assets in 2012 but as of 2022 account for less than a fifth (19%) of assets. The shift away from UK government bonds accelerated in 2022, particularly after the Autumn Fiscal Event which resulted in a mass sell-off in the gilt market that saw valuations plummet.[18] **UK index-linked bonds** were particularly affected, falling three percentage points year-on-year to 8%.

- **Sterling Corporate bonds** have also seen substantial falls over the last ten years, and now account for 14% of total assets, almost half the 26% recorded in 2012. Sterling Corporate bonds were also hit heavily in 2022, falling one percentage point, though market performance was marginally better than gilts.

- The rise in the proportion of all of the overseas bond categories was a reflection of the substantially weaker market performance of UK bonds, rather than any increases in nominal terms in the overseas bond market. The biggest increase has been in the proportion of **overseas government bonds** which increased to 25% of total assets, which is up from 22% the previous year.

CHART 13: **ALLOCATION OF UK-MANAGED FIXED INCOME ASSETS BY TYPE AND REGION (2012-2022)**



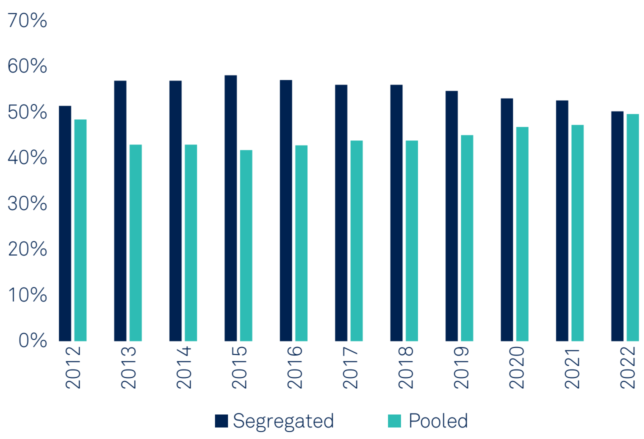

Source: The Investment Association

[17] See Box 1 on global capital market performance on page 20 for more information.
[18] See section "The Autumn Gilt Shock" section in Chapter 4 on page 66 for more information.

## SEGREGATED VS. POOLED

Chart 14 looks at the evolution of the proportion of assets in segregated mandates versus pooled investments over the past decade. Since 2015 there has been a steady increase in the proportion of assets in pooled investment vehicles rising from 42% of total AUM to 50% of total AUM in 2022. This appears to link directly to wider findings (see Chart 15) on the rise of indexing strategies, especially Exchange Traded Funds (ETFs), which is now reflecting into a shift in the overall balance between segregated and pooled across the total assets base.

### CHART 14: SEGREGATED VS. POOLED INVESTMENTS (2012-2022)



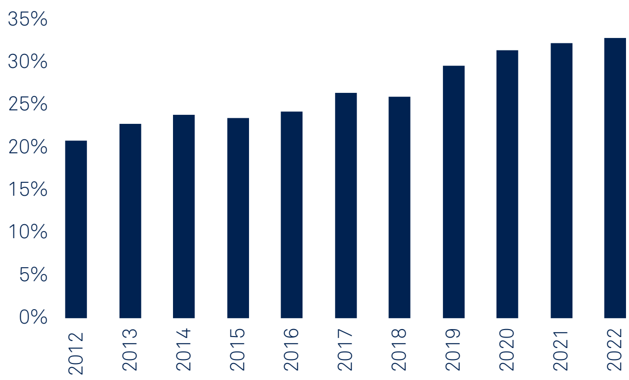

Source: The Investment Association

## INDEXING STRATEGIES

Indexing strategies have played an increasingly significant role across UK assets under management over the last decade and now account for one third (33%) of total AUM. The one percentage point increase year-on-year was driven by the slightly slower fall in index tracking strategies relative to that of active strategies. Indexing strategies replicate the performance of the market, so the relative growth in trackers in 2022 may reflect the higher proportion of tracker assets that sit in equities which were not as heavily hit as certain segments of the fixed income market.

Chart 15 illustrates the long-term rise in the proportion of assets tracking an index. Between 2012 and 2022, indexing funds grew to account for 33% of total UK AUM, which represents a twelve-percentage point increase from 21% in 2012. The growth has been gradual and particularly in the last five years, has coincided with the rapid growth in exchange traded funds (ETFs), which are largely index tracking vehicles. For trends in the ETF market, see Box 4.

### CHART 15: INDEXING STRATEGIES AS PROPORTION OF TOTAL UK ASSETS UNDER MANAGEMENT (2012-2022)




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, less than a fifth of members manufacture ETFs as part of their product offerings.

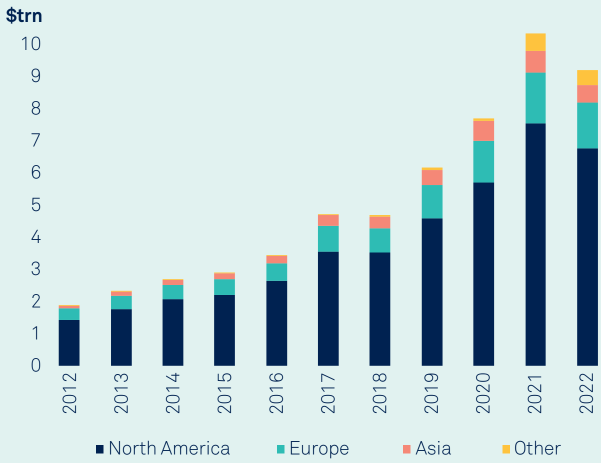
As capital markets posted negative returns in 2022, global assets under management in ETFs took a sharp turn, falling 11% year-on-year to $9.2 trillion, down from $10.4 trillion the previous year. Assets were down for funds domiciled across the regions, with Asian domiciled ETFs most heavily affected, falling 14% over the year. Chart 16 shows that the fall in AUM in 2022 comes on the back of a three-year period of significant growth which saw assets more than double globally.

Global flow data suggests that the fall in assets in 2022 was entirely driven by market performance. In contrast to global outflows from mutual funds which reached record levels in the UK (see chapter 5 for more detail), investor appetite for ETFs remained strong through the year recording net inflows of $750 billion.

### Long term trends in ETFs

There have been two standout trends in the ETF market in recent years: the rise in sustainable investment ETFs and the rise in assets within actively managed ETFs.

### CHART 16: ETF ASSETS UNDER MANAGEMENT BY REGION OF DOMICILE (2012-2022)




Source: Morningstar

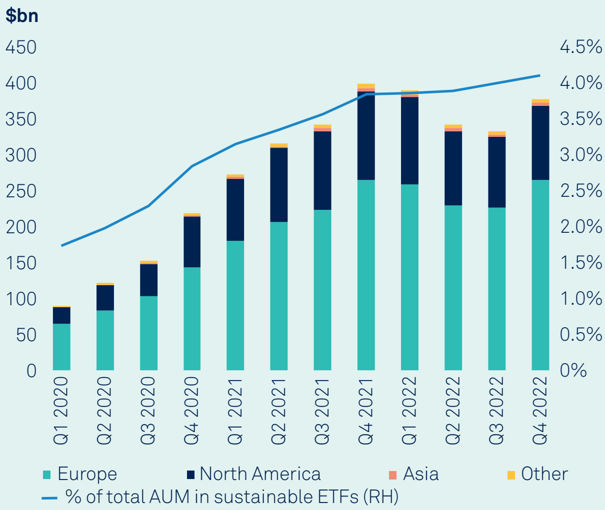
### 1) Sustainable ETFs

Chart 17 illustrates an almost threefold increase in sustainable ETFs[19] over the last three years, driven largely by the European market, which accounts for over two thirds (70%) of sustainable AUM in ETFs globally:

- Inflows to European sustainable ETFs totalled $54 billion in 2022, 63% of the net inflow to all European-domiciled ETFs. This is far higher than any other region, where inflows to sustainable ETFs have contributed less than 10% to total net inflows over the last few years.
- As of the end of 2022, assets in sustainable ETFs domiciled in Europe were broadly unchanged year-on-year, in contrast to North America which fell 16%.

[19] According to Morningstar, which categorises a fund as sustainable based on prospectus disclosures.

## CHART 17: GROWTH IN SUSTAINABLE ETFS (Q1 2020 - Q4 2022)




Source: Morningstar

### 2) Active ETFs

January 2023 marked the 30th anniversary since the launch of the first ETF, an index fund tracking the S&P 500. The first active ETF was launched fifteen years later, by which time total assets in index tracking ETFs had reached approximately $700 billion. Although still a small part of the industry, Chart 18 illustrates the growth in active ETFs over the last decade:

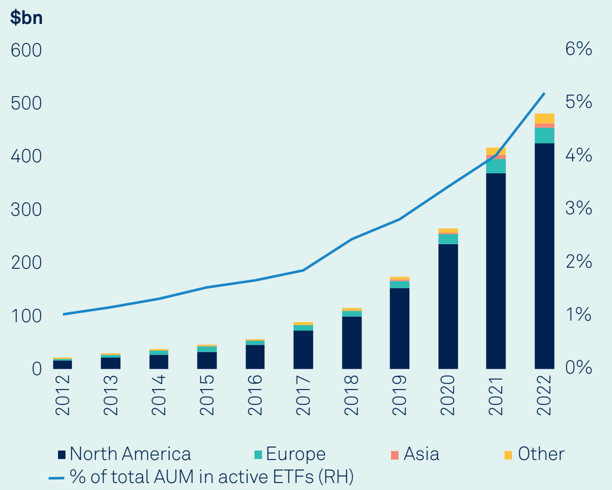
- Total AUM in active ETFs has risen dramatically over the last decade, increasing from just under $20 billion to over $475 billion in 2022. This has outpaced the growth in index-trackers over that period and as such, the proportion of total assets in active ETFs is 5.2%, up from 1.0% at the end of 2012.

- While market performance resulted in a fall in AUM of index tracking ETFs in 2022, assets in active ETFs grew 15% over the year, although this is a considerable slowdown from previous years.

- Europe is lagging behind other regions in terms of the growth of active ETFs. Active ETFs account for just 2.0% of European domiciled funds compared with 6.2% of US-domiciled funds.

- Net flows to active ETFs in 2022 were almost $120 billion, equivalent to 16% of the total industry inflow.

## CHART 18: ACTIVE ETF ASSETS UNDER MANAGEMENT (2012-2022)



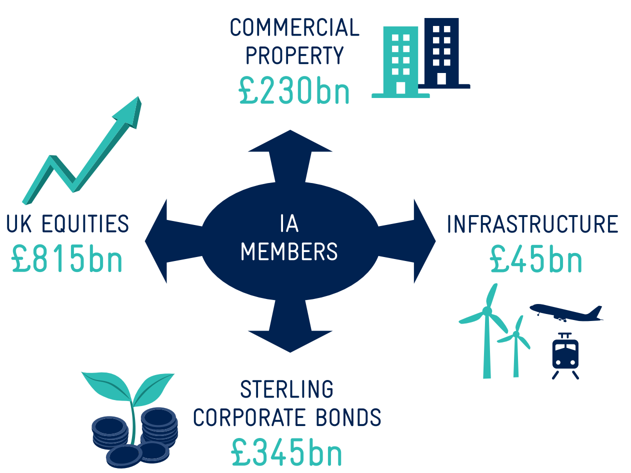

Source: Morningstar

## 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 and has become a key political focus more recently in the context of financing the UK's transition to net zero.[20]

IA members are financing the UK economy through investments in equities, sterling denominated bonds, infrastructure and commercial property (see Figure 7) totalling £1.4 trillion (down from £1.6 trillion in 2021). Of this, £815 billion is invested in UK equities (down from £950 billion) which is equivalent to almost one third (32%) of total UK equity market capitalisation. Sterling corporate bond assets fell almost £100 billion in nominal terms to £340 billion, reflecting very poor UK bond market performance in 2022. 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 2022.

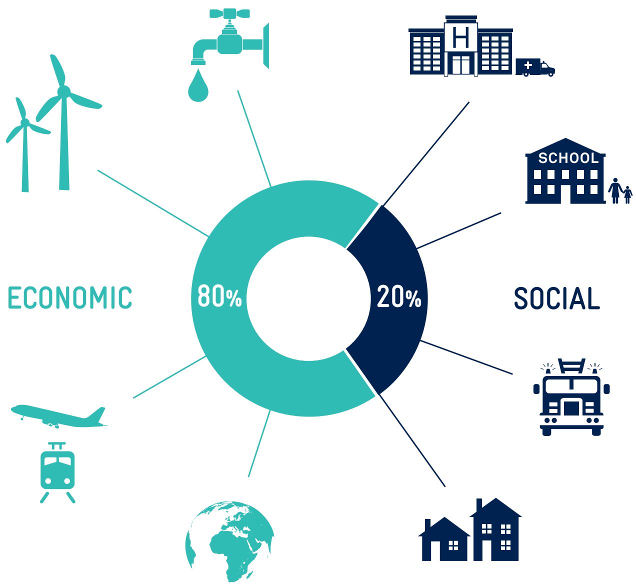
**FIGURE 7: IA MEMBER HOLDINGS IN UK ASSET CLASSES IN 2022**




Source: The Investment Association

## INVESTMENT IN UK INFRASTRUCTURE

**FIGURE 8: INFRASTRUCTURE INVESTMENT BY IA MEMBERS IN 2022**




Infrastructure investment has garnered increased focus in recent years both as a result of the growing reliance on market-based finance, and the increased focus on the role that investment managers can play to support the UK's commitment to decarbonisation.

Infrastructure investments can broadly be categorised as economic, which includes 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 (79%) of infrastructure investments are invested in economic projects and a fifth (21%) in social projects.

As of December 2022, UK asset managers held an estimated £45 billion in infrastructure projects, slightly higher than the £40 billion reported in the previous two years. This year-on-year increase is likely due to a change in methodology. In 2022, we asked member firms to report investments regardless of the portfolio manager's domicile.

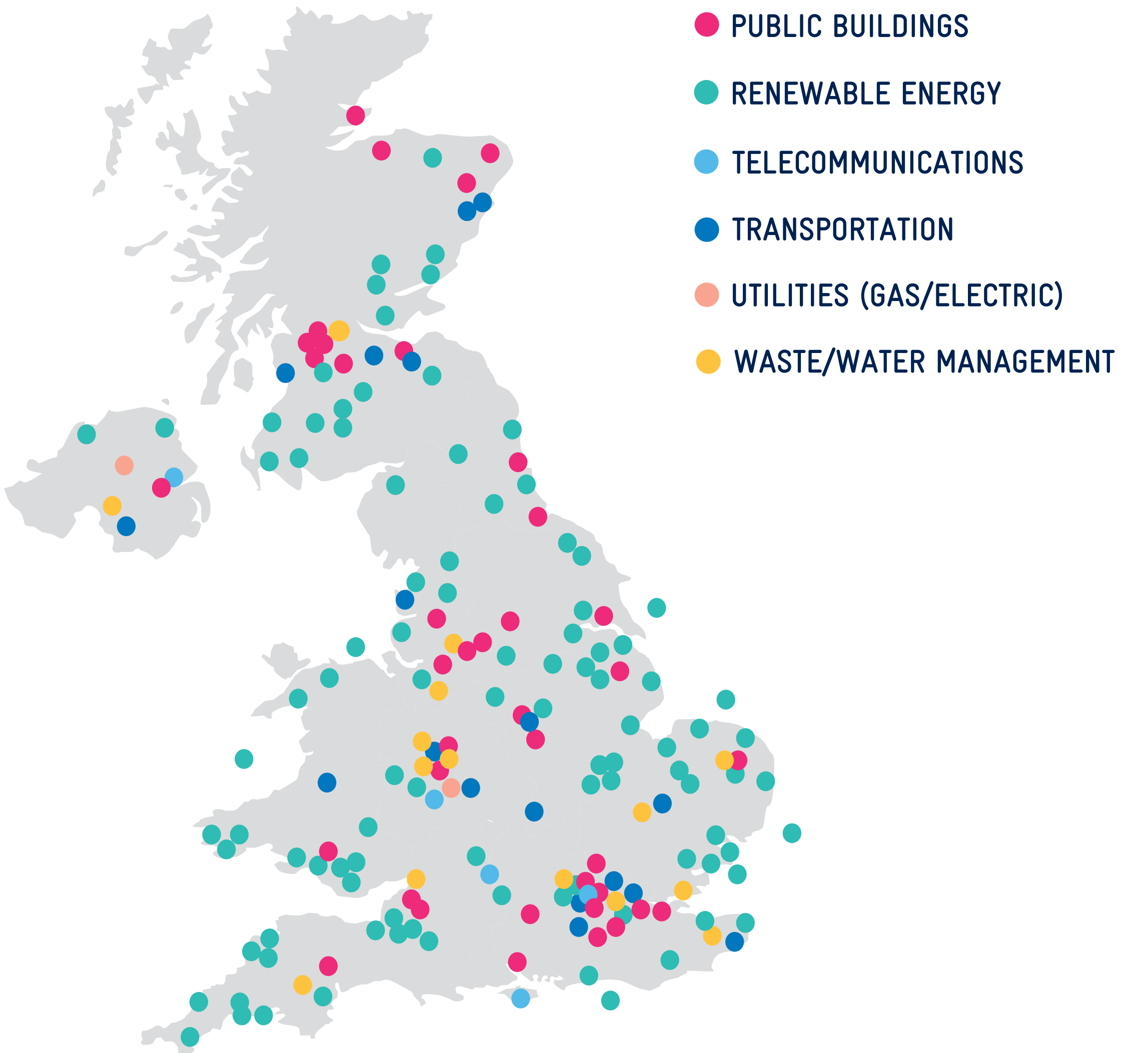
[20] See Box 2 on climate change and the UK's positioning on page 44.

Though limited to a selection of projects, Figure 9 maps out the types of infrastructure projects facilitated by IA members on behalf of their clients. These investments span across the UK, though notable clusters of investments in public buildings can be seen around major cities.

Renewable energy projects make up a significant proportion of investment in UK infrastructure projects, which mainly consist of offshore and onshore wind farms. Increasingly, members are also investing in nationwide initiatives includes regional waste and water management services, national grids for the provision of fibre broadband and international transportation networks. Because they are nationwide, these projects do not appear on the map.



**FIGURE 9: SELECTION OF UK INFRASTRUCTURE INVESTMENT FACILITATED BY IA MEMBERS IN 2021**



## ONGOING FOCUS ON LIQUIDITY MANAGEMENT

The process of widening access to private markets has coincided with, and partly shaped, the broader discussion in the UK – and internationally – on how better to manage liquidity in open-ended investment funds. A combination of events over the past three years 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, especially those assets subject to dynamic (e.g. corporate bonds) or inherent illiquidity (e.g. property).
- The Ukraine crisis – and consequent challenges for assets held in Russia, Ukraine and Belarus – sparked an urgent 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, further work was undertaken by regulators and industry at speed in the UK.
- 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.

### LIQUIDITY MANAGEMENT IN CONVENTIONAL INVESTMENT FUNDS

As we move through 2023, the focus for the UK authorities and others internationally is on the coordinated global regulatory reform agenda being driven by the Financial Stability Board (FSB) and International Organization of Securities Commissions (IOSCO). In December 2022, the FSB published its Assessment of the Effectiveness of the FSB's 2017 Recommendations on Liquidity Mismatch in Open-Ended funds, which set out a clear direction of travel which would require five areas of enhancement of the existing framework:

- A clearer and more specific articulation of the intention outcome of policies to reduce structural liquidity mismatch in OEFs.
- Ensuring investors bear liquidity costs associated with fund subscription and redemption and enhancing use and consistency of use of liquidity management tools (LMTs) by fund managers.
- Requiring clearer fund disclosure with respect to availability and use of LMTs.
- Closing identified data gaps to improve monitoring and management of liquidity mismatch by authorities.
- Further promoting the use of fund and system-level stress testing.

In the summer of 2023, the FSB and IOSCO moved to consult on new recommendations to address identified issues. In the UK, the Bank of England has also launched a new system-wide exploratory scenario exercise to better understanding the behaviours of banks and NBFIs in stressed conditions.

The UK industry is broadly supportive of the objectives of broadening and strengthening the liquidity management toolkit, although still stresses the importance of first mover advantage in the financial markets themselves as the central driver of redemptions during crises, rather than fund structures.

The outcome of these discussions, combined with the ability of the distribution infrastructure to accommodate tools such as notice periods, will shape the evolution in the coming years of the liquidity management toolkit and the way in which access is provided to certain asset classes and strategies in the DC and retail markets.

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

Previous editions of the Investment Management Survey have reported the significant growth in private market assets globally over the past decade. Although total private markets assets under management continued to increase globally by 16% to $12 trillion during 2022, fundraising has slowed considerably, falling 11%. A question therefore arises that is similar to the one posed earlier in this chapter with respect to conventional assets under management: to what extent has the strong growth over the past decade been cyclical rather than structural and will a prolonged period of higher interest rates prove a significant and enduring headwind?

