About TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. In the UK, across Europe and globally, we promote policies that drive competitiveness, support job creation and ensure long-term economic growth. The industry contributes nearly 11% of the UK’s total economic output and employs over 2.2 million people, with two thirds of these jobs outside London. It is the largest tax payer, the biggest exporting industry and generates a trade surplus greater than all other net exporting industries combined.
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FOREWORD

The UK fund management industry has grown into a diverse, sophisticated and international success story, becoming a critical part of the broader financial and related professional services ecosystem. The UK’s strong reputation as a global fund management centre is based on its skilled workforce, substantial presence of international firms and transparent legal framework. This is complemented by a liberal operating environment and a fair and predictable supervisory framework.

While London is central to the UK’s strong international position, other cities such as Aberdeen, Edinburgh and Glasgow in Scotland; and Birmingham, Bristol, Cambridge, Liverpool, Manchester and Oxford in England are also important centres for fund management. The industry provides employment for 52,000 people in the UK.

Assets under management increased by 17.4% in 2016 to a record £8.1trn, £6.9trn of which was managed by Investment Association (IA) members’ funds. IA members’ funds in the UK managed on behalf of overseas clients reached a record £2.6trn, or 37% of total assets in that year, making the UK the leading global centre on this measure. Globally, assets under management totalled $160.6trn, 63% of which were conventional funds, according to our latest estimates.

In many ways the fund management industry epitomises the characteristics of the broader financial and related professional services industry that we have identified in our previous research. It is globally mobile and intensely competitive, and the UK must therefore work hard to maintain its leading position, particularly in light of the uncertainty caused by the UK’s impending exit from the EU. Fund management is also among the sectors most keenly transformed by technology and increasing automation. TheCityUK will continue to work closely with the IA, industry and the government to make the UK as competitive as possible for fund management.

Anjalika Bardalai
Chief Economist & Head of Research, TheCityUK
EXECUTIVE SUMMARY

UK fund management
- The UK is one of the largest markets in the world for fund management. It has a strong international orientation and attracts significant overseas funds. London is the leading international centre for fund management.
- The industry’s assets under management increased by 17.4% in 2016 to a record £8.1trn, £6.9trn of which was managed by the Investment Association (IA) members’ funds. This significant growth was partly due to the depreciation of the pound against other major currencies after the EU referendum in June 2016. This was due to a large proportion of UK funds being invested in overseas assets denominated in other currencies.
- London is essential to the UK’s strong international position. London-headquartered investment funds account for over two-thirds of UK-based funds under management, and London is a leading centre for services such as administration, prime brokerage, custody and auditing. Outside of London, major centres of fund management expertise in terms of employment include Aberdeen, Edinburgh and Glasgow in Scotland; and Birmingham, Bristol, Cambridge, Liverpool, Manchester and Oxford in England.
- UK fund management organisations manage many different types of funds, including life insurance, pension schemes, unit trusts and investment trusts.
- Institutional clients are prominent in the UK and accounted for around two-thirds of funds under management in 2016. Institutional clients include insurance funds, pension funds, corporations and public sector clients. Retail clients’ assets accounted for £1.3trn, private clients £607bn and alternative funds (hedge funds, property funds, private equity funds and Sovereign Wealth Funds (SWFs)) £1trn.
- Fund management generated around 0.2% of GVA and provided employment for 52,000 people in 2016. Net exports from fund managers totalled £6.2bn in 2016, helping to offset the UK’s merchandise trade deficit.

- The UK has consolidated its position as the leading global centre for the management of funds on behalf of overseas clients in recent years. Thirty-seven percent of funds, or some £2.6trn, came from overseas clients in 2016.
- The UK government is not taking the success of the industry for granted and has given an explicit long-term commitment to the fund management sector through its ‘Investment Management Strategy’ in 2013 which was upgraded to the ‘Investment Management Strategy II’ in December 2017. The new strategy focuses on tax, skills and innovation in fund management, among other areas.
- According to the IA, 57% of assets managed in the UK are managed by asset managers headquartered overseas, up from 40% in 2004.
- The UK is the fifth largest fund domicile in Europe, accounting for 10.4% of European funds under management. Luxembourg accounted for the largest share (26.2%), followed by Ireland (14.7%), France (13.3%) and Germany (12.6%).

