THE INVESTMENT ASSOCIATION

A POCKET GUIDE TO INVESTMENT MANAGEMENT

Investment management in the UK, 2020-21

September 2021

ABOUT THE IA

The Investment Association (IA) is the trade body that represents UK investment managers, whose 270 members collectively manage over £9.4 trillion on behalf of clients.

Our purpose is to ensure investment managers are in the best possible position to:

- **Build people's resilience to financial adversity**
- **Help people achieve their financial aspirations**
- **Enable people to maintain a decent standard of living as they grow older**
- **Contribute to economic growth through the efficient allocation of capital**

Our members help to grow people's savings in a wide range of ways, including through authorised investment funds (schemes where several investors 'pool' their assets and invest in a professionally managed portfolio), pension funds, and stocks & shares ISAs.

The UK is the second largest investment management centre in the world and manages over a third (37%) of all investments across Europe. IA members hold in total nearly 40% of the value of UK publicly listed companies. We use this collective voice to influence company behaviour and hold businesses to account.

More information can be found at
www.theia.org

INVESTMENT MANAGEMENT TODAY

Investment management is in the lifeblood of the UK economy. As this report shows, it is an industry which looks after money for three quarters of UK households, manages £9.4 trillion for savers in this country and worldwide, and which puts that money to work across the globe.

It is an industry which is needed more than ever right now. It is needed to repower businesses and other projects which have been hit during the pandemic and to shore up household finances for whatever the future may hold.

It is a necessary part of the UK's wider economic future, too. As one of the largest and most international investment centres in the world, the industry is a vital source of skilled jobs and export earnings for communities up and down the country. As we build new trading links with countries across Europe and beyond, this industry will be a cornerstone of the UK's place in the world.

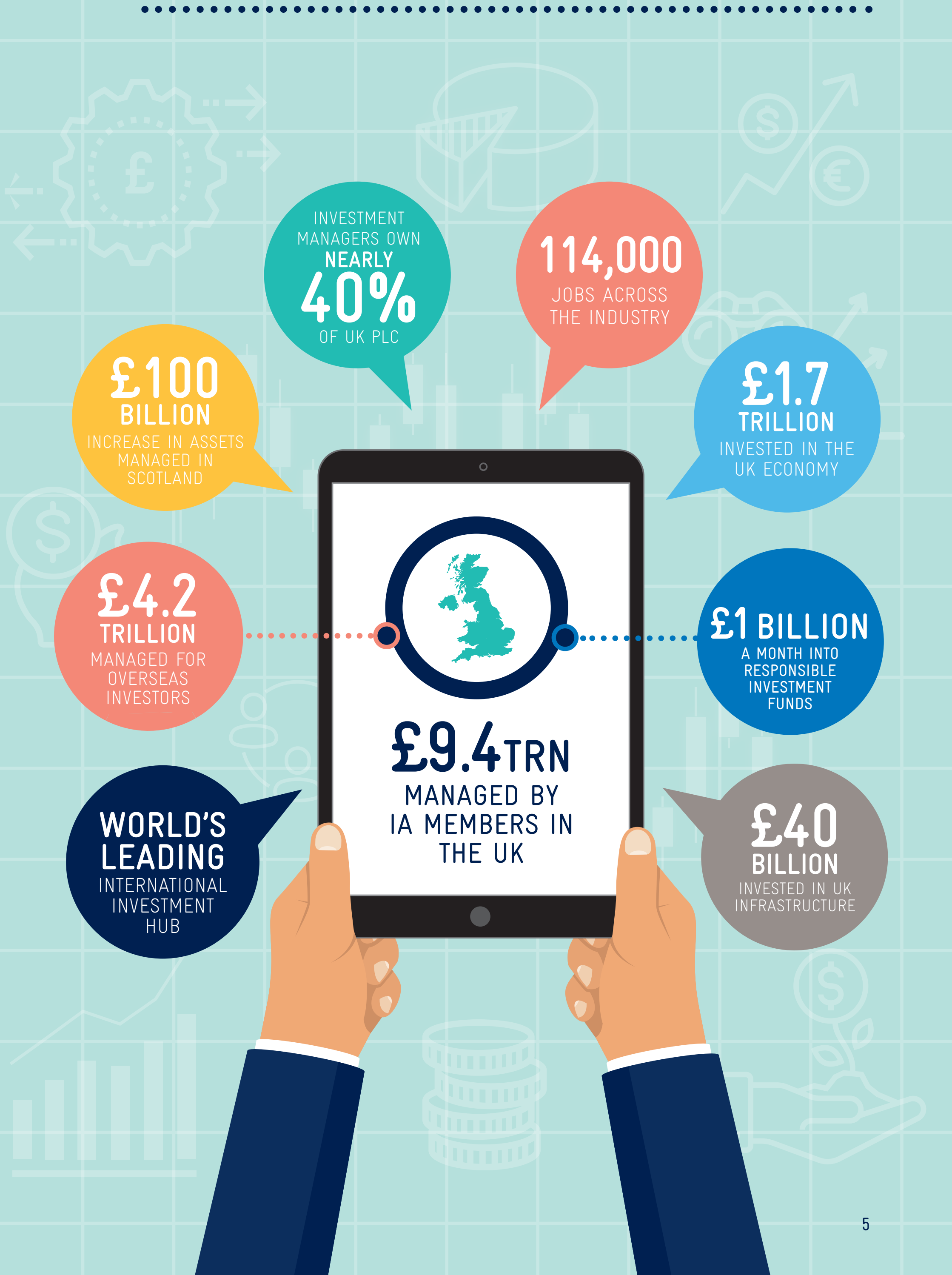
AS THE PREEMINENT INTERNATIONAL INVESTMENT CENTER, THE INDUSTRY IS A VITAL SOURCE OF SKILLED JOBS AND EXPORT EARNINGS

