TheCityUK

UK FUND MANAGEMENT

An attractive proposition for international funds

NOVEMBER 2015

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TheCityUK

TheCityUK champions the international competitiveness of the UK based financial and related professional services industry. Created in 2010, we support the whole of the sector, promoting UK based financial and related professional services at home and overseas and playing an active role in the regulatory, trade and wider public policy debate.

TheCityUK has a global export focus with a commitment to help UK based firms grow their business in other parts of the world. The financial and related professional services industry accounts for around 12% of UK GDP. Financial services employs over one million people, more than two-thirds of whom work outside London, and underpins the businesses that drive jobs and growth. Added together with nearly one million employed in professional services, it is easy to see the importance of a sector that employs 7% of the working population.

TheCityUK provides constructive advice and is the practitioner voice on trade policy and all aspects of taxation, regulation, and other legislative matters that affect the competitiveness of the sector. We conduct extensive research and run a national and international events programme to inform the debate. Our senior team regularly engages with regulators and policymakers at home and overseas, ensuring the sector's views are represented at the highest levels. We are focused on supporting policymakers and business to deliver the new policy ideas which will help deliver growth.

1 FOREWORD
from Chris Cummings, Chief Executive, TheCityUK

The UK fund management industry has developed into a diverse, sophisticated and international industry. 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 liberalised operating environment and a fair and predictable supervisory framework.

While London is central to the UK's strong international position, other cities such as Edinburgh, Glasgow, Aberdeen, Manchester, Liverpool, Cardiff and Birmingham are also important centres for fund management. Of the 57,000 people directly employed in the sector, around a third are based outside London. This is a sector which consistently generates a significant trade surplus for the UK economy.

Assets under management of the UK's fund management sector recovered quickly from the fall experienced at the outset of the economic downturn to reach a record £6.8 trillion in 2014. Of this, some £2.5 trillion was managed on behalf of foreign clients, making the UK the leading global centre on this measure.

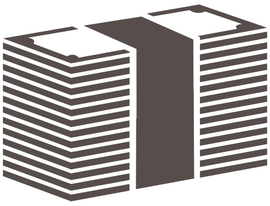
TheCityUK, the Investment Association (IA) and the Alternative Investment Management Association (AIMA) are working closely with industry and Government on making the UK as competitive as possible for fund management and domicile. The launch of the one-stop shop service for fund managers last year resulted in a healthy pipeline of around 50 companies interested in setting up an array of fund management activities in the UK. A new tax transparent fund has also been launched and the UK has been an active participant in a number of key events.

We welcome the relaunch of the Financial Services Trade and Investment Board (FSTIB) in 2015 and would like to see the fund management industry remain a priority area of focus for the new Government. We look forward to continuing our work with the Government, our members and the wider financial and related professional services industry to extend the promotion of the fund management sector overseas. This will be vital in promoting the UK as a place in which, and from which, to do business and to drive jobs and growth across the country.

Chris Cummings

ASSETS UNDER MANAGEMENT OF THE UK FUND MANAGEMENT INDUSTRY:

£6.8 TRILLION



57,000

PEOPLE EMPLOYED IN THE SECTOR

6.6%

OF GLOBAL FUNDS

THE UK IS THE SECOND LARGEST GLOBAL CENTRE FOR FUND MANAGEMENT.

40% OF THE LARGE AND MEDIUM SIZED ASSET MANAGEMENT FIRMS IN LONDON ARE OWNED BY OVERSEAS INVESTORS

40%

LONDON

HAS BEEN VOTED THE MOST ATTRACTIVE GLOBAL LOCATION FOR RELOCATING/EXPANDING ASSET MANAGEMENT OPERATIONS

SOURCE: THE BANKER MAGAZINE

£2.5 TRILLION

FUNDS MANAGED IN THE UK ON BEHALF OF FOREIGN CLIENTS.

2 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 9.7% in 2014 to a record £6.8 trillion, the sixth successive year of growth**. This was due both to an inflow in new funds and strong investment returns.
- TheCityUK estimates that **funds managed in the UK increased by between 4% and 5% in the first half of 2015 to around £7.1 trillion**, with the full year increase likely to reach over 9%.
- **London is central to the UK's strong international position** accounting for some 80% of UK based funds under management. Edinburgh and Glasgow have improved their position in recent years and jointly make up the next largest centre. Manchester and Liverpool, with their strong concentration of wealth management firms, are the UK's third largest cluster. Other cities such as Belfast, Birmingham, Cardiff and Leeds are also important centres.
- UK fund management organisations manage many **different types of funds, including life insurance, pension schemes, unit trusts and investment trusts**.
- Institutional clients (insurance funds, pension funds, local authority and charity funds) have become increasingly prominent and **accounted for around two-thirds of UK funds under management at the end of 2014**. Retail clients' assets accounted for £1.1 trillion, private clients £705bn and alternative funds (hedge funds, property funds and private equity funds) £700bn.
- **Fund management makes a significant contribution to the UK economy, generating around 1% of GDP and directly employing over 57,000 people**. Net exports from fund managers totalled some £5.2bn in 2014, helping to offset the UK's trade in goods 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**. More than a third of funds, or some £2.5 trillion, came from overseas clients.
- 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"**. TheCityUK, the Investment Association (IA) and the Alternative Investment Management Association (AIMA) are working closely with industry and Government to continue to deliver the strategy.
- **The strategy is focused on improving the UK's taxation regime, regulatory environment and marketing approach**. The launch in 2014 of the one-stop shop service for fund managers resulted in a pipeline of around 50 companies interested in setting up an array of fund management and related operations in the UK. This includes for example Nord Engine Asset Management and Harvest Global Investments, two large Chinese fund managers. A new tax transparent fund has also been launched and the UK has been an active participant in a number of key events.

£6.8 TRILLION

funds managed in the UK totalled £6.8 trillion at the end of 2014

- **Some 40% of the large and medium sized fund management firms in London are owned by overseas investors**. According to the Investment Association, 57% of assets managed in the UK are managed by asset managers with overseas parent organisations.
- **The UK is also an important location for fund domicile. Around 12% of European assets under management were domiciled in the UK at the end of 2014**. Luxembourg accounted for the largest share (27%), followed by Ireland (15%), France (14%) and Germany (14%). Funds domiciled in the UK increased by 18% during the year, above the 15% European average.

Global market for fund management

- **Assets of the global fund management industry grew by 7% in 2014 to a record $163 trillion**. Conventional funds totalled $109 trillion, alternative funds $17 trillion and private wealth funds $56 trillion. About a third of private wealth was however incorporated in other forms of fund management. Growth in US dollar terms was made significantly smaller by the US dollar appreciating during the year.
- Although some funds were exposed to instruments which suffered losses during the economic slowdown, **on the whole, the fund management industry has recovered quickly from the fall in assets under management at the outset of the economic crisis**.
- The UK is one of the most open markets in the world for fund management. Over the years it has become the second largest centre for fund management after the US, and continues to dominate the industry in Europe. **Funds managed in the UK are bigger than the combined total of funds managed in the next three largest European centres**.
- **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 external appointments with the easing of investment restrictions and diversification of international fund managers' portfolios.
- The 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 and the UK are well placed to benefit from this trend and further strengthen their position as an attractive location for international fund management**.

ADVANTAGES OF THE UK AS A FUND MANAGEMENT CENTRE

- A strong and responsive regulatory environment that is effective, fair and focused on the future.
- A demonstrated commitment by Government to the sector.
- A vibrant and supportive sector cluster in asset management & related professional services.
- Funds that are domiciled in the UK can take advantage of some 120 double taxation agreements, more than in any other country.
- A strategic geographical location on the doorstep of Europe and strong links to the Middle East and beyond.
- State of the art support services in front, middle and back office across the regional centres allowing cost efficiencies and access to a diverse talent pool.
- The UK remains one of the leading locations for asset management and is the top jurisdiction in Europe for funds under management, enjoying sustained growth.
- An innovative ecosystem that promotes innovation and product development, e.g. Islamic Finance, renminbi trading, etc.
- A deep talent pool that supports all aspects of the asset management value chain.
- A centre of excellence for a wider range of audiences and target clients, product & legal structures – institutional, retail, UCITS & AIFMD, hedge and alternative funds.
- The significant benefits of the UK as a global leading centre for financial services are supplemented by the UK's traditional sources of competitive advantage such as language, time zone and rule of law.