Global market for fund management
- Assets of the global fund management industry were $160.6trn in 2016, according to TheCityUK estimates. Conventional funds totalled $101trn, alternative funds $17.3trn and private wealth funds $63.5trn. However, about a third of private wealth was incorporated in other forms of fund management.
- The UK is one of the largest markets in the world for fund management, along with the US and Japan, and continues to dominate the European asset management industry. In fact, in recent years the UK asset management industry has grown at a faster pace than the industry globally.
- The reforms and privatisation of state pension systems around the world should provide UK firms with more cross-border investment opportunities. Fund managers in the UK should also be able to contract further business from overseas with the easing of investment restrictions and ongoing diversification of international fund managers’ portfolios.
The fund management industry\(^1\) is an important part of the UK and global economy. Fund managers invest funds on behalf of institutions that are intermediaries between savers and users of capital. Their primary task is to invest the flow of cash from pension contributions, insurance premiums and personal savers in a portfolio of financial assets that will best meet clients’ needs. In doing so they have, above all, to seek an appropriate balance between risk and reward. They must weigh the requirements of savers for security and liquidity against the range of returns available from different types of investments.

The industry is critical to the financial future of millions of savers and investors, and is an important source of liquidity for the economy. The sector provides significant investment, particularly in equity and fixed income assets, money market instruments, property and alternative asset classes.

**Size of the UK fund management sector**

The UK fund management sector has enjoyed substantial growth over the past decade and is responsible for a vast volume of funds. Assets under management increased by 17.4% in 2016 to a record £8.1tn, £6.9tn of which was managed by the IA members’ funds (Figures 1 and 2). This significant growth was partly due to the depreciation in the pound against other major currencies after the Brexit referendum because a large proportion of UK funds are invested in overseas assets denominated in other currencies. Institutional clients accounted for around four-fifths of total IA members’ funds under management, with the remainder accounted for by retail and private clients (Figure 3). Thirty-seven percent of funds under management in the UK came from overseas clients, making the UK the leading global location for management of funds on behalf of foreign clients (Figure 4).\(^2\)

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\(^1\) Data (e.g. assets under management) in this section are sourced mainly from the Investment Association while data in the Global Market for Fund Management section are mainly estimated by TheCityUK. As a result, the figures for the two sections are not comparable.

London is central to the UK's strong international position, but other cities such as Aberdeen, Edinburgh and Glasgow in Scotland; and Birmingham, Bristol, Cambridge, Liverpool, Manchester and Oxford in England are also important centres for fund management.

It should be stressed that the figures for funds under management in the UK represent a conservative estimate. This is particularly the case with the overseas clients figure as many firms have global operations so are servicing clients in multiple locations. The overseas clients figure also does not take into account significant funds managed in the UK for which there are no available estimates, such as funds managed on behalf of some foreign governments, particularly those from the Middle East, as well as private client funds managed, for example, by family offices.

**Overseas clients and firms**

The fund management sector is one of the UK’s most successful industries. As the largest European centre for fund management, the UK is very open to foreign business, has a deep talent pool of expertise and experience, a transparent legal system and benefits from a safe and stable regulatory environment.

The international orientation of the UK’s fund management industry is reflected in the presence of a broad range of UK and foreign-owned firms, in significant investment in overseas securities, and in the management of overseas clients’ assets. According to the IA, 57% of assets managed in the UK are managed by asset managers headquartered overseas, up from 40% in 2004.3

The global fund management industry is enjoying rapid growth as a growing global middle class lives longer, saves for the future and wants to invest. With its many advantages in skills, geography, and legal and professional services, the UK has been a beneficiary of the globalisation of the sector and has become a world leader in managing foreign clients’ funds. IA members’ funds in the UK managed on behalf of overseas clients reached a record £2.6trn, or 37% of total assets in 2016 (Figure 4). The UK potentially stands to capture a growing share of the global market in the coming years. In addition to the UK’s key overseas markets (i.e. the EEA, the US and Japan), IA members also manage assets on behalf of clients in emerging markets, including China, Brazil and Africa.4

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3 Ibid.
4 Ibid.
UK government regulation

The global fund management industry is consolidating into major financial centres where it can create economies of scale around sophisticated information systems and deep pools of skilled professionals. London has been among the most attractive financial centres for relocating and expanding asset management operations. Factors contributing to London’s leading position include its business environment, abundant talent and proximity to global financial markets. UK investment managers can support a wide variety of different investment styles and strategies, and have a proven track record of innovation.

The UK government sought to improve the country’s attractiveness for foreign clients and firms with the launch of its ‘Investment Management Strategy’ in 2013; this was updated to the ‘Investment Management Strategy II’ in December 2017. The government’s description of the goals of the ‘Investment Management Strategy II’ includes the following:

- enhance the government, regulator and industry dialogue
- maintain stable tax and regulatory environments
- strengthen the asset management domestic skills pipeline
- advance the development of asset management FinTech solutions
- support UK asset managers to be global leaders in developing innovative investment strategies (such as green finance and social impact investment)
- continue a coordinated programme of international engagement to attract overseas firms to locate in the UK and promote UK firms overseas.