UK RETAIL SAVERS PUT ALMOST **£1 BILLION A MONTH** ON AVERAGE INTO RESPONSIBLE INVESTMENT FUNDS DURING 2020

And perhaps most importantly, investment management is a central part of the greener economy. Investment managers' long-term view means that they focus on threats like climate change, one of the single biggest systemic risks facing society and the planet today. Last year in particular saw a very significant increase in savers wanting to invest in a sustainable and responsible way, perhaps because of the increasing urgency of the climate debate and because the pandemic has focused attention on the wider impacts of business decisions.

I hope you find this pocket guide a useful snapshot of the role of investment management today. Much more detailed insight and information about the roles of the industry can be found in our new 2020/21 Investment Management Survey, at **www.theia.org**

Chris Cummings
CEO, The Investment Association


INVESTMENT MANAGERS OWN NEARLY 40% OF UK PLC
114,000 JOBS ACROSS THE INDUSTRY
£100 BILLION INCREASE IN ASSETS MANAGED IN SCOTLAND
£1.7 TRILLION INVESTED IN THE UK ECONOMY
£4.2 TRILLION MANAGED FOR OVERSEAS INVESTORS
£1 BILLION A MONTH INTO RESPONSIBLE INVESTMENT FUNDS
£9.4TRN MANAGED BY IA MEMBERS IN THE UK
WORLD'S LEADING INTERNATIONAL INVESTMENT HUB
£40 BILLION INVESTED IN UK INFRASTRUCTURE

PART ONE:
LOOKING AFTER OTHER PEOPLE'S MONEY

The investment management industry has a central role in the economy, channelling savings into long-term investments in order to deliver returns for a wide range of clients, from individual savers in the retail market to large institutions such as pension schemes.

Services to clients involve providing significant expertise in risk management and giving access to a range of assets that would normally be out of reach for individual investors. The ultimate goal is to provide clients with a basket of shares, bonds and other assets such as property and infrastructure, which can deliver returns over many years without exposing them to undue risk.

The industry's role goes beyond the actual investment in different asset classes. Investment managers help to ensure that capital markets work effectively for this investment to take place. In doing so, investment

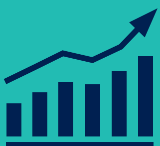
Segregated mandate
Some clients (usually large institutional clients) instruct investment managers to invest their money using bespoke investment strategies. Over half (53%) of the money managed by investment managers is in segregated mandates.

Pooled investments
Some clients pool their money with other clients in funds which spread risk and create economies of scale. Just under half (47%) of the money managed by investment managers is pooled.