3 UK FUND MANAGEMENT

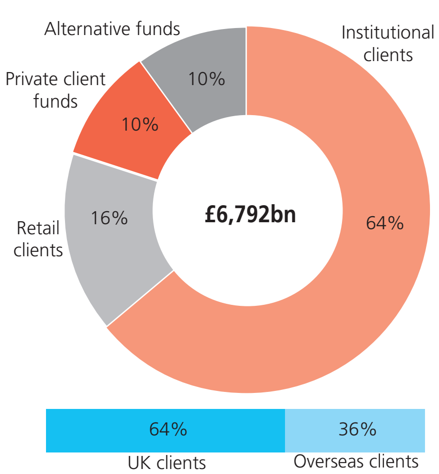
The fund management industry is an important part of the UK and global economy. Fund managers invest funds on behalf of institutions that are intermediaries between savers and users of capital. Their primary task is to invest the flow of cash from pension contributions, insurance premiums and personal 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 weight 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 two decades and is responsible for a vast volume of funds. Assets under management increased by 9.7% in 2014 to a record £6.8 trillion, the sixth successive year of growth (Figures 1 and 2). This was due both to an inflow in new funds and strong investment returns. Institutional clients accounted for around two-thirds of total funds under management, with the remainder accounted for by retail and private clients. About a third 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 1
FUNDS UNDER MANAGEMENT IN THE UK
% share of UK funds, end-2014



Source: Investment Association, TheCityUK estimates

£bn	2013	2014	% change
Managed by IA[1] member firms[2]	4,957	5,404	*9.0*
Institutional clients	3,958	4,341	*9.7*
- insurance companies	1,029	1,008	*-2.0*
- corporate pension funds	1,832	2,091	*14.1*
- other (local authorities, charities, etc.)	1,098	1,243	*13.2*
Retail clients	999	1,063	*6.4*
Other funds[3]	598	683	*14.2*
- Hedge funds	252	277	*9.9*
- Property funds	217	264	*21.7*
- Private equity funds	129	142	*10.1*
Private client funds	638	705	*10.5*
Total funds under management in the UK	6,193	6,792	*9.7*

[1] Investment Association; [2] Excluding private clients;
[3] Figures have been adjusted to take account of double-counting
Source: IA, ComPeer, Eurohedge, BVCA, IPD, TheCityUK estimates

TheCityUK estimates that funds managed in the UK increased by between 4% and 5% in the first half of 2015 to around £7.1 trillion, with the full year increase likely to reach over 9%. London is central to the UK's strong international position, but other cities such as Edinburgh, Glasgow, Aberdeen, Manchester, Liverpool, Cardiff and Birmingham 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.

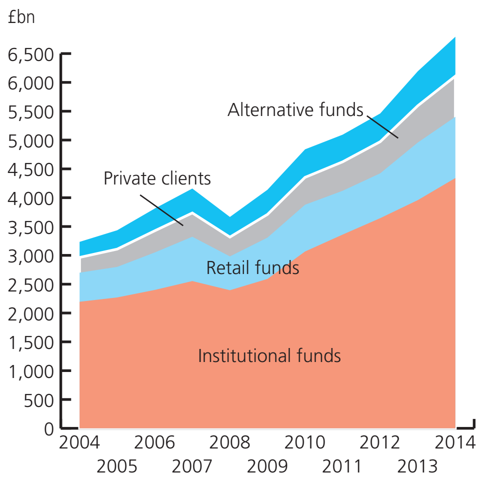
The international orientation of the UK's fund management industry is reflected in the presence of a broad range of UK and foreign-owned firms, in significant investment in overseas securities, and in the management of overseas clients' assets. Some 40% of the large and medium sized asset management firms in London are owned by overseas investors. According to the Investment Association, 57% of assets managed in the UK are managed by asset managers with overseas parent organisations, up from 39% a decade ago.

London and the UK as a financial gateway to Europe

The UK represents an ideal gateway to the European market which offers high value opportunity:

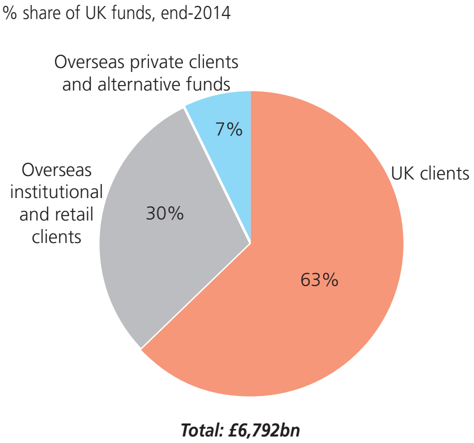
- Access to over 500 million potential investors.
- Second largest asset management industry in the world behind the US.
- More than £15 trillion of funds under management, of which more than third is managed in the UK.
- Passporting benefits: under EU rules, fund managers can register funds in one Member State and then freely market the fund across the whole of the EU.

FIGURE 2
GROWTH OF FUNDS UNDER MANAGEMENT IN THE UK



Source: TheCityUK estimates based on various sources

FIGURE 3
ASSETS MANAGED IN THE UK BY DOMICILE



Source: TheCityUK estimates based on Investment Association data

The global fund management industry is enjoying rapid growth as an emerging 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. Funds in the UK managed on behalf of overseas clients reached a record £2.5 trillion in 2014 (Figures 1 and 3). The UK is well positioned to capture a growing share of the global market in the coming years. In particular, Asian countries and other emerging markets are looking more at opportunities to invest via European products and domiciles.

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. According to *The Banker*, London is the most attractive financial centre for relocating and expanding asset management operations. Factors contributing to London's leading position include its business environment, human resources 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 is not taking the success of the UK fund management industry for granted, and is improving the country's attractiveness for foreign clients and firms with its 'Investment Management Strategy. The strategy has already set in train a number of actions that will help to retain the UK's competitive advantage and take advantage of opportunities presented by globalisation. The strategy announced action to further improve the UK's taxation regime, regulatory environment and marketing approach, and gives an explicit long-term commitment to the asset management sector. TheCityUK, Investment Association (IA) and Alternative Investment Management Association (AIMA) are working closely with industry and Government on delivery of the strategy.

For example, the launch of the one-stop shop service for fund managers in 2014 brought together all relevant service providers, from accountants and legal advisors to the regulator and Government, to offer a comprehensive package to new fund managers wishing to set up in the UK. This has resulted in a healthy pipeline of around 50 companies interested in setting up an array of fund management and related operations. A new tax transparent fund has also been launched and the UK has been an active participant in a number of key events.

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, together with the financial stability of a well-regulated G7 economy. The FCA ensures that the UK industry offers a level playing field with no preferential treatment for domestic firms or investors.

As part of efforts to make the UK a more attractive destination for fund management activities, the FCA committed to reducing fund authorisation times. From April 2014, the FCA introduced voluntary targets to reduce the time to authorisation for Non-UCITS retail schemes (NURS) and Qualified Investor Schemes (QIS) from 6 months to 3 months and 2 months respectively. In April 2015, these were further reduced to 2 months and 1 month respectively. Ultimately the time to authorisation depends on the complexity of the scheme and the quality of the application. Nevertheless, the FCA has made good progress towards

TheCityUK's work with Chinese asset managers

TheCityUK has been working to encourage more asset managers from China to do business through London. In 2014, TheCityUK held very productive talks in Beijing with the Asset Management Association of China (AMAC), the Insurance Asset Management Association (IMA) and some of China's largest asset management firms.

There has been strong interest from Chinese asset managers wanting to set up operations in the UK over the past year. Nord Engine Asset Management, a subsidiary of Chinese private equity firm Nord Engine Group, which has $3bn of funds under management, opened its first UK office in London in early 2015. Harvest Global Investments, a Chinese asset manager with $55bn under management, also received a license to operate in the UK in early 2015.

China Construction Bank International (CCBI), China's second largest bank, launched a landmark new fund on the London Stock Exchange in early 2015. The fund was launched in collaboration with HSBC and Commerzbank. This UK-domiciled Chinese money market ETF represents Europe's first exchange-traded fund to invest in China's money market instruments. This is done via the so-called Renminbi Qualified Foreign Institutional Investor Scheme, which was launched in 2011. This scheme allows foreign investors to get limited access to Chinese markets.

The UK was the first financial centre outside Asia to be awarded an RQFII quota for foreign investors to invest in Chinese assets. London and other cities in the UK have also secured their position as the second global hub for offshore trading of renminbi. Around 60% of all trades conducted in renminbi that take place outside of Greater China are made in the UK. According the Standard Chartered Renminbi Growth Index, London's share of the total global renminbi offshore market stands at 15%.

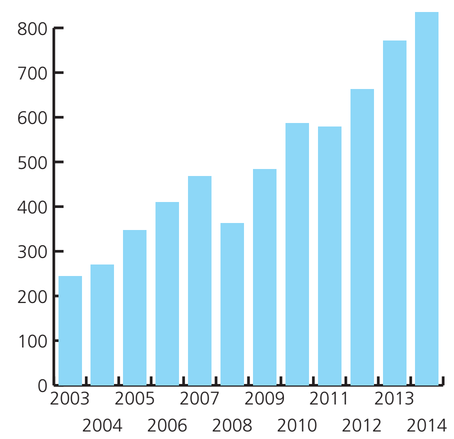
FIGURE 4
UK AUTHORISED FUNDS

Regulatory category	UCITS Non-UCITS Retail Schemes Qualified investor Schemes				
Legal form	Unit Trusts OEICS			CCS Contractual co-ownership scheme	CPS Contractual partnership scheme
Tax on income in fund	Equity funds Tax charge of 20% on taxable income less allowable expenses. Dividend income exempt from tax, so in practice **very few funds have net taxable income.**	Bond funds Tax charge of 20% on taxable income less allowable expenses, less distributions. As funds are required to distribute all net income, **these funds should not have net taxable income.**	Tax elected funds Exempt Distributions to investors should be streamlined by income type.	No tax in the fund Investors are treated as if they owned the underlying income directly	
Tax on gains in fund	Exempt	Exempt	Exempt	Exempt	No tax on gains - Investors are treated as if they owned the share of underlying assets directly.
Capital taxes	None from 1 April 2014			None	None
Double tax treaties	With more than 120 double taxation arrangements, the UK has the largest DTT network in the world. Unit trusts and OEICs generally recognised as beneficiaries under UK treaties.			N/A as vehicles are transparent, so investors can benefit from their own tax rates of witholding tax under the treaty, which may be lower than the fund's rate.	