The Financial Conduct Authority (FCA) is internationally renowned for its high standards of investor protection. Investors can therefore have confidence in the strength and impartiality of the UK’s regulatory system. The FCA ensures that the UK industry offers a level playing field with no preferential treatment for domestic firms or investors.

The FCA published its most recent Asset Management Market Study in June 2017 to assess key issues in the fund management sector. These included price competition, investors’ awareness of fund objectives and fund performance reporting. On 16th October 2017, the FCA launched the Asset Management Authorisation Hub to support new asset management firms to enter into the fund management market.

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Although the UK is largely known as a centre for management of international funds, the UK government is also committed to supporting fund managers who choose to domicile in the country. Luxembourg and Ireland compete on fund domicile but not fund management. The UK is therefore the only hub that offers the advantages and cost savings of locating fund management and fund domicile all in one place.

The rate of UK corporation tax fell to 19% with effect from 2017/18 from 20% previously. The Budget presented in March 2016 announced that the rate would be reduced to 17% by 2020/21. Additionally, funds that are domiciled in the UK can take advantage of some 120 double taxation agreements, more than in any other country.9,10

The UK is the fifth largest fund domicile in Europe, accounting for 10.4% of European funds under management. Luxembourg accounted for the largest share (26.2%), followed by Ireland (14.7%), France (13.3%) and Germany (12.6%). Funds under management for UK domiciled investment funds have trended upwards since 2008, reaching around €1.5trn in 2016 (Figures 5 and 6).11

Contribution to the UK economy

Fund management covers a broad range of activities. Front office functions include those directly related to the management of funds such as: decisions on asset allocation and risk management, investment analysis, dealing, and cash management. Back office functions are primarily support activities including: transactions processing, systems support, accounting and administration. Such fund management operations can be delivered either by investment departments of parent firms or investment managers who offer their services for a fee.

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Value added
Fund management generated around 0.2% of UK GVA in 2016. Fund management’s wider contribution to the economy stems from its promotion of the UK’s capital market and from the links fund managers have with other financial services providers, such as banks, securities dealers and information providers.12

Employment
Fund management firms in the UK provided employment for 52,000 people in 2016. The fund management industry demonstrates clusters of expertise in London, Scotland and across several UK regions. Due to outsourcing of many operations by fund management firms within the UK, these figures are likely to significantly understate total employment generated by the fund management industry.13

Location of fund management activities in the UK
The importance of London is essential to the UK’s strong international position. London-headquartered investment funds account for over two-thirds of UK based funds under management and is a leading centre for services such as administration, prime brokerage, custody and auditing.14 Outside of London, Aberdeen, Edinburgh and Glasgow in Scotland; and Birmingham, Bristol, Cambridge, Liverpool, Manchester and Oxford in England are also important centres for fund management (Figure 7).15

While London remains one of the world’s largest centres for fund management, Edinburgh and Glasgow have improved their position in recent years. According to the IA, funds managed by the Scottish fund management industry totalled around £620bn in 2016, or 9% of total UK funds managed by IA members. Scottish headquartered firms, however, account for a larger share of total funds managed in the UK—around one quarter. The fund managers are a mixture of publicly listed companies, partnerships and subsidiaries of some of the major Scottish financial institutions. Overseas players find Scotland a useful base from which to operate largely due to the cost efficiency, strong asset servicing capabilities, prudential care for customers’ interests and specialist expertise in niche markets which the Scottish fund management industry provides.16

Figure 7: Fund management employment in selected UK cities 2016*
Source: TheCityUK calculations based on data from Nomis

<table>
<thead>
<tr>
<th>City and Region</th>
<th>Employment</th>
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<tbody>
<tr>
<td>London</td>
<td>39,000</td>
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<tr>
<td>Edinburgh, City of</td>
<td>4,500</td>
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<tr>
<td>Liverpool</td>
<td>600</td>
</tr>
<tr>
<td>Bristol</td>
<td>350</td>
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<tr>
<td>Aberdeen City</td>
<td>300</td>
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<tr>
<td>Birmingham</td>
<td>300</td>
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<tr>
<td>Oxford</td>
<td>250</td>
</tr>
<tr>
<td>Cambridge</td>
<td>200</td>
</tr>
<tr>
<td>Manchester</td>
<td>200</td>
</tr>
<tr>
<td>Glasgow City</td>
<td>175</td>
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<tr>
<td>Guildford</td>
<td>150</td>
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<tr>
<td>Peterborough</td>
<td>150</td>
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<tr>
<td>Salford</td>
<td>150</td>
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<tr>
<td>Bolton</td>
<td>100</td>
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<td>Ipswich</td>
<td>100</td>
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*Selected cities for employment of 100 or more in fund management sector