Active strategies
'Active' management means that the investment manager is tracking the performance of their clients' investment portfolio and making regular adjustments to the assets within it in order to get better investment returns.

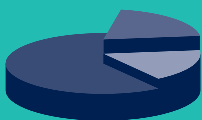
managers' activity contribute to efficient markets which price information correctly and allow buyers and sellers to transact. This facilitates both primary issuance when companies or governments are trying to raise money, and secondary trading of different instruments. Without efficient markets, market economies cannot grow effectively or may even destabilise.

Investment managers are not unique in this. Other financial institutions and individuals contribute to capital market efficiency, but the industry has historically been at the heart of long-term capital allocation, whether through shares, bonds or other assets. As long term holders of investments, UK investment managers hold UK equities over many years. The industry therefore has an important responsibility



Index strategies

'Index' management is where the investment manager holds all of the equities or bonds that make up a particular index, like the FTSE100, in the same proportions. The returns will be similar to the overall performance of the chosen index.



Equities

Equity, often referred to as stocks and shares, is the ownership stake a shareholder holds in a company. If a company wants to raise capital, it can issue equity by listing the shares on markets such as the London Stock Exchange.

Fixed income

Fixed income refers typically to bonds, which are investments that pay interest. Governments and companies issue bonds when they need to borrow money from investors. The money is returned to the investor after a specified period of time.

to undertake stewardship activity over the companies they invest in to protect the value for their clients. Increasingly, this stewardship activity is focusing on wider issues, notably environmental sustainability in the context of accelerating climate change.

IA members managed £9.4 trillion of client money in the UK at the end of 2020, up 11% on the previous year.

Most money looked after by investment managers is invested for institutional clients: nearly four out of every five pounds (79%) is managed for institutions including charities, local government, pension funds and insurance companies. Pension funds are the largest of the institutional clients with two out of those four pounds (43% of all assets under management) belonging to pension savers. The remaining one in five pounds (20%) is managed for individual retail clients.

Investment management is particularly important for people looking to build their pensions and ensure that they are financially secure in later life. Since the introduction of auto-enrolment in workplace pensions in 2012,

IVIS

The IA's Institutional Voting Information Service (IVIS) is a corporate governance research service which analyses FTSE All Share and FTSE Fledging companies against the IA's investee company guidelines, the UK Corporate Governance Code and best practice. IVIS does not provide voting recommendations, instead highlighting issues or concerns through the colour coding system, to allow subscribers to make informed voting decisions.

THE PUBLIC REGISTER

The IA's Public Register, is the world's first register tracking shareholder dissent at listed companies. The Register details companies in the FTSE All Share that have received significant opposition (20%) by shareholders to a resolution at the Company's AGM, or any resolution withdrawn before a shareholder vote. In doing so, it helps to identify which companies are acknowledging shareholder dissent and how they are addressing their shareholders' concerns.

pension participation has increased across all age groups. The Pension Freedoms introduced in 2015 give people more choice about what to do with their money, often meaning that they leave it invested for longer, giving it the chance to grow further.

This money is managed using active or index strategies, which aim to track the returns of an index such as the FTSE All Share, or a combination of the two. Active management remains the most common approach with nearly three quarters (72%) of institutional client assets and 82% of retail client assets being managed by IA members on an active basis.

Over the last decade we have also seen a growth in the use of index strategies with indexing accounting for nearly a third of total assets under management compared to one fifth (21%) a decade ago. This trend has slowed since the start of the pandemic.

Equities are the most widely held asset, with nearly two fifths (39%) of investments made in equities. Fixed income assets are the next most popular source for investment with nearly one third (32%) invested in this asset.

IA MEMBERS MANAGED

£9.4 TRILLION

OF CLIENT MONEY IN THE UK AT THE END OF 2020

PART TWO:
POWERING THE ECONOMY

The investment management industry plays a pivotal role at the heart of the UK economy, looking after money belonging to savers in the UK and around the world and investing it in businesses and infrastructure.

In total, IA members have invested over £1.7 trillion in the UK economy through shares, bonds, property and infrastructure. This figure has held steady throughout the pandemic, underlining the importance of the investment management industry's role in supporting the UK economy through difficult times.