Source: UKTI

FIGURE 5
UK DOMICILED INVESTMENT FUNDS

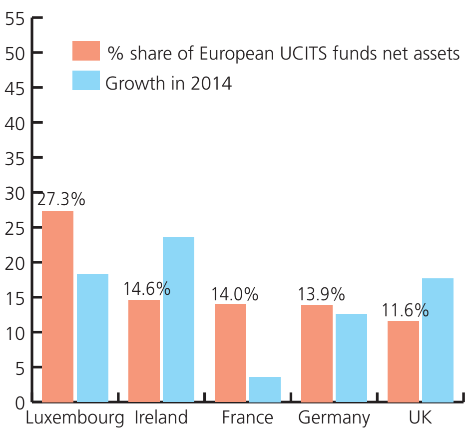
£bn, funds under management



Source: Investment Association

FIGURE 6
LEADING EUROPEAN DOMICILES

%



Source: EFAMA

FSTIB AND THE UK INVESTMENT MANAGEMENT STRATEGY

The Financial Services Trade and Investment Board (FSTIB) has brought together the UK Government with industry to identify opportunities for growth across the UK financial services industry. FSTIB has been established to share skills and expertise across various campaigns with specific objectives to enable growth on a sector by sector basis and to support UK firms in pursuing these projects across the world. The Government's three commitments within the Investment Management Strategy are:

• Taxation: 'we will simplify and streamline taxes on the sector.'

• Regulation: 'we will create a more responsive regulatory environment.'

• Engagement: 'we will improve our marketing infrastructure in the UK and overseas.'

The initiative delivers an on-going project to encourage innovation and interaction between the industry, the Government and the regulator. Such interaction could lead to the increase in the volume of existing products or services being offered by UK based asset managers both domestically or abroad. FSTIB will actively seek regulatory or legislative change that either directly or indirectly remove barriers to trade and investment and encourage a significant expansion of the existing UK asset management industry.

The Strategy supports the maintenance of an existing competitive advantage by preserving and reinforcing the UK as a major financial services centre for asset management.

One of the pillars of the strategy is to encourage investment in the UK asset management industry as well as the domicile of funds in the UK. The Government will work to support growth opportunities for the sector, as it recognises that this is a highly innovative and fast growing sector within financial services.

TheCityUK is leading a campaign team charged with responsibility to implement the strategy. The group brings industry together with HM Treasury, HMRC, the FCA and UKTI to ensure the strategy succeeds.

TheCityUK, through its International Trade and Investment Group (ITIG), brings industry capability and capacity to the project and works alongside representative bodies such as the Investment Association (IA) and the Alternative Investment Management Association (AIMA). Scottish Financial Enterprise represents the significant investment management industry north of the border. Together, industry will identify new trends and emerging challenges so that changes to regulation and the tax environment are proposed to allow the UK to take advantage of emerging opportunities around the globe.

In order to support the objectives of the Investment Management Strategy, TheCityUK set up an industry steering group called the International Asset Management Industry Group (IAMIG) in the summer of 2014.

The Group is chaired by James Charrington, Chairman EMEA of BlackRock and made up of senior industry practitioners drawn from asset management companies and key legal and accountancy companies based in the UK.

The group has agreed to focus on three core objectives:

• Supporting the delivery of the IMS, acting as an early sense check on regulatory and policy proposals that could impact on the competitiveness of the sector in the UK;

• Marketing and promotion of the UK as a European centre for fund management activities; and

• Strategic direction on the key competitiveness challenges facing the industry in the coming years.

The strategy has made excellent progress. Most notably, there has been an improved dialogue between Government, industry and the regulator on issues affecting the sector's competitiveness. There has also been a notable improvement in coordination within Government, in particular between the key departments (HMT, HMRC and UKTI). A coordinated marketing effort is now underway which includes a one-stop shop for companies wishing to set up operations in the UK.

Rt Hon George Osborne MP, Chancellor of the Exchequer, March 2013: "*The message is simple, the UK is not just open for investment management business, it is actively seeking it. We look forward to working with industry and investors to win it, keep it, and help it grow.*"

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meeting these voluntary targets through the introduction of a more detailed application process, reducing the need to refer applications back to authorised fund managers.

While the UK is largely known as a centre for management of international funds, the UK Government is 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 UK Government has committed to simplify and streamline taxes on the sector and investors. The abolition of a fund-specific stamp duty reserve tax from April 2014 removed a complicated piece of taxation that was seen as a major deterrent to domiciling funds in the UK. Schedule 19 was charged to fund managers on surrenders of units in funds, although investors ultimately suffered the cost. Since the charge applied to UK funds, it encouraged investment in funds domiciled offshore. The abolition has been welcomed by the industry and investors alike.

TAX TRANSPARENT FUNDS

Tax Transparent Funds (TTFs) were introduced in the UK with effect from July 2013. By introducing these new fund vehicles, the Government has taken a significant step in supporting the UK fund management industry and providing the necessary framework to ensure that the UK can be the location of choice for international fund domicile. These schemes are attractive to managers looking to pool assets from funds across Europe, and potentially more widely, using arrangements permitted by the UCITS IV Directive.

There are two types of TTF: a co-ownership scheme, and a limited partnership scheme. Both schemes are available for authorisation as UCITS, NURS (non-UCITS retail scheme) or QIS (qualified investor scheme).

- *Co-ownership scheme:* a collective investment scheme that has no legal personality. The participants own the assets beneficially as tenants in common; the scheme is not legally separate from the participants.
- *Limited partnership scheme*: a partnership scheme is a limited partnership established under the Partnership Act 1907 and registered with Companies House. Partnerships widely exist but in order to make them work for tax transparent funds, the existing legislation has been modified.

TTFs are designed in a way that investors in funds could avoid having to pay tax twice, both in the place where the fund is based and where the investor resides. Investors are also treated as owners of a direct share in the fund's underlying assets, although the fund still has the structure of a pooled vehicle. BlackRock has become the first asset manager to respond to these taxation changes and launched the UK's first TTF on in June 2014.

Additionally the Government actioned three further consultations around taxation of funds:

- Further clarification that managing offshore non-UCITS funds in the UK will not affect the tax residency of the fund.
- Allow UK domiciled bond funds to pay gross interest when they are marketed to non-UK residents.
- Provide greater certainty to fund managers as to whether certain transactions will be deemed to constitute trading or investment activity.

The combined effect of these changes will ensure the UK is a more competitive place for asset managers to do business by ensuring the environment is beneficial to investors.

- The UK does not exempt funds from tax, but its tax rules are tailored so that:
  – all capital gains in funds are exempt from tax;
  – dividend returns are for the most part tax exempt;
  – for bond funds and tax elected funds, interest distribution to investors are deductible so no tax is paid by the fund.

The rate of UK corporation tax fell to 20% in 2015, the joint lowest rate in the G20. The Chancellor announced that the rate would be reduced to 18% by 2020, with a 1% interim cut in 2017. Additionally, funds that are domiciled in the UK can take advantage of some 120 double taxation agreements, more than in any other country.

The UK is the fifth largest fund domicile in Europe accounting for 11.6% of European funds under management. Luxembourg accounted for the largest share (27.3%), followed by Ireland (14.6%), France (14.0%) and Germany (13.9%). Funds domiciled in the UK increased by 17.7% during 2014 which means that they outstripped growth of overseas domiciled funds managed in the UK. The UK has also closed in on France and Germany which are larger centres for domicile currently but experienced slower growth rates in 2014, of 3.6% and 12.6% respectively.

Location of fund management activities in the UK

The fund management industry is a significant provider of high value-added jobs and skills, with clusters of expertise in London, Scotland and across many UK regions. The importance of London is essential to the UK's strong international position. London accounts for over 80% of UK based funds under management and is a leading centre for services such as administration, prime brokerage, custody and auditing. Outside of London and Scotland, major centres of fund management expertise include Belfast, Birmingham, Cardiff, Leeds, Liverpool and Manchester.