13 Ibid.
14 Ibid.
Net exports of fund managers totalled £6.2bn in 2016, up 44% on the previous year (Figure 8).\(^{17}\)

**Figure 8:** Net exports of UK fund managers

*Source:* Office for National Statistics

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<td>4,129</td>
<td>4,161</td>
<td>3,520</td>
<td>3,315</td>
<td>4,055</td>
<td>4,286</td>
<td>4,274</td>
<td>4,129</td>
<td>4,161</td>
<td>6,173</td>
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</tbody>
</table>

Types of clients

Fund management organisations include institutions such as life insurance companies or their investment management subsidiaries, investment banks and integrated securities houses, independent fund managers, self-managed pension funds, and other operators such as retail stockbrokers. Substantial restructuring in the UK in recent years has reflected global developments in the fund management industry. This was driven by the need to expand the pool of available resources, develop sophisticated distribution systems and provide a quality service, as well as to widen the search for new customers from different regions.

UK fund management organisations manage many different types of funds. Most large organisations tend to operate more than one type of fund within the same group: for example, life insurers may manage pension funds and unit trusts as well as life policies. The vast majority of funds in the UK are managed on behalf of institutional clients, both UK and overseas. The remainder is accounted for by retail clients, private clients and alternative funds.

Institutional clients

Institutional clients are prominent in the UK and accounted for around two thirds of funds under management in 2016. Institutional clients include insurance funds, pension funds, corporations, and public sector clients.

UK insurance funds totalled close to £1.1trn in 2016, up 4.6% on the previous year. This represented over 13% of funds under management in the UK. Insurance funds have declined relative to pension funds and other institutional clients over the past decade. Since 2006, insurance funds increased at a compound annual rate of around 2.6%, much less than the 13.3% compound annual growth in pension fund assets.\(^{18}\) Around 80% of insurance investment funds are from long-term insurance policies in which premiums paid over many years are invested by insurance institutions in order to meet the liability at maturity. The remainder are from general insurance policies which have a shorter timescale.\(^{19}\) Around 55% of insurance clients’ funds are managed by in-house asset management subsidiaries, and third-party insurance asset management (remaining 45%) is on the increase.\(^{20}\)

Pension funds’ assets increased by 32% in 2016 to £3trn. This figure represents assets managed in the UK for pension funds, but the underlying client could be located anywhere globally. The UK pension fund industry has been affected in recent years by various factors, such as changes

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\(^{19}\) The Association of British Insurers, ‘Long-Term Insurance Overview Statistics’ (13 October 2017), and ‘General Insurance Overview Statistics’ (05 October 2017), available at: https://www.abi.org.uk/data-and-resources/industry-data-free-industry-data-downloads/

in regulation and accounting standards and the continuing shift from defined benefit (DB) to defined contribution (DC) schemes. Recent changes to annuity rules have created more choice and the potential for investor engagement during retirement.21 According to data from the World Bank, by 2050 the UK population is projected to grow by some 13% to 74.7m. This will represent both a challenge and opportunity for the fund management industry. The increase in population will create substantial new assets for fund managers to manage, and create an opportunity for the industry to invest in infrastructure, housing, health and long-term care needs.22 The World Economic Forum expects the retirement savings gap in the UK to increase by 4% a year during the period 2015-2050, from $8trn to $33trn. The investment management industry will play an increasingly important role in helping people address their long-term savings needs.23

The other institutional category includes a wide range of clients such as corporations, public sector, sub-advisory and non-profit clients. They accounted for £1.4trn in 2016, up 9.6% from £1.2trn in the previous year.24

Retail clients
Around £1.3trn in retail clients’ investment funds was managed in the UK at the end of 2016, up 22.7% on the previous year (Figure 2). Retail assets held by UK investors increased by 13% in 2016, reaching over £1trn.25 Retail funds UK investors hold consist of:

• UK-domiciled funds, which include unit trusts and open ended investment companies (OEICs), investment trusts and other retail products. Funds under management of UK authorised retail funds accounted for 90% of UK investors’ retail funds (£940bn) in 2016.

• Overseas-domiciled funds totalled £105bn at the end of 2016, accounting for the remaining 10% of retail funds held by UK investors.