Investment managers provide patient capital and take a long-term view because they are managing money for people who may not need to see the fruit of the returns on their investments for many years, or even decades, from now.

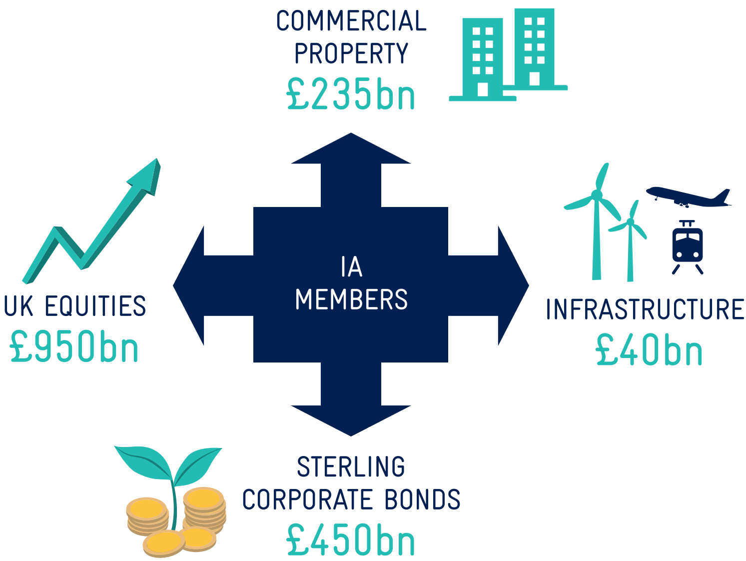
The most significant part of this investment in the UK economy comes through equities (£950 billion this year), providing the vital finance that businesses need to grow. In total, the shares held by British investment managers make up 39% of the value of UK PLC. £450 billion is also invested in company debt (sterling corporate bonds).

INVESTMENT MANAGERS WERE CENTRAL IN CHANNELLING OVER

£22 BILLION

TO HELP BUSINESSES TO RIDE OUT THE STORM AND TO RESHAPE THEMSELVES FOR THE NEW WORLD

IA MEMBER HOLDINGS IN UK ASSET CLASSES



This long-term support has been particularly important to British businesses during the pandemic, when companies across the economy have needed fresh capital to weather the storm and to reshape their activity for the new world. In the six months after the UK's initial lockdown in March 2020, investment managers were central in channelling over £22 billion to help businesses to ride out the storm and to reshape themselves for the new world.

Investment management activity has historically focused on more traditional asset classes such as shares in listed companies and bonds but there is an increasing use of 'private markets'. Private markets are investments made in assets not otherwise traded on a public exchange or stock market. These encompass a range of investable opportunities such as directly lending to companies, and investing in infrastructure.

Over the past decade, growth in private markets has been a highly significant feature of international capital markets, with assets almost doubling globally in the five years since 2015 from $4.2 to $8.0 trillion.

Demand for private market investments is being driven by investors searching for opportunities to further diversify investment portfolios with a view to achieving both solid, long-term returns and yield in a low interest rate environment. Private markets have long presented an attractive source of investment opportunity for pension schemes and other institutional customers.

Private markets assets tend to be very much less liquid than their public market counterparts, which has historically restricted access for a broader group of investors. The IA is working with government and the regulators to consider how to widen access. In particular, the proposal for a Long Term Asset Fund (LTAF) has been developed by the IA, working with other stakeholders and government, to give investors more choice in how they put money into assets such as infrastructure.

Private markets have also been pushed to the fore because the decreasing number of companies being publicly listed is leading investors to search for other opportunities.

