

**Asset Management in the UK 2010 – 2011**  
A Summary of the IMA Annual Survey



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# Asset Management in the UK 2010 – 2011

## A Summary of the IMA Annual Survey

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**This document is a summary of ‘Asset Management in the UK 2010 – 2011’ by Richard Saunders, the IMA’s Chief Executive.**

It summarises some of the key data and findings from the IMA’s research on the UK asset management industry. In particular, it sets out how investors and the industry have responded to the financial crisis, how the UK’s position as a global financial centre has been affected as a result, and identifies a number of longer term industry trends.

Quotations in the ‘industry view’ blue boxes are from the interviews conducted with senior figures, primarily CEOs, CIOs and Chairmen, from 23 firms conducted as part of the research for the Survey.

The Summary includes a number of charts and tables from the full version of the Survey, which for clarity have retained their original numbering.

The full version of the survey, can be found on the IMA’s website, [www.investmentuk.org](http://www.investmentuk.org).



**Richard Saunders**  
Chief Executive, IMA

The IMA’s annual survey is the most comprehensive account of the UK investment management industry. Our ninth annual survey’s findings are based upon questionnaire responses from 76 IMA member firms (between them managing £3.3 trn in the UK) and in-depth interviews with 30 senior figures from 23 IMA member firms.

This document is a summary of the key findings from the survey. It highlights the strength of the industry and the main challenges it faces.

#### The 23 firms interviewed were:

AllianceBernstein  
Allianz Global Investors  
Aviva Investors  
Baillie Gifford & Co  
Barclays Global Investors  
BlackRock Investment Management  
Capital International  
F&C Asset Management  
Fidelity International  
Insight Investment Management  
Invesco Perpetual  
Investec Asset Management  
Invista Real Estate Investment Management  
JP Morgan Asset Management  
Lazard Asset Management  
M&G Investments  
Newton Investment Management  
Odey Asset Management  
Schroder Investment Management  
Standard Life Investments  
Scottish Widows Investment Partnership  
Threadneedle Asset Management  
Vanguard Asset Management

# Key Interview Findings

## 1 Investment increasingly globalised; product focus becoming less specialist

- Client interest in global investment opportunities, particularly emerging markets, continuing to increase at the expense of domestic exposure (see p. 21-22 of full survey)
- Specialisation reaching limits with growing emphasis on solutions and more client-centric asset management services. LDI assets under management expanding; DC likely to be an area of significant focus in the UK (see p. 23-25 of full survey)
- Increasing interest in multi-asset approaches as both a diversification delivery mechanism and a way to deliver specific outcomes (see p. 36-37 of full survey)

## 2 A need to improve trust and better communicate the industry's role and objectives

- General recognition that client trust is an issue that must be addressed (see p. 26 of full survey)
- Industry should be better at differentiating itself and its business model from other financial services (see p. 26 of full survey)
- Changes needed in client-manager conversation in both the retail and institutional environment (see p. 26-28 and 37 of full survey)
- Concerns to ensure transparency as product set evolves (see p. 27 of full survey)
- Greater client scrutiny of operational process and risk management seen as a positive development (see p. 28 of full survey)

industryview

“People recognise that, although the old strategic asset allocation model was blown up in 2007-08, diversification is key. People are revisiting multi-asset, sometimes with tail-risk hedging, sometimes with a risk overlay, sometimes with a tactical asset allocation input.”

industryview

“Even the most sophisticated investor can't distinguish properly between the role of investment management, investment banking and retail banking. We have senior policy-makers that confuse this, so what chance has the consumer? If you asked an ordinary person to name five investment managers they'd struggle, and even then they'd probably name those owned by investment banks.”

### 3 Regulation should not work to the detriment of the industry's clients

- Acknowledgement that regulation can benefit both industry and clients; UCITS seen as a key success (see p. 73 of full survey)
- But widespread concern about the potential impact of new UK and European regulation, amid recognition that regulation will inevitably tighten (see p. 74-76 of full survey)
- Disbelief over the Keydata episode (see p. 76 of full survey)
- Operating costs are rising as a result of the regulatory response to the credit crisis, but for some this is seen as a competitive advantage (see p. 74 of full survey)

#### industryview

“The regulatory challenge worries me a lot. There is a danger that instead of penalising those that have created problems, you end up penalising everybody. Some of what is currently on the agenda has not been through enough and it's very difficult to make headway. If centralisation of derivatives clearing were to be implemented in the way that it had originally been proposed, it would be a disaster for asset managers and pension funds. We are not saying that you don't need to improve things, but to ask for greater consideration of the implications.”