The reality is likely to be a mixture of cyclical and structural, with demand-side strength in part driven over the past decade by a hunt from investors for diversified yield in the context of lower yields from conventional sources such as fixed income. On the supply side, lower borrowing costs clearly also contributed to the attractiveness of private funding for corporates and infrastructure projects seeking private finance.

However, there is a recognition that private markets are structurally now a much more significant part of the investing landscape, reflected in the emergence of new vehicles such as the UK Long-Term Asset Fund (LTAF) and the overhauled EU vehicle, the European Long-Term Investment Fund (ELTIF). While private markets are now subject to increasing scrutiny in areas such as valuation, liquidity and fee structures, this likely reflects the transition to a much more mature phase, ahead of a potentially more transformative phase that could be triggered by the impact of tokenisation (see discussion in Chapter 2 of this report).

In the meantime, a significant number of investment managers are further developing their capabilities in the private market space to meet ongoing and emerging funding needs in a number of key areas for the UK, European and global economy. These are likely to include both corporate finance (equity and debt) and, increasingly, infrastructure to drive action in areas such as tackling climate change through decarbonisation and supporting urban and wider public infrastructure renewal.

The shift to greater private market finance requires a range of demand-side and supply-side factors to align in order to be successfully extended. On the demand side, 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.

*"The political zeitgeist is that there will need to be more investment capital in the UK. The asset management industry has a role in helping us to think about how we create those investable opportunities. Figuring out how the asset management industry can help create the structures and opportunities will be an interesting evolution over the next few years."*

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.
- The completion of the Productive Finance Working Group's work to facilitate greater access to private markets for DC decision makers.
- Further momentum through the Autumn 2022 Mansion House reform agenda.

However, there remains quite a significant road to travel to engineer the culture and delivery infrastructure shift necessary to embed greater private market investment into DC default strategies. The investment industry will be engaging closely with policymakers and regulators to facilitate further change.

For their part, pension schemes both DB and DC remain cautious – understandably – about the kinds of funding need that they are prepared to support, and sometimes critical of prevailing fee structures. More work will be needed to reduce an 'expectations mismatch' between the supply and demand side, especially on public infrastructure where a prevailing theme for a number of years has been a shortage of investible projects rather than a shortage of capital per se.

# 4 UK INSTITUTIONAL MARKET

## KEY FINDINGS

### MARKET OVERVIEW

- IA members managed £3.9 trillion on behalf of UK-based institutional clients in 2022, down 16% from £4.6 trillion in 2021, reflecting a significant downward movement in fixed income assets as interest rates rose through the year.
- Together, UK pension funds and insurers accounted for over 80% of UK institutional client assets in 2022.
- The proportion of assets managed on behalf of UK pensions has now fallen back to 57%, after increasing almost consistently between 2011 and 2018 to reach 65%.
- The relative performance of pension scheme and insurance assets resulted in a rise in the proportion of insurance assets under management (AUM), to 25% from 23%, but a fall in nominal terms year-on-year.
- Other client assets showed a mixed picture, with an absolute as well as relative increase in sub-advisory assets.

### EVOLUTION OF PENSIONS MARKET

- UK pension fund assets managed by IA members globally were £2.2 trillion in 2022, falling 22% year-on-year from £2.9 trillion. Although global data suggest that the UK pensions market was one of the hardest hit in 2022 in asset terms, sharp falls in the value of DB pension scheme assets were accompanied by even sharper falls in liabilities. This contributed to a marked overall improvement in funding position.
- The IA estimates that assets in the wider pensions market in the UK stood at £3.7 trillion, down from £4.2 trillion at the end of 2021.
- Private sector pension participation rates have doubled over the past decade from 32% to 74% by the end of 2021. Although 2022 data has not yet been published, the proportion of automatically enrolled private sector employees opting out of their workplace pension has risen through 2022 reaching 10.2% (up from 7.6% in January 2020).

### THIRD-PARTY MANDATES

- Once in-house mandates are excluded, AUM for third-party UK institutional clients stood at £3.3 trillion in 2022 (down from £4.0 trillion in 2021). Pension assets account for 63% of the third-party institutional market, down from 69% the previous year.
- Liability driven investment (LDI) portfolios were heavily impacted in 2022 falling to £1.17 trillion. Based on a matched sample, total assets fell by approximately 28% over the year.

### MANDATE TYPES

- Once LDI assets are excluded, we see that single asset mandates dominate the market, though in 2022 the proportion of multi-asset mandates were up to 20% (from 19% in 2021) following three years of falls.
- Reflecting sharp falls in fixed income markets, we see significant falls in assets in specialist fixed income mandates, particularly for pension fund clients. Fixed income mandates account for 32% of specialist mandate assets in 2022 (down from 36% in 2021, and the lowest proportion on record) while equities were down one percentage point to 38%.

4

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 as 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

As of 2022, IA members manage £3.9 trillion of UK institutional client assets globally, down from £4.6 trillion in 2021. The 16% annual fall in assets, exceeds the 12% fall in total UK-managed assets reported in chapter 1 reflecting significant falls in fixed income and liability driven investment (LDI) assets.

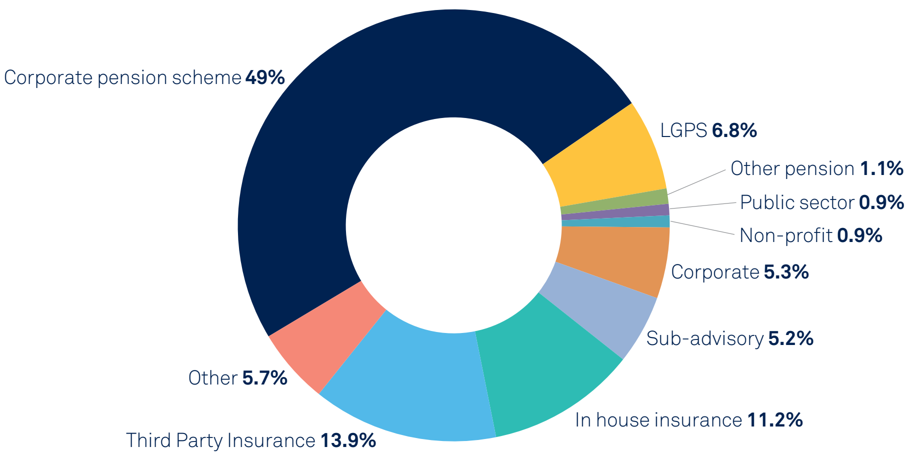
Estimates for UK institutional flows indicate aggregate inflows over the year totalling approximately £65 billion, suggesting that the drop in assets is primarily a market driven fall.

## CLIENT BREAKDOWN

Chart 19 provides a breakdown of the £3.9 trillion of UK institutional market assets by client type, indicating that the majority (82%) of assets continue to be managed on behalf of pension funds and insurers. There have been some notable movements in this breakdown between 2021 and 2022:

- Pension fund assets fell from 62% of UK institutional assets in 2021 to 57% in 2022. Corporate pension scheme assets fell from 55% to 49%. The share of Local Government Pension Scheme assets stayed relatively stable (6.8% from 6.5%). Other pension assets halved from 2.7% to 1.2%.
- Over the same period, insurance assets increased from 23% to a quarter (25%). Assets managed on behalf of in-house insurance clients were broadly unchanged, accounting for 11% of institutional market assets, and assets managed on behalf of third-party insurance clients is up to 13% (from 12%).

### CHART 19: UK INSTITUTIONAL MARKET BY CLIENT TYPE (2022)

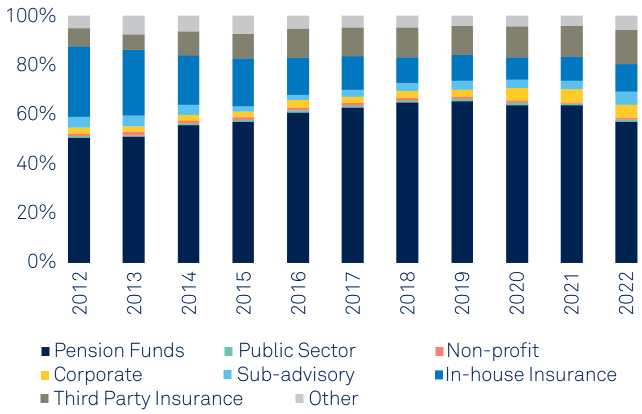



Source: The Investment Association

Chart 20 illustrates the change in distribution of UK institutional market assets by client type over the past ten years. Notable trends include:

- **Pension funds:** Between 2012-18, the share of pension fund assets was steadily increasing, peaking at 65% and remaining reasonably stable until 2021. Market events in 2022 precipitated a sharp adjustment in the proportion of institutional assets managed on behalf of pension funds, falling to their lowest level since 2014.
- **Insurance:** The share of assets managed on behalf of insurers had progressively decreased over the past ten years before jumping two percentage points to 25% in 2022. The deviation from the trend in the 2022 data is a further relative returns story. Pension scheme and insurance assets both fell in nominal terms over the year, but insurance assets fell less significantly.
- **Other client groups:** Institutional assets managed on behalf of other clients (including corporate and sub-advisory) has fluctuated between 12% and 16% over the past ten years. The increased share of institutional market assets to 18% is largely attributable to a significant nominal increase in sub-advised client assets which now account for 5.2% of assets (up from 3.5% in 2021).

### CHART 20: UK INSTITUTIONAL MARKET BY CLIENT TYPE (2012-2022)




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 2022, UK pension fund assets directly managed by IA members amount to £2.2 trillion, which is down from £2.9 trillion in 2021 (equivalent to a 22% fall year-on-year). Global data[21] suggest that the UK pension market was among the hardest hit in 2022, largely because of the high allocation to domestic bonds which fell over the year (See Box 1 on global capital market performance). Indirectly, investment managers will also be managing a significant proportion of remaining UK pension assets, particularly through insurance vehicles.

Overall, pension fund assets directly managed by investment managers can be categorised into the following three categories:

- **Corporate pension funds** (CPF), 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. CPF includes an estimated £115 billion managed by Occupational Pension Scheme (OPS) managers.
- **The Local Government Pension Scheme** (LGPS), which is the largest public sector DB pension scheme in the UK, with over 6 million members. IA members are directly managing over £260 billion of LGPS assets which is approximately three quarters of LGPS assets based on the most recent estimates.[22]
- **Other pension funds**, which includes 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 just 1% of total UK pension scheme assets, or an estimated £45 billion.

[21] OECD Pension Markets in Focus 2023, Preliminary Data.
[22] According to the Department of Levelling Up, Housing & Communities, the "market value of LGPS funds at end of March 2022 was £364 billion.

## SIZING THE MARKET

Given the complexity around the distribution of Defined Contribution (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 10):

- 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.

- 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.

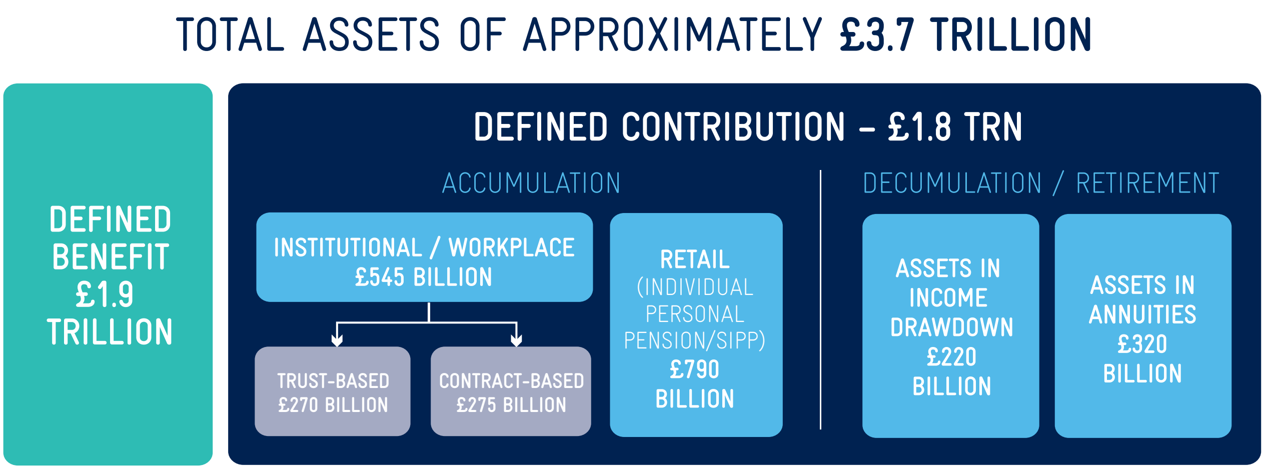
We have estimated the wider size of the UK pension market to be £3.7 trillion as of December 2022 (down from an estimated £4.2 trillion in 2021). Figure 10 provides estimates for the breakdown of these assets in 2022, we note the following:

- DB pensions were particularly impacted by the autumn gilt market shock, with assets falling 19% to £1.9 trillion by the end of 2022 (see pages 66-67). However, data from the UK Pension Protection Fund (PPF) suggests that over 2022, a fall in asset values of 22% within its universe was accompanied by a fall in liabilities of 39%, contributing to a significant improvement in overall funding positions.

- DC assets in the accumulation phase was the only segment to increase year-on-year: between 2021 and 2022, we estimate that while individual and self-invested assets remained stable, assets in DC workplace pensions increased by 11% to reach £545 billion. Given the performance in capital markets, this would suggest that net contributions have increased in 2022.

- For decumulation assets, the latest available data for 2021 suggests assets in income drawdown were approximately £220 billion. Assets backing annuities, which sit on insurers balance sheets, fell to £320 billion in 2022, down 25% from £425 billion the previous year. This reflects the significant allocations to fixed income assets, which were particularly impacted by rising interest rates in 2022.

**FIGURE 10: OVERVIEW OF THE UK'S PENSION LANDSCAPE IN 2022**



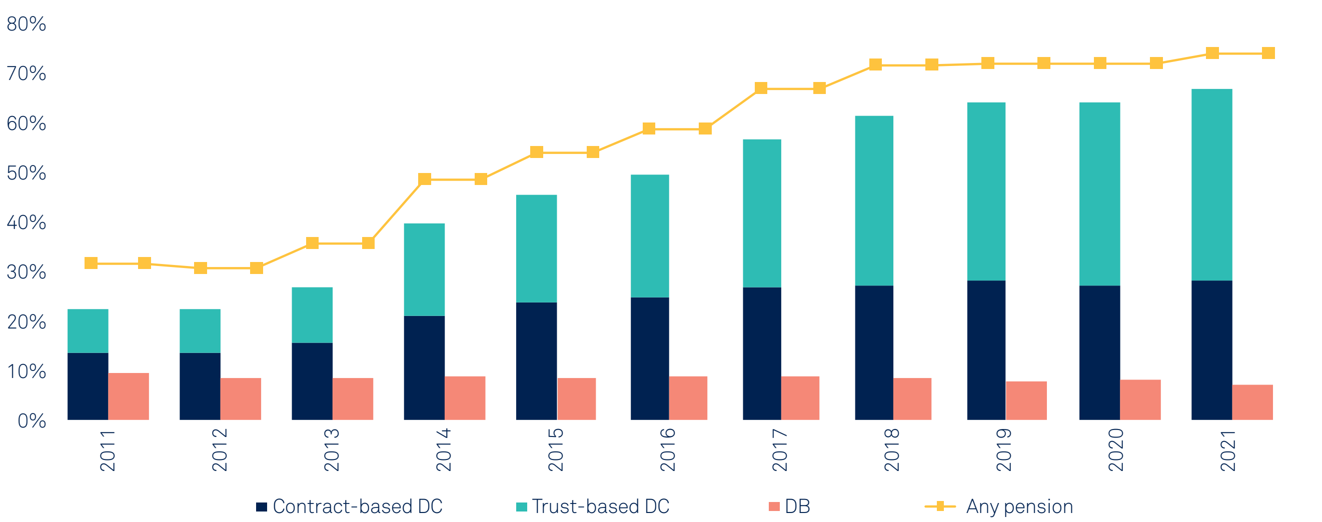

Sources: The Bank of England, Department for Levelling Up Housing & Communities, Financial Conduct Authority, The Investment Association, MoreToSIPPs, Office of National Statistics, Pensions Policy Institute, Pensions Protection Fund 7800 Index

As figure 10 shows, the majority of workplace pension assets currently sit in DB schemes, however the direction of travel in terms of new members and flows has shifted to DC schemes. There were 930,000 active members in private sector DB schemes in 2022 (approximately 10% of all DB scheme members), while 4.1 million members (43%) are pensioners. By comparison, there are approximately 16 million active DC members.[22]

Chart 21 illustrates pension participation rates for private sector jobs over the last ten years, broken down into DC and DB participation and highlights the growing significance of DC schemes in the UK pension market:

- Private sector DB scheme participation rates fell to 7% in 2021, the lowest level in a decade. Prior to this, participation in DB schemes had fluctuated between 8% and 9%.
- The threefold increase in DC pension participation rates from 22% to 67% coincides with the introduction of auto-enrolment in 2012. The phased roll out meant that by 2017 all eligible employees were automatically enrolled into a workplace pension, at which point we see the growth of participation rates slow.
- Participation rates were resilient despite the temporary spike in auto-enrolment opt-out rates in 2020 (to approximately 11% from 8-9%) at the height of the Covid-19 pandemic. 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, up from 7.6% in January 2020.

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



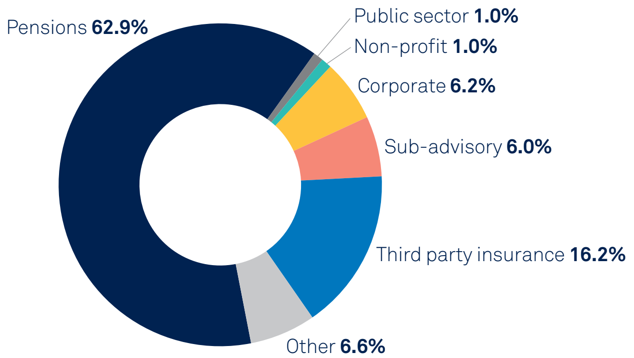

Source: The Office of National Statistics

[23] See 'The Purple Book 2022', Pension Protection Fund and 'DC trust: scheme return data 2022 to 2023', The Pensions Regulator. See also 'Ten years of Automatic Enrolment in Workplace Pensions: statistics and analysis', Department for Work & Pensions

## 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 by insurance parent groups and occupational pension schemes.

### CHART 22: THIRD PARTY UK INSTITUTIONAL CLIENT MARKET BY CLIENT TYPE IN 2022




Source: The Investment Association

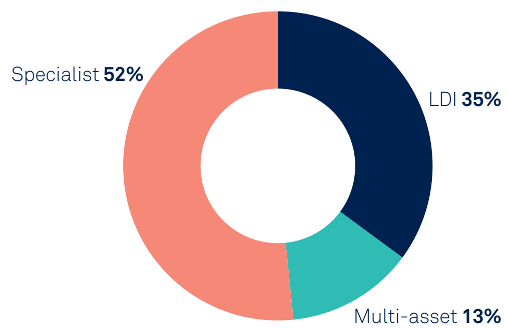
Once in-house insurance mandates are excluded, total third-party client assets managed by IA members globally stands at £3.3 trillion as of the end of 2022 (down from £4.0 trillion). In chart 22, we see that the pension funds account for an even larger share of the third-party market, at almost two thirds of total assets (63%, which is down from 69% in 2021). Much of the lost share in pension assets has gone to the sub-advised category (at 6%, up from 4% in 2021) which experienced a nominal increase in 2022 and the third-party insurance category (at 16% up from 15% in 2021), which saw a slower relative decline.

## MANDATE BREAKDOWN

Chart 23 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 2022, assets managed in single asset strategies increased two percentage points to 52% of mandates.
- **Multi-asset, or 'balanced' mandates**, which cover a number of asset classes and regions. Balanced mandates were used in 13% of assets managed by third-party clients at the end of 2022, up two percentage point since 2021.
- **LDI mandates**, which are specifically designed to help clients meet future liabilities. These mandates frequently make greater use of derivative instruments and are therefore included on the basis of the notional value of liabilities hedged, rather than the value of physical assets held in the portfolio. Assets in LDI mandates accounted for 35% of total mandates in 2022, down four percentage points from the previous year. We cover LDI assets in more detail in the next section.

### CHART 23: UK THIRD PARTY INSTITUTIONAL MANDATES INCLUDING LDI IN 2022




Source: The Investment Association

## LIABILITY-DRIVEN INVESTMENT AND THE AUTUMN 2022 GILT MARKET SHOCK

As we have reported in editions of the Investment Management Survey over the past decade, the role of liability driven investment (LDI) has significantly increased. From around £450 billion in assets under management in 2012, total assets attributed to LDI reached a revised estimate of £1.5 trillion by the end of 2021. Until 2022, this part of the institutional market had been stable with the notional value of assets increasing each year. In 2022 however, we record a sharp fall in assets of 28% on a matched basis, and total LDI assets fell to £1.17 trillion.[24]

### *The Autumn 2022 Gilt market shock*

One consequence of this direction of travel has been that DB schemes are the largest holders of long-dated and index-linked gilts. This concentration of investment strategies and gilt ownership means that the long-dated and index-linked gilt markets quickly become vulnerable to dislocation when large numbers of pension funds are seeking to sell these assets.