Private clients
Private clients are a significant part of the UK market with funds of £607bn at the end of 2016, up 19.7% on the previous year. This figure includes funds managed by private client firms such as stockbrokers and private client departments of banks and fund managers.26

Alternative funds
Alternative funds include hedge funds, property funds, private equity funds and sovereign wealth funds. Adjusting for double-counting, alternative funds were the source of over £1trn in 2016, or around 13% of UK funds under management.27

London is the world’s second-largest centre for hedge fund managers, after New York. The UK had £285bn in assets under management (nearly 13% of global assets) in the hedge fund sector in 2016—an increase of more than 50% over the past five years. The UK remains by far the largest centre for hedge funds in Europe.28

The UK private equity market is the most developed outside the US. Private equity funds based in the UK accounted for 29% of European investments and 56% of funds raised in 2016. London is the largest European centre for the management of private equity investments and funds. Over the past decade, the UK private equity industry has invested around £180bn in over 11,000 firms worldwide.29

21 Ibid.
25 Ibid.
26 Ibid.
27 Ibid.
29 Ibid.
The UK’s competitiveness as a centre for fund management

The UK is one of the largest markets in the world for fund management, along with the US and Japan, and continues to dominate the European asset management industry. In fact, the global asset management industry has grown at a slower pace than that of the UK in recent years. The UK government is committed to ensuring the UK remains an open and competitive market for international investment.

UK firms have the potential to gain new international business, particularly in emerging markets, where economic growth prospects look strongest. Asset management profit pools have in recent years been migrating to emerging markets, particularly China. However, the UK has been unable to secure business with China as quickly and to the same extent as Hong Kong and Singapore have done because Hong Kong and Singapore have geographic advantages, and have established themselves as credible centres for fund management in Asia.

The reforms and privatisation of state pension systems around the world should also provide UK firms with more cross-border investment opportunities. Fund managers in the UK should also be able to contract further business with the easing of investment restrictions and diversification of international fund managers’ portfolios. Over the past few years, there has been substantial restructuring of UK fund managers, strengthening their international links. There is likely to be further restructuring globally among the main firms, geared to expanding the pool of resources available, developing sophisticated distribution systems and improving the quality of service.

However, the sector is also vulnerable to risks from a number of current trends. For example, the US leads in a number of key financial services sectors but is particularly dominant in investment management, and this leaves the UK in a weaker position to ride the next wave of growth in the sector. The fund management industry also continues to be transformed by automation and technology. This, combined with the uncertainty presented by the UK’s impending exit from the EU, represents a sizeable change in the operating environment for UK-based fund managers.

33 Ibid.
34 Ibid.
According to TheCityUK estimates, assets of the global fund management industry totalled $160.6trn in 2016, and consisted of:

- Conventional funds (pension funds, mutual funds and insurance companies) totalling a record $101trn (Figure 10).
- Alternative funds (hedge funds, private equity funds, exchange traded funds and sovereign wealth funds) with $17.3trn of assets.
- Private wealth funds with $63.5trn in assets. About a third of this was, however, incorporated in other forms of fund management.

Figure 9: Global fund management industry, end-2016

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<td>Assets under management, $trn</td>
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<td>Pension funds</td>
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<td>Mutual funds</td>
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<td>Insurance funds</td>
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<td>SWFs</td>
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<td>Private equity</td>
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<td>ETFs</td>
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<tr>
<td>Hedge funds</td>
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<td>Private Wealth</td>
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Conventional investment management assets

Non-conventional (alternative) investment management assets

Figure 10: Global Institutional assets under management

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<tr>
<td>$trn</td>
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<td>2015</td>
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<td>2016</td>
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Figure 11: Largest global investment management centres, end-2016, $bn

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<tr>
<td>Pension funds</td>
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<td>Insurance assets</td>
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<td>Mutual funds</td>
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<td>Total conventional</td>
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<td>Share of Total conventional, %</td>
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Figure 12: Defined contribution/defined benefit split by market, 2016

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<th>Source: Willis Towers Watson</th>
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<tr>
<td>Australia</td>
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<tr>
<td>US</td>
</tr>
<tr>
<td>UK</td>
</tr>
<tr>
<td>6%</td>
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<tr>
<td>94%</td>
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- Alternative funds (hedge funds, private equity funds, exchange traded funds and sovereign wealth funds) with $17.3trn of assets.
- Private wealth funds with $63.5trn in assets. About a third of this was, however, incorporated in other forms of fund management.

35 Data (e.g. assets under management) in this section are mainly estimated by TheCityUK, while data in the UK Fund Management section are sourced mainly from the Investment Association. As a result, the figures for the two sections are not comparable.
Conventional funds
Conventional assets of the global fund management industry increased by 7% in 2016 to a record $101trn (Figure 10). Mutual funds accounted for 40% of the total, followed by pension assets (36%) and insurance funds (24%).