### 4 Ongoing unease about the attractiveness of the UK as an operating environment for the asset management industry in a changing global economy

- Continuing worries that the UK may be losing its competitive edge as an international asset management and financial centre (see p. 86-89 of full survey)
- Evolution of technology and of the global economy eroding the natural advantages enjoyed by the UK (see p. 88 of full survey)
- Firms point more to the danger of new capacity going elsewhere than of the imminent relocation of existing personnel, funds and corporate entities (see p. 89 of full survey)
- In a changing global environment, the UK needs to signal unequivocally that it is 'open for business' (see p. 88 of full survey)

#### industryview

“Not that many people have voted with their feet yet but it's not about that; you haven't seen new people come in either. The UK is a less attractive place from the tax, regulatory and other perspectives. There is a definitive risk that over time, you'll see attrition here but no replacement. But it doesn't seem to be seen as a real problem on a political level.”

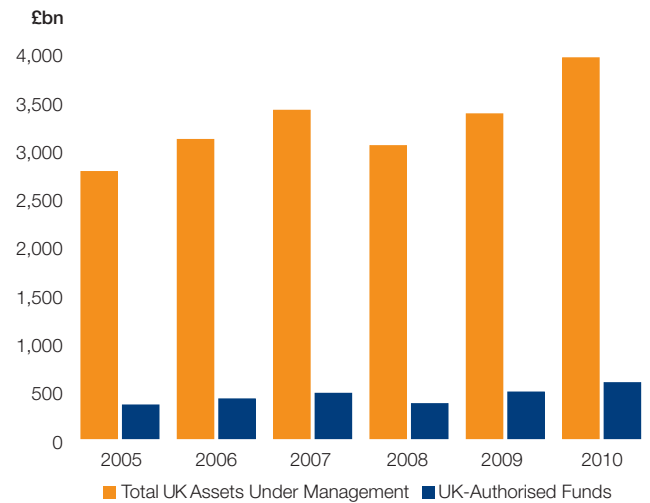
## An industry in good shape . . .

Some two years after the deepest phase of the credit crisis, it is clear that the industry has come through relatively unscathed. Assets under management are at a record £3.9 trillion (see Chapter One), while industry revenues have recovered, and are now exceeding pre-crisis levels.

Since our first survey in 2002, assets under management have doubled, notwithstanding subdued investment returns. The FTSE 100 index rose only 27 per cent over that period for example. The growth is therefore primarily the result of inflows from clients, a third of whom are outside the UK.

### Total assets under management in the UK and in UK-authorized funds (2005 – 2010)

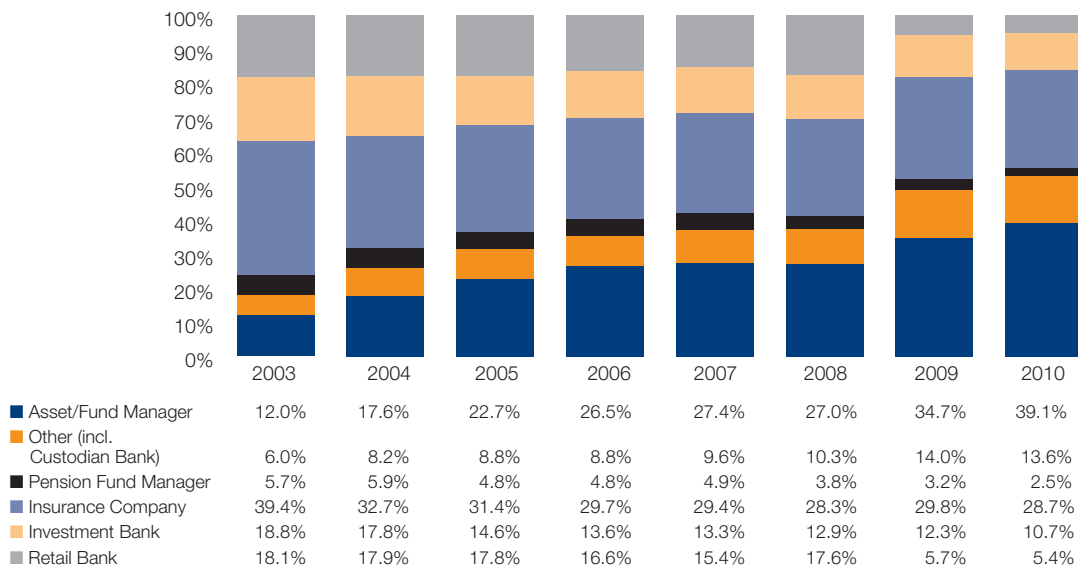
[Chart 2 in the full survey]