This is exactly what happened in late September/early October 2022, when gilt yields rose dramatically over a very short period of time: over three working days in late September, gilt yields rose by around 130 basis points. A rise in yields of this magnitude over this time frame was beyond any historical experience.

### 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 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.

[24] Given that the number of LDI managers is fairly concentrated, IA figures are likely to represent a top range estimate.

In this situation, many DB schemes using LDI strategies needed to rapidly sell assets for cash to respond to collateral calls. The most common assets they would sell in this situation were equities and corporate bonds. However, 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.

The unprecedented situation of many DB schemes reducing their gilt repo positions, and effectively selling gilts at the same time, drove the gilt price down further, triggering more collateral calls and thus a further need to sell, resulting in a negative market spiral.

*"The events were triggered by an extreme market shock that was compounded by the fact that there's no diversification in the ownership of gilts. We now need to understand that once in every 400 year events do happen and could happen more frequently. Long term structurally LDI will be in a much better place than it was beforehand."*

Large redemptions were seen in other asset classes as DB schemes had to sell additional assets to raise cash. In the context of volatile markets across a whole range of asset classes, the need to either raise cash at short notice, or reduce hedging levels by selling gilts was a challenge for some DB schemes, and in the view of the Bank of England, a threat to the UK's financial stability. The Bank stepped in to act as a purchaser of long-dated and index-linked gilts for a two-week period at the end of September/early October, giving DB schemes the time to recapitalise their LDI strategies and adjust their overall portfolios. The Bank's intervention successfully ended the negative market spiral.

## *After the shock: increasing LDI resiliency*

Following the resolution of the immediate crisis, regulatory action – led by the Bank of England's Financial Policy Committee[25], in partnership with the FCA[26] and The Pensions Regulator[27] – has focused on increasing the steady state resiliency of LDI strategies. This can be summarised as improved management of leverage through enhanced liquidity management. This is achieved in two overarching areas:

- Larger collateral buffers to cover the effect of further gilt yield rises on leveraged LDI positions,
- Faster operational timelines to recapitalise buffers when necessary.

*"We hadn't modelled for the government doing massive unfunded borrowing in a rising interest rate environment. The industry needs to keep making sure that it is stress testing with good scenario modelling and that it thinks about tail risks and black swan events. It needs to make sure that investors are fully cognisant about the levels and implications of embedded leverage."*

Whereas pre-crisis buffers were resilient to yield shocks in the order of 100bps[28], the new steady state resiliency requirements are for buffers to cover yield increases of 300-400bps (see Figure 11). As far as operational timelines are concerned, pension schemes must now be in a position to respond to recapitalisation events within five working days. If they cannot meet this standard, they must hold higher levels of collateral buffers.

Through the spring and early summer of 2023, gilt yields again rose significantly, although the speed and scale of these moves was lower than during the stress period in 2022, with 30-year gilt yields rising by around 80bps between the end of March and late May, compared with over 120bps in three days in September 2022. In the face of this volatility, the revised resilience framework is functioning as intended, with LDI strategies maintaining levels of resilience above the minimum required levels, with recapitalisations being initiated at far higher levels of resilience.[29]

The events of September/ October 2022 created a liquidity crunch for the DB pensions sector. In solvency terms, the effect of rising gilt yields is, in aggregate, positive for the sector, since it reduces the present value of its liabilities, leading to improved funding levels. While the aggregate funding ratio (on a PPF benefits measure of liabilities) stood at 127% before the shock at the end of August 2022, by the end of October, it had increased to 136%[30]. While the effects are heterogeneous across schemes, this generally means that many schemes will have a shortened journey to buyout or other risk-transfer solutions.

[25] Financial Policy Summary and Record – March 2023, FPC, Bank of England.
[26] Further guidance on enhancing resilience in Liability Driven Investment, FCA, April 2023.
[27] Using leveraged liability driven investment, TPR, April 2023.
[28] This is interpreted as the size of yield increase the capital buffer can tolerate before it is exhausted and needs to be recapitalised.
[29] July 2023 Financial Stability Report, FPC, Bank of England.
[30] PPF 7800 Index.

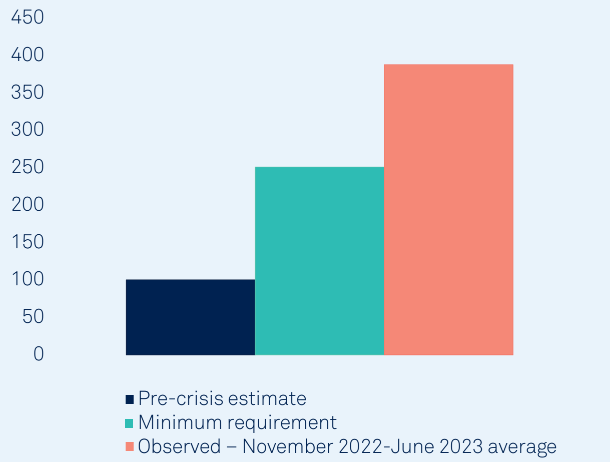
## FIGURE 11: THE GILT MARKET CRISIS IN THREE CHARTS

### CHART 24: GILT YIELDS SUFFER UNPRECEDENTED SPIKE FOLLOWING SEPTEMBER FISCAL EVENT


This was:
2x increase ahead of the Spring 2020 Covid-19 lockdown
3x larger than any other historical move over a similar period

Source: The Bank of England

### CHART 25: LDI RESILIENCE INCREASES SIGNIFICANTLY IN THE AFTERMATH OF THE GILT MARKET SHOCK




Source: Adapted from FPC July 2023 Financial Stability Report

### CHART 26: OVERALL, DB PENSION SCHEME UNIVERSE FUNDING POSITION MUCH BETTER AS A RESULT OF INTEREST RATE REGIME CHANGE


Source: PPF7800 Index

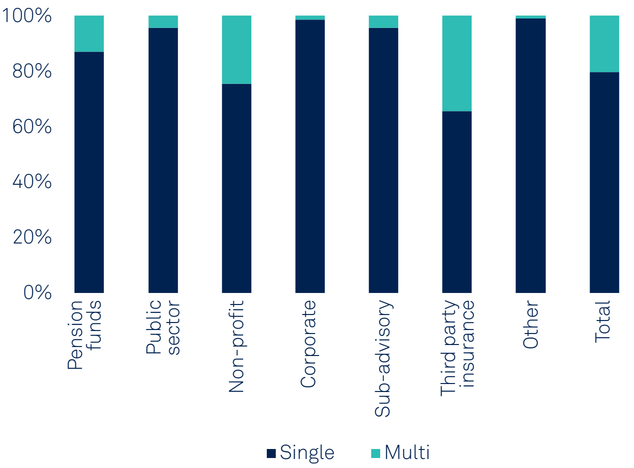
## MULTI-ASSET VS. SPECIALIST MANDATES

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 on pages 69 to 72 excludes the value of LDI mandates to allow us to uncover some of those trends.

Chart 27 indicates UK institutional clients have a strong preference for single asset (specialist) mandates, which make up 80% of total third-party mandates, excluding LDI. This is one percentage point lower than in 2021.

Focusing in on the two largest client segments, we observe that the use of multi-asset mandates is most prevalent among third-party insurance clients, accounting for over one third (34%) of assets managed for this group. Assets managed for pension funds sit largely in mandates focusing on a single asset class or region, with just 13% of assets in multi-asset strategies.

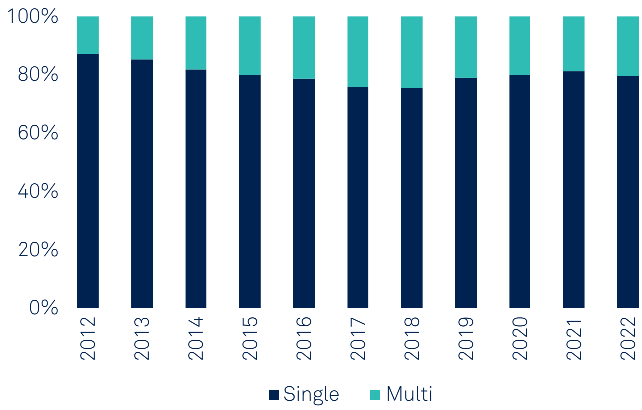
**CHART 27: UK THIRD-PARTY INSTITUTIONAL CLIENT MANDATES: MULTI-ASSET VS. SPECIALIST IN 2022**




Source: The Investment Association

The ten-year trend for the balance between single and multi-asset mandates in the third-party client market is presented in Chart 28. Multi-asset mandates grew consistently as a proportion of third-party client assets until 2018, reaching a high of 24%, before falling consistently to 19% in 2021. The one percentage point rise in 2022 to 20% is the first increase in four years and comes as a result of significantly higher falls in assets in specialist mandates rather than a nominal increase in AUM in multi-asset mandates.

**CHART 28: UK THIRD-PARTY INSTITUTIONAL CLIENT MANDATES: MULTI-ASSET VS. SPECIALIST (2012 – 2022)**



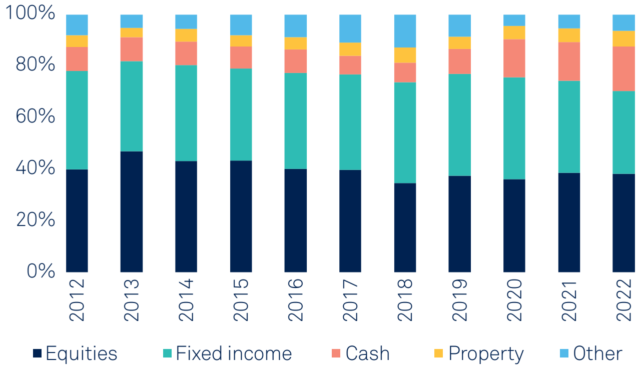

Source: The Investment Association

## ASSET ALLOCATION TRENDS WITHIN SPECIALIST MANDATES

Chart 29 looks at the long-term trend in the breakdown of specialist mandates by asset class with some particularly significant movements in 2022:

- The tough return environment in global bond markets since the end of 2021 and through 2022 reduced the share of assets in **fixed income mandates** to their lowest level on record, from 36% at the end of 2021 to 32% in 2022. This is substantially lower than the average 38% share of assets in fixed income specialist mandates between 2012 and 2020.
- Assets in **equity mandates** have been more volatile over the last decade with more pronounced year-on-year changes in years with strong market movements (most notably 2013 and 2018). Despite a weak equity performance environment in 2022, the one percentage point year-on-year fall in assets to 38% was modest, cushioned by even weaker fixed income returns.
- The rise in the proportion of specialist **cash allocations** is a standout trend of the past five years. As of December 2022, specialist cash allocations account for 17% of assets, more than double the 7% recorded in 2017. The demand for liquidity during the 2020 'dash for cash' saw this trend accelerate, though the two-percentage point increase in 2022 is more a reflection of a lower relative fall in nominal terms rather than a surge in demand.
- The proportion of assets in **other specialist mandates** increased one percentage point to 6% of assets, again reflective of a lower relative fall in nominal terms. Additional data collected this year suggests that about a quarter of these assets are in private equity and infrastructure specialist mandates.

### CHART 29: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS (2012-2022)

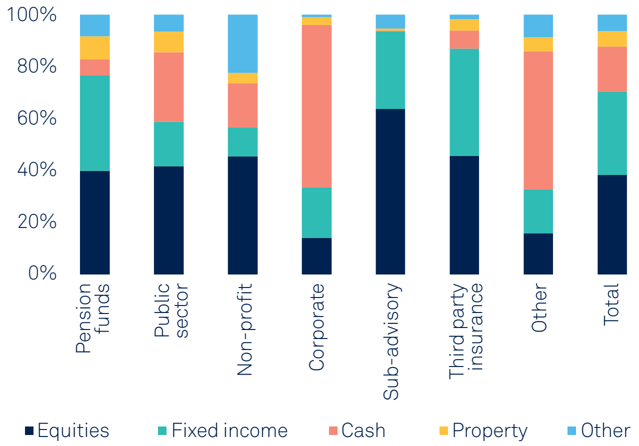



Source: The Investment Association

Asset allocation patterns differ quite substantially across different segments of the institutional market. Chart 30 highlights some distinct differences in the asset allocation profiles for each group:

- Pension funds and third-party insurers have similar asset allocation profiles, with both investing the majority (77% and 87% respectively) of assets in equities and fixed income, roughly in equal measure. Pension fund holdings in fixed income however, were down four percentage points year-on-year, while the proportion of third-party insurance assets in fixed income increased two percentage points over the year.
- Corporates hold a substantially higher proportion of highly liquid assets with almost two thirds (63%) of assets invested in cash in 2022, which is up from 48% in 2021. Some of the year-on-year changes may be explained by corporate demand for cash buffers in an uncertain business environment, improvements in reporting by member firms make annual comparisons difficult in 2022.

## CHART 30: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS IN 2022

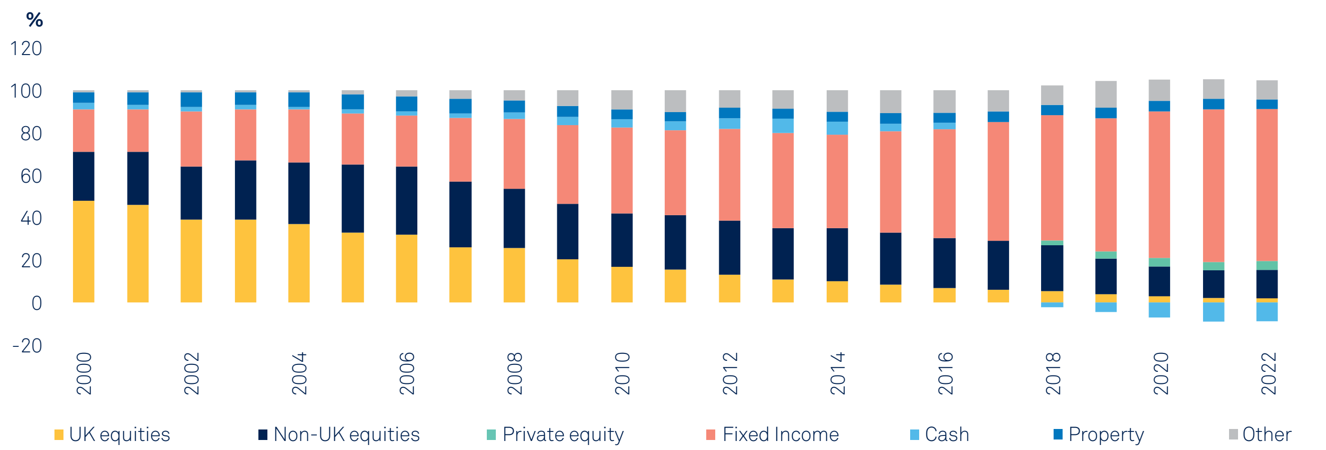



Source: The Investment Association

Given that defined benefit (DB) schemes still make up the vast majority of UK pension assets, we use external data to look at asset allocation patterns of funded DB schemes more closely. The latest data shown in Chart 31 is as of 31 March 2022, and was broadly unchanged from 2021. Market performance was the worst in the second and third quarters of 2022, so the chart does not capture the full extent of the 2022 market downturn. We make two key observations on asset allocation of DB schemes over the last two decades:

- UK DB schemes were heavily invested in equities in 2002, making up 64% of total assets, of which 39% was invested in UK equities. By 2022 the total equity allocation had fallen to 15% with UK equities accounting for 2% of this. The fall in allocation to UK equities is not specific to DB pensions schemes and is a theme discussed elsewhere in this report.[31] Although UK equities have underperformed other global equity markets over the past decade, the fall in allocation pre-dates the underperformance of UK equities. The main driver of this trend is likely a broader appetite to de-risk portfolios through more global diversification.
- The other substantial shift has been the growing dominance of fixed income in DB portfolios, now responsible for 72% of assets, up from 20% in 2002. Within fixed income, the long-term shift has been the growth in the proportion of assets in index-linked bonds which are responsible for 48% of fixed income assets (up from 34% in 2008), while government bonds (excluding index linked) investments have fallen from 33% to 22% over the same period. The very high allocation to fixed income by UK DB schemes provides further context to the 2022 fall in pension assets managed by IA members.

## CHART 31: UK DB PENSION FUND ASSET ALLOCATION (2000-2022)



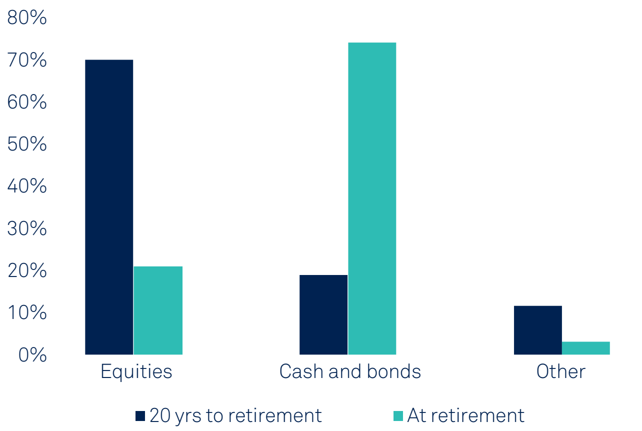

Sources: UBS Pension Fund, Pension Protection Fund – The Purple Book 2022

[31] See Chapter 3 for asset allocation trends at AUM level (p.51) and Chapter 5 for asset allocation trends in the retail funds market (p.83-85).

Chart 32 compares asset allocation of DC savers in the accumulation phase of pension saving, with twenty years until retirement, against the allocations at retirement. The allocations are based on the average allocation for master trust default strategies, which 96% of scheme members are in.

- The asset allocation for DC savers at retirement is broadly in line with the aggregate allocation of DB assets: almost three quarters (74%) of assets are invested in fixed income or cash and just over a fifth (21%) in equities.
- The savers who are 20 years away from retirement and who can withstand higher levels of volatility have more aggressive allocations with 70% invested in equities, and just 20% in fixed income or cash.

### CHART 32: UK DC ASSET ALLOCATION, 20 YEARS PRIOR TO RETIREMENT AND AT RETIREMENT IN 2022

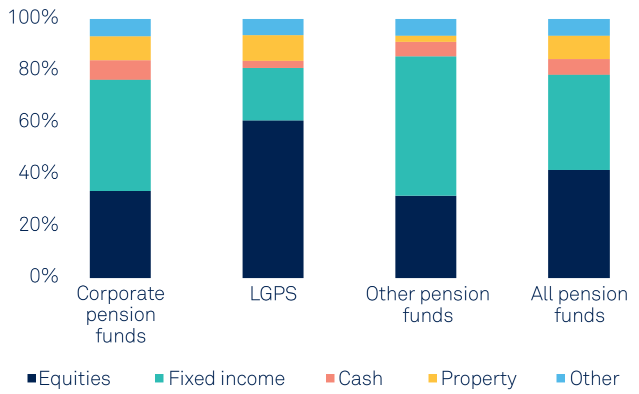



Source: Pension Policy Institute

External data illustrating the size of workplace DB schemes relative to DC and the asset allocation of each provides helpful context to the breakdown of corporate pension fund assets shown in Chart 33, which we compare against the allocation of LGPS clients:

- LGPS clients, which are DB schemes still open to new members, have a significantly higher weighting to equities (61%) compared to fixed income (20%). Year-on-year changes show a six-percentage point fall in the proportion of both fixed income and equity investments. Meanwhile, cash, which historically makes up a very small proportion of LGPS investments, and property both saw nominal increases in assets which took the proportion of assets up four percentage points to 13%.
- By comparison, corporate pension fund assets have a much higher allocation (42%) to fixed income assets than LGPS clients, though this is six percentage points lower than in 2021. The allocation to equities is almost half the LGPS allocation, accounting for a third (33%) of corporate pension fund assets.

### CHART 33: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS AMONG UK PENSION FUNDS IN 2022



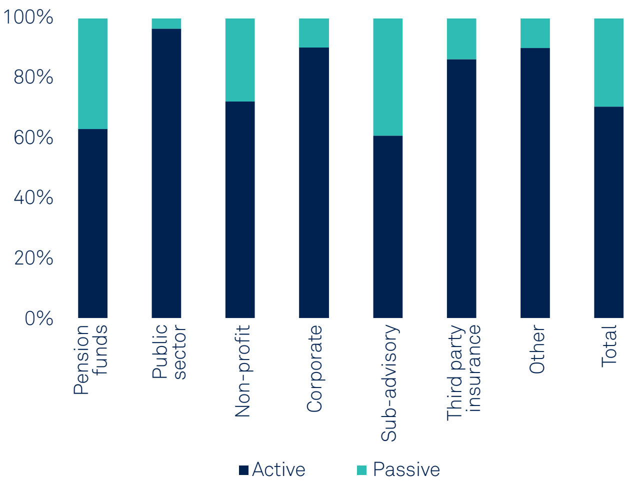

Source: The Investment Association

## ACTIVE VS. INDEXING

The majority (71%) of third-party institutional client assets are actively managed, slightly higher than was recorded in 2021 (69%). Unlike what we see in the wider asset management industry data in chapter 3, this figure has not been increasing consistently over the last five years, but rather fluctuating between 69% and 72%.