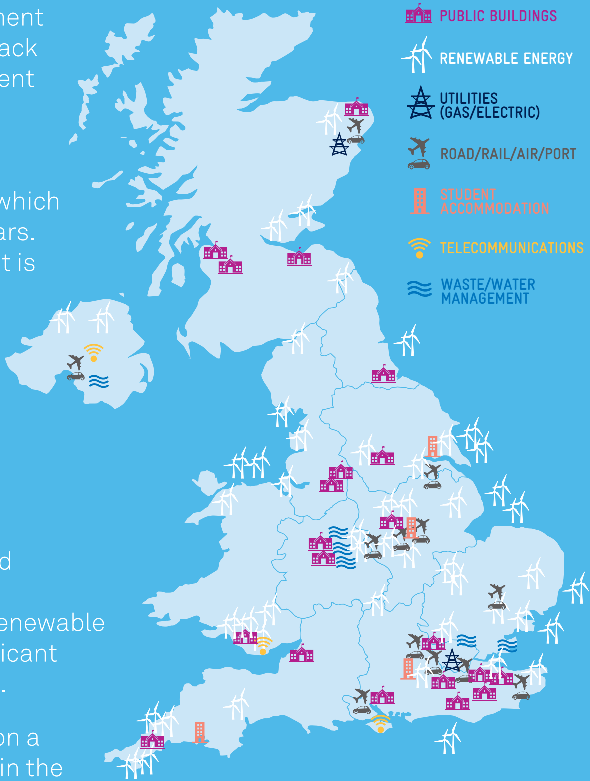
A strong pipeline of listed companies is vital to the UK: it means that companies have a mechanism to find the funds they need to grow; spreads wealth by giving people around the country the opportunity to invest in successful businesses; and cements the UK's place as a leading financial centre.

As the needs of companies looking to list changes, we need to consider whether the UK's listings regime should adapt. The IA supports the government's work in this area (through Lord Hill's listing review) to attract a diverse range of high-quality, innovative companies from high growth sectors to list and operate in the UK. In particular it will be important to ensure the UK is the leading global hub for sustainable investment so that those companies that list here deliver outstanding long-term returns for savers and investors.

Investing in infrastructure

One of the ways in which investment managers can help us to Build Back Better to this is through investment in infrastructure projects. In 2020, UK investment managers held an estimated £40 billion in infrastructure projects, a figure which is up £5 billion in the last two years. Three quarters of this investment is in economic infrastructure such as energy, transport and environmental projects. The remaining quarter is invested in projects which provide a social benefit, such as schools, hospitals or social housing.

This map shows the types of infrastructure projects facilitated by IA members on behalf of their clients, spanning the UK. Renewable energy projects make up a significant proportion of these programmes.



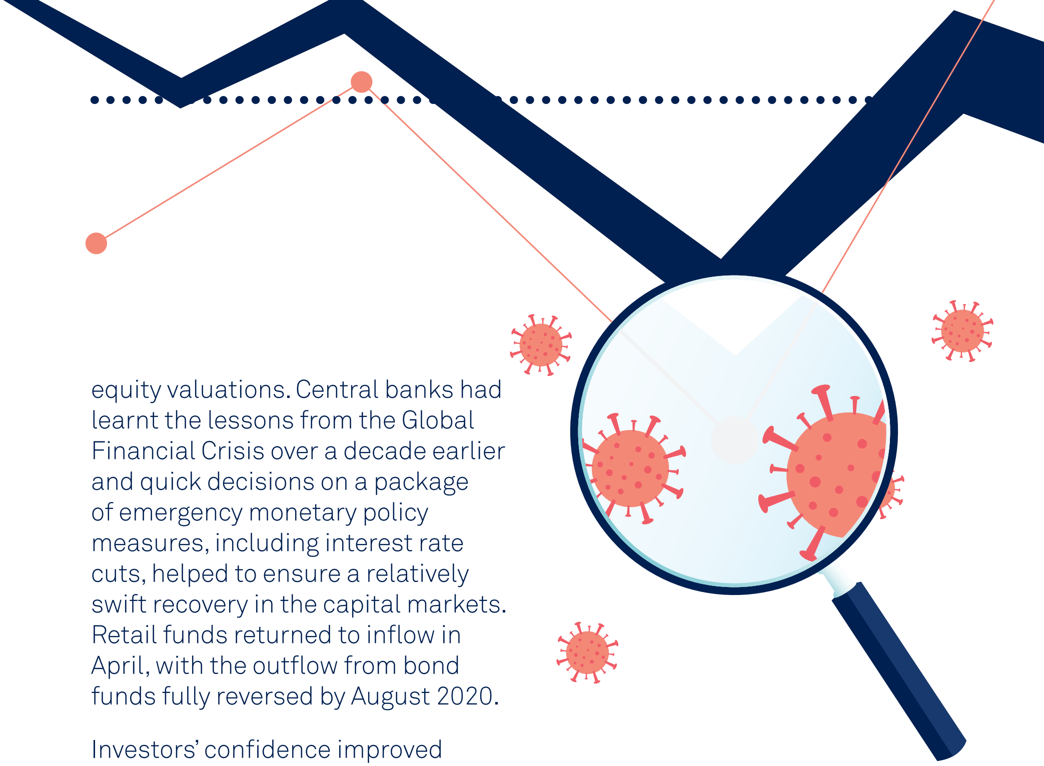
Not every project can be shown on a map: every city, town and village in the country benefits from investment in projects such as waste and water services, broadband upgrades, and transport networks.