At the same time, the industry has continued to evolve: in ownership terms it is increasingly independent of banking and insurance, while retaining its unconcentrated and competitive overall structure.

### Ownership of asset management firms by UK assets under management (2003 – 2010)

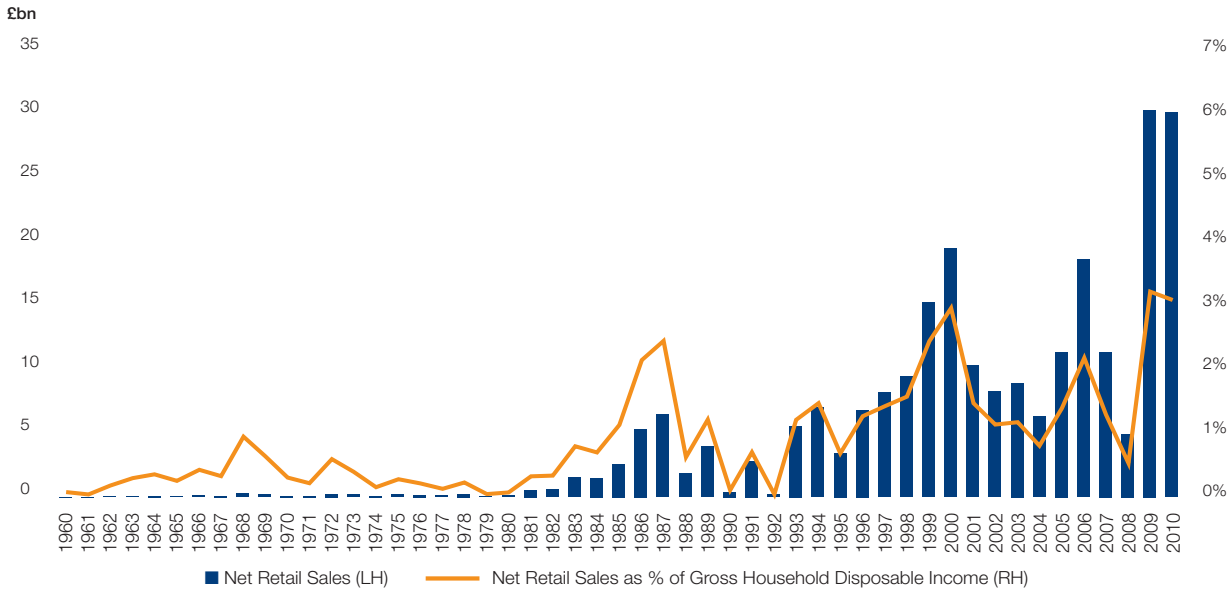
[Chart 53 in the full survey]



The UK retail funds industry had another strong year in 2010, with net inflows at their second highest level on record, following 2009, and many retail investors displaying an increasingly global outlook. Overall, UK-

authorised funds experienced retail inflows of £60 billion over these two years and saw total funds under management increase by 60% to a total of £579 billion. (See p. 41-42 of full survey).