Chart 34 shows the balance of active and indexing strategies for each segment of the UK institutional market. Pension funds and sub-advised clients are the biggest users of indexing strategies relative to the size of their overall asset base. Over a third (37%) of pension assets and close to two fifths (39%) of sub-advised assets are in index tracking strategies, both two percentage points higher than reported in 2021.

**CHART 34: ACTIVE AND INDEX THIRD-PARTY MANDATES BY CLIENT TYPE IN 2022 (SAMPLE-ADJUSTED)**

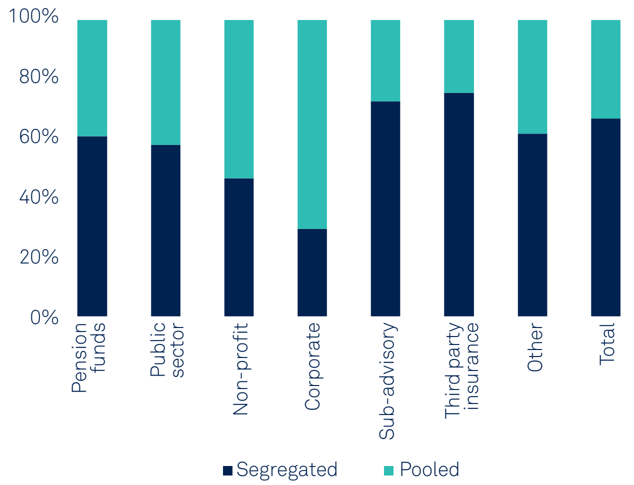



Source: The Investment Association

## SEGREGATED VS. POOLED

Chart 35 shows that the majority (67%) of assets managed for third-party UK institutional clients were managed through segregated mandates in 2022, marginally higher than the previous year and up ten percentage points since 2012. The preference for assets managed through bespoke segregated mandates versus pooled funds varies by client. While most client types have a clear preference for segregated mandates, Corporate clients and Non-profit clients typically invest through pooled vehicles.

**CHART 35: SEGREGATED AND POOLED MANDATES AMONG THIRD PARTY PENSION FUNDS (2022)**




Source: The Investment Association

# 5 UK RETAIL MARKET

## KEY FINDINGS

### OVERALL EVOLUTION OF THE MARKET

- UK investor funds under management declined by 14% to £1.37 trillion over 2022, from a record £1.59 trillion at the end of 2021.
- Over the past decade investment return has played an increasingly important role as a determinant of return relative to sales growth. That remained true in 2022 as falling markets accounted for 77% of the decline in overall FUM.
- Despite monthly and quarterly volatility in net retail sales, 2022 was the first year in IA data to record an annual outflow (£25.7 billion). This was driven by a record outflow of £36.6 billion from active strategies, while indexing funds remained in inflow (£11.0 billion).
- Rising inflation and the rapidly changing monetary environment played a major role in the dislocation, which was felt strongly across both equity and fixed income markets. Pressures on household finances have clearly reduced capacity to invest for many.
- Whether temporary or permanent, the end of a long period of monetary easing has clearly had a major impact on markets and investor behaviour. Historic IA data suggests strong sensitivity of flows to significant moves in interest rates and it remains to be seen how retail behaviour evolves through 2023 and into 2024.

### RESPONSIBLE INVESTMENT FUNDS

- As at the end of 2022, RI funds (the IA classification for sustainable and responsible funds) stood at 6.6% of total funds under management, after a period of significant growth through the global pandemic.
- RI funds were far from immune in the market dislocation of 2022. This reflected a range of factors, including relative performance of sectors, such as technology, that RI strategies are more exposed to. Flows slowed significantly, but remained in positive territory through the year.

### INCREASING IMPORTANCE OF INDEXING FUNDS

- Over the past decade indexing strategies have grown steadily in importance as a part of the UK retail fund landscape. From 8.4% in 2012, they now account for 20.8% of total retail FUM (excluding ETF market).
- Importantly, we are seeing long-run evidence now of much greater consistency of flow relative to flows to active strategies. While inflows inevitably vary over time, there has been no negative quarter of retail sales for indexing funds in the last decade.

5

## ASSET ALLOCATION

- Both major asset classes saw outflows in 2022, disrupting the established patterns of recent years. Fixed income as a proportion of total FUM is now close to where it was in 2007 ahead of the Global Financial Crisis (GFC).
- Equity funds saw outflows of £18.2 billion, the largest recorded and the first outflow since 2019. Globally diversified equities have been a popular option for investors and the Global sector was the best-selling every year from 2018- 2021. In 2022, the Global sector turned to outflow with £2.9 billion withdrawn.
- Equity investors have shown signs of adaptation however, with £2.8 billion placed into Global Equity Income funds, the first inflow since 2017, indicating a rotation in preferred investment style.
- While fixed income funds saw outflows of £4.8 billion through 2022, withdrawals were concentrated to the first half of the year when the impact of changing monetary policy was most heavily felt. Investors returned to bond funds in the second half of the year with higher yields offering enhanced returns going forward.
- Allocation and outcome funds saw ongoing positive inflows in 2022, albeit at a reduced level. Mixed asset funds dropped to a minimal £52 million inflow, ending a multi-year period of strong inflows. In contrast, Volatility Managed funds enjoyed consistent popularity with investors, with resilient inflows through 2022 and total inflows of £17.9 billion since the sector's 2017 launch.

## FUND OF FUNDS

- 2022 saw positive net retail sales for funds of funds (FoFs). Internally-invested funds of funds, which often use index tracking components, outsold externally-invested FoFs. A more persistent appetite for lower cost investment products likely explains the stronger sales to internally-invested funds of funds over recent years.

## DISTRIBUTION CHANNELS

- UK Fund Platforms were the only major channel through to continue to see inflows in 2023, though at a reduced £5.7 billion.

## HOLDING PERIOD

- Investor average holding periods continued to hold steady in 2022 at an estimated 3.5 years, with the trend of declining holding periods over the 2010s having potentially bottomed out.

## UK IN CONTEXT OF EUROPEAN FUNDS MARKET

- UK investor FUM is still trending towards greater exposure to overseas-domiciled funds, which accounted for 17% of total UK investor FUM in 2022.

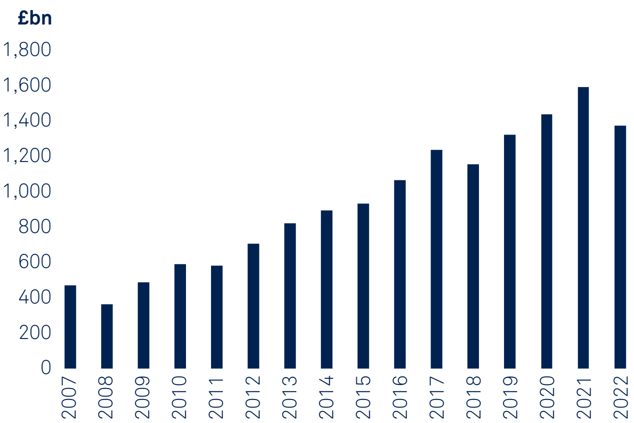
This chapter examines the funds market and trends in Funds under Management (FUM) and net sales. The focus is on long-term trends for UK investors in both UK domiciled and overseas domiciled funds. Alongside analysis of trends in sales and allocations, the chapter examines patterns in distribution, the growth of index tracking and the development of responsible investment.

While the chapter focuses on long term trends it includes consideration of how the events of 2022 have disrupted those trends. A deeper examination of the funds market through just 2022 is available in our UK Fund Market 2022 Year in Review.[32]

## UK INVESTOR FUNDS UNDER MANAGEMENT

By the close of 2022 UK investor FUM was £1.37 trillion, a 14% decrease on the £1.59 trillion figure for 2021. This is the worst year-on-year fall since the Global Financial Crisis (GFC) in 2008 which saw FUM decline 22%. As shown in Chart 36, the £218 billion decrease over 2022 is the largest seen in absolute terms.

**CHART 36: TOTAL INDUSTRY FUNDS UNDER MANAGEMENT (2007-2022)**



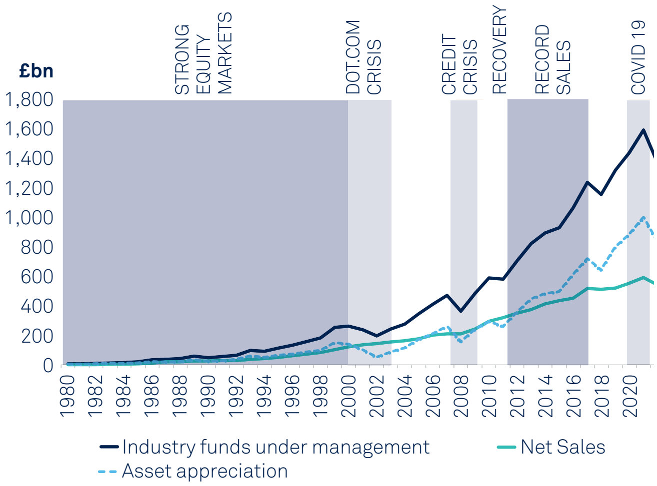

Source: The Investment Association

Chart 37 shows the growth of industry funds over management from 1980 to 2022, breaking out the relative contributions from net sales (both retail and institutional) and asset appreciation:

- The chart illustrates that falling FUM in 2022 was driven by both a fall in asset values, and negative net sales.
- This was only the second year ever of negative net sales, driven by both retail and institutional withdrawals for a combined £49.7 billion.
- The only previous annual outflow had been £5.1 billion in 2018, but this was driven only by institutional outflows. 2022 is the first year of net retail outflows.

Chart 37 also serves to illustrate the extent to which the growth of industry FUM over the past decade has been driven by asset appreciation in the post global financial crisis era of extremely interest rates. In an environment of lower rates, it is uncertain what the trajectory for asset appreciation will be going forward.

**CHART 37: DRIVERS OF INDUSTRY GROWTH (1980-2022)**




Source: The Investment Association

[32] Please see here for our UK Fund Market 2022 Year in Review: https://www.theia.org/sites/default/files/2023-04/UK%20Fund%20Market%20 2022%20Year%20in%20Review.pdf

## RETAIL SALES IN A WIDER CONTEXT

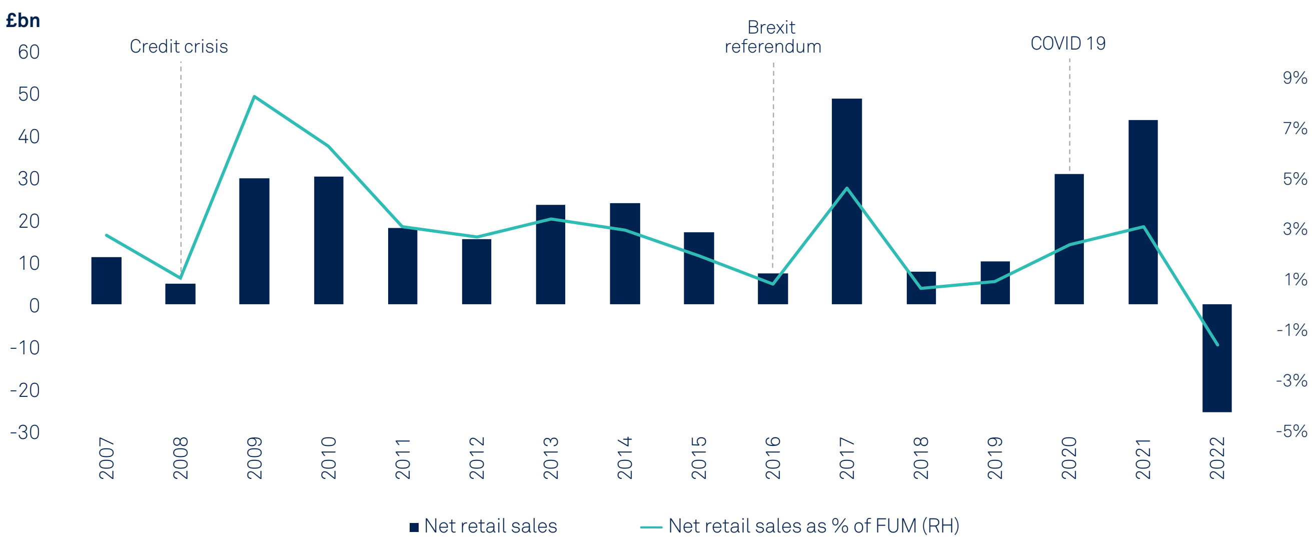
While fund flows have historically displayed a certain level of volatility (see chart 38), until 2022 there had never been a calendar year in which retail flows turned negative. Previous disruptions, most notably the GFC and the Brexit Referendum result in 2016, triggered comparatively weak sales, dropping to £4.2 billion (2008) and £7.2 billion (2016) respectively. However, neither were sufficiently disruptive to cause overall annual outflows. Notably, each of these disruptions saw a strong bound back in the following years, with inflows exceeding £30 billion in each of 2009 and 2010, and a record £48.6 billion inflow in 2017. The year to date is seeing a much more modest rebound with cumulative inflows of £6.1 billion during H1 2023.

The Covid-19 pandemic stands apart from other major disruptions as not being associated with poor sales. While the outbreak of the pandemic in March 2020 did trigger record outflows of £9.7 billion, strong fiscal and monetary policy stimulus worldwide helped drive a rapid return of flows to funds within the same year, culminating in record inflows of £8.3 billion in November 2020 following successful vaccine trial announcements.

In strong contrast, 2022 saw a significant shift in the investment environment and outlook for UK retail investors who withdrew a net £25.7 billion while grappling with the rapid changes to the interest rate environment as central banks across the developed world increased interest rates to combat rising inflation. This was also notable for another reason: active funds saw record outflows of £36.6 billion, while indexing funds remained in inflow (see page 82).

The change in monetary policy through 2022 ended the era of extremely low interest rates that had been in place following the 2008 Global Financial Crisis (GFC), when rates were cut in an effort to support economic activity and QE began. Having raised rates by 0.15% in December 2021, the Bank of England implemented a series of further increases through 2022, with eight rises through the year for a combined 3.25% increase in the base rate. The combined increase through 2022 was the largest seen since 1988 when interest rates rose by 4.5% to reach 12.88%.

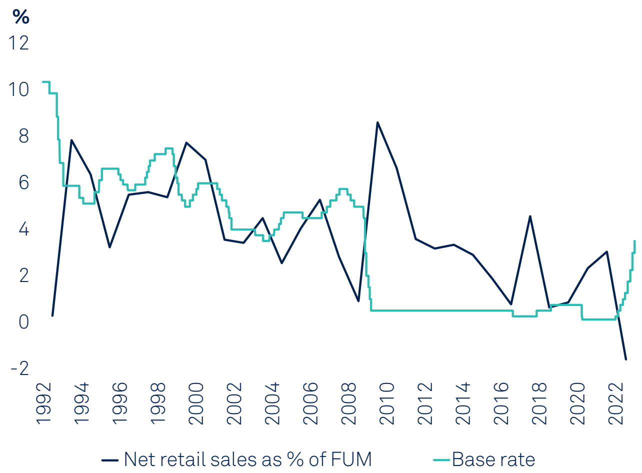
**CHART 38: TOTAL NET RETAIL SALES AND NET RETAIL SALES AS A PERCENTAGE OF FUM (2007-2022)**




Source: The Investment Association

As illustrated by chart 39, the sharp fall in interest rates following the GFC helped to trigger strong inflows in 2009 and 2010 as the search for returns, combined with shaken confidence in the banking system, drew investors away from cash and into funds. Following the outflows from funds as interest rates moved the other way in 2022, it remains to be seen how investors will respond should interest rates remain elevated for an extended period. Historic data from the 1990s do suggest strong impacts on flow at moments of volatility in interest rates. However, the industry has evolved and grown in both depth and breadth over the last thirty years, which makes it harder to extrapolate forward from the historic data.

### CHART 39: EVOLUTION OF BANK OF ENGLAND BASE RATE AND OF NET RETAIL SALES AS A PROPORTION OF FUNDS UNDER MANAGEMENT (1992-2022)

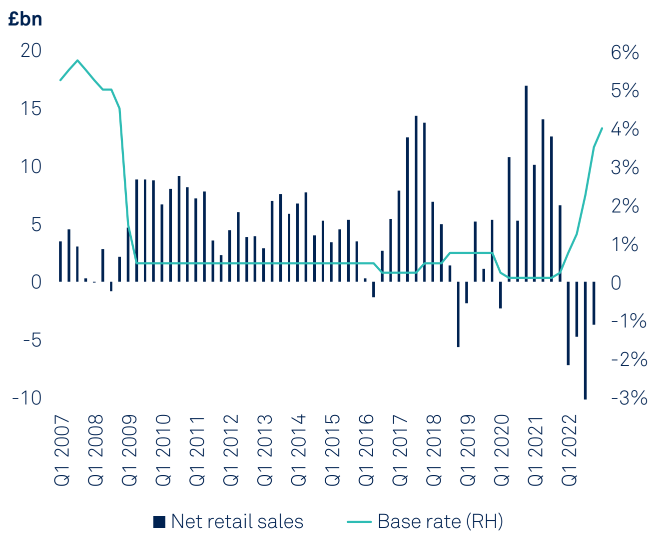



Sources: Bank of England and The Investment Association

Chart 40 illustrates the net flows shown in the previous chart at a quarterly level, providing more granular detail on investor responses to market disruptions. The contrast between the four quarters of heavy outflow in 2022 and previous events can be clearly seen – in both 2008 and 2016, only single quarters of mild outflow are observed.

Outflows at the end of 2018 are also observable. Prior to 2022, these included the worst quarter for sales recorded in IA data. While these outflows do correlate with an uptick in US-China tensions and the threat to global growth that posed, they are also tied to attempts to normalise monetary policy, especially in the US. Overall, chart 40 suggests that it is monetary policy, as much as economic fundamentals, that has determined the direction of fund flows in recent years.

### CHART 40: QUARTERLY NET RETAIL SALES AND BANK OF ENGLAND BASE RATE (Q1 2007 - Q4 2022)

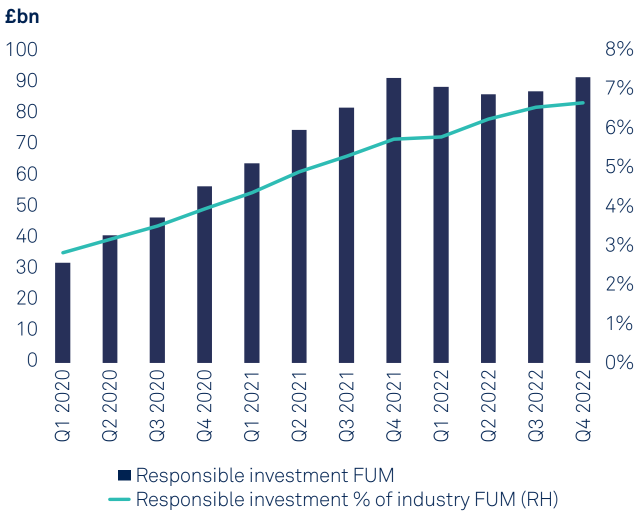



Sources: Bank of England and The Investment Association

## RESPONSIBLE INVESTMENT FUNDS

While we do not have the same historic data, due to successive changes in definition, some 6.6% (£90.8 billion) of total funds under management in 2022 were accounted for by responsible investment (RI) strategies, broken down here under the IA's Responsible Investment framework and referred to in this chapter as RI funds. However, as Chart 41 shows, the rate of FUM growth slowed sharply between 2021-22, with FUM up only 0.5% (£270 million), after an extremely strong 61.9% (£34.4 billion) increase in 2020-2021.[33]

### CHART 41: RESPONSIBLE INVESTMENT FUM (Q1 2020 - Q4 2022)




Source: The Investment Association

## BOX 7: WHAT IS INCLUDED IN IA RESPONSIBLE INVESTMENT DATA?

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

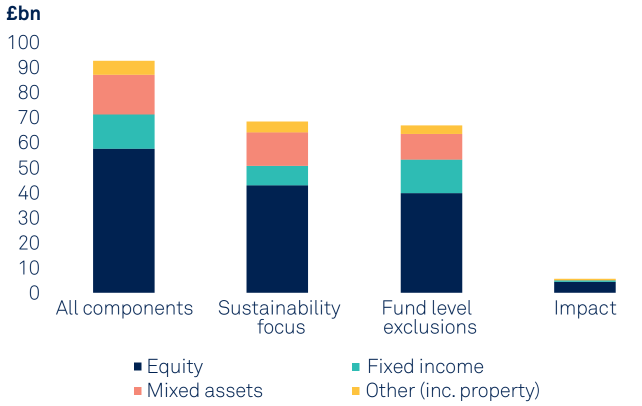
- Fund specific exclusions – prohibition of certain investments beyond any firm level policy, and beyond a prohibition on controversial weapons.
- Sustainability focus – An investment policy with sustainability criteria as a core part of the investment approach.
- Impact Investing – Investment made with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

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

[33] There were 402 funds present in the IA responsible investment data by the end of 2022 – a 31% increase from the previous year. 56% of the new funds in IA responsible investment data were domiciled overseas.