PART THREE:
NAVIGATING THE PANDEMIC

2020 saw the economy challenged like in no other year. The pandemic itself fundamentally altered the way that we live, work and spend, as lockdowns shut shops and saw many of us work from home. The enormous changes also started to affect the ways that some people considered their financial futures.

Though most markets recovered by the end of the year – even reaching record highs – equity markets suffered one of the sharpest declines on record as lockdowns began. The acceleration of the spread of the virus and the corresponding containment measures caused a 'dash for cash' in March as investors sold off assets across asset classes in order to build up their liquid reserves. Bond yields rose sharply and large-scale redemption requests from Money Market Funds (MMFs) caused severe strains in the commercial paper market.

In the UK, retail investors pulled a record £9.7 billion from funds in March, just £200 million less than total net retail sales in 2019. Three quarters of the March outflow was from bond funds, traditionally seen as a safe asset class. As equity valuations plummeted, balanced investment portfolios of stocks and bonds were pushed significantly out of alignment making them overweight in bonds. Retail investors needing cash were also loath to sell equities at rock bottom valuations, so they sold out of bonds. The substantial intervention from central banks around the world was critical in restoring stability to global markets. The massive scale of quantitative easing (QE), in essence large-scale bond buying programmes, helped to drive greater liquidity and improve price stability in the bond markets and to stabilise



equity valuations. Central banks had learnt the lessons from the Global Financial Crisis over a decade earlier and quick decisions on a package of emergency monetary policy measures, including interest rate cuts, helped to ensure a relatively swift recovery in the capital markets. Retail funds returned to inflow in April, with the outflow from bond funds fully reversed by August 2020.

Investors' confidence improved through 2020. In November, Pfizer BioNTech announced the results of its successful vaccine trial, which offered hope that the virus could be contained, and economic restrictions eased. Inflows from retail investors into funds reached a monthly record of £8.3 billion in November as markets surged. The November inflow helped to push retail fund inflows in 2020 to £30.8 billion, which is the second highest total ever recorded, and demonstrates the speed and the strength of the recovery in investor confidence. Overall global stock markets ended 2020 up 11%.

As well as affecting markets, the pandemic changed the way that many people think about and plan for their financial futures. Although many people saw their incomes hit hard during 2020, others were able to save more as lockdowns curtailed spending such as on commutes and leisure. Bank of England figures show that cash deposits from UK households were £101 billion in 2020, an increase of 82% on 2019.

This has given many people the scope to consider investing for the first time – interest rates also remain at record lows, making cash saving less attractive. For some, especially those who find that they have more time available during lockdowns, this has also meant considering alternative routes to investing through day trading or cryptocurrencies introducing them to concepts that are fundamental to investing, such as risk and reward, for the first time. This could help to sow the seeds of a new generation of investors.

PART FOUR:
A SUSTAINABLE FUTURE

Investment managers' long-term view means that they focus on threats like climate change which have the potential to undermine our economy.

Climate change is one of the single biggest systemic risks facing society and the planet today. If this is not addressed it will fundamentally undermine the basis on which our economy, businesses and jobs are founded. For the sake of the ordinary savers and pension funds we serve, we must change course now to protect the value of their long-term investments.

But this isn't just a story about managing risk. As long-term investors there is significant economic opportunity to be found in the new industries and technologies that are emerging to tackle climate change and to adapt to its impacts.