**Net retail sales vs sales as percentage of gross household disposable income (1960 – 2010)**  
 [Chart 27 in the full survey]



Source: IMA, ONS

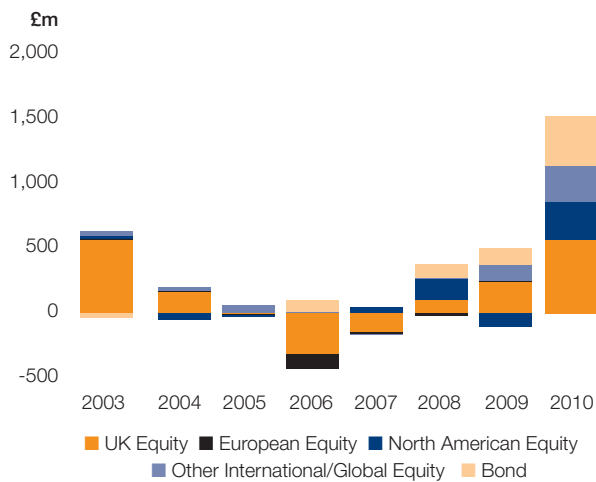
**Note:** in terms of household income investors saved a greater proportion into funds in 2009 and 2010 than ever before. Net retail investment into funds represented around 3% of household disposable income in 2009 and 2010, compared to an average 1.7% in the 2000s.

## ...but facing challenges

Despite this positive commercial performance, the industry faces challenges. Although revenues are buoyant, many of those we interviewed are conscious of the growing appetite for index-tracking funds, increasingly in the form of exchange-traded funds, as well as the growing importance of platform intermediaries. Both developments could have implications for industry business models in the future. (See p. 50 and p. 77 of full survey).

### Net retail sales of tracker funds by index investment type (2003 – 2010)

[Chart 32 in the full survey]



Many of our interviewees believe that ten years of highly volatile stock market returns and a huge credit crisis in the Western world have left some investors nervous and distrustful of financial markets. In the retail funds market, we have seen strong inflows into managed and absolute return funds. And our interviews revealed growing interest from institutional investors in multi-asset strategies, although as Chapter Two shows, single-asset mandates still predominate (see p. 36-37 and p. 51-52 of full survey) in particular.

## industryview

### The appeal of multi-asset

“The new multi-asset offerings are presented in a more thoughtful way and the client is engaged. There isn’t a wholesale change, but the industry has matured.”

“All the things that have happened over the last few years have made clients realise that they need help. The old way of doing it where you’d review your equity manager every three years was quite mechanical, and clients are reaching out and asking how they can make things better and who can help them do it. It might be a fund manager, it might be a consultant or it might be that the client decided to set up an investment sub-committee.”

## How to respond?

Against this background, firms are seeking to foster investor trust and confidence. The majority of managers we spoke to believe that association with problems in the banking sector has contributed to a decline in trust among the industry's clients. But firms believe there is more that the industry itself should be doing.

### industryview

#### Are clients getting the experience they expected?

*“One of my questions coming out of the 2007-08 dislocation was ‘did the clients that have invested in the markets and used our industry for their long-term savings and prosperity get the experience that they expected? Some did but a lot of them didn’t. Why? Is it that they haven’t understood the product offerings, have they not been positioned properly by the seller, has it been too industrialised? I don’t think the industry behaved poorly, but I do question whether it has thought enough about what the client really needs.’”*

*“I do think that our reputation as being trustworthy custodians of people’s money is something we want to build on. It’s going to be much more than saying: ‘Here’s the index, we’ve out-performed it and are top quartile in our peer group!’. So, if you’re 64 years old and closer to retirement, how are you going to deal with this? How will you convert the pension into an income stream? There will be a different role for asset managers.’”*

This is why many managers are actively seeking to focus on meeting specific client needs by moving towards more outcome-oriented products and strategies (see Chapters One and Two, in particular p. 23-25 and p. 36-37 of full survey). It is worth highlighting three such themes:

- Liability matching strategies for defined benefit pension funds and other clients. Assets subject to a liability-driven mandate are continuing to grow strongly.
- Default fund strategies within defined contribution pension schemes, which aim to provide appropriate asset allocation strategies for scheme members which evolve over time.
- Funds which aim to provide constrained levels of risk for clients, particularly retail investors, such as absolute return products.

Through a greater emphasis on areas such as asset allocation and an approach based upon specific client needs, many interviewees felt this could mark the beginnings of a renewed relationship with end clients.