The US was by far the largest source of conventional funds under management in 2016, accounting for nearly half of the world total (Figure 11). It was followed by Japan with 7.9%, the UK with 6.8% and France with 4.5%. The Asia-Pacific region has shown the strongest growth in recent years. Many fund management firms have shown an increased interest in countries such as China and India as they offer huge potential for growth.

The UK had the world’s highest ratio of conventional funds to GDP in 2016 (262%), followed by the US (250%) and Canada (211%) (Figure 13). If all assets are taken into account, the UK fund management sector’s ratio was 308% in 2016.

Pension funds
Global pension assets totalled $36.4trn at the end of 2016, according to TheCityUK estimates. The US remains the largest single market with $22.5trn in pension assets, equivalent to 61.7% of the world total. The UK was the second largest centre with 7.9% of the world total, followed by Japan (7.7%), Australia (4.3%), Canada (4.3%) and the Netherlands (3.6%). The large volume of pension assets in the US is mainly a reflection of its large domestic market.

The UK pension system, with funds equivalent to 109% of GDP in 2016, is among the largest in Europe. Countries which have seen large increases in pension fund assets over the past decade include Hong Kong (7.8% on 10-year compound annual growth rate basis), Australia (6.9%) and Chile (6.8%). Five-year compound annual growth rates in China and South Korea were 20.3% and 12.6% respectively over the past five years.

Pension assets allocated to real estate and other alternatives have increased from 4% to 24% of the total over the past two decades while traditional asset allocations (bonds, equities and cash) have decreased over the same period. The US, Australia and the UK invest more in equities in terms of proportion of asset allocations than other major countries. Japan and the Netherlands prefer exposure to bond markets.

The markets with a bigger proportion of DC assets relative to DB in 2016 were Australia with 87% and the US with 60.1%. Japan, Canada and the Netherlands had only 4.2%, 4.6% and 5.8% respectively of DC assets at the end of 2016 (Figure 12). During the last 10 years, DC assets have grown at a rate of 5.6% per annum while DB assets have grown at a slower pace of 2.6% per annum.

Figure 13: Conventional funds, assets under management, 2016, % of GDP


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37 Ibid.
38 Ibid.
39 Ibid.
UK Fund Management

The CityUK estimates that insurance companies held around $24trn of funds under management at the end of 2015. Eighty-five percent of the total was from long-term insurance policies and the remainder from general policies, such as health and property and casualty insurance. The US has the largest insurance sector in the world, with $5.2trn assets under management. UK insurance companies’ funds under management totalled over $2.5trn, higher than in any other European country.40

The largest part of the global insurance sector, life insurers, allocate their very sizeable assets in government and corporate bond markets, and life insurers in the UK and Japan have more equities in their portfolios. In recent years insurers have been increasing their investments in non-traditional asset classes, such as investment banking, direct lending and funds of funds.

Mutual funds

These assets under management were $40.6trn at the end of 2016, (excluding funds of funds). The latest available data show that the industry experienced three strong quarters in 2017, with worldwide mutual funds’ assets increasing by 6%, 4.7% and 5.3% quarter-on-quarter in the first three quarters of that year.41

At the end of the third quarter of 2017, 43.5% of worldwide regulated open-end fund assets were held in equity funds. The share of bond funds was 21.5% and the asset share of balanced/mixed funds was 13.1%. The remainder included guaranteed, real estate and money market funds. Most of these funds are managed in only a few countries. The US was by far the biggest source of funds with nearly a half of the world total.42 Other important centres for mutual funds include Luxembourg, Ireland, Germany, France, Australia and Japan. UK mutual funds managed some $1.5trn, representing 3.7% of the global total in the end of 2016. Regional totals show the Americas in the lead with 52% of the global total, followed by Europe (34.8%) and Africa/Asia-Pacific (12.8%).43

Figure 14: Worldwide mutual funds’ assets under management

Source: Investment Company Institute

<table>
<thead>
<tr>
<th>Year</th>
<th>Total regulated open-ended assets</th>
<th>Funds of funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 Q1</td>
<td>38.9</td>
<td>2.9</td>
</tr>
<tr>
<td>2016 Q2</td>
<td>39.2</td>
<td>3.0</td>
</tr>
<tr>
<td>2016 Q3</td>
<td>41.0</td>
<td>3.1</td>
</tr>
<tr>
<td>2016 Q4</td>
<td>40.6</td>
<td>3.2</td>
</tr>
<tr>
<td>2017 Q1</td>
<td>40.0</td>
<td>3.4</td>
</tr>
<tr>
<td>2017 Q2</td>
<td>45.0</td>
<td>3.5</td>
</tr>
<tr>
<td>2017 Q3</td>
<td>47.4</td>
<td>3.7</td>
</tr>
</tbody>
</table>

40 Ibid.
41 Ibid.
Alternative funds

Alternative funds totalled $17.3trn at the end of 2016. They consist of hedge funds, private equity funds, exchange traded funds and sovereign wealth funds.