Chart 42 illustrates the asset class distribution across different components that make up IA responsible investment funds. Equity funds have a higher weighting in each of the fund categories, most notably among impact funds where 78% of assets are in equity funds.

### CHART 42: RESPONSIBLE INVESTMENT FUM BY ASSET CLASS AND COMPONENT AS OF DECEMBER 2022

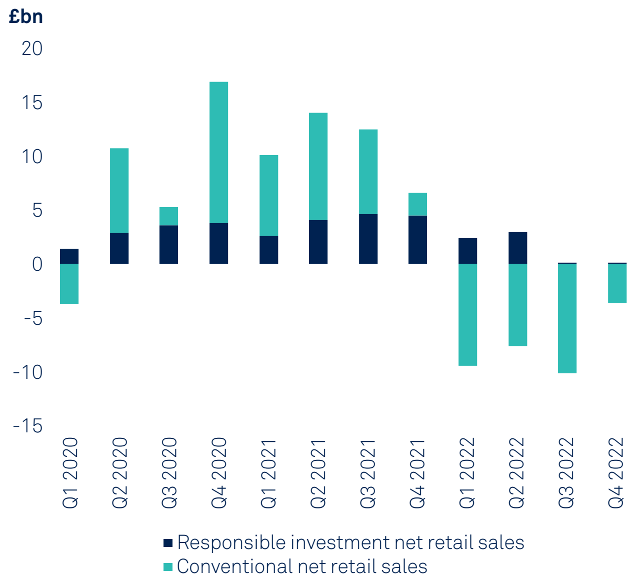



Source: The Investment Association


## SLOWER FLOWS THROUGH 2022

Following net retail inflows of £11.7 billion in 2020, and £15.9 billion in 2021, sales to responsible investment funds in 2022 dropped to £5.4 billion, a third of the 2021 inflow. RI net retail inflows in 2022 contrast with £31.1 billion in outflows from conventional (non-RI) funds. Even though the first two quarters accounted for most of the year's inflows, positive flows persisted even after the industry shifted to outflow. Inflows to responsible investment funds remained strong through the first half of the year despite a challenging performance environment as natural gas and oil prices surged, investments which are often excluded by responsible investment funds.

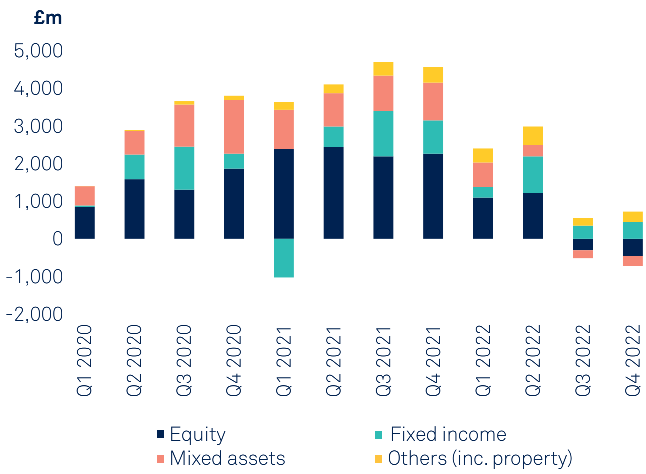
### CHART 43: NET RETAIL SALES TO RESPONSIBLE INVESTMENT AND CONVENTIONAL FUNDS (Q1 2020 – Q4 2022)




Source: The Investment Association

Equity and mixed asset funds drove the slowdown during 2022, falling from £13.1 billion inflows in 2021 to £2.0 billion. Fixed income was the top-selling across the asset categories in 2022, with £2.1 billion in inflows. There was a change in pattern towards the end of 2022 as responsible investment funds investing in equities and mixed assets started to move into outflows of £759 million and £477 million for the second half of the year, mirroring the move to outflows in these classes across the wider industry.

**CHART 44: RESPONSIBLE INVESTMENT NET RETAIL SALES BY ASSET CLASS (Q1 2020 - Q4 2022)**

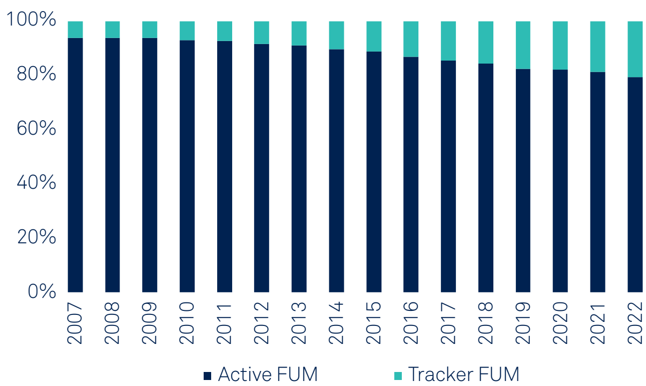



Source: The Investment Association

## INCREASING IMPORTANCE OF INDEXING FUNDS

As chart 45 illustrates, an important further change over the last fifteen – and in particular – ten years has been the growth of the share of the UK fund market within index trackers, rising to a peak of 20.8% with £285 billion in funds under management by the end of 2022. Index tracking funds have seen growth in their share of FUM every year since 2008 and over the decade leading up to 2022 the growth of their market share was 10% per year. [34]

**CHART 45: ACTIVE FUNDS AND TRACKER FUNDS AS A PROPORTION OF TOTAL FUNDS UNDER MANAGEMENT (2007-2022)**




Source: The Investment Association

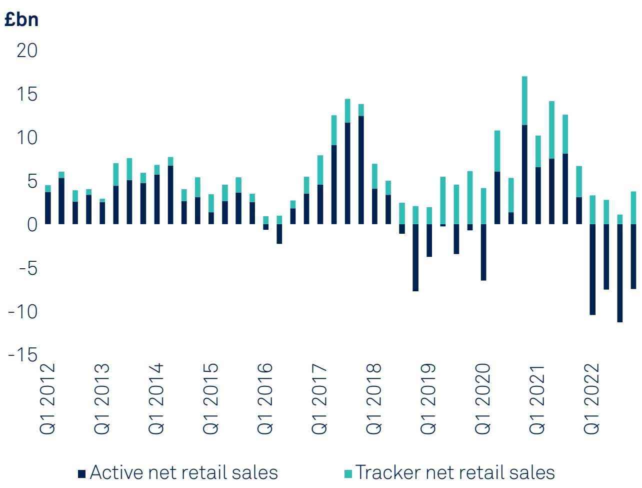
[34] The data presented in this section does not include ETFs which heavily tend towards being index trackers. For details on the growth of the use of ETFs please see Box 4 on page 54.

## ACTIVE VS INDEX NET SALES

Overall sales trends mask some important sub-trends with respect to direction and persistence of the flows into indexing funds as part of overall industry activity. Looking back over the decade since the introduction of the Retail Distribution Review (RDR), Chart 46 shows two significant features of the market:

- The growing absolute share of sales to index trackers over the period.
- The greater consistency of inflows to indexing fund funds, contrasting with more volatile sales to actively managed funds, which saw outflows in 2018 -2019 followed by a return to inflow in 2020- 2021. Active outflows in 2022 reached a record £36.6 billion, while indexing funds saw an inflow of £11.0 billion.

**CHART 46: NET RETAIL SALES TO ACTIVE AND INDEX TRACKING FUNDS (Q1 2012 - Q4 2022)**



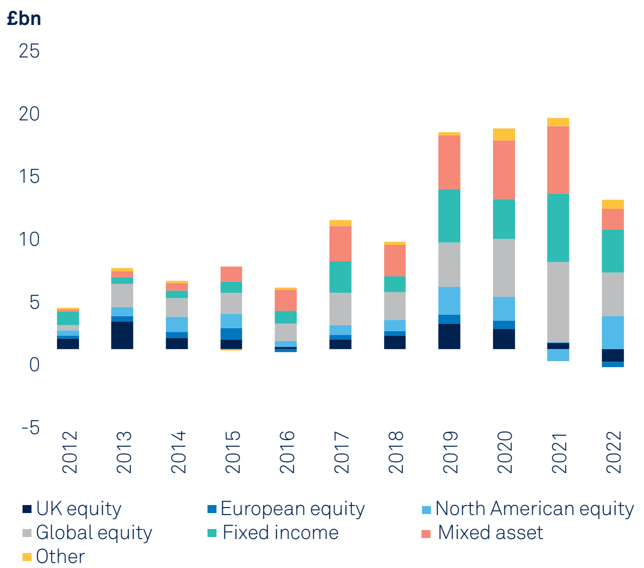

Source: The Investment Association

## NET SALES BY TYPE OF FUND

Chart 47 shows annual net retail sales to index tracking funds, split by the type of index tracked:

- Global equity trackers have been the most popular index tracking funds over the past decade accounting for 28% of inflows and with consistent investor appetite.
- UK equities as a share of inflows declined from 15% between 2013 and 2017 to just 6% between 2018 and 2022. With the exception of 2022, UK equity index trackers have remained in inflow at a time when actively managed UK equity funds have been in consistent outflow.
- Fixed income index trackers have increased from 17% of net retail sales between 2013 and 2017 to 25% of sales between 2018 and 2022. This may reflect increased availability of fixed income index trackers, or an increased focused on the cost of fixed income funds in a period of lower interest rates when bond returns were lower.
- Mixed asset index trackers have likewise seen a growth in their share of sales, rising from 17% of net retail sales between 2013 and 2017 to 25% of sales between 2018 and 2022.

**CHART 47: NET RETAIL SALES OF TRACKER FUNDS BY INDEX INVESTMENT TYPE (Q1 2012 - Q4 2022)**




Source: The Investment Association

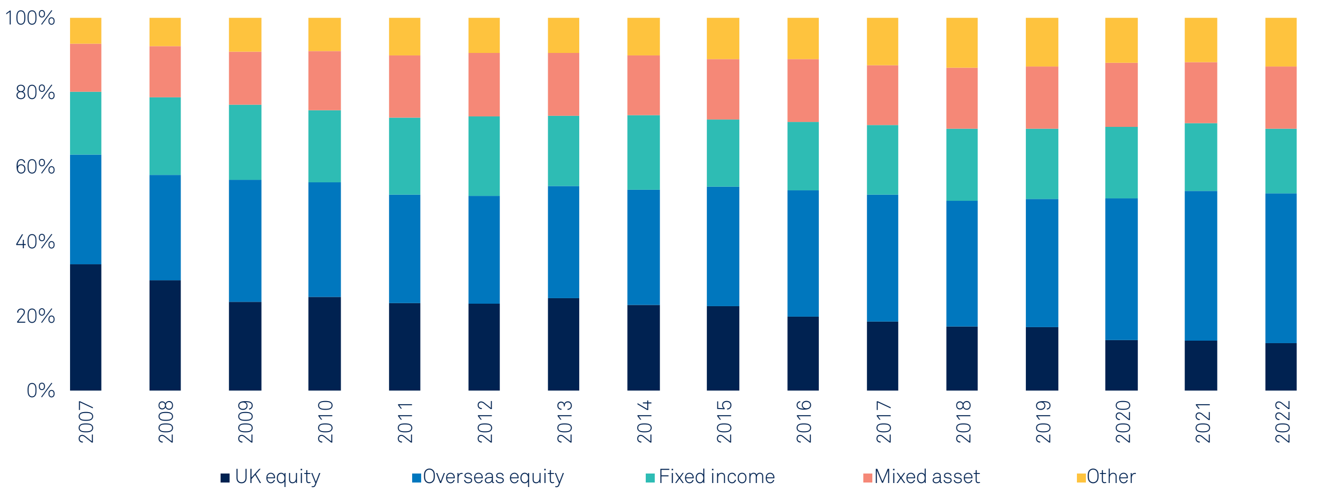
5

## ASSET ALLOCATION

Illustrating trends in total funds under management over the past fifteen years, chart 48 shows the progression since the Global Financial Crisis. A number of key trends are evident:

- Having become a more significant part of the fund universe in the aftermath of the GFC, fixed income funds as a share of assets dropped to a 15-year low of 17.4% in 2022. As we explore later in this section, there has been a combination of outflow and asset depreciation as markets and investors adjusted to rising yields.
- The share of assets in UK equity funds has declined throughout the period, but much faster since 2016. By the end of 2022, the share of UK equity funds as a proportion of total UK FUM had dropped to 12.8%. This came despite a relatively strong year in performance terms, as investors accelerated withdrawals. While the share of funds in UK equities have fallen, UK investors as a whole do remain overweight on UK equities. Some 24% of UK investor equity funds are in UK specific sectors, while UK equities make up just 4% of a typical global equity index.
- Over the past 15 years, the 'Other' category has become much more significant. While growth through 2022 was driven by infrastructure and commodities, long-term flow has come from a move towards outcome focused funds, namely Targeted Absolute Return funds up to 2017, and Volatility Managed funds since the sectors 2017 launch.

**CHART 48: FUM BY ASSET CLASS (2007-2022)**




Source: The Investment Association

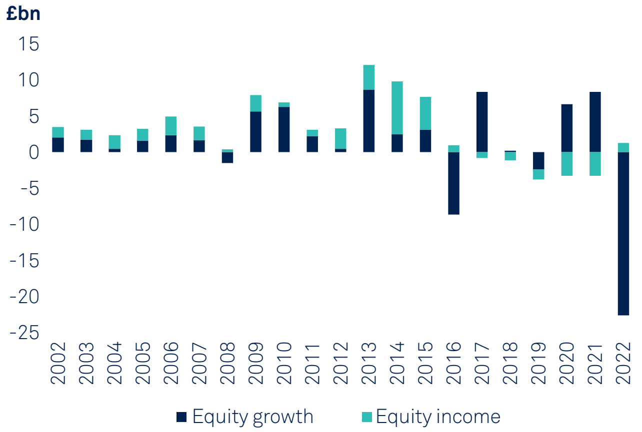
## EQUITY FLOWS

Turning to 2022 asset class analysis, UK investors in equity funds reacted strongly to the uncertainty of the year. Withdrawals reached record levels at £18.2 billion during 2022, accounting for 71% of the industry annual retail outflow; £23.0 billion was withdrawn from active equity funds while equity index trackers still saw inflows of £4.9 billion.

Looking back at the historic data collected by the IA over the last two decades, illustrated in chart 49, we make the following observations:

- Before 2022, there had been three annual equity fund outflows recorded in IA data (2008, 2016, 2019). The 2022 outflow is by far the highest outflow both in nominal and relative terms (£18.2 billion and 1.9% of equity FUM vs £8.8 billion and 1.6% in 2016)
- Until 2017, income investors had accounted for over half of the flows to equity funds since 2002. However, in the five years to 2021, UK retail investor flows to equity income sectors have been negative. 2022 saw the first annual inflow to equity income sectors in five years.

### CHART 49: NET RETAIL SALES TO EQUITY GROWTH VS EQUITY INCOME (2002-2022)

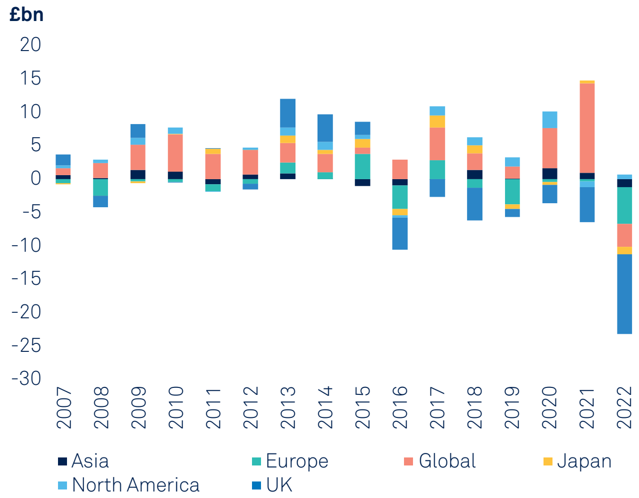



Source: The Investment Association

### Global equities

Chart 50 shows net retail equity sales split out by region. 2022 was notable because global equity funds suffered the first ever annual outflow since records began at £3.4 billion. This followed a record £13.4 billion inflow in 2021.

### CHART 50: EQUITY FUNDS, NET RETAIL SALES BY REGION (2007-2022)




Source: The Investment Association

Despite industry outflows, the Global Equity Income sector attracted net retail sales of £2.8 billion as part of a wider shift towards income investing. 2022 marks the first annual inflow to the sector since 2017. Dividends in 2022 rose by 8.4% to a record £1.29 trillion according to the Janus Henderson Global Dividend Index. This inflow ranks as the second highest of the year across all sectors in nominal and relative terms.

## European equities

European equity funds experienced a record £5.5 billion outflow in 2022, a substantial increase on both the £305 million outflow in 2021 and the previous highest outflow of £3.8 billion in 2019. Outflows in 2022 accelerated following the Russian invasion of Ukraine in February, which exerted significant inflationary pressures on European economies, particularly those heavily reliant on Russian natural gas, such as Germany.

While outflows were particularly exacerbated in 2022, they do continue a now five-year trend of outflows from European equity funds with £11.4 billion withdrawn since 2018. In an environment that has favoured growth stocks investors have shown a preference for higher growth regions – Asia and North America, or a broad geographic diversification.

## UK equities

Despite better relative performance by the UK stock market, UK equity funds experienced a significant acceleration in outflows during 2022, reaching a record level of net withdrawals amounting to £12.0 billion. This seventh consecutive year of outflow surpassed the previous highest figure of £5.3 billion recorded in 2021. A combined total of £33.6 billion has been withdrawn by retail investors since the beginning of 2016.

## North American equities

In 2022, the North American equity region saw net retail inflows of £687 million after a net retail outflow of £863 million in 2021. Despite US equity market underperformance compared to other markets, the North America sector attracted net inflows in the second and final quarters. Q4 in particular saw a recovery with £1.6 billion inflows, driven by early indications of US inflation peaking and expected Federal Reserve interest rate moderation, easing equity valuation concerns.

While other developed market funds in the European and UK sectors have seen continuous outflows over the past five years, North American funds have averaged £982 million annually in inflow, with only 2021 recording a net outflow. This would suggest investors are responding to the outperformance of US equities and that while the general trend is towards diversification, localised strong returns can still tempt investors.

## Asian equities

Asian equity funds experienced significant outflows of £1.2 billion, representing the first annual outflow from the region since 2017. This outflow surpassed the previous highest outflow of £1.0 billion in 2015.

Following an extended period of inflow since 2016, Investors in Asian equity have faced headwinds through 2022 resulting from the pursuit of a zero Covid policy in China, restricting economic activity, and an increase in geopolitical tensions.

## Japanese equities

Japanese equity funds experienced record outflows in 2022, with investors withdrawing a net £1.2 billion, following an inflow of £445 million in 2021. Japan's economic performance has tended to differ from other major developed economies due to a long period of deflation, but joined in 2022 outflows. The cautious approach to Covid lockdowns, similar to China, has led to a slower reopening of the economy after the pandemic, impacting economic output. These near and long-term factors may have influenced investor sentiment, along with a preference for more globally diversified funds over single-market funds.

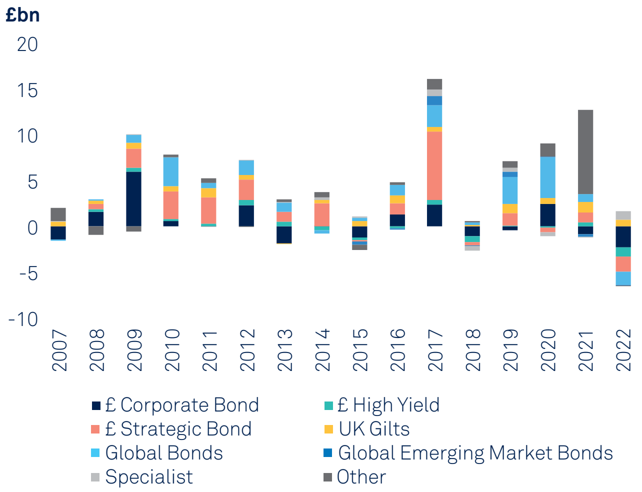
## FIXED INCOME

UK investors withdrew a record net £4.8 billion in 2022, more than double the previous record outflow of £2.0 billion in 2018. Outflows were heavily concentrated to the first quarter of the year as central banks across developed markets rapidly pivoted to tightening monetary policy to combat rising inflation.