## International competitiveness

Over the last few years we have tracked growing concern that the many advantages enjoyed by the UK as a location for an investment management business may be eroding. We heard this even more strongly this year (see Chapter Five).

Several of those we interviewed said that massive improvements in communications and a shifting balance of global economic power were making the case for a global “cluster” for asset management less compelling. And, importantly for an industry drawing

on talent globally, a lack of certainty about the stability of the fiscal, regulatory and immigration regimes could undermine the UK’s position relative to other jurisdictions.

Nobody expects this to result in an exodus of established firms from London. But several members suggested that we could see more marginal decisions about incremental investment go against the UK in future. Just as mutual fund domiciles have migrated to Dublin and Luxembourg, so we may see other such moves over time. This is something to which the UK Government needs to be alert.

2006 – 2007 IMA Survey	2010 – 2011 IMA Survey
<p><b>General degree of satisfaction, but worries about rising costs</b></p> <p>“ We like London. It’s almost our head office. We see an amazing pool of resources in the UK. It’s deeper and broader than in other places. London is still the natural place. We do have increasing costs and retention issues, but that’s more to do with the direction of the industry than London per se.”</p> <p><b>Major international firm (overseas HQ)</b></p>	<p><b>Rising unease, diminished confidence about long-term outlook</b></p> <p>“ It has got worse at three levels: regulation, political attitudes and tax. The UK is now less attractive and less competitive in consequence. This is an international business that now has to deal with domestic issues. Ten years ago, London was setting the pace in the internationalisation of workforce. Hong Kong and Singapore say ‘we’re open for business’. The UK says ‘we’re open for businesses’, but it’s not a welcoming climate.”</p>
<p>“ London really is the financial capital of the world. It’s a very natural place to run global equities products, emerging markets products. I really cannot see any weakening of the presence here from the fund management perspective.”</p> <p><b>Major international firm (overseas HQ)</b></p>	<p>“ I think you’ll lose the new investment. And it’s not about the high-paid fund managers. There are thousands of people in this building and down the road in support functions; that’s a lot of jobs that aren’t going to be in London or even in the UK.”</p>
<p>“ London is winning as a financial centre, so there’s major pressure on costs and infrastructure. You can go and work at a boutique tomorrow at significantly more than you can earn here. There’s a huge demand for talent.”</p> <p><b>Major UK firm</b></p>	<p>“ From an investment management perspective, the outlook is positive. But as a domicile, we’re not getting any clear indication from the UK government that keeping UK or global funds domiciled here is a priority for them. I still feel that, at the moment, the Government still hasn’t quite decided to support our industry; they feel it’s sort of a dirty word. But we’re a UK-based organisation, and we’d probably withstand a lot of pressure before we moved.”</p>

## Regulation from Europe...

Regulation has risen significantly up the list of industry preoccupations. This is recognised as inevitable in the wake of the credit crisis, and indeed to some extent welcome. But concerns are growing about the volume and appropriateness of new regulation that is affecting the industry, much of it originating from the EU (see Chapter Four, and in particular p. 75-77 of full survey).

Frequently cited is the Alternative Investment Fund Managers Directive, which sought to tackle the regulation of hedge funds and private equity funds. Not only was their role in the credit crisis marginal, but the directive also brought a wide variety of other fund structures within its scope. Indeed, the importance of hedge funds is frequently overstated – the assets managed by IMA

member firms at the end of 2010 were three times those of the global hedge fund industry.

The impact of the first wave of EU legislation, the last decade's "Financial Services Action Plan", has been decidedly mixed. For example, the Markets in Financial Instruments Directive was intended, among other things, to improve competitiveness in equity trading markets. But the majority of members reported that in practice the result has been a decrease in post-trade transparency and no reduction in trading costs (see Chapter Six).

When we conducted our interviews for this survey, the industry was facing the prospect of some 20 different legislative measures from Europe over the coming two to three years. This will have significant impact on firms' operating environment and costs are likely to filter down to consumers.

### Current regulatory environment is a key concern

There is unanimity that it is near impossible for regulation to prevent future financial crises and a strong majority (70%) of those we interviewed identified the current regulatory environment as a key area of concern for them.