Scotland While London remains one of the largest world centres for fund management, Edinburgh and Glasgow have improved their position in recent years. According to Scottish Financial Enterprise, funds managed by the Scottish fund management industry totalled around £800bn in 2014, close to 12% of total UK funds under management. Scottish headquartered firms, however, account for a larger, one quarter, share of total funds managed in the UK. The fund managers are a mixture of quoted 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.

Belfast Northern Ireland is a well-established location for global business services, offering expertise across a range of functions including customer services, technical support, human resource outsourcing, legal process outsourcing and financial and accounting outsourcing. There has been significant development in Belfast over the past decade, taking advantage of the competitive cost base and a skilled workforce. Since 2010, Belfast has also been chosen as a location for centres of excellence by international fund administration firms.

ABOLITION OF SCHEDULE 19

The abolition of Schedule 19 was an important change delivered under the Investment Management Strategy. Its abolition reflects a sustained effort involving Government and industry aimed at making the UK the most competitive environment for fund management and fund domicile in Europe.

Schedule 19 acted as a proxy for the principal stamp duty reserve tax charge and was charged to fund managers on surrenders of units in funds, although retail investors ultimately bore the bulk of the cost. The regime was regarded as complex and burdensome, requiring frequent tax calculations and returns to be sent to HMRC.

Up until the launch of the Investment Management Strategy in March 2013, the UK had been losing ground to its main European competitors (Luxembourg and Ireland). No other country (Luxembourg or Ireland) has anything comparable to Schedule 19 and it was, as such, identified as an issue affecting the UK's competitiveness.

Importantly, the impact of the abolition of Schedule 19 has had a negligible effect in terms of tax revenue. This is estimated at around £145 million in 2014-2015 with the main cost benefit being passed on to investors and savers.

Birmingham Birmingham is the second largest city in the UK and has a long and great tradition of financial services activity. It's relative proximity to London has seen it emerge as an important centre for fund management, anchored by the presence of a number of major global fund management firms. It has also emerged as an important UK centre for Islamic finance, a niche area with considerable growth potential.

Cardiff Cardiff is as an extremely competitive and cost-effective financial and related professional services centre. It has a growing reputation for providing high quality professional services and support functions, with particular expertise in cards and payments, asset finance, fund administration, mortgage administration, taxation, securities trading, insurance, legal services, ICT support, shared-service centres and business process outsourcing.

Leeds With over 40,000 people employed in financial and related professional services, the city of Leeds is a leading centre for financial and related professional services. Leeds offers local and international expertise in accountancy and legal services, banking, insurance, stockbroking and venture capital. The wider Leeds City Region is the UK's second largest centre for banking and home to the Bank of England's only base outside London.

Liverpool There are nearly 20,000 employed in financial and related professional services sectors in Liverpool, and more than 35,000 in the wider Merseyside area. Liverpool is England's leading wealth management base after London, with deep and extensive expertise in fund management, market analysis and systems development

Manchester Greater Manchester is at the heart of the sector in the North West, employing over 100,000 people in financial and related professional services. Manchester is a key location for many UK and foreign owned asset managers. Its increasing success over the last decade has seen the city take its place as a Top 10 European business location.

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, 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.

INVESTMENT MANAGEMENT MARKETING STRATEGY

Government and industry, through FSTIB (Financial Services Trade and Investment Board) are working closely to ensure a coordinated and focused approach in creating a proactive investment management marketing strategy.

The goal is to create a sustainable marketing infrastructure that will enable the UK industry both to benefit from a strategic approach to promoting the UK's fund management industry and to identify and exploit tactical opportunities as they arise.

UKTI is leading a sustained overseas marketing campaign, deploying their network of staff in priority markets including Asia, the US, Brazil and the Gulf. Its approach is informed by joint Government and industry identification of those target markets and audiences. This local marketing activity includes UK government and regulatory attendance at conferences and support for business delegations.

A key feature of the marketing activities will be to ensure an effective feedback channel to allow for refinement of the strategy. Such feedback mechanisms will also, critically, allow for the effective engagement between industry government and the regulator to identify further opportunities for change in the policy, regulatory and taxation environments.

CONTRIBUTION TO THE UK ECONOMY

Fund management covers a broad range of activities. These can be divided between front office and back office functions.

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 mainly 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.

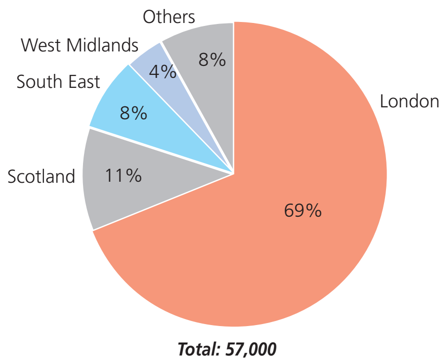
Value added Fund management generated around 1% of UK GDP in 2014. The industry was therefore an important component of the financial sector's overall contribution of around 8% in that year. Fund management's wider contribution to the economy stems from its promotion of the UK's capital market and from the links fund managers have with other financial services providers, such as banks, securities dealers and information providers.

Employment Fund management firms in the UK directly employ around 32,300 people. Of this, around a quarter were employed in asset management, a fifth in marketing and client services, and most of the remainder in fund accounting and administration, corporate finance and administration, compliance, legal and audit and transaction processing. These figures largely exclude private client investment managers and stockbrokers who are thought to employ an additional 25,000 people (Figure 7). Due to outsourcing of many operations by fund management firms within the UK, these figures significantly understate total employment generated by the fund management industry.

Net exports of fund managers totalled £5.2bn in 2014, up 47% on the previous year (Figure 8). The balance of payments inflow from portfolio investment by financial institutions, which will have owed much to the activities of UK fund managers, totalled £45bn in 2014, up nearly a half on the level a decade earlier.

FIGURE 7
BREAKDOWN OF FUND MANAGEMENT JOBS BY REGION

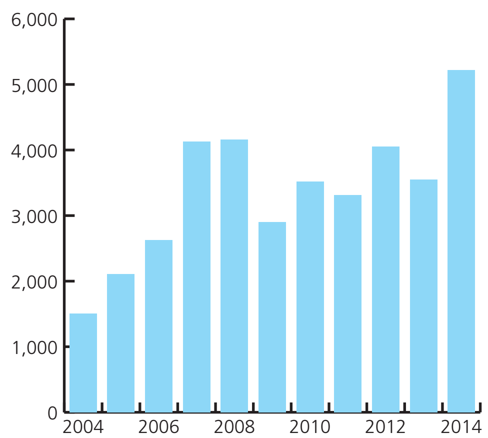
% share of employment, end 2014



Source: TheCityUK estimates based on ONS and Compeer data

FIGURE 8
NET EXPORTS OF UK FUND MANAGERS

£ million



Source: ONS

Institutional clients have become increasingly prominent in the UK and accounted for around two-thirds of funds under management in 2014. Institutional clients include insurance funds, pension funds, local authority and charity funds:

- **Insurance funds** UK insurance funds totalled over £1 trillion in 2014, down slightly on the previous year. This represented close to 15% of funds under management in the UK. Insurance funds have declined relative to pension funds and other institutional clients over the past decade. Since 2005, insurance funds increased at an annual rate of 2%, much less than the 9% annual growth in pension fund assets.

  Around 90% 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. Around 80% of insurance clients' funds are managed by in-house asset management subsidiaries, although third-party insurance asset management is on the increase.

- **Pension funds'** assets increased by 14% in 2014 to around £2.1 trillion. 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 in regulation and accounting standards and the continuing shift from defined benefit to defined contribution schemes. Recent changes to annuity rules have created more choice and the potential for investor engagement during retirement.

  According to a recent Deloitte report, *Meeting the Long-term Savings Challenge*, by 2050 the UK population is projected to grow by some 20% to 77 million. The increase will stem from continued net immigration and increasing life expectancy. This will represent both a challenge and opportunity for the fund management industry. The increase in population

CHINA CONSTRUCTION BANK INTERNATIONAL LAUNCHES A LANDMARK NEW FUND ON THE LONDON STOCK EXCHANGE

China Construction Bank International (CCBI), which is China's second largest bank, launched a landmark new fund on the London Stock Exchange in 2015.

The fund is the first of its kind in Europe and was launched in collaboration with HSBC and Commerzbank. The fund, which can be traded in sterling, euros or renminbi, is domiciled in the UK. This follows close collaboration between CCBI and the UK government as part of the government's Investment Management Strategy - announced in 2013 - which aims to further cement Britain's position as the centre for global finance by encouraging more of these types of funds to be launched here.

CCBI's fund is the first UK domiciled RMB Qualified Institutional Investor (RQFII) Exchange Traded Money Market Fund on the London Stock Exchange.

This exchange traded money market UCITS fund will use China's RQFII scheme to invest into the Chinese Interbank Bond Market (CIBM).

The launch of the fund builds on the measures the government has already taken as part of its Investment Management Strategy, including the removal of stamp duty and stamp duty reserve tax on purchases of shares in exchange traded funds that are domiciled in the UK, which has opened the door for UK exchange traded funds to launch in London for the first time.