Hedge funds’ assets under management totalled a record $3trn at the end of 2016, well above the pre-crisis peak in 2007 (Figure 15). Industry assets increased by 8% during the year, due both to healthy returns and investor inflows.44

At the end of the third quarter of 2017, the top three strategies hedge funds applied in terms of assets under management were fixed income, equity long bias and multi-strategy, accounting for 18.3%, 10.8% and 10.8% respectively. Assets of equity long-only funds experienced the fastest increase since the market turmoil in 2008, with total growth of 3.6 times since then. Growth of equity long-only strategy is followed by fixed income (3.2 times) and equity long bias (2.1 times) over the same period. Assets under management for convertible arbitrage (-18.2%) and event-driven funds (-9.7%) decreased between 2008 and the third quarter of 2017 (Figure 16).45

The UK retains the structural advantages which make it an attractive location for hedge funds, including local expertise, proximity of clients, deep and liquid markets and a strong asset management industry. London is the second largest global centre for hedge funds managers, after New York. It is also a leading centre for hedge fund services providers such as administration, prime brokerage, custody and auditing.

Figure 15: Global hedge funds assets

Source: Barclay Hedge

$bn

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<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets Under Management, $bn</td>
<td>118</td>
<td>143</td>
<td>189</td>
<td>237</td>
<td>322</td>
<td>505</td>
<td>826</td>
<td>1,229</td>
<td>1,361</td>
<td>1,713</td>
<td>2,137</td>
<td>2,508</td>
<td>3,020</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Figure 16: Global hedge funds strategy breakdown

Source: Barclay Hedge

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Assets under management, Q3 2017, %</th>
<th>Total growth, Q3 2008-2017, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convertible arbitrage</td>
<td>0.7</td>
<td>-18.2</td>
</tr>
<tr>
<td>Distressed securities</td>
<td>3.1</td>
<td>2.5</td>
</tr>
<tr>
<td>Emerging markets</td>
<td>9.4</td>
<td>95.3</td>
</tr>
<tr>
<td>Equity long bias</td>
<td>10.8</td>
<td>208.8</td>
</tr>
<tr>
<td>Equity long/short</td>
<td>7.8</td>
<td>42.2</td>
</tr>
<tr>
<td>Equity long-only</td>
<td>5.6</td>
<td>360.4</td>
</tr>
<tr>
<td>Equity market neutral</td>
<td>2.9</td>
<td>201.2</td>
</tr>
<tr>
<td>Event driven</td>
<td>5.1</td>
<td>-9.7</td>
</tr>
<tr>
<td>Fixed income</td>
<td>18.3</td>
<td>324.2</td>
</tr>
<tr>
<td>Macro</td>
<td>7.2</td>
<td>188.0</td>
</tr>
<tr>
<td>Merger arbitrage</td>
<td>2.4</td>
<td>127.9</td>
</tr>
<tr>
<td>Multi-strategy</td>
<td>10.8</td>
<td>66.1</td>
</tr>
<tr>
<td>Other</td>
<td>10.9</td>
<td>-</td>
</tr>
<tr>
<td>Sector specific</td>
<td>4.9</td>
<td>99.9</td>
</tr>
</tbody>
</table>

45 Ibid.
Private equity funds

The private equity industry has seen a strong recovery since the market turmoil in the late 2000s, becoming an integral part of institutional investors’ portfolios. Funds raised by private equity funds totalled $453bn with 921 funds closed in 2017 (Figure 17). Private equity funds under management increased 9.6% between the end of 2016 and June 2017, reaching a record of $2.8trn under management at the end of June 2017.46

Aggregate deal value for global venture capital reached a record high of $182bn in 2017 while the number of deals completed was at a four-year low of 11,145, making deal value per transaction the highest over the past decade in that year (Figure 18). Regionally, venture capital deal flow has shifted from North America to Greater China over the past decade. The market share of deals completed in North America was only 39% in 2017, compared with an average of 58% over the period from 2007 to 2016. The figure in Greater China reached 24% in 2017, well above its 2007-16 average of 11%.47

London is the largest European centre for the management of private equity investments and funds. The UK private equity market is the most developed outside the US. Many factors contribute to the UK’s attractiveness, such as: the availability of funds to invest; opportunities to make investments; people with the necessary skills to source, negotiate, structure and manage investments; and the availability of exit opportunities given the large and liquid equity market.

