Investment management in the United Kingdom[1]

The provision of investment management services is an important industry in the United Kingdom but one about which only limited information is available from published sources. Earlier this year, the Bank carried out a survey of the investment management business conducted in the United Kingdom on behalf of both UK and overseas residents. Among the main points to emerge are the following:

- *At the end of 1984, the firms surveyed managed funds totalling over £100 billion on behalf of UK residents and around £30 billion for overseas residents. In addition, they provided advice on a regular basis on portfolios totalling almost £50 billion for UK residents and over £5 billion for overseas residents.*
- *The accepting houses were by far the most active group of investment managers, while pension funds were the most important UK clients.*
- *About half the funds managed for UK residents took the form of UK equities; around one quarter were invested in foreign assets.*
- *Almost three quarters of the funds managed for overseas residents were invested in foreign assets.*

The survey presents a snapshot of the UK fund management industry at end-1984. The principal aim of the survey was to gauge the amount and type of investment management business conducted in the United Kingdom and the importance of this activity to the economy as a whole. The survey will also provide a benchmark against which future changes in the industry can be assessed.

A further aim of the survey was to assess the extent of the penetration by UK firms into the international fund management market—through managing UK residents' portfolios of overseas assets and through managing funds for overseas residents. The lifting of exchange controls in October 1979 was followed by a major diversification of UK residents' portfolios into foreign assets. The survey showed that UK firms manage foreign assets for UK residents of more than £25 billion, equivalent to a quarter of the total assets managed for these clients.

UK firms, particularly the accepting houses, are important managers of funds for overseas residents. The UK firms surveyed managed funds totalling £19 billion for overseas residents. They are hired as much for their expertise in foreign markets as for their knowledge of domestic markets—over 65% of the funds managed for overseas residents by the UK firms surveyed were invested in foreign assets. UK firms also provided advice on overseas residents' portfolios totalling around £3½ billion. The UK offices of foreign firms managed or advised on a further £12 billion of funds for overseas residents.

The international market has entered a period of rapid expansion and could provide a major growth area for UK fund managers. The 1974 Employee Retirement Income Security Act in the United States placed a requirement on pension fund managers to diversify in order to reduce the risk of losses. By the end of last year around $18 billion of US pension fund assets had been diversified into foreign investments and it is widely expected that this diversification will continue until US pension funds hold perhaps 5%–10% of their total assets (now over $980 billion) in foreign investments. A large part of these funds are managed by US houses but UK firms have successfully broken into the field. The UK groups surveyed managed £3½ billion of US pension funds and a further £2½ billion were managed by the UK offices of foreign firms.

Further expansion in the international fund management industry could also come from the diversification of Canadian pension funds. At present there is a limit of 10% on the proportion of Canadian pension funds that can be invested overseas but the industry has suggested an increase to 20%, and the Canadian government is reviewing the question. Canadian pension funds at present amount to around US$100 billion.

Diversification of Japanese pension funds could also lead to some expansion in international fund management.

(1) This article was written by Mrs P D Jackson of the Bank's Financial Supervision—General Division.

Japan too has a limit of 10% on the proportion of pension fund assets which can be invested abroad and an informal agreement restricting the annual flow of pension fund money into foreign assets to 10% of new business. But the trust banks, which with the insurance companies manage the pension funds, have approached the Ministry of Finance for an increase in the limit. At present foreign firms cannot manage Japanese pension funds (amounting to around $60 billion and growing at a rate of 25%–30% a year) but the Japanese Ministry of Finance has recently agreed to license eight foreign banks to act as trust banks.

The survey

A questionnaire was sent to 168 firms or groups. The firms approached included all the members of the Accepting Houses Committee and the large London and Scottish clearing banks, together with insurance companies, stockbrokers or other investment management companies thought to be active in this field. More than three quarters of the firms, including all the largest fund managers, responded, although some were able to provide only estimates of the breakdown of managed funds between type of client and type of asset.

The survey was aimed at large fund managers, which affects the interpretation of the results. Large fund managers could, for example, be more inclined to invest funds overseas than smaller firms with fewer resources. There is no way of telling what proportion of the total UK fund management industry has been captured in this survey. Fund management is an activity which cuts across the sectoral boundaries of the national accounts statistics and flow of funds data because it is carried out by a variety of different types of firm[(1)] and in any case information on this subject from these sources is limited.

It is possible, however, to comment on the extent to which different groups of managers and types of business have been covered. The survey probably captured over 90% of the fund management business of UK merchant banks and clearers. It is less certain what proportion of insurance company fund management business was captured. The omission of a number of insurance companies is clearly a deficiency but may still have left coverage of fund management in this sector above three quarters. The survey also probably picked up around three quarters of the fund management business of stockbrokers. Looked at from the point of view of type of business, the survey captured three quarters of the assets of investment trusts and authorised unit trusts, managed by firms of various types.