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.

Deloitte expects the annual savings gap per person in the UK to increase during this period, from £8,000 to £10,000. The investment management industry will therefore play an increasingly important role in helping people address their long-term savings needs. Deloitte estimates that after taking into account the available housing wealth and non-pension specific savings, the industry can close up to 50% of the long-term savings gap. This will be driven by growing the number of people contributing to long-term savings, increasing the average contributions for those people saving, and improving net returns.

- **Other institutional'** category includes a wide range of clients such as corporations, local authorities, sovereign wealth funds and charities. They accounted for £1,243bn in 2014, up 13% from £1,098bn in the previous year.

RETAIL CLIENTS

Nearly £1.1 trillion in retail clients' investment funds was managed in the UK at the end of 2014, up 7% on the previous year. The overall figure for investment funds is around £1.7 trillion as some products are sold to a range of institutional clients.

UK based investment funds 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 increased by 8% in 2014 to £836bn (Figure 5). Figures for the first half of 2015 show that retail investment flows continued their climb. At the end of June 2015, UK investment funds under management totalled £863bn, up nearly 5% from the start of the year.
- **UK managed funds domiciled outside the UK** totalled some £895bn at the end of 2014, up 15% on the previous year. This includes funds UCITS marketed to retail investors although it does not cover the majority of the ETF market. Around three-quarters of this total was domiciled in Luxembourg and Dublin, and most of the remainder in the Channel Islands and Cayman Islands.

PRIVATE CLIENTS

Private clients are a significant part of the UK market with funds of £705bn at the end of 2014, up 11% 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.

Within Europe the value of private client funds handled in the UK is probably exceeded only by those in Switzerland. Although some private clients funds are invested in mutual funds, it is likely that about three-quarters of the total funds is invested directly in UK equities. Consequently, fund managers, principally retail stockbrokers, have a significant stake in about three quarters of the value of UK equities held by private individuals.

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 close to £700bn in 2014, or around 10% of UK funds under management.

£2.1 TRILLION

Pension funds' assets increased by 14% in 2014 to around £2.1 trillion

London is the second largest global centre for hedge fund managers after New York. Its 17% global share of funds under management was slightly down on the previous year, but more than double its share in the early 2000s. Around 800 hedge funds in the UK in 2014 managed some 85% of European based hedge funds' assets. The UK is an important centre for private equity, accounting for over 40% of Europe's investments. The UK and London in particular is also an important centre for sovereign wealth funds as a clearing house and location from where some of these funds are managed.

85%

Around 800 hedge funds in the UK in 2014 managed some 85% of European based hedge funds' assets

International competitiveness of the UK fund management industry

There are a number of well-known global macro trends, which, if ignored, could threaten the continued competitive position of the UK. These trends should be actively monitored and considered either in the context of the Investment Management Strategy or through wider government and industry interactions.

The trends facing the industry have the potential to provide both huge opportunity and significant challenge over the next ten years. TheCityUK has been working with EY and its International Asset Management Industry Group to identify these opportunities and challenges.

- ***Retaining the pre-eminence of the City*** The international competitiveness of the UK financial services industry has been critical in establishing the UK as the European leader for asset management. Industry and government, working together, need to ensure they are maintaining a market infrastructure that can support high levels of financial services activity, ensuring the UK retains its critical mass of expertise. Government policy will be critical to meeting this challenge and will require the UK to maintain a stable and consistent operating environment (regulation, legal, fiscal, taxes).
- ***Replenishing and developing key skills*** Replenishing the skills required to maintain and build on the UK's position will be crucial to its continued success. A core part of this will be creating an education system that is fit for purpose and that facilitates the commercial application of cutting edge academic research. Additionally, measures to encourage the industry to continue to invest in universities and the development of sponsored programmes and specific asset management courses will be pivotal if the UK is to continue to attract top talent to the industry.
- ***Technological advancement*** Alongside potential growth opportunities, technology is disrupting the financial services industry, fuelled by the convergence of social media, mobile, cloud, big data and growing demand for anytime, anywhere access to information. The interactivity of technological advancement, changing consumer expectations and the perception that industry costs remain inflated is forcing the industry both to make better use of technology and to change how asset managers engage with their customers.

- **Distribution challenge** Another key challenge will be the search for growth. Asset managers must continue to explore new markets and develop new products. Geographic expansion is a major focus with many firms pursuing cross-border expansion in Europe, Latin America, and above all, Asia. It is important that UK asset managers maintain their efforts to take products to the international markets and to build a domestic presence in emerging markets using targeted products. Efforts already underway through the Financial Services Trade and Investment Board should be retained and ramped up where possible.
- ***How can the UK benefit from global growth of asset management industry?*** With the industry facing cost pressures, there will be a renewed focus on improving efficiency across all functions. With the drive for aggressive cost management and the need for improved operating platforms, the ability of asset managers to utilise operational advancements will be crucial in providing the conditions for global growth. The Government can help create greater cost efficiency in the UK market by incentivising the multi-national service providers to set up or migrate elements of their servicing operations to the UK – eg automated client take on, data analytics, regulatory reporting, pricing, etc. There needs to be a focus on developing geographical centres of excellence in the UK, potentially persuading the administration for all on-shore European regulated funds, as well as international Alternative Investment Funds (AIF's) to relocate to the UK.
- ***Changing relationship between clients and providers*** Products are fast becoming outcome driven, with a focus on client service. The UK asset management industry must recognise the increasing and changing customer demands, and ensure that alongside promises of returns, it also delivers value to the client. In a consumer driven market, there will be a need to rebuild trust amongst investors, especially if greater savings are to be encouraged, with the purpose of helping people save for retirement and potential long term care needs. Arguably the greatest challenge in this regard is the need to create a cultural shift towards financial prudence and a greater level of saving. Government has already implemented and announced a series of reforms which establish a direction of travel, but this is only a small step towards ensuring a tangible impact on improving the savings environment.

  Future initiatives should focus on two key areas. First of all, the impetus must remain on making saving easier, removing complexities and unnecessary intermediaries. Secondly, a focus on improving flexibility in the accumulation and decumulation phase should be a priority from both an industry, and policy perspective.

4 GLOBAL MARKET FOR FUND MANAGEMENT

The UK is one of the most open markets in the world for fund management. Over the years it has become the second largest centre for fund management (after the US) and continues to dominate the asset management industry in Europe. In fact, the global asset management industry has grown at a slower pace than that of the UK in recent years. UK firms are well positioned to gain new international business, particularly in emerging markets, where growth prospects look strongest. The UK Government is committed to ensuring the UK remains an open and competitive market for international investment.

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 with the easing of investment restrictions and diversification of international fund managers' portfolios.

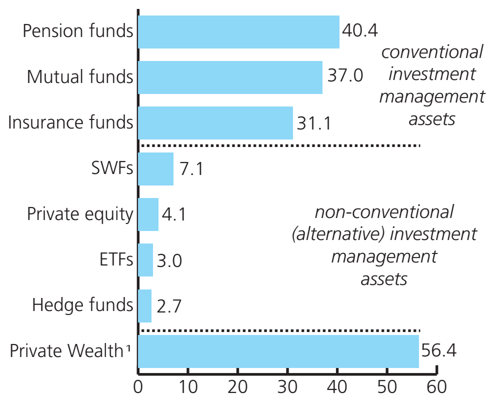
Over the past few years, there has been substantial restructuring of UK fund managers, strengthening their international links. There is likely to be further restructuring globally among the main firms, geared to expanding the pool of resources available, developing sophisticated distribution systems and improving the quality of service. UK along with US firms have a well established track record, which they should be able to use to their advantage in marketing products in emerging economies as the market in these countries develops.

According to TheCityUK estimates, assets of the global fund management industry increased by 7% in 2014 to a record $163 trillion (Figures 9 and 10), and consisted of:

- **Conventional funds** (pension funds, mutual funds and insurance companies) totalling a record $108.5 trillion;
- **Alternative funds** (hedge funds, private equity funds, exchange traded funds and sovereign wealth funds) with nearly $17 trillion of assets; and

FIGURE 9
GLOBAL FUND MANAGEMENT INDUSTRY

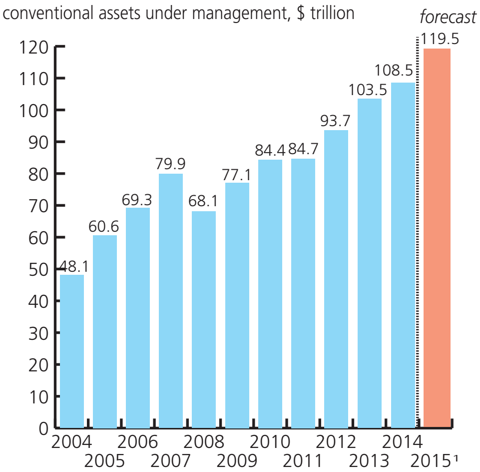
assets under management, $ trillion, end-2014



¹ Around one-third of private wealth is incorporated in conventional investment management
Source: TheCityUK estimates based on various sources

FIGURE 10
GLOBAL INSTITUTIONAL ASSETS UNDER MANAGEMENT

conventional assets under management, $ trillion



¹ TheCityUK forecast
Source: TheCityUK estimates based on various sources

- **Private wealth funds** with $56.4 trillion in assets. About a third of this was, however, incorporated in other forms of fund management.