47 Ibid.
**Figure 18:** Global venture capital deals completed

*Source: Preqin*

**Figure 19:** Ten largest Sovereign Wealth Funds as of January 2018

*Source: Sovereign Wealth Fund Institute*
The prominence of SWFs is a clear example of the rising, and increasingly real, influence that emerging markets have on the global economy.

Nine of the ten largest SWFs in the world are from emerging markets (Figure 19). Assets under management in oil and gas related SWFs accounted for 56.2% of total SWFs assets in June 2017 (Figure 21).48

Funds under management of SWFs increased by 19% to $7.4trn in 2016, compared with the figure five years ago (Figure 20). This was due to growth in existing SWFs’ assets as well as the launch of new funds. Although the size of global SWFs decreased slightly during the period 2015-2016, the first six months of 2017 saw a marginal recovery in assets under management. Assets of SWFs are now larger than those of the hedge fund and private equity industry combined.49

The UK is still an important centre for SWFs as a clearing house and location from which many of these funds are managed. Its strong position stems from the structural strengths associated with the cluster of financial and related professional services, broad skills base, open market and pivotal international position of English law.

In 2016, there were $2.9bn SWF investment inflows into the UK, behind the US ($14.9bn), Singapore ($4.9bn), Australia ($3.9bn) and China ($3.8bn) (Figure 22).50

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49 Ibid.
Exchange traded funds (ETFs)/Exchange traded products (ETPs)

ETF/ETP industry assets recorded faster growth than the wider fund management industry over the past decade, reaching $4.3tn at the end of the third quarter of 2017. While growth of the industry is strong across all regions, the US continues to dominate this market, accounting for around three quarters of assets under management of global ETFs. Institutional investors have been behind most of the increase in ETF industry assets since the first fund was launched in 1993 in the US and in 2000 in Europe, but retail investors are becoming more active.51

Figure 22: Target country of global Sovereign Wealth Fund investments

Figure 23: High Net Worth Individuals (HNWI),* population and wealth
Source: Capgemini World Wealth Report
* HNWI defined as having investible assets of US$1m or more, excluding primary residence, collectibles, consumables and consumer durables

Private wealth funds

According to the Capgemini ‘World Wealth Report’, High Net Worth Individuals’ (HNWI) wealth grew by 8.2% to reach a high of $63.5trn in 2016. This growth rate was faster than the 2010-15 annual average growth rate of 6.5%. The number of HNWI grew for the seventh consecutive year to 16.5m (Figure 23). Ultra HNWI, who only make up 1% of all HNWI, accounted for around 35% of the wealth in 2016. The US, Japan, Germany and China account for more than 60% of the global HNWI population (Figure 24).52

Asia-Pacific overtook North America in 2015 and became the region with the largest HNWI population. In 2016, there were 5.5m HNWI in Asia-Pacific, followed by North America (5.2m) and Europe (4.5m). Asia-Pacific is expected to retain and extend its leadership position in the coming years. At the country level, Russia was the fastest growing market in 2016, having seen a 20% increase in the number of HNWI. The Netherlands also experienced strong growth, with the number of HNWI in the country growing by 14% during the year.53

Wealthy investors provide substantial opportunities for a wide range of service providers based in the UK. London’s and the UK’s reputation as an international centre for wealth management is built on a number of factors, including the UK’s jurisdictional conditions; the range of financial services; the availability of professional advice; specialist expertise in investments tailored to regional or cultural markets and an international client base that is resident in London.

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53 Ibid.
CONCLUSION

By connecting investors and yield-returning assets, fund management is a crucial part of the financial services ecosystem, providing a service that meets the needs of individuals, businesses and governments. The sector is diverse, comprising both conventional funds—pension, mutual and insurance funds—and alternative funds, comprised of sovereign wealth, private equity, exchange traded and hedge funds.

Given its position as one of the world’s leading fund management centres, as well as supportive government policy, the UK is well-positioned to potentially continue to develop its global leadership as the sector evolves. However, medium-term competitive challenges abound: the UK’s main rival as truly global fund management centre is the US, but other geographies, such as Hong Kong and Singapore, are also developing their capabilities as an emerging centres for fund management. The UK-based sector, backed by a strong partnership with the government and regulators, must continue to adapt and innovate amidst sector-specific and broader external change to ensure it remains as globally competitive as possible.
SOURCES OF INFORMATION

Association of British Insurers
Barclay Hedge
Canadian Life and Health Insurance Association
Capgemini
Citywire
General Insurance Association of Japan
Gov.UK
Insurance Bureau of Canada
Insurance Europe
Insurance Information Institute
International Monetary Fund
Investment Association
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