The concern finds expression in four ways:

#### 1. Regulatory initiatives perceived to be disproportionate or wrongly targeted, notably:

- The original proposals for the Alternative Investment Fund Managers Directive (AIFMD).
- The remuneration code.
- Changing capital requirements for asset management firms.

**2. Risks of unintended consequences.** Rapid regulatory change always risked unintended consequences. The example cited by several of those we interviewed was centralised clearing. While broadly supportive of the direction of travel, several feared that the way in which proposals were being implemented could result in considerable cost for end clients.

#### 3. Lack of adequate international coordination.

While strong and credible regulation can be a source of comparative advantage for individual jurisdictions, in an international environment characterised by different political pressures and economic competition between financial centres, any lack of coordination, whether on substance or timing, can result in regulatory arbitrage and poor outcomes.

However, where European harmonisation is taking place, interviewees strongly felt that legislation should be carefully considered and driven not by politics but by single market considerations that will ultimately benefit industry and consumer.

#### 4. The way in which regulatory oversight is exercised.

The UK retail funds industry has been hit heavily by compensation levies as a result of the default of Keydata Investment Services Ltd.<sup>1</sup> This followed earlier compensation payouts to investors relating to the defaults of Pacific Continental Securities and Square Mile Securities. The retail firms we interviewed cited Keydata as a source of major irritation with respect to the quality of regulatory oversight. Equally, there is some recognition of the fine balance between the kind of scrutiny that can avoid such failures and what might be perceived as a regulatory 'heavy hand'.

<sup>1</sup> Keydata is an investment firm that had sold life insurance-linked investment products from Luxembourg companies SLS and Lifemark. It was declared insolvent and closed down by the FSA in 2009. Owing to the structure of the UK Financial Services Compensation Scheme, UK retail fund managers were required on short notice to contribute £233m to subsidise the obligation of another class of firms to finance compensation payments to investors.

## ...and from the UK

The Financial Service Authority's Retail Distribution Review is the main current proposal for UK-originated regulation affecting the industry. Investment managers support the Review's objectives of a more transparent and consumer-friendly market, but our industry has concerns about whether this would indeed be the outcome. Some feared that the fund management industry might be put at a competitive disadvantage to life insurers. And there was widespread agreement that middle and lower income groups would find it more difficult to access advice in the future (see p. 77-79 of full survey).

### industryview

#### a need for regulated advice or guidance?

*“ We'll find a lot of the smaller IFAs either disappearing or merging, and a lot of them not offering true advice. It will be guided advice, it will be mechanical. You go onto a platform, you put your profiles in, and you'll be pushed in certain directions. It's simpler for the investor but it also raises the question of how much knowledge you have before you invest. Or are you going to get a very vanilla offering, so choice is removed from the industry? People will have much less choice and they'll have very simple offerings. And that's good and bad. It's good because it's simpler to understand but you also want choice and diversity, you want people to be able to build different portfolios and have control over their future.”*

*“ I think the majority of people actually don't need advice. If your finances are complex, for example when you're a high earner, you need all kinds of advice about that. But if you're investing money over the long-term as an ordinary person I think you need guidance and that can be provided off the internet and in many cases is done so very effectively now.”*

A further challenge will be the impact of the legislation expected later this year to replace the FSA with two new regulators, the Financial Conduct Authority and the Prudential Regulation Authority. This will inevitably result in further disruption as relationships with regulators undergo a fundamental change.

One group that may be disproportionately affected by the regulatory agenda is smaller specialist firms. Investment management has always had relatively low barriers to entry: with no requirement for large amounts of capital, investment managers are in essence much more akin to non-financial service sector businesses than to financial firms like banks. But some interviewees suggested that the increasing regulatory requirements could start to provide more significant barriers to entry than in the past, ultimately perhaps driving greater consolidation.

## Conclusion

While the industry has ridden through the financial crisis well, it finds itself at a strategic crossroads and the mood among firms is generally reflective. The growing need for individuals to take responsibility for their own retirement provision continues to create an attractive long term prospect for the industry. But evolving client preferences, a difficult market environment and changing regulation at both UK and EU levels are combining to present firms with new strategic challenges, which they will have to face up to in order to grasp potential opportunities.