Growth in US dollar terms was made significantly smaller by the appreciation of the US dollar during the year. Although some funds were exposed to instruments which suffered losses during the economic slowdown, on the whole, the fund management industry has recovered quickly from the fall in assets under management at the outset of the economic crisis.

Conventional funds

Conventional assets of the global fund management industry increased by around 5% in 2014 to a record $108.5 trillion (Figure 10). Pension assets accounted for 37% of the total, followed by mutual funds (34%) and insurance funds (29%). TheCityUK forecasts a 10% increase in conventional funds in 2015 to nearly $120 trillion.

The US was by far the largest source of conventional funds under management in 2014 accounting for nearly half of the world total (Figure 11). It was followed by Japan with 6.9%, the UK with 6.6% and France with 4.6%. 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.

Rankings based on sources of assets understate the UK's position due to the substantial value of funds managed in the country on behalf of overseas clients. Taking these into account,

FIGURE 11
LARGEST GLOBAL INVESTMENT MANAGEMENT CENTRES

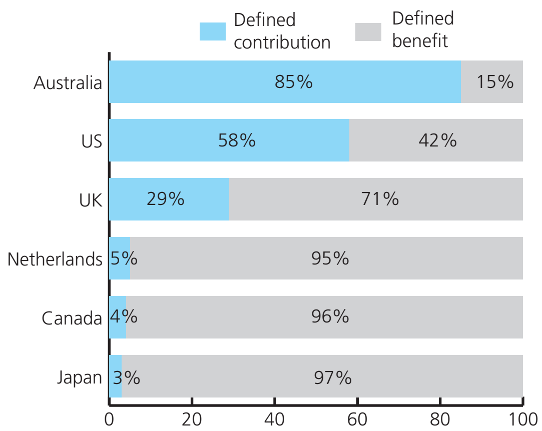
$bn, end-2014[1]	Pension funds	Insurance assets	Mutual funds	Total institutional	% *share*
US	24,487	8,881	17,826	51,194	*47.2*
Japan	1,836	4,463	1,172	7,471	*6.9*
UK	3,240	2,512	1,435	7,187	*6.6*
France	288	2,713	1,940	4,940	*4.6*
Canada	2,575	1,005	982	4,563	*4.2*
Germany	249	2,179	1,847	4,275	*3.9*
PR China	584	2,619	709	3,912	*3.6*
Australia	1,592	702	1,601	3,894	*3.6*
Luxembourg	1	180	3,519	3,700	*3.4*
Ireland	134	128	2,017	2,279	*2.1*
Netherlands	1,416	563	90	2,070	*1.9*
Brazil	268	678	990	1,936	*1.8*
Switzerland	857	514	436	1,807	*1.7*
Sweden	424	562	284	1,270	*1.2*
Italy	173	791	217	1,181	*1.1*
Denmark	701	347	121	1,169	*1.1*
Spain	212	355	274	842	*0.8*
Mexico	190	215	120	525	*0.5*
Norway	44	218	112	373	*0.3*
Austria	28	119	165	312	*0.3*
Others	3,043	1,400	2,147	6,590	*6.1*
World	40,400	31,144	36,995	108,539	*100.0*

[1] figures are for domestically sourced funds regardless where they are managed. No reliable comparisons are available for total funds under management by country

Source: TheCityUK estimates based on OECD, SwissRe, Investment Association, Investment Company Institute, Insurance Europe data

FIGURE 12
DB/DC SPLIT BY MARKET

% share, 2014



Source: Tower Watson

funds managed in the UK are second only to the US and by far the largest in Europe. The UK has more funds under management than the combined amount of the next three largest centres in Europe.

The UK ranks third amongst the largest countries in terms of its ratio of conventional funds as a per cent of GDP (244% in 2014). The US was in the lead (294%), followed by Canada (255%) (Figure 13). If all assets are taken into account, however, the UK fund management sector's ratio climbs to 327%, and is probably the biggest in the world due to the value of international funds managed in the country.

Institutional clients account for the majority of global funds. There are substantial variations, however, between countries in the institutional to retail ratio. In France for example, the retail sector accounted for more than a half of funds. On the other hand institutional investors were the biggest source of funds in the US, UK and Japan.

- **Pension funds** Global pension assets totalled $40.4 trillion at the end of 2014 according to TheCityUK estimates based on OECD data. The US remains the largest single market with $24.5 trillion in pension assets equivalent to 60% of the world total. The UK was the second largest centre with 8% of the world total, followed by Canada (6%), Japan, Australia and Netherlands with around 4% each. The large volume of pension assets in the US is mainly a reflection of its large domestic market.

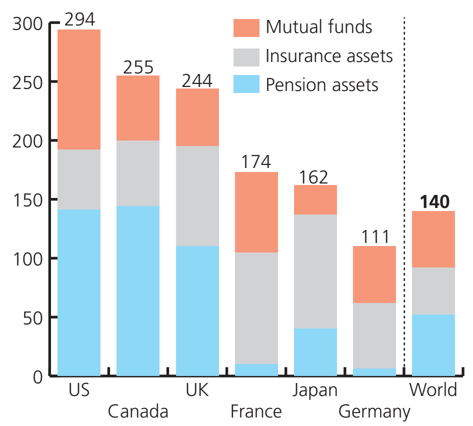
  The UK pension system with funds equivalent to 121% of GDP in 2014, is larger than that of most other major European economies. OECD countries which have seen large increases in pension fund assets during 2014 include Estonia, Korea, Luxembourg and Turkey, where pension funds' assets rose by more than 20% compared to their levels in December 2013. The same upward trend of pension funds' assets can be observed some non-OECD countries

$40.4 TRILLION

Global pension assets totalled $40.4 trillion

FIGURE 13
CONVENTIONAL FUNDS AS PERCENT OF GDP

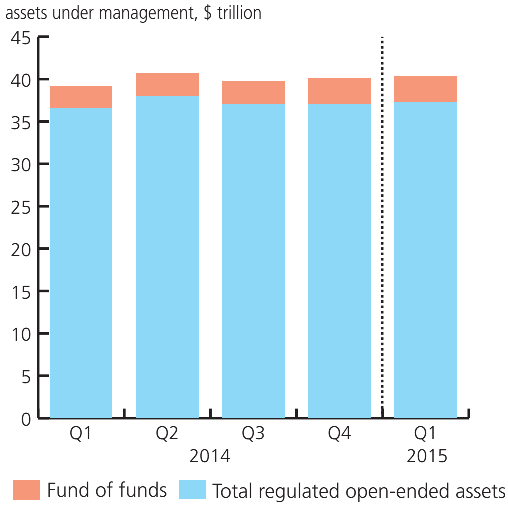
% of GDP, (by source of funds), 2014



Source: TheCityUK estimates based on UBS, OECD, SwissRe, Investment Company Institute data

FIGURE 14
WORLDWIDE MUTUAL FUNDS ASSETS

assets under management, $ trillion



Source: Investment Company Institute

such as Albania, India, Malawi, Pakistan and Romania all of which experienced an increase of more than 30% since December 2013 albeit from a low base.

Pension funds in all the reporting OECD countries recorded positive real returns between December 2013 and December 2014, ranging from 1.3% in the Czech Republic to 16.7% in Denmark, with an OECD weighted average at 4.5%. Outside the OECD area, pension funds in most of the reporting countries also performed positively, but with returns lower than for the OECD area on average. India experienced the strongest performance at 19.1%.

The markets with a bigger proportion of defined contribution (DC) assets relative to defined benefit (DB) in 2014 were Australia with 85.4% and the US with 58.2%. Japan, Canada and the Netherlands had only 2.8%, 4.3% and 5.1% respectively of DC assets at the end of the year. During the last 10 years DC assets have grown at a rate of 7.0% per annum while DB assets have grown at a slower pace of 4.3% per annum (Figure 12).

- **Insurance funds** TheCityUK estimates that insurance companies held around $31.1 trillion of funds under management at the end of 2014. Approximately four-fifths of the total was from long-term insurance policies and the remainder from general policies, such as health and property and casualty insurance. Over the past decade, insurance funds grew faster in Europe than in the US. Life companies' funds also grew faster than non-life ones. UK insurance companies' funds under management totalled over $2.5 trillion, higher than in any other European country.