Chart 51 illustrates the long-term trend of sales to fixed income funds. Owing to the large number of fixed income sectors run by the IA, a number of sectors have been grouped together for the purposes of this chart. There are a number of observations offered by the data:

- UK Gilt funds were among the few fund types to remain in inflow through 2022. Investor appetite for UK Gilts have been remarkably consistent over the past 15 years, with only one minimal outflow recorded in 2013, despite low interest rates pushing down returns and quantitative easing (QE) elevating prices.

### CHART 51: NET RETAIL SALES TO FIXED INCOME FUNDS (2007-2022)




Source: The Investment Association

- £ Strategic Bond[35] funds saw outflows of £1.6 billion in 2022 continuing and exacerbating a period of weaker sales to the sector from 2018 to 2021. This contrasts with 2009 to 2017 when strategic bond funds enjoyed strong sales and took in 42% of bond fund inflows.

- The spike in inflows to unclassified and unallocated funds seen in 2021 as 'Other' was not sustained in 2022, although there were no outflows either. These funds are primarily those with vertical integration/ restricted distribution and do not wish the wider visibility of the IA sectors system.

## OUTCOME AND ALLOCATION

While funds in either equity sectors or fixed income sectors continue to dominate investor assets, the past 15 years have seen increasing uptake of outcome and allocation funds by UK investors. As Chart 52 shows, outcome and allocation have remained in inflow throughout the period, including in 2022, mainly driven by the Volatility Managed sector.

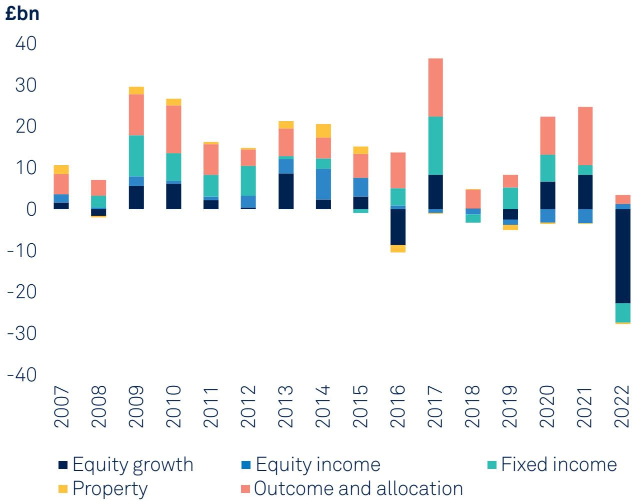
### BOX 8: OUTCOME AND ALLOCATION FUNDS

Allocation funds, also referred to as mixed asset funds, offer investors a diversified mix of equities and bonds, kept 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 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.

[35] Funds in the £ Strategic sector are not required to follow a fixed investment strategy, with the manager free to shift approach in response to evolving market conditions.

### CHART 52: NET RETAIL SALES BY INVESTOR OBJECTIVE (2007-2022)




Source: The Investment Association

Overall sales in the mixed investment sectors during 2022 were only marginally positive, driven by the Mixed Investment 40-85% Shares sector. The Mixed Investment 20-60% Shares sector (with a roughly even mix of equity and fixed income) saw accelerating outflows in 2022 as these funds struggled to shield investors from losses in a year with challenges for both equity and fixed income. As illustrated in the more granular chart 53, 2022 built upon the transition seen in allocation funds over the past 15 years. Investment shifted over the 2010s from primarily going to the Mixed Investment 20-60% Shares sector to Mixed Investment 40-85% Shares, which leans more heavily towards equities. In a decade where returns have been dominated by equity growth, investors have adjusted to favour equity-heavy funds.

Outcome funds meanwhile have seen a clear rotation from Targeted Absolute Return to Volatility Managed:

- Targeted Absolute Return funds enjoyed strong investor interest from 2008 to 2017, during which time they took in a net £27 billion. Since 2018 however there have been consistent outflows from the sector with £14.6 billion withdrawn from 2018 to 2022 amidst concerns over the long-term performance of these funds.

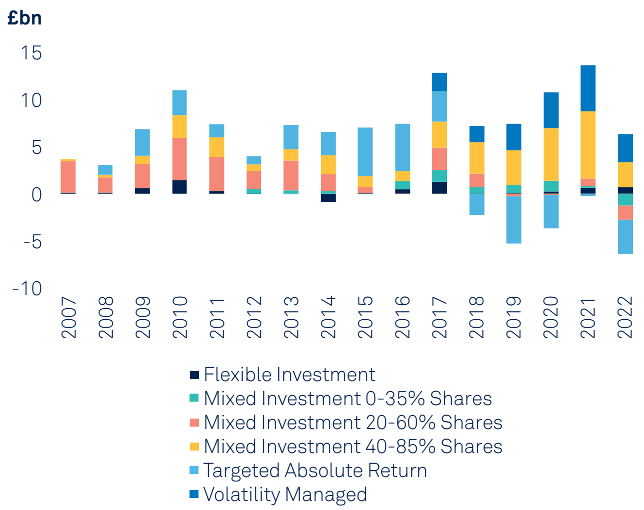
### BOX 9: THE DIFFERENCE BETWEEN TARGETED ABSOLUTE RETURN AND VOLATILITY MANAGED FUNDS

**Targeted Absolute Return** – funds target a positive return over all market conditions, within a set timeframe.

**Volatility Managed** – managers target returns within certain volatility parameters, ordinarily offering a range of risk appetites for investors or advisors to select from.

- Volatility Managed funds have enjoyed consistent popularity with investors, maintaining annual inflows even through the industry level outflow of 2022 and taking in a total £17.1 billion since the sectors 2017 launch.

### CHART 53: NET RETAIL SALES TO OUTCOME AND ALLOCATION SECTORS (2007-2022)




Source: The Investment Association

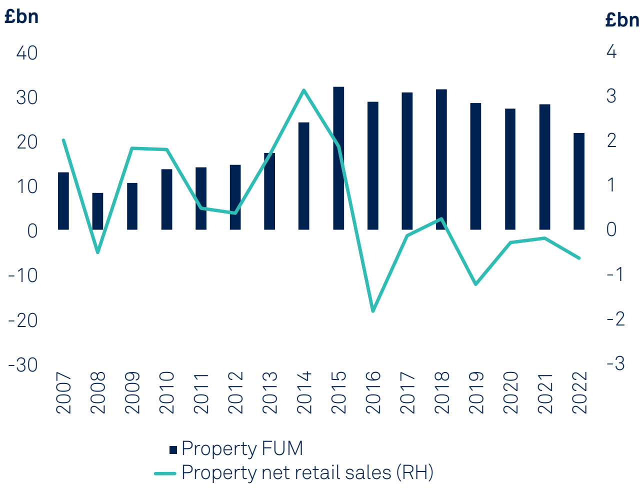
## PROPERTY FUNDS

As can be observed in chart 54, property fund FUM amounted to £21.6 billion in 2022, falling by 23% from 2021 and registering a 32% decrease from the peak of £32 billion in 2015. The 2021-2022 fall was the second largest in the last fifteen years, behind a steep 36% year-on-year decrease in 2008 during the Global Financial Crisis. While sales are a factor, performance has been the primary driver of shifts in FUM.

Valuation uncertainties in property funds during the pandemic, persistent outflows and liquidity mismatch perception following post-Brexit referendum suspensions, and trends such as the long-term decline of the UK high street or the adoption of remote working have contributed to the decline in property FUM post 2015. Moreover, UK property funds, with higher weightings to retail and office commercial real estate, were additionally adversely affected by the negative outlook for UK economic growth which has affected consumer demand and constrained company growth.

Chart 54 shows that net retail sales for the property sector registered £633 million in outflows in 2022, contributing to 16% of the total negative balance from 2016 (-£4 billion). The series of outflows registered after the Brexit referendum contrasted with a positive trend that recorded £12.6 billion in inflows from 2007 to 2015, with a peak of £3.1 billion invested in property funds in 2014, and the only exception of £500 million withdrawn back in 2008.

### CHART 54: PROPERTY FUND FUM AND NET RETAIL SALES (2007-2022)



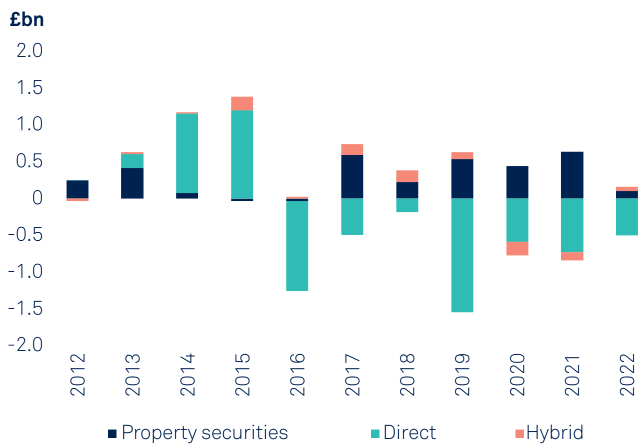

Source: The Investment Association

However, the overall flow data disguises a more nuanced picture across different kinds of property fund. Chart 55 illustrates a breakdown of net retail sales by type of property funds in the last decade:

- Direct property funds have been facing challenges since 2016, contributing to a total outflow of -£5.3 billion over 2016-22. Following Brexit, large redemption requests led to the suspension of dealing. In March 2020, dealing was again halted due to valuation uncertainty brought on by lockdowns. Commercial property values depend on rental income, and lockdowns made it difficult to value properties due to limited commercial activity. As a result, property funds faced significant redemptions in late 2020 and early 2021 after suspensions were lifted, but this decreased by late 2021. In 2022, there has been a rise in outflows from UK Direct Property funds once again.

- As chart 55 shows, funds investing in more liquid property securities, which were not forced to suspend in 2016 or 2020, have seen consistently positive net retail sales totalling £2.5 billion since 2016. This suggests that the outflows from direct property funds are the result of the liquidity issues rather than negative sentiment towards property as an asset class, which continues to remain a popular source of income.

### CHART 55: NET RETAIL SALES BY TYPE OF PROPERTY FUND (2012-2022)




Source: The Investment Association

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## BOX 10: DIFFERENT TYPES OF PROPERTY FUNDS

**Direct property funds** invest in physical property, typically of a commercial nature. The less liquid nature of physical property poses challenges for daily dealing funds.

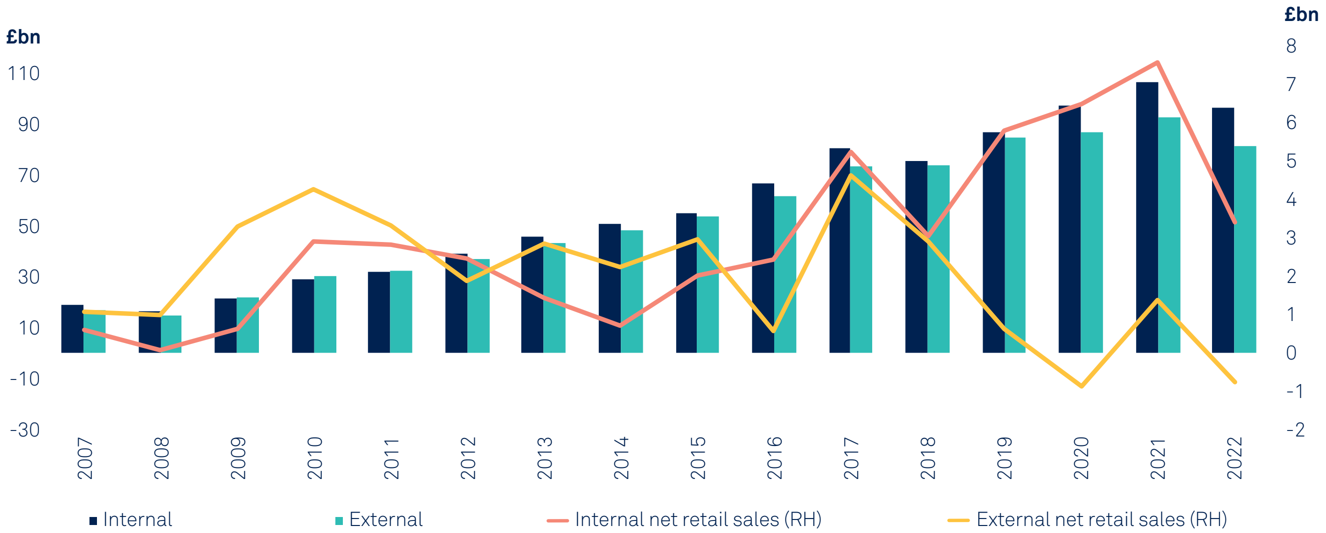
**Property security funds** invest primarily in property securities through equities, which are more liquid than physical commercial property but whose valuation will reflect wider sentiment towards the individual security and the market.

**Hybrid funds** take a mix of direct and listed property and are therefore seen as having more liquid underlying assets. Additionally, they often have a global investment universe with greater diversification across geographies, helping to mitigate concentration risk.

## FUNDS OF FUNDS

2022 saw a continuation of the recent trend of preference for internally-invested funds of funds (FoFs), with inflows of £3.4 billion, outselling externally-invested FoFs, which saw an outflow of £783 million.[36] Internally-invested FoFs are frequently able to offer diversification through internal index tracking funds (i.e. funds run by the same investment manager), although coming at a trade off in terms of a more restricted range of underlying investments. A more persistent appetite for lower cost investment products, mirrored in the more persistent inflows to index trackers in the wider market, likely explains the stronger sales to internally invested funds of funds over recent years.

### CHART 56: FUND OF FUNDS, FUM AND NRS (2007-2022)




Source: The Investment Association

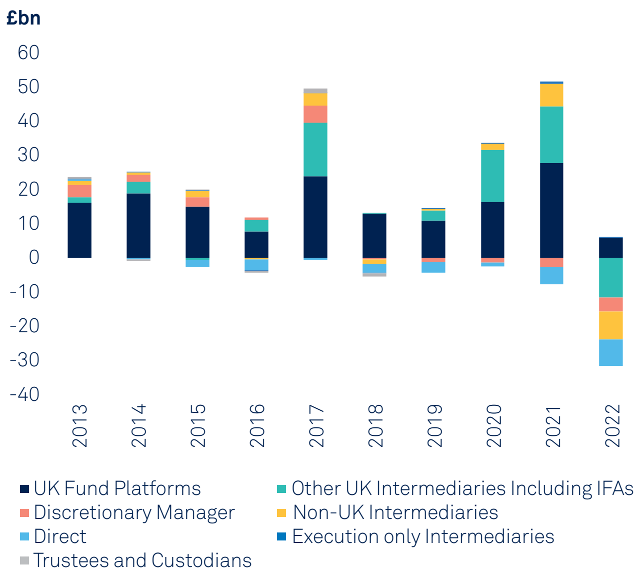
[36] Internally invested funds of funds are funds that invest in other funds run by the same asset manager, whereas externally invested funds of funds invest in funds run by other asset managers.

## DISTRIBUTION CHANNELS

Chart 57 illustrates the net retail sales across the UK funds industry, divided by distribution channel:

- The long-term trend of outflows through Direct channels continued and accelerated in 2022, as the industry continues to move away from the model of investors accessing funds directly via the fund manager.
- UK Fund Platforms, though appearing less dominant in the distribution landscape than a decade ago, remain central to fund distribution, with UK Fund Platforms the only major distribution channel to have seen inflows continue through 2022.
- Discretionary Managers, through whom there were consistent inflows from 2013- 2017, have continued to see outflows over the past few years. At least part of this movement to outflows is the result of a structural shift as Discretionary Managers move away from portfolios of funds towards a greater use of segregated mandates.
- Flows through 'Other Intermediaries including IFAs' have becoming increasingly significant in recent years, helping to drive strong sales in 2017, 2020 and 2021, but also being the lead driver of outflows in 2022.

### CHART 57: NET RETAIL SALES BY DISTRIBUTION CHANNEL (2013-2022)




Source: The Investment Association

## HOLDING PERIOD

Investor average holding periods continued to hold steady in 2022 at an estimated 3.5 years, with the trend of declining holding periods over the 2010s having potentially bottomed out. Increased use of fund platforms have likely been key in reducing barriers to buying, selling and switching funds, reducing average holding period over time.

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

As shown in chart 58 there has been an apparent levelling off of the decline in holding periods from 2018. With funds typically promoted as medium to long-term investments, this may represent a natural floor to how short holding periods will get.

### CHART 58: RETAIL INVESTOR AVERAGE HOLDING PERIODS (2007–2022)


Source: The Investment Association

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## THE UK IN THE CONTEXT OF THE EUROPEAN FUNDS MARKET

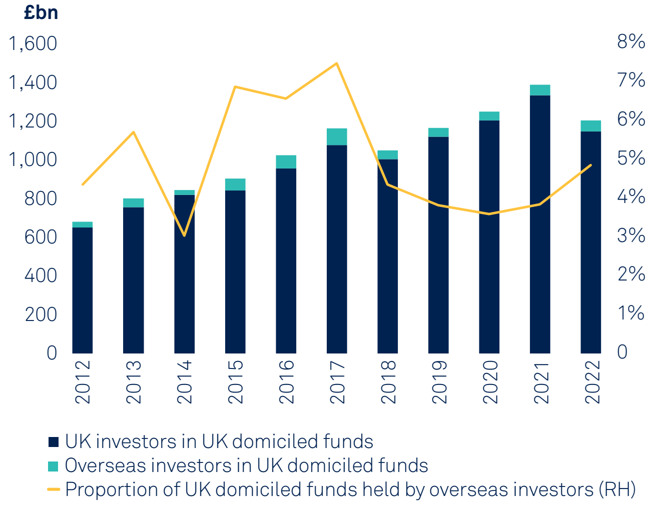
Whilst the UK is an international investment management centre managing assets on behalf of clients all over the world, in the UK retail market funds are predominantly domiciled in the UK and Europe. Overseas investors in UK domiciled funds have traditionally been principally European. Since the Brexit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

### OVERSEAS INVESTORS IN UK-DOMICILED FUNDS

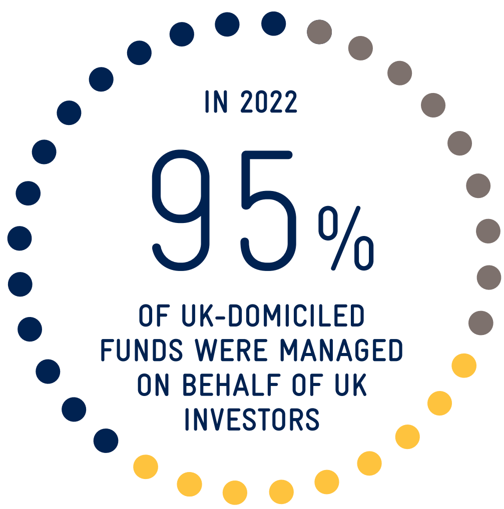
As of the end of 2022, the total amount of money managed by UK-based funds, both on behalf of UK and Overseas investors, fell to £1.20 trillion from £1.39 trillion a year earlier (see chart 59). This was mainly caused by asset depreciation, with a lesser impact from investor outflows:

- Total FUM on behalf of UK investors in UK-domiciled funds fell to £1.14 trillion from £1.33 trillion in 2021.
- Total FUM in UK-domiciled funds from overseas investors increased by 9.6% to £58 billion in 2022, reaching almost 5% of the total investments in UK-domiciled funds, but still far from the record £87 billion figure registered in 2017. 2018 saw a sharp drop in overseas clients in UK domiciled funds, ahead of the original Brexit date.

CHART 59: UK AND OVERSEAS INVESTORS IN UK DOMICILED FUNDS (2012-2022)




Source: The Investment Association

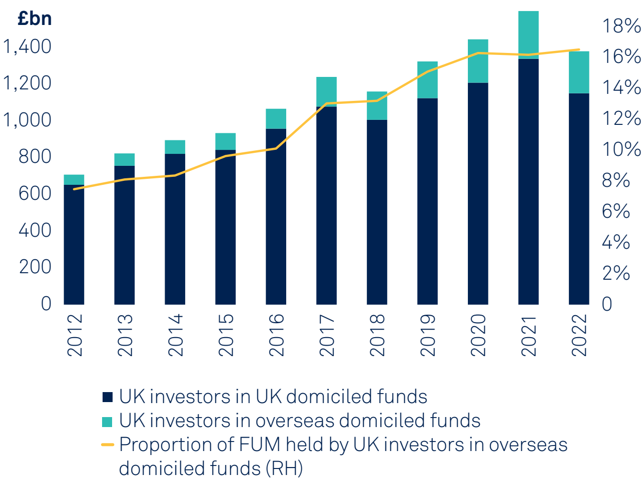


## UK INVESTORS AND OVERSEAS-DOMICILED FUNDS

The UK's total investment in funds domiciled overseas stood at £228 billion as of the end of 2022. Although this was a decrease of 12% from the previous year, it still comprises the highest proportion of total UK investor FUM seen in the past decade, with a share of 17%. This means that UK-domiciled funds stand at 83% of FUM, declining from 90% in 2016.