## Appendix One

## Key Statistics

**£3.9trn**

[£3.4trn in 2009]

Total assets managed in the UK by IMA member firms as at December 2010

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**£617bn**

[£503bn in 2009]

UK-managed funds domiciled offshore

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**£1.3trn**

[£1.1trn in 2009]

Assets managed in the UK on behalf of overseas clients

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**38%**

[40% in 2009]

UK domestic market capitalisation accounted for by IMA members' UK equity holdings

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**£579bn**

[£481bn in 2009]

Managed in UK-authorized funds (OEICs and unit trusts)

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**£11bn**

[£8.7bn in 2009]

Revenue earned by UK-based asset management firms in 2010

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**£2.2trn**

[n/a]

Assets managed worldwide on behalf of UK institutional clients

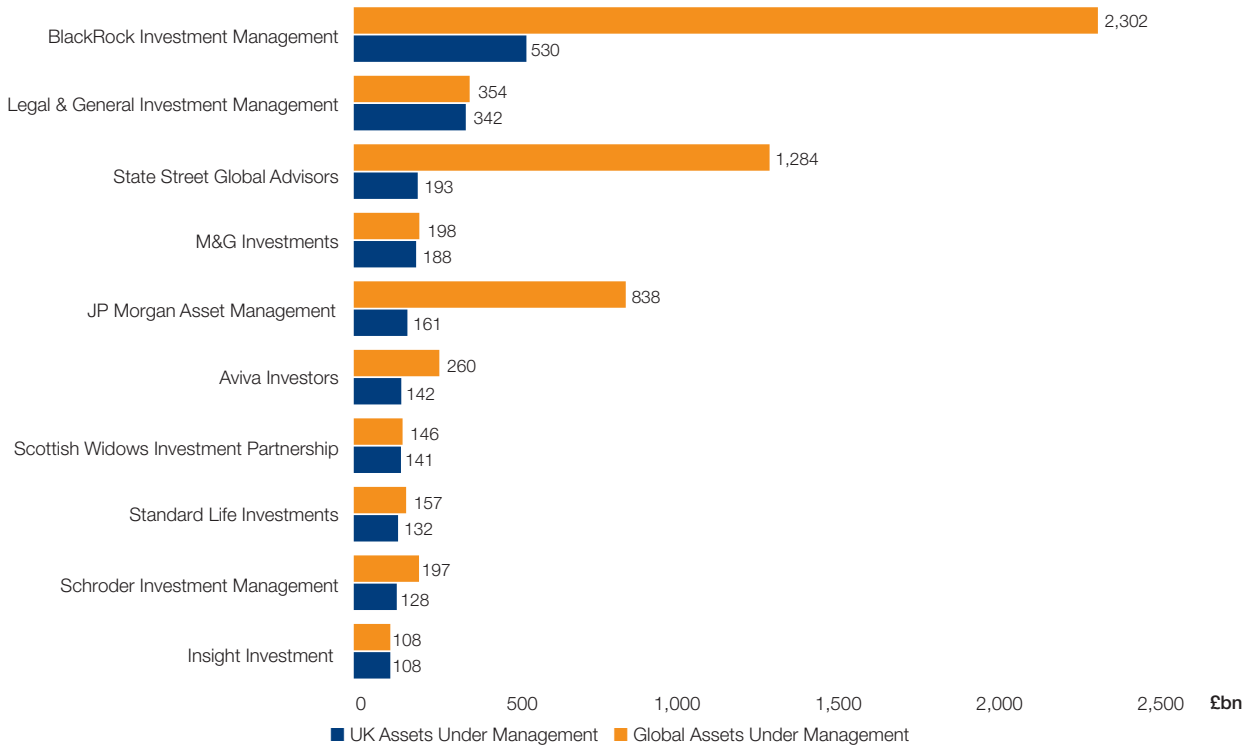
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## Appendix Two

# Firm Rankings

### Top ten firms by UK and global assets under management

[Chart 1 in the full survey]



### Top ten UK fund companies by total funds under management (2009 – 2010)

[Chart 41 in the full survey]