The investment management industry will play a vital role in financing the transition to a cleaner and more sustainable economy. To do this, investment managers are helping the companies they invest in to become more transparent about their impact on the environment and supporting businesses and government to create investable schemes that support low carbon growth.

2020 in particular has seen a very significant increase in savers wanting to invest in a sustainable and responsible way, perhaps because of the increasing urgency of the climate debate and because the pandemic has focused attention on the wider impacts of business decisions.

UK retail savers put almost £1 billion a month on average into responsible investment funds during 2020, showing how important investing with environmental, social and governance (ESG) considerations in mind has become.

Nearly half (49%) of all industry assets are now managed according to 'ESG integration' criteria, which involved the systematic and explicit inclusion of environmental, social and governance factors into investment analysis and investment decisions. This figure has risen from 37% in just a year.

The industry has its own role to play in this of course. In July 2021 the IA was announced as the first supporting partner to the Net Zero Asset Managers initiative (NZAM), an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 at the very latest. From a standing start in December 2020, IA member firms with AUM of more than £6.1 trillion (two-thirds of UK AUM) have now signed up to the NZAM.

We will be supporting government's work here, too. We strongly welcome the government's plan to issue a Green Gilt, as a signal of the importance they place on the UK as a home for green investment. The gilts must now be designed to meet both the government's funding needs and the needs of savers looking to invest for the future.

SUPPORTING FINTECH

The IA established a FinTech hub and accelerator, Engine, in 2018 to create the conditions in which UK FinTech can flourish.

Engine is boosting the investment management industry's adoption of new technologies and helping investment managers to identify new investment opportunities, work more efficiently and cut costs, ultimately benefiting our customers. In 2019 this was joined by Engine Birmingham to boost the West Midlands' burgeoning FinTech sector.

The pandemic has accelerated the conversation about the transformative role that technology will most likely play over the longer term, with 20% of the FinTech's currently taking part in the Engine programme exclusively focused on making responsible investment easier.

PART FIVE:
OUR UK FOOTPRINT

The UK investment management industry provides high-quality jobs, with around 114,000 people working across the industry.

The roles in the investment management industry are varied and while it is a great industry for people with STEM training, jobs in cutting edge areas like financial technology and responsible investment are suitable for people from a wide range of backgrounds.

The Investment Association provides outreach and career opportunities to those looking at investing in our future for their first jobs in the industry through a training programme called Investment20/20.

Since it was founded in 2013, Investment20/20 has supported over 2,000 trainees to start their careers in investment management, with three quarters of trainees going on to permanent jobs in the industry.

In 2020 the IA also became the only industry body in the UK to provide a gateway to the Kickstart Programme, aimed at supporting young people hit by the pandemic into successful careers, without taking any public money.

A SCOTTISH CENTRE OF EXCELLENCE

Financial services in Scotland enjoy a centuries-old heritage which developed alongside London's financial centre. Some of the UK's and the world's largest investment management businesses were established and are still headquartered in Scotland. Edinburgh in particular plays a key role in UK investment management.

£690 billion of assets are managed in Scotland, up £100 billion in the last year. Of UK-headquartered investment managers, over one fifth (21%) of assets are managed by firms with headquarters in Scotland.

Around 13,000 people work in investment management in Scotland. Most employment is in Edinburgh's world-class financial services hub, but high-quality jobs are spread across the nation.

PART SIX:
GLOBAL REACH

UK investment management is world leading. The £9.4 trillion in total that UK investment managers look after makes the UK the second largest investment centre in the world, following only the US in scale, and bigger than the next three centres in Europe (France, Germany and Switzerland) combined.

Over £4.2 trillion is managed in the UK on behalf of overseas savers, as of the end of 2020, equivalent to 44% of total assets.

The UK is one of the most international centres in the world, both in terms of the customers and businesses we serve and the assets that we invest in.

FOUR MEASURES OF A GLOBAL INDUSTRY

CUSTOMERS

44% of total assets managed in the UK are for overseas customers. Over half of those are in the rest of Europe.