A fall in allocation to fixed income funds since 2020 has acted against the trend towards growth in the overseas share – just under a third of fixed income FUM is in overseas funds, against 15% in overseas funds for the industry overall.

### CHART 60: UK INVESTORS BY DOMICILE (2012-2022)



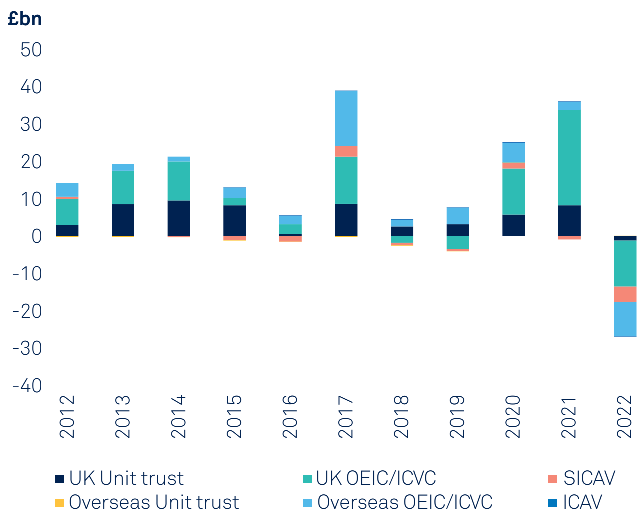

Source: The Investment Association

## SALES TO UK AND OVERSEAS FUND TYPES

In 2022, all fund types but Overseas Unit Trust funds registered record outflows in net retail sales. Outflows from ICVCs dominated the net outflows of 2022, however SICAVs played an outsized role making up 15% of outflows despite accounting for just 3% of UK investor FUM. This follows the established pattern of investors favouring overseas ICVCs over SICAVs with SICAVs struggling to attract sales even in periods of overall inflows (see chart 61).

Outflows from overseas OEIC/ICVC funds in 2022 were largely driven by net withdrawals from fixed income funds, reversing some of inflows to overseas fixed income funds between 2017 and 2020. In contrast outflows from UK domiciled OEIC/ICVC funds were predominantly from equity funds.

### CHART 61: NET RETAIL SALES BY FUND TYPE (2012–2022)




Source: The Investment Association

# 6 OPERATIONAL AND STRUCTURAL EVOLUTION



## KEY FINDINGS

### INDUSTRY PROFITABILITY

- Industry profitability fell sharply through 2022 as revenues fell and costs marginally increased. With revenues falling to an average 25 basis points (bps) and operating costs at 19 bps, operating profitability was 22% (down from 29%). This includes all operating models, including firms that are part of larger financial services groups.

### INDUSTRY EMPLOYMENT

- The IA estimates that as of December 2022, the UK's investment management industry employs an estimated 126,400 people, of which 46,200 are directly employed by investment management firms.
- The distribution of staff by activity has remained relatively consistent over the past five years. Approximately a quarter (24%) of staff work in front office investment roles and the remaining three quarters work in a variety of back-office roles, including business development, operations, compliance and client services.
- The regional distribution of those directly employed by the UK investment management industry has equally experienced little change in recent years. London continues to be the centre of employment for the industry and hosts the largest concentration of people working in investment management roles (26%).

### INDUSTRY CONCENTRATION

- The industry maintains a relatively low level of concentration. The IA's membership is comprised of a small number of large firms and a long tail of medium and small-sized organisations. As of December 2022, the top five and top ten firms collectively manage 43% and 58% of the total UK AUM, respectively, representing marginal falls of 1% and 2% respectively on the previous year.
- Despite the relatively low level of industry concentration, we have recorded a gradual (albeit modest) increase in concentration over the past five years. In 2022, the IA's membership saw a reduction in the number of boutique investment management firms from 13 to 10, and the industry's Herfindahl-Hirschmann Index (a common measure of market concentration) increased very marginally to 598.

### INVESTMENT MANAGER OWNERSHIP

- Over the past decade, the share of assets managed by firms belonging to parent companies headquartered in the UK has decreased in favour of firms headquartered in North America. As of 2022, 39% of assets are managed by firms headquartered in the UK and half (50%) by North American headquartered firms. The remaining share of assets managed by firms headquartered in Europe, Asia-Pacific and elsewhere has remained relatively stable at 12% over the past decade.
- The largest share of industry assets (44%) is managed by independent investment and fund management firms, up from 37% in 2012. Over the past decade, the share of assets managed by retail bank has stabilised at 2% and the share of assets managed by insurance companies has decreased from 29% to a quarter, in large part due to de-mergers between insurance companies and their investment management arms.

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

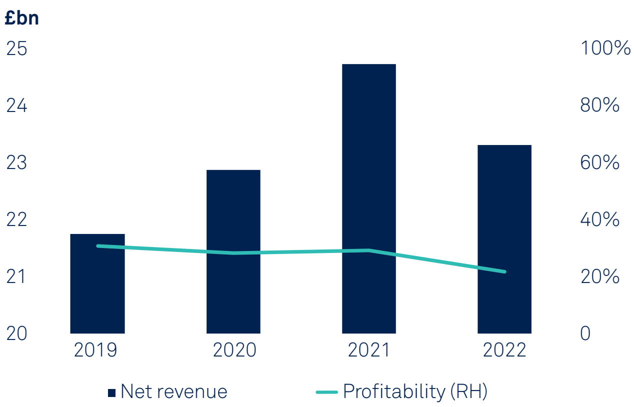
## INDUSTRY PROFITABILITY – REVENUE AND COSTS

In this section, we look at the aggregate revenue and cost figures of the industry, covering both in-house and third-party business. Chart 62 illustrates the development of net revenue and profitability at an industry level over the past four years.

As of December 2022, industry revenue stood at £23.3 billion, equivalent to 25 basis points (bps) of total assets under management. Meanwhile, operating costs in 2022 totalled £18.3 billion, equivalent to 19 bps.

The industry's headline profitability fell significantly in 2022 to 22%, down from 29% in 2021. The matched sample of IA member data, suggests that this fall in profitability was driven by a combination of lower revenue (down 6% on a matched basis) and marginally higher levels of operational cost (up 1% on a matched basis).

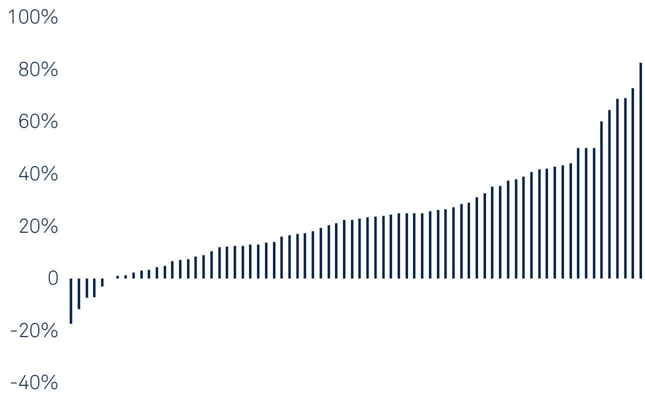
### CHART 62: INDUSTRY NET REVENUE AND PROFITABILITY (2019 – 2022)




Source: The Investment Association

Industry-level statistics – such as average profitability – can mask underlying variation in individual firm experience. The range of profitability across the Investment Association's membership in 2022 is illustrated in Chart 63. The data suggests that while the majority of firms remained profitable throughout the year, there was a downward shift in the distribution between 2021 and 2022. In 2022, a quarter of firms had operating margins of 11% or lower, whereas the top quarter of firms had operating margins of 35% or above. This compares to a lower quartile of 15% and an upper quartile of 41% in 2021.

### CHART 63: DISTRIBUTION OF INVESTMENT MANAGER PROFITABILITY IN 2022




Source: The Investment Association

## 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 2016, 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.

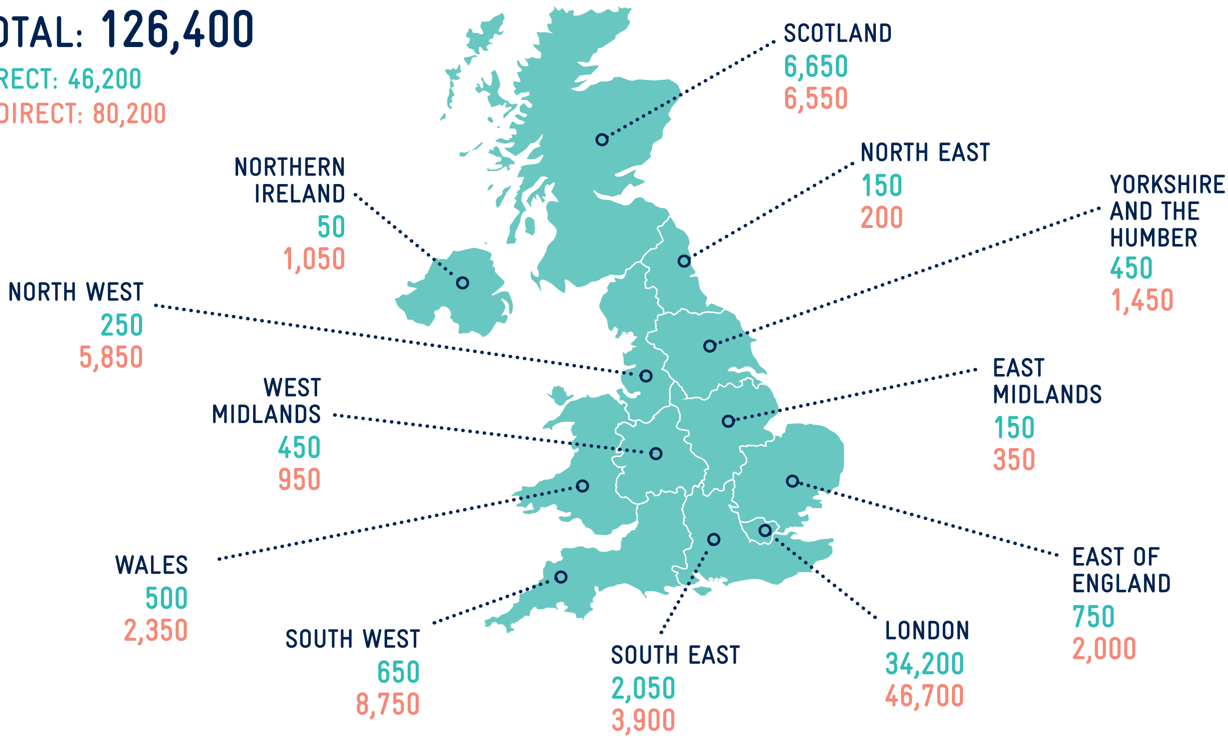
As of December 2022, the UK investment management industry supports approximately 126,400 jobs, of which 46,200 are directly employed by investment management firms and the remainder (80,200) are employed either by affiliate IA members or wider administration services, or in securities and commodities dealing activities.[37]

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

**FIGURE 12: MAP OF DIRECTLY AND INDIRECTLY EMPLOYED STAFF ACROSS THE UK IN 2022**

**TOTAL: 126,400**
DIRECT: 46,200
INDIRECT: 80,200




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.

[37] Our figures do not include the estimated 26,000 financial advisers in the UK, who provide a distribution point for a wider variety of financial services alongside funds and/or discretionary wealth management (e.g. insurance).

[38] It is difficult to identify jobs associated with investment management among firms that have a remit that extends wider than their investment management support, such as consultants, lawyers and accountants. In addition, a substantial number of roles in areas such as IT are outsourced to third-party organisations and cannot be discretely measured. The figures provided below should therefore be viewed as a conservative estimate of those employed in investment management related roles.

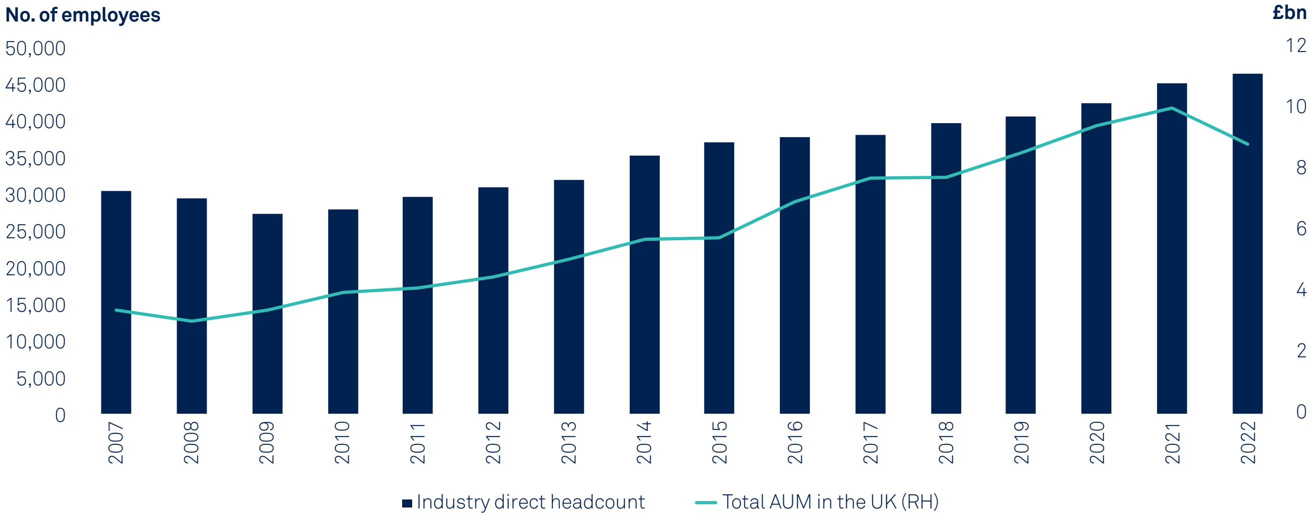
## DIRECT EMPLOYMENT

The Investment Association estimates that an approximate 46,200 people are directly employed within the investment management industry in the UK. Chart 64 looks at the growth in direct employment alongside growth in AUM. We make the following observations:

- Despite the overall fall in assets under management in 2022, direct employment increased 3% year-on-year from an approximate 44,800 people in 2021 to 46,200 by the end of 2022.
- The last time industry AUM fell year-on-year was during the Global Financial Crisis. Between 2007 and 2008 we saw a fall in industry employment of 3%. Despite a recovery in assets the following year, profitability numbers were still declining until 2010 and as such we see a further 7% fall in headcount in 2009.
- The impact of falling profitability and industry AUM is not borne out in the 2022 employment figures, though a muted recovery in 2023 may see this reflected in 2023 headcount data.

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, product teams, traders, etc. The remaining three quarters of people directly employed by the industry work in back-office roles, which includes roles in operations, business development, compliance and client services.

**CHART 64: INDUSTRY HEADCOUNT ESTIMATES VS. UK ASSETS UNDER MANAGEMENT (2007-2022)**




Source: The Investment Association

### TABLE 3: DISTRIBUTION OF STAFF BY ACTIVITY IN 2022

| Activity | Share of total headcount |
|---|---|
| Investment management | 24% |
| Operations and fund management | 16% |
| Business development and client services | 18% |
| Compliance, legal and audit | 7% |
| Corporate finance and corporate administration | 11% |
| IT systems | 16% |
| Other sector | 8% |

Source: The Investment Association

AS OF THE END OF 2022

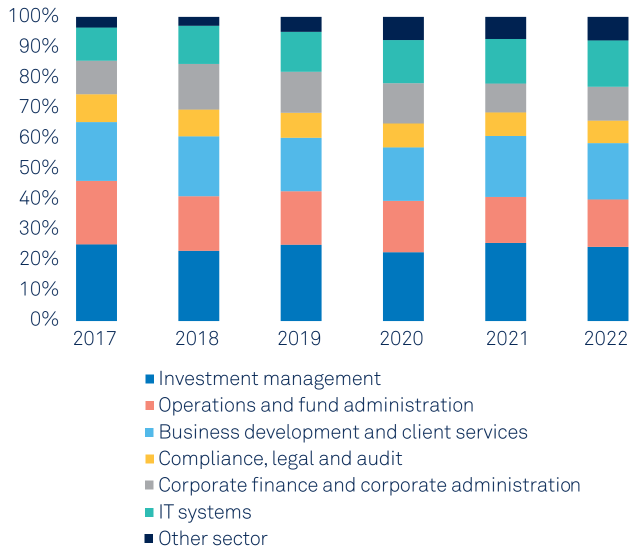
**46,200**

PEOPLE ARE DIRECTLY EMPLOYED BY INVESTMENT MANAGERS IN THE UK

Chart 65 illustrates the medium-term trends in employment by activity. We highlight the following trends in industry staffing:

- Employment in the front office, ie in **investment management**, has consistently accounted for about a quarter of industry employment, fluctuating between 23% and 26% for the past five years.
- The share of people working in **operations and fund administration** has slowly been decreasing, down from 21% in 2017 to 16% in 2022.
- People working in **business development and client** services decreased slightly between 2021 and 2022, prompting a drop in the share of those employed in this sector to 18%, very marginally down from the average 19% recorded over the previous four years.
- The share of staff employed in **IT systems** was slowly increasing between 2017 and 2020 (from 12% to 15%) but has since levelled off at 15%.

### CHART 65: DIRECT EMPLOYMENT BY STAFF SEGMENT (2017-2022)




Source: The Investment Association

Alongside tracking industry employment by activity, IA data records employment by location. London and Edinburgh are the two largest centres in the UK for investment management activity, accounting for 88% of the direct headcount. Table 4 provides a breakdown of the jobs by function in London, Scotland and elsewhere:

- **London** continues to be the centre of employment for the industry in the UK, with three quarters of all directly employed people in the UK working in the London area. London also continues to host the highest concentration of people working in investment management across the UK (26%). The most notable trends within those working in London over the past five years is: 1) an increase in the share of those working in IT systems and other sectors, which combined has increased from 15% in 2017 to a quarter of staff in 2022; 2) a fall in staff employed in business development, down from nearly a quarter of staff in 2017 (24%) to 17% in 2022.
- The most significant trend in employment in **Scotland** has been a decrease in the share of staff working in front office roles and an increase of those working in the back office. On the one hand, employment in investment management roles has fallen from 20% to 16% over the past five years. On the other hand, between 2017 and 2022 there has been an increase in staff working in:
  - Business development, up from 15% to 17%,
  - Compliance, up from 6% to 8%,
  - IT systems, up from 16% to 20%,
  - And in other sectors from 2% to 7% over the same period.

TABLE 4: **DISTRIBUTION OF INVESTMENT MANAGEMENT JOBS BY REGION IN 2022**

| Activity | London | Scotland | Elsewhere in the UK |
|---|---|---|---|
| Investment management | 26% | 16% | 20% |
| Operations and fund management | 14% | 21% | 21% |
| Business development and client services | 17% | 17% | 23% |
| Compliance, legal and audit | 8% | 8% | 6% |
| Corporate finance and corporate administration | 11% | 12% | 10% |
| IT systems | 16% | 20% | 15% |
| Other sector | 8% | 7% | 6% |

Source: The Investment Association

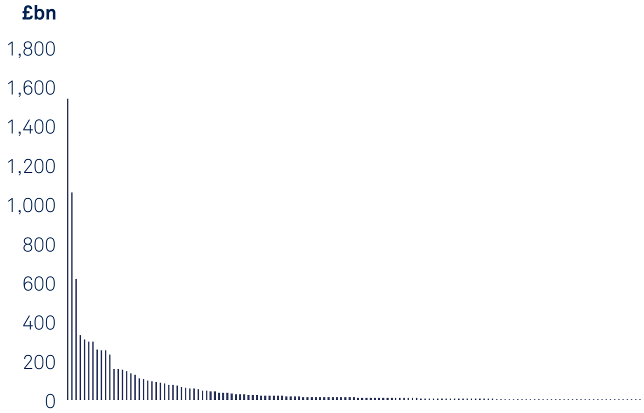
## INDUSTRY FIRM SIZE

In this section we focus on the size of investment management firms as measured by assets under management.

Chart 66 ranks IA member firms by total UK-managed AUM. The chart 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 2022, the average value of assets managed by IA member firms stood at £59 billion and the median value of IA member firms' AUM stood at £11 billion. The large difference between mean and median indicates that there is a relatively small number of firms managing a high volume of assets.

### CHART 66: MEMBERS OF THE INVESTMENT ASSOCIATION RANKED BY UK ASSETS UNDER MANAGEMENT (JUNE 2022)




Source: The Investment Association

## AVERAGE ASSETS UNDER MANAGEMENT IN JUNE 2022

In Table 5, we offer a breakdown of IA member firms by size. Over the past five years, there has been little change in the distribution of assets by firm size.