The number of firms in each category which answered the questionnaire is shown in Table A. The figures refer to the number of firms or groups which responded; subsidiaries (as at end-1984) were consolidated with their parent organisations. For example, the clearers' merchant banking subsidiaries and other fund management subsidiaries were included in the figures for the clearing banks. The 'other' category of fund management organisations includes a number of members of the Association of Investment Trust Companies.

Table A
Survey response rate

	Number of companies:		*Percentage*
	Responding (a)	Not responding	*responding*
UK fund managers:			
Accepting houses	15	—	*100*
Clearing banks	8	—	*100*
Insurance companies	21	3	*88*
Stockbrokers	45	21	*68*
Other	28	6	*82*
Foreign fund managers	11	5	*69*
Total	**128**	**35**	***79***

(a) A further five firms sent back nil returns.

Firms were asked to specify the volume of funds which they managed for different types of client at end-1984, together with the number of clients, and to show a breakdown of the investments in which these funds were held. They were asked to include all investment management business conducted by themselves or by their subsidiaries in any part of the United Kingdom, the Channel Islands or the Isle of Man. They were also asked to include investment management business conducted by any overseas subsidiaries and associates if the investment strategy was determined by an office in the United Kingdom.

Investment management was defined as the management on behalf of a client of a portfolio of investments. The criterion for inclusion was that the agreement with the client gave the manager full discretion to set the structure of the portfolio and invest the funds on a day-to-day basis or limited the discretion only to the extent of requiring the manager to seek the client's agreement to major changes in structure. By far the largest proportion of managed funds was handled on a fully discretionary basis. Firms were asked not to include the management of their own proprietary funds, or their own pension funds, because these are not fully part of the competitive market place. Insurance companies were asked to include their segregated and managed funds for pension schemes and other management business such as the management of trusts for individuals, but not business where the benefits arising were part of a conventional insurance contract. Unit-linked contracts for pension funds were included because these were regarded as very similar in kind to other forms of investment management, but such contracts for individuals were not included. Firms managing unit trusts or investment trusts were asked to include these in managed funds but were requested to show each trust as a single client.

(1) A number of the firms sampled fall under the national income headings of banks or other financial institutions. Among the rest, unincorporated businesses such as stockbrokers are usually classified as part of the personal sector, while other companies offering financial services may be regarded as industrial and commercial companies.

The survey also sought information about the provision of advice to clients, on a regular basis, on the structure of their portfolios. Some pension funds managing their own portfolios use one or more investment firms as advisers. Moreover, some firms, stockbrokers in particular, provide private clients with advice on the portfolio structure often combining this with a portfolio valuation service, even though they do not manage the portfolios in the strict sense. In the survey, firms were asked to include advisory business under a separate category and also to distinguish between UK and overseas residents. As this advisory business may include double counting (since investors may use more than one adviser), results in this area were expected to be of limited value and no further details were requested.

The definition of investments used in the survey included UK and foreign securities (including eurobonds), money-market assets and bank deposits, commodity and financial futures, options, participations in collective investment undertakings (for example, unit trusts and property unit trusts) and property. Firms were asked to record investments at market value, except in the case of futures and options where only the funds actually expended (ie option premium or margin) were included.

To gauge the importance of investment management and advisory business to the United Kingdom, firms were asked to indicate the gross income derived from it and also the total number of staff employed in these activities (either full time or part-time equivalent, and including support and administrative staff).

Funds managed for UK residents (Table B)

The firms responding to the survey managed funds totalling over £100 billion for UK residents. The most active managers were the accepting houses which accounted for around 40% of the funds managed.

Analysis by client

By far the most important clients are the pension funds. The firms responding to the survey managed over £60 billion of pension fund assets, equivalent to around half the assets of pension funds where the benefits are not part of an insurance contract. Fund managers have undoubtedly benefited from the rapid expansion in the assets of self-administered pension funds. These funds increased from £12 billion in the early 1970s to over £115 billion now. Probably no more than 50 to 100 of the largest pension funds manage their own portfolios—the other 90,000 funds use insurance schemes or engage an outside manager to invest the assets on a discretionary basis.

The survey shows that merchant banks are the most important fund managers in this field, although the insurance companies, clearing banks and stockbrokers also do a substantial amount of discretionary pension fund management. Pension funds account for well over half the fund management business (as defined in the survey) of the accepting houses, clearing banks and stockbrokers surveyed and over 95% of this type of business of the insurance companies.