MARKETS

74% 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

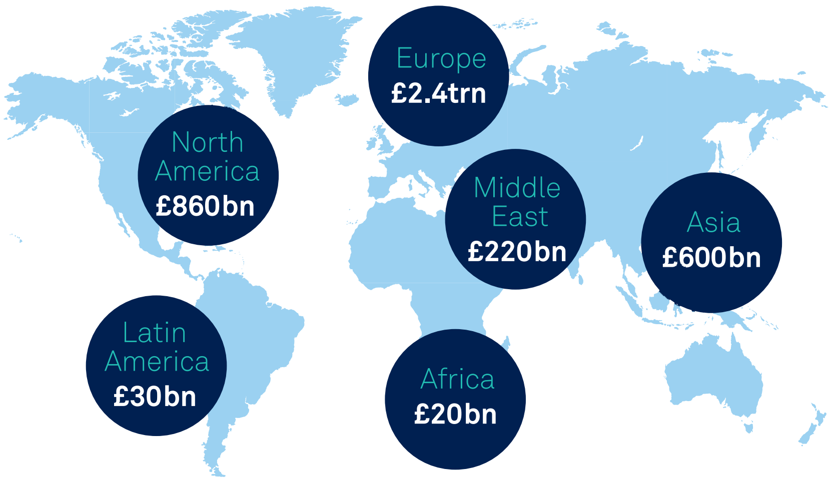
4.5% of total UK service exports from the investment management industry.

The UK has many natural advantages which have helped us to build this position, among them our legal system, time zone and the English language. But the right regulatory system, skills and outlook is what can transform this into true competitiveness.

The UK has immense international success to build on if we get this right. We already manage £2.4 trillion for clients elsewhere in Europe; £860 billion for North American clients; and £600 billion for clients in Asia.

This brings immense benefits to communities all across the UK. The scale and success of the industry contributes directly to the economy: the industry responsible for

ASSETS MANAGED FOR OVERSEAS CLIENTS



£6.3 billion of net exports in 2020, 4.5% of the total.

There are many indirect benefits, too. Having a world leading investment sector right here in the UK makes it easier for British savers to access the very best products and expertise. It also means that investment decisions are made close to the UK businesses and infrastructure projects which rely on the capital channelled into them by investment managers.

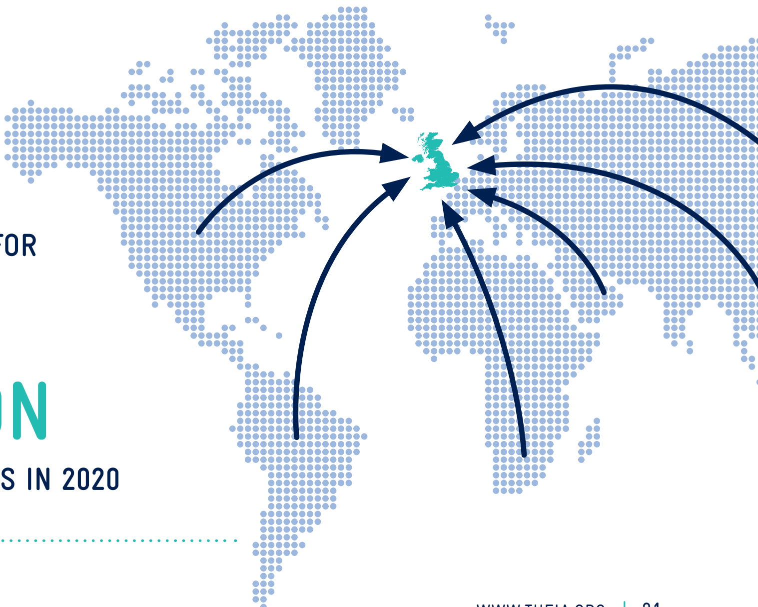
But this position is not automatic, and other leading centres (notably Shanghai, Hong Kong and Singapore) are beginning to challenge. If the UK does not stay innovative and welcoming to international business, this risks being lost.

Now is therefore the right time to cement the UK's position, making sure that we are more attractive not only than the traditional financial centres in Europe and North America, but also from newer locations which might be perceived as more dynamic: today we are competing globally not just against established markets.

THE INDUSTRY RESPONSIBLE FOR

£6.3 BILLION

OF NET EXPORTS IN 2020



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