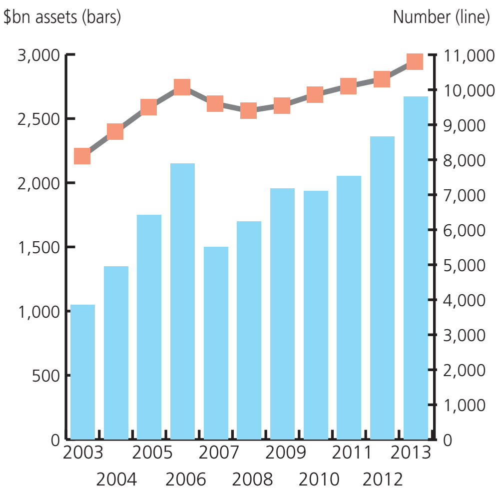
The global insurance industry gained momentum in 2014. There was a return to positive growth in the life sector, with premiums up 4.3% to $2.7bn after a 1.8% decline in 2013. Very strong growth in Oceania and solid results in Western Europe and Japan more than offset a year of contraction in North America, with falling sales of term and universal life products in the US.

FIGURE 15
LARGEST GLOBAL INVESTMENT MANAGERS

end-2014	Country	*AUM €bn*
BlackRock	US/UK	*3,844*
Vanguard Asset Management	US/UK	*2,577*
State Street Global Advisors	US/UK	*2,023*
Fidelity Investments	US	*1,595*
BNY Mellon Inv. Management EMEA	US/UK	*1,407*
JP Morgan Asset Management	US/UK	*1,267*
Capital Group	US	*1,167*
PIMCO	US/Germany/UK	*1,163*
Pramerica Investment Management	US	*969*
Amundi	France	*866*
Goldman Sachs Asset Management Int.	US/UK	*846*
Northern Trust Asset Management	US/UK	*772*
Wellington Management	US	*755*
Natixis Global Asset Management	France/US	*736*
Franklin Templeton Investments	US/UK	*727*

Source: Investment & Pensions Europe

FIGURE 16
GLOBAL HEDGE FUNDS



Source: TheCityUK estimates based on varoius sources

- **Mutual funds'** assets increased by around 2% in 2014 to $37.0 trillion (excluding funds of funds). The latest available data show that the industry experienced a strong start in 2015, with worldwide mutual funds' assets increasing by 0.8% in the first quarter.

  At the end of Q1 2015, 44% of worldwide regulated open-end fund assets were held in equity funds. The share of bond funds was 22% and the asset share of balanced/mixed funds was 13%. Money market fund assets accounted for the bulk of the remainder. 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.

  UK mutual funds managed some $1.4 trillion, representing 4% of the global total. Other important centres for mutual funds include France, Luxembourg, Australia, Italy and Japan (Figure 11). Regional totals show the Americas in the lead with 54% of the global total, followed by Europe (34%) and Africa/Asia-Pacific (12%).

Alternative funds

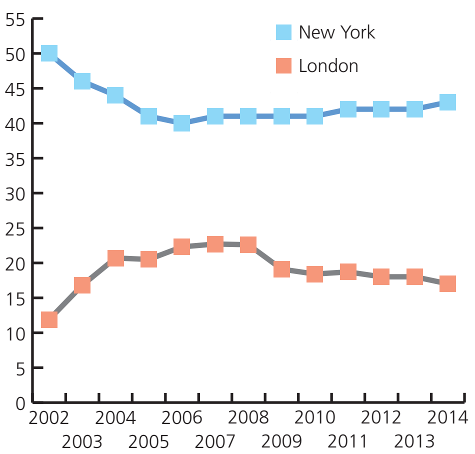
Alternative funds totalled nearly $17 trillion at the end of 2014. They consist of hedge funds, private equity funds, exchange traded funds and sovereign wealth funds.

- **Hedge funds'** assets under management totalled a record $2.7 trillion at the end of 2014, well above the pre-crisis peak in 2007 (Figure 16). Industry assets increased by around 12% during the year, due both to healthy returns and investor inflows. The number of hedge funds increased slightly, to around 10,800.

  The North American, in particular the US, hedge fund industry continued to show the strongest growth. Fund managers in Asia-Pacific also had a successful 2014. Europe-based

FIGURE 17
HEDGE FUNDS ASSETS - LONDON VERSUS NEW YORK

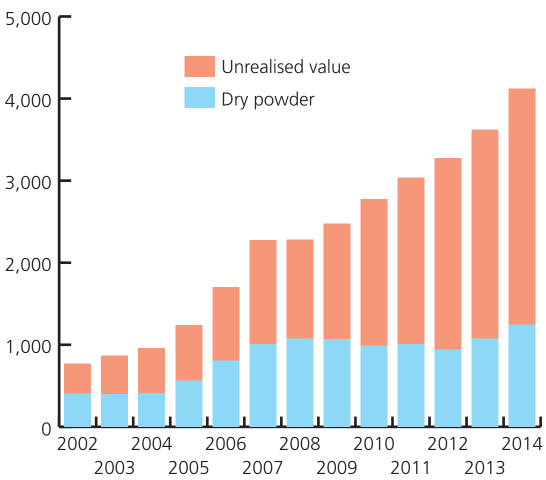
% share of global hedge fund assets under management



Source: TheCityUK estimates based on various sources

FIGURE 18
PRIVATE EQUITY ASSETS UNDER MANAGEMENT

$bn



Source: Preqin; TheCityUK estimates based on various sources fund managers, however, saw slower growth due to regulatory changes within the European Union, which continue to cause concerns for fund managers based in the region.

London is the second largest global centre for hedge funds managers, after New York. Its share of the global hedge fund industry has nearly doubled since the early 2000s to 17% (Figure 16). London remains by far the largest centre for hedge funds in Europe. Around 600 funds located in the UK managed over two-thirds of European single manager hedge fund assets. If fund of funds' assets are taken into account, London probably accounts for around 85% of hedge fund assets managed in Europe. The seven largest hedge funds in Europe are all headquartered in London.

The UK retains its structural advantages which make it an attractive location including its local expertise, proximity of clients, deep and liquid markets and a strong asset management industry. Other important locations for hedge fund managers in Europe include the Channel Islands, Sweden, Switzerland and France.

London is also a leading centre for hedge fund services providers such as administration, prime brokerage, custody and auditing. Accounting for around a half of European investment banking activity, it is a natural location for prime brokerage services.

- **Private equity funds** The private equity industry has seen a strong recovery since the market turmoil in 2008, becoming an integral part of institutional investors' portfolios. Funds raised by private equity funds totalled around $500bn in 2014. With dry powder (uninvested funds) growing by 12% during the year to $1.2 trillion, private equity funds under management reached a record of around $4.1 trillion under management at the end of 2014.

North America accounts for the majority of total funds under management (57%), followed by Europe (24%), Asia (13%) and rest of world (6%). The UK is the largest and

$500 BILLION

Funds raised by private equity funds totalled around $500bn in 2014

FIGURE 19

PRIVATE EQUITY INVESTMENTS/FUNDS RAISED IN EUROPE

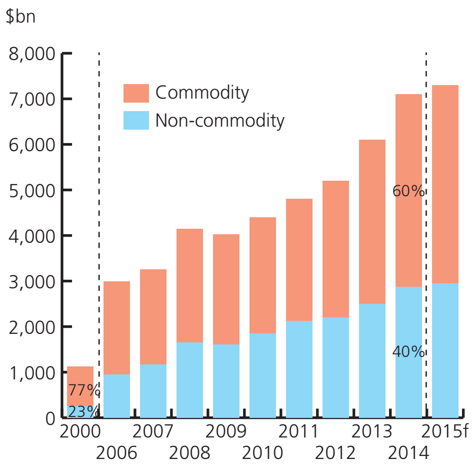
% Share, end-2014	Country of management	Country of destination	Country of management
UK	43	27	64
France & Benelux	21	28	16
DACH[1]	17	18	3
Nordics	11	14	13
Southern Europe[2]	6	11	3
CEE	1	2	1
Total	100	100	100

[1] Austria, Germany, Switzerland
[2] Greece, Italy, Portugal, Spain

Source: Perep_Analytics, EVCA

FIGURE 20

SWF's ASSETS UNDER MANAGEMENT



Source: SWF Institute; TheCityUK estimates most developed private equity centre in Europe (Figure 19), second in size globally only to the US. London is one of the two leading international centres for the management of private equity investments along with New York.

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. London is the largest European centre for the management of private equity investments and funds. Over the past two decades, the UK private equity industry has invested over £200bn in around 30,000 firms worldwide.

- **Sovereign Wealth funds (SWFs)** 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.

Funds under management of SWFs increased by 16% in 2014 to a record $7.1 trillion. There was also an additional $9.6 trillion held in other sovereign investment vehicles, such as pension reserve funds and development funds. Despite the economic downturn and market volatility in recent years, assets under management of SWFs increased in every year over the past decade apart from 2009. This was due to growth in existing SWFs' assets as well as the launch of new funds. Assets of SWFs are now larger than those of the hedge fund and private equity industry combined.