- The largest share of the Investment Association's membership is made up of smaller firms (below £15 billion AUM), which has fluctuated between a 56% and 60% of total AUM since 2017.
- The share of assets managed by medium-sized firms (£15-50 billion AUM) decreased from 21% in 2021 to 19% in 2022 – the lowest point of the past five years.
- The proportion of assets managed by large firms (>£50 billion) has slowly been increasing towards a quarter of industry assets, unchanged from the previous year at 22% in 2022.

## ROLE OF BOUTIQUES

Small firms within the IA membership will be a mixture of business models, including both smaller UK firms and UK offices of larger international companies. A specific category that we identify is investment management boutiques.

Various criteria are employed to characterise boutique investment management firms. In our analysis we use the following criteria to identify the boutique firms in the Investment Association's membership:

- Being independently owned
- Managing assets of less than £5 billion
- Providing a degree of investment specialisation
- Self-definition

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

| AUM | % of firms (June 2017) | % of firms (June 2018) | % of firms (June 2019) | % of firms (June 2020) | % of firms (June 2021) | % of firms (June 2022) |
|---|---|---|---|---|---|---|
| >£100bn | 12% | 12% | 11% | 12% | 13% | 13% |
| £50-100bn | 9% | 8% | 7% | 9% | 9% | 9% |
| £25-50bn | 10% | 14% | 11% | 9% | 9% | 10% |
| £15-25bn | 10% | 8% | 12% | 14% | 12% | 9% |
| £1-15bn | 47% | 49% | 45% | 48% | 47% | 50% |
| <£1bn | 13% | 10% | 13% | 8% | 10% | 9% |
| **Total** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |

According to these criteria, there are 10 IA members (compared with 13 in 2021) that qualify as boutique investment managers.[39] In recent years, we have reported decreasing number of boutique firms. This is in part due to high levels of merger and acquisition (M&A) activity in the sector over recent years, which in turn reflect a range of considerations, particularly rapidly rising regulatory and compliance requirements. As we note in Chapter One, an essential part of the UK's success as an investment management centre depends on innovation, which itself is a function of a diverse and vibrant industry ecosystem.

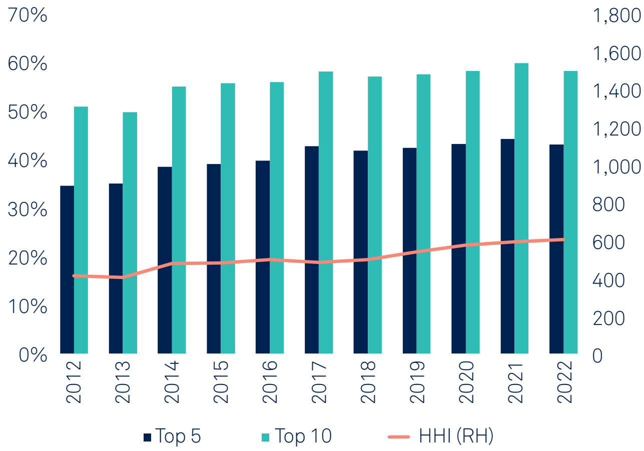
## MARKET SHARE OF LARGER FIRMS

Chart 67 tracks the share of UK-managed assets managed by the five largest and ten largest firms in the industry:

- Although the share of assets managed by the top five investment management firms increased from 35% in 2012 to 43% in 2017, over the past five years, the growth has levelled off, standing at 43% on average.
- Over the last decade there has been a gradual increase in the proportion of assets managed by top ten firms from 51% in 2012 to 60% in 2021. In 2022 there was a two percentage point fall in assets managed by the top ten asset managers to 58%.

Chart 67 also includes an Herfindahl-Hirschmann Index (HHI) calculation, which is a commonly used measure of market concentration. The UK investment management industry's HHI shows a very marginal increase from 596 to 598 between 2021 and 2022, marking the fifth year in a row of increased industry concentration. However, the industry remains well below the threshold of moderate concentration which is set at an HHI of between 1000 and 2000.

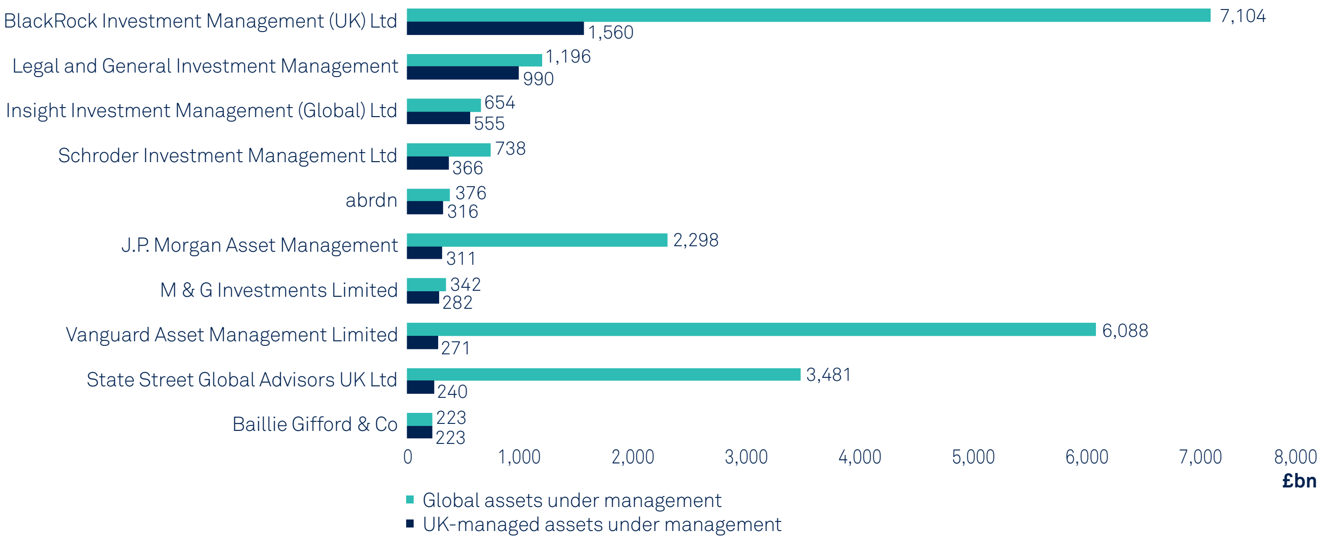
**CHART 67: MARKET SHARE OF LARGEST FIRMS BY UK ASSETS UNDER MANAGEMENT VS. HHI (JUNE 2012-2022)**




Source: The Investment Association


[39] There is a wide variety of firms within the boutique category. While the IA definition of boutique asset managers places a cap of around £5 billion on AUM, the size dispersion of boutique firms can be quite broad and there are many boutique firms both within and outside of the IA's membership that are much smaller.

## CHART 68: TOP TEN FIRMS BY UK-MANAGED AND GLOBAL ASSETS UNDER MANAGEMENT IN 2022[39]




Source: The Investment Association

Chart 68 presents the top ten investment management firms in terms of UK-managed and global assets under management. The top ten UK firms are a diverse group ranging from independent investment managers to bank and insurance owned managers. Both active managers and managers offering primarily indexing strategies are represented in the top ten.

For most top ten firms, UK assets under management account for the majority of their global assets.

Over the past ten years, there has been movement between the top firms, including new entrants to the list. Some of the changes in the composition of the top ten firms have been the result of merger and acquisition activity which we discuss in more detail in the next section (see Appendix 3 for more on M&A deals over the last few years).

**THE TOP 10 LARGEST ASSET MANAGERS ACCOUNTED FOR**

**58%**

**OF AUM IN 2022**

[39] Assets under management figures may reflect the value of wider economic exposure managed for clients in addition to securities within segregated or pooled portfolios.

6

## BOX 11: M&A AND BROADER OPERATIONAL IMPLICATIONS

Consolidation has been a constant theme in the industry for many years. It is now almost two decades since Huw Van Steenis posited his barbell theory whereby there would be an increasing polarisation between scale providers, driven by commoditised indexing products, and smaller high alpha specialists especially in the alternative space. The consequences, he suggested, would be significant for the mid-sized active houses which could not effectively compete in either orbit.

Significant elements of this prediction have been proved correct at product level and are still playing out in 2022-23. Other drivers of scale, notably increasing regulatory costs in the UK, have also been increasingly apparent, placing pressure on smaller players in the market as well as mid-sized players. At the same time, despite signs of accelerating M&A activity in the UK market, the concentration data shown earlier in this chapter indicates that the industry still remains highly diverse as measured by firm size and type.

*"If you're a mid-sized asset manager, with all the costs of a big asset manager, mergers are an inevitable conclusion to the inconsistency of the value proposition there. The smaller firm will innovate. I just see it bifurcating. You can have your boutique, that's going to innovate, speak to market and disrupt. And then you have the scale players who are trying to deliver broad solutions to clients, but if you're in the middle the economics are challenging."*

*"There's a market for the scale providers and a market for multi-capability providers because of the benefits you get from diversification. Equally, assuming you could generate decent returns, given the accessibility of information you could set up a small business. As you start to scale up, that's when it gets a bit complicated. Being in the middle is difficult."*

At the same time, M&A activity has also been focused vertically through the distribution chain and not just horizontally across investment management capabilities. What had previously been a clearer distinction between a 'manufacturing' and 'distribution' community has become much less so as a number of players acquire adviser or direct to customer capability to evolve and diversify their operating model.

*"There is value to being very close to your end client, so that the risk of disintermediation is less or eliminated in the case of direct business."*

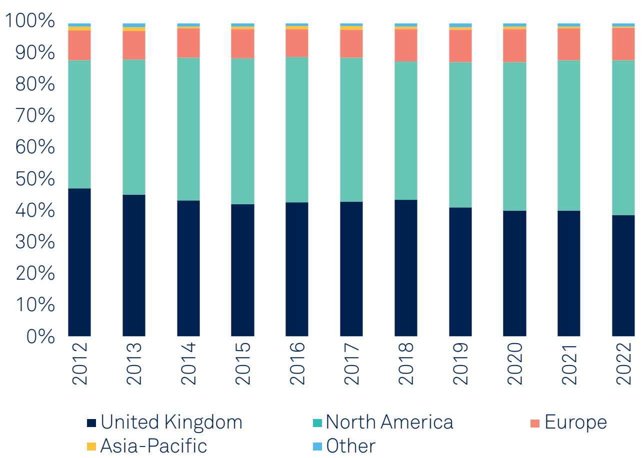
Industry data on profitability reflects the scale of the challenges, as revenue fell much faster than costs during 2022 for many firms, resulting in a marked fall in headline profitability.

## INVESTMENT MANAGER OWNERSHIP

In this last section we take a closer look at the ownership structures of IA member firms. Chart 69 provides a breakdown of UK-managed assets by headquarter location of their parent company, and is one of the key metrics highlighting the increasing internationalisation of UK investment management. Some long-term trends have emerged:

- The share of assets managed by members belonging to parent companies headquartered in the UK has been slowly declining, and responsible for 39% of assets in 2022 which is down from 47% in 2012.
- The share of assets managed by firms headquartered in North America has been on the rise. As of December 2022, North America headquartered companies account for half (50%) of UK-managed assets, which is up from a recorded 41% in 2012.
- The share of assets managed by firms headquartered in Europe, Asia-Pacific and Elsewhere have remained relatively constant – European headquartered firms have been responsible for approximately a tenth of UK-managed assets over the past ten years. Assets managed by member firms belonging to parent companies headquartered in Asia-Pacific and elsewhere in the world continue to be responsible for 1% of UK-managed assets.

**CHART 69: BREAKDOWN OF UK ASSETS UNDER MANAGEMENT BY REGION OF PARENT GROUP HQ (2012-2022)**

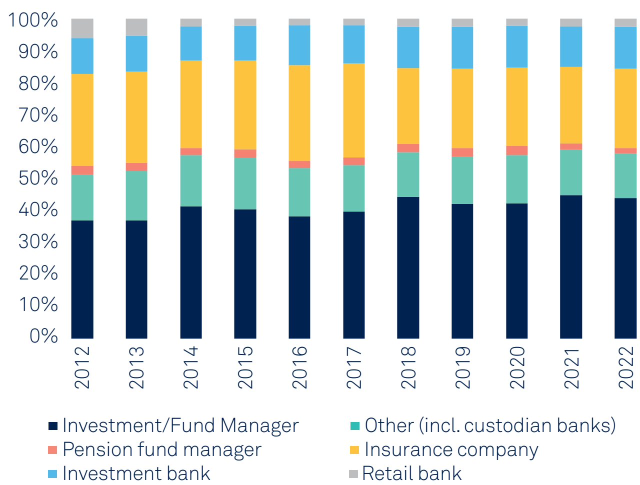



Source: The Investment Association

Chart 70 illustrates the breakdown of UK-managed assets by type of parent company, and provides a comparison of the size of assets managed by autonomous investment managers with investment managers that are subsidiaries of wider financial services groups. We make the following observations:

- The chart shows a more independent investment management industry as the proportion of assets managed by autonomous investment and fund management firms over the past ten years has grown from 37% to 44%.
- As a result of de-mergers of insurance companies from their investment management arms, there has been a decrease in the share of insurer-managed assets in the UK, from 29% to 25% over the past ten years.
- Since 2014, the share of assets managed by member firms belonging to retail banks has stabilised at 2% compared with 5-6% between 2010 and 2013. This has been driven by a variety of factors including divestment of investment management arms following the Global Financial Crisis (prior to which retail bank managed assets accounted for 18% of AUM) and changes in the retail distribution landscape, including the rise of fund platforms.

**CHART 70: BREAKDOWN OF UK AUM BY PARENT TYPE (2012-2022)**




Source: The Investment Association

# APPENDICES

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

| | TOTAL |
|---|---|
| **Assets under management in the UK (£m)** | **8,816,165** |
| **Segregated or pooled (%)** | |
| Directly invested on a segregated basis | **50.3%** |
| Managed on a pooled basis | **49.7%** |
| **Active or passive (%)** | |
| Actively managed | **66.8%** |
| Passively managed | **33.2%** |
| **Asset allocation (%)** | |
| **Equities** *of which:* | **42.4%** |
| UK | 21.8% |
| Europe (ex UK) | 19.5% |
| North America | 31.7% |
| Pacific (ex Japan) | 8.7% |
| Japan | 5.4% |
| Latin America | 0.9% |
| Africa | 0.3% |
| Emerging market | 10.2% |
| Other | 1.5% |
| **Fixed Income**[2] *of which:* | **28.1%** |
| UK Government | 10.9% |
| Sterling corporate | 13.9% |
| UK index-linked | 8.4% |
| Other UK | 6.5% |
| Overseas government | 24.6% |
| Non-sterling corporate | 19.9% |
| Non-sterling other | 15.9% |
| **Cash/Money market** | **6.5%** |
| **Property** | **2.6%** |
| **Other** | **20.5%** |

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

| INSTITUTIONAL | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Pension funds | Public sector | Corporate | Non-profit | Sub-advisory | In-house insurance | Third party insurance | Other institu-tional | ALL INSTITUTIONAL | RETAIL | PRIVATE CLIENT |
| 2,988,496 | 626,623 | 604,717 | 96,143 | 458,054 | 506,926 | 571,702 | 684,360 | 6,537,021 | 2,179,873 | 99,272 |
| 33.9% | 7.1% | 6.9% | 1.1% | 5.2% | 5.7% | 6.5% | 7.8% | 74.1% | 24.7% | 1.1% |

Appendices

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

| | TOTAL |
|---|---|
| **Total Institutional Market (£m)** | **3,895,340** |
| | |
| Assets directly invested on a segregated basis | 69.6% |
| Assets invested on a pooled basis | 30.4% |
| **Active or passive (%)** | |
| Actively managed | 74.8% |
| Passively managed | 25.2% |
| **Multi-asset, LDI or Specialist (%)** | |
| **Multi-asset** | **12.0%** |
| **LDI (notional)** | **31.1%** |
| **Single-asset / specialist** *of which:* | **56.9%** |
| **Equities** | **35.9%** |
| **Fixed Income** | **34.4%** |
| **Cash/Money Market** | **15.6%** |
| **Property** | **7.5%** |
| **Other** | **6.6%** |

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

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| | Pension funds | | | Public sector | Corporate | Non-profit | Sub-advisory | In-house insurance | Third party insurance | Other institutional |
|---|---|---|---|---|---|---|---|---|---|---|
| | Corporate | Local government | Other | | | | | | | |
| | 1,909,318 | 266,220 | 44,634 | 33,324 | 207,001 | 34,833 | 202,166 | 436,244 | 540,962 | 220,637 |
| | 49.0% | 6.8% | 1.1% | 0.9% | 5.3% | 0.9% | 5.2% | 11.2% | 13.9% | 5.7% |
| | | | | | | | | | | |
| | 71.0% | 52.7% | 58.9% | 58.0% | 29.6% | 46.7% | 72.5% | 92.2% | 75.5% | 61.7% |
| | 29.0% | 47.3% | 41.1% | 42.0% | 70.4% | 53.3% | 27.5% | 7.8% | 24.5% | 38.3% |
| | | | | | | | | | | |
| | 65.1% | 65.0% | 63.7% | 96.6% | 90.3% | 72.2% | 60.9% | 99.7% | 86.4% | 90.2% |
| | 34.9% | 35.0% | 36.3% | 3.4% | 9.7% | 27.8% | 39.1% | 0.3% | 13.6% | 9.8% |
| | | | | | | | | | | |
| | **12.5%** | **3.9%** | **3.7%** | **3.8%** | **1.3%** | **25.4%** | **4.5%** | **2.2%** | **33.4%** | **1.0%** |
| | **57.9%** | **17.4%** | **26.3%** | **14.3%** | **2.0%** | **1.4%** | **0.3%** | **0.3%** | **2.9%** | **7.6%** |
| | **29.5%** | **78.7%** | **70.0%** | **81.9%** | **96.6%** | **73.2%** | **95.2%** | **97.5%** | **63.7%** | **91.5%** |
| | **32.7%** | **60.6%** | **33.3%** | **41.7%** | **14.0%** | **48.5%** | **65.2%** | **26.4%** | **45.6%** | **15.8%** |
| | **42.0%** | **20.3%** | **49.6%** | **17.1%** | **19.4%** | **10.1%** | **28.4%** | **44.4%** | **41.3%** | **16.8%** |
| | **7.3%** | **2.8%** | **6.6%** | **26.8%** | **62.8%** | **13.1%** | **0.1%** | **8.4%** | **7.0%** | **53.3%** |
| | **9.0%** | **9.7%** | **2.7%** | **7.9%** | **3.0%** | **4.1%** | **0.9%** | **12.9%** | **4.4%** | **5.3%** |
| | **9.0%** | **6.6%** | **7.9%** | **6.5%** | **0.9%** | **24.2%** | **5.5%** | **7.9%** | **1.7%** | **8.7%** |

## APPENDIX 3

# NOTABLE M&A DEALS IN THE UK ASSET MANAGEMENT SECTOR (2009 – JUNE 2023)

## 2022-2023

| ACQUIRER | PURCHASE |
|---|---|
| Abrdn | Interactive Investor |
| Amundi | Lyxor AM |
| Asset Co | River and Mercantile |
| | 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 |
| | 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 |

Appendices

## 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) |
| | 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 C 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 |
| | 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 |

## 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

Aberforth Partners LLP
Abrdn plc
Aegon Asset Management
Affiliated Managers Group Limited
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
Brewin Dolphin Limited
Brooks Macdonald Asset Management
Candriam
Carmignac Gestion
CCLA Investment Management Limited
City of London Investment Management Company Ltd
Columbia Threadneedle
Crux Asset Management
EdenTree Investment Management
EFG Asset Management (UK) Ltd
Federated Hermes Limited
Fiera Capital (UK) Limited
FIL Investment Management Limited
Franklin Templeton Fund Management Limited
Genesis Investment Management LLP
Goldman Sachs Asset Management International
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
Link Fund Solutions Limited
Liontrust Fund Partners LLP
Lombard Odier Investment Managers
Longview Partners LLP
M&G Group Limited
Man Fund Management UK Limited
Margetts Fund Management Ltd
Martin Currie Investment Management Ltd
McInroy & Wood Ltd
Morgan Stanley Investment Management
Newton Investment Management Limited
Ninety One plc
Northern Trust Asset Management
Premier Miton Group plc
Rathbone Unit Trust Management
RBC BlueBay Asset Management LLP
Royal London Asset Management
RWC Partners Limited
Santander Asset Management
Sarasin & Partners LLP
Schroder Investment Management Ltd
Slater Investments Ltd
State Street Global Advisors UK Ltd
T. Rowe Price International Ltd
Troy Asset Management Limited
TwentyFour Asset Management LLP
Valu-Trac Investment Management Ltd
Vanguard Asset Management Limited
Veritas Investment Partners (UK) Limited
Virgin Money Unit Trust Managers Limited
WAY Fund Managers Limited
Waystone Management (UK) Limited
Wellington Management International Limited
Wesleyan Assurance Society

THE
INVESTMENT
ASSOCIATION

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

www.theia.org
@InvAssoc

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