TheCityUK expects that SWFs' assets will increase by 4% in 2015 to $7.4 trillion, well below the 12% average annual growth seen over the previous five years. The first six months of 2015 saw only a marginal increase in assets in the headwind of falling oil prices. If oil prices remain low for an extended period, some oil producing countries may divert money from

FIGURE 21

SOVEREIGN INVESTMENT VEHICLES

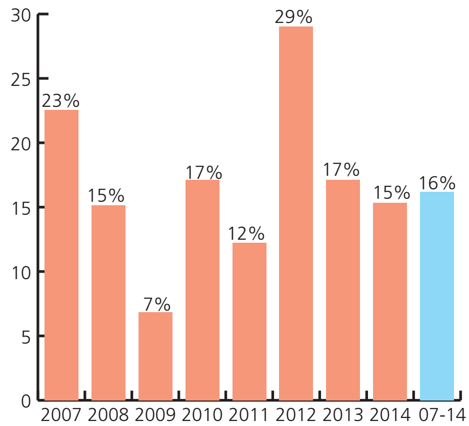
$ trillion	Sovereign wealth funds			Other sovereign investment vehicles	Official foreign exchange reserves not in SWFs
	Commodity funds	Non-commodity funds	Total assets		
2008	2.5	1.6	4.2	6.2	5.7
2009	2.4	1.6	4.0	6.5	6.6
2010	2.6	1.8	4.4	6.8	7.4
2011	2.7	2.1	4.8	7.2	8.1
2012	3.0	2.2	5.2	7.7	8.8
2013	3.6	2.5	6.1	8.7	9.2
2014	4.3	2.8	7.1	9.6	9.0
	- Stabilisation funds - Savings funds			- Reserve invest. corp. - Development funds - Pension reserve funds - State-owned comp.	Central banks' official reserves

Source: TheCityUK estimates, OECD, IMF

FIGURE 22

UK SHARE OF GLOBAL DIRECT SWF INVESTMENTS

% share



Source: SWF Institute - Sovereign wealth fund transaction database

SWFs to stabilise their domestic economies and finance budget shortfalls. Slower GDP growth in China is also likely to constrain growth in assets during the year.

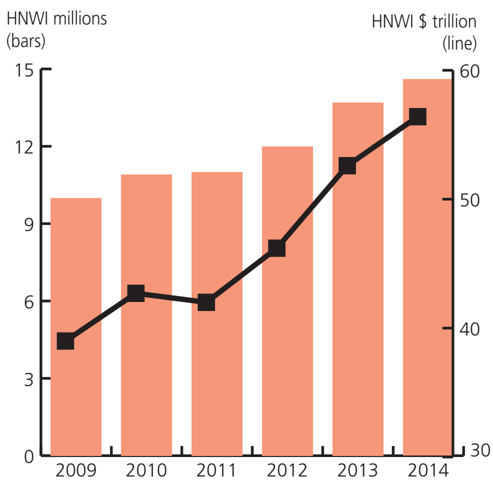
The UK is an important centre for SWFs as a clearing house and location from which many of these funds are managed. Its strong position stems from the structural strengths associated with the cluster of financial and related professional services, broad skills base, open market and pivotal international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

London is the leading Western centre for SWFs. Nine of the largest twenty SWFs have representative offices in London, compared with seven in New York. SWFs with offices in London include the Kuwait Investment Authority, Brunei Investment Agency, Abu Dhabi Investment Authority, Qatar Investment Authority, Temasek and the Norwegian Pension Fund.

The UK Government is taking action to increase investment into UK infrastructure by overseas investors. It is continuing its dialogue with overseas institutional investors in China, the Middle East and elsewhere to expand the sources of capital available to UK infrastructure developers. From 20 to 23 October 2015 the UK welcomed President Xi Jinping to London for the first state visit from China in 10 years. Almost £40bn worth of deals between the 2 countries were agreed during the visit. The financial sector and other industries in the UK have a regulatory, competition and national security framework that ensures that all foreign investment, whether from a SWF or not, meets the appropriate criteria.

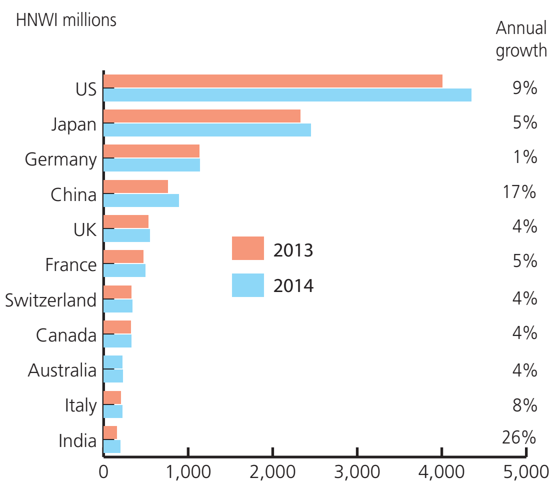
The US and UK have been the leading destinations for direct investments since 2007, each accounting for around 16% of total SWF investment during this period. However, the UK attracts over five times more SWF direct investment than the US when compared to the size of its economy. The sum invested in real estate in the UK, represented 44% of total

FIGURE 23
HNWI POPULATION AND WEALTH



Source: Capgemini and RBC Wealth management 2015 World Wealth Management report

FIGURE 24
HNWI POPULATION



Source: Capgemini and RBC Wealth management 2015 World Wealth Management report sovereign wealth fund investment in global real estate in 2014 and 73% of SWF capital that flowed into Europe. However, SWFs invest a bigger proportion of assets in the US than in the UK, indirectly, through external fund managers.

- **Exchange traded funds/Exchange traded products** ETF/ETP industry assets continued to record faster growth than the wider fund management industry in 2014, reaching a record high of $3.0 trillion. Net inflows into ETFs/ETPs have been significantly higher than net inflows into hedge funds over the past few years. While growth of the industry is strong across all regions, the US continues to dominate this market. 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.
- **Private wealth funds** According to the Capgemini/RBC Wealth Management survey, High Net Worth individuals' (HNWI) wealth grew by around 7% to reach a high of $56.4 trillion in 2014. This was the second slowest rate of annual growth since 2009. The number of HNWIs grew for the sixth consecutive year to 14.6 million. Ultra HNWI, who only make up 1% of all HNWIs, account for some 35% of the wealth in 2014. The US, Japan Germany and China account for around 60% of the global HNWI population.

As in previous years, robust growth in Asia-Pacific and North America helped drive global HNWI population and wealth. Asia-Pacific overtook North America during the year to become the region with the largest HNWI population. It is expected to retain and extend its leadership position in the coming years. India was the fastest growing market in 2014, having seen a 26% increase in the number of HNWI, and jumping five places to be ranked 11th globally. China also experienced strong growth, with the number of HNWI in the country growing by 17% during the year.

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.

$56.4 TRILLION

High Net Worth individuals' wealth grew by around 7% to reach a high of $56.4 trillion in 2014

5 OTHER SOURCES OF INFORMATION

BCG
Steering the Course to Global Growth
www.bcg.com

Cap Gemini / RBC Wealth Management
World Wealth Report
www.uk.capgemini.com
www.rbcwminternational.com

Compeer
www.compeer.co.uk

Deloitte
Meeting the Long-term Savings Challenge
www.deloitte.co.uk

Efama
Quarterly Statistical Release
www.efama.org

Investment Company Institute
www.ici.org

International Monetary Fund
Global Financial Stability Report
www.imf.org

Insurance Europe
European Insurance in Figures
www.insuranceeurope.eu

IPD
IPD Global Annual Property Index
www.ipd.com

OECD
Pension statistics database
www.oecd.org

Office for National Statistics
www.ons.gov.uk

Perep Analytics / EVCA
www.perepanalytics.eu
www.evca.eu

Preqin
www.preqin.com

SWF Institute
SWF transaction database
www.swfinstitute.org

Swiss RE
Sigma
www.swissre.com

The Investment Association
Asset Management in the UK 2014-15
www.theinvestmentassociation.org

Towers Watson
Global Pension Assets Study 2015
www.towerswatson.com

UKTI
Fund Management in the UK
www.gov.uk/government/organisations/uk-trade-investment

THECITYUK INTERNATIONAL ASSET MANAGEMENT INDUSTRY GROUP (IAMIG)

The Financial Services Trade & Investment Board's first project was the launch of the Investment Management Strategy (IMS). The purpose of the IMS is: to attract new asset management firms into the UK; to assist in firms' international development plans (accessing new markets etc); to set out a course of action to encourage firms to redomicile funds into the UK; to maintain current levels of operations (jobs and tax take) in the UK.

These objectives will be achieved by improving the attractiveness of the UK as a destination for asset management firms; recognising the UK's leading position and existing competitive advantages.

The IAMIG is the Financial and Related Professional Services (FRPS) sector senior practitioner body comprised of members of the TheCityUK. It has been established to provide thought leadership on the international aspects of the UK Government's Investment Management Strategy. Its purpose is to set and oversee the implementaiton of a programme of work designed to promote the competitiveness of the UK as a base for managers, administrators, service providers and related organisations and promote their commercial interests in international markets. The group works in cooperation with specialist trade bodies such as the IA and AIMA and other stakeholders to ensure effectiveness and to maximise synergies.

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