Management of investment trusts and unit trusts is another important area—it accounted for around one fifth

Table B
Funds managed for UK residents
£ billions; *percentage shares in italics*

	UK managers										UK offices of foreign managers		All managers	
	Accepting houses		Clearing banks		Insurance companies		Stockbrokers		Other					
Analysis by clients														
Government and public sector	2.2	*5.0*	0.1	*0.6*	0.4	*2.8*	1.1	*9.9*	—	—	—	—	3.8	*3.6*
Private clients	2.2	*5.0*	2.9	*18.2*	—	—	2.7	*24.3*	0.5	*2.4*	0.1	*9.1*	8.4	*7.8*
Pension schemes	28.0	*63.2*	8.6	*54.1*	13.6	*95.8*	6.2	*55.9*	6.8	*32.2*	0.6	*54.5*	63.8	*59.2*
Unit and investment trusts	8.5	*19.2*	2.5	*15.7*	0.1	*0.7*	0.3	*2.7*	11.4	*54.0*	0.4	*36.4*	23.2	*21.5*
Insurance companies	0.8	*1.8*	0.3	*2.0*	—	—	—	—	1.5	*7.1*	—	—	2.6	*2.4*
Industrial and commercial companies	0.7	*1.5*	0.8	*5.0*	—	—	0.1	*0.9*	0.4	*1.9*	—	—	2.0	*1.9*
Other	1.9	*4.3*	0.7	*4.4*	0.1	*0.7*	0.7	*6.3*	0.5	*2.4*	—	—	3.9	*3.6*
Total	**44.3**	*100.0*	**15.9**	*100.0*	**14.2**	*100.0*	**11.1**	*100.0*	**21.1**	*100.0*	**1.1**	*100.0*	**107.7**	*100.0*
Analysis of assets(a)														
Cash and money-market instruments (sterling and foreign currency)	2.3	*5.2*	0.8	*5.0*	0.5	*3.5*	0.5	*4.8*	0.8	*3.8*	—	—	4.9	*4.6*
Equities of UK companies	22.0	*49.7*	7.3	*45.9*	6.2	*43.7*	6.4	*61.5*	9.9	*47.2*	0.4	*40.0*	52.2	*48.9*
Fixed-interest securities of UK companies(b)	1.5	*3.4*	0.6	*3.8*	0.2	*1.4*	0.1	*1.0*	0.4	*1.9*	—	—	2.8	*2.6*
UK government and other public sector securities	5.6	*12.6*	3.1	*19.5*	3.0	*21.1*	1.9	*18.3*	1.4	*6.7*	0.2	*20.0*	15.2	*14.2*
Equities of foreign companies	9.6	*21.7*	2.6	*16.4*	2.2	*15.5*	1.2	*11.5*	7.8	*37.1*	0.4	*40.0*	23.8	*22.3*
Bonds issued by foreign companies(b)	0.4	*0.9*	0.1	*0.6*	—	—	—	—	0.1	*0.5*	—	—	0.6	*0.6*
Securities issued by foreign governments and international institutions(b)	0.2	*0.4*	0.4	*2.5*	0.1	*0.7*	0.1	*1.0*	0.3	*1.4*	—	—	1.1	*1.0*
Other investments (UK and overseas) including property	2.7	*6.1*	1.0	*6.3*	2.0	*14.1*	0.2	*1.9*	0.3	*1.4*	—	—	6.2	*5.8*
Total(c)	**44.3**	*100.0*	**15.9**	*100.0*	**14.2**	*100.0*	**10.4**	*100.0*	**21.0**	*100.0*	**1.0**	*100.0*	**106.8**	*100.0*

(a) Unit trusts were shown under the category which accounted for most of their assets. Where a clear distinction could not be drawn they were included under 'other investments'.

(b) Including fixed and floating-rate eurobonds.

(c) These totals are not identical to those in the top half of the table because a few respondents were unable to provide a breakdown by type of asset.

of the business of the firms which responded to the survey. These firms managed about £23 billion of such funds against a total UK investment trust and authorised unit trust market of £30 billion.

The differences between the customer bases of the various types of investment manager are reflected in substantial differences in the average size of account which they manage, shown in Table C.

Table C
Average size of account for UK residents
£ millions

Accounts managed by:

Accepting houses	Clearing banks	Insurance companies	Stockbrokers	Other UK managers	UK offices of foreign managers
4.2	0.4	2.9	0.5	3.7	1.7

The clearing banks and stockbrokers, for whom the funds of private clients represent a substantial proportion (around a fifth) of the total assets managed, have considerably smaller accounts, on average, than the accepting houses or the insurance companies. The relatively large average account size for the 'other' UK managers reflects the fact that the management of investment trusts and unit trusts (each of which counts as a single client) accounts for over half of the fund management business of these firms.

Analysis by asset

Around half the funds managed for UK residents were invested in UK company equities (listed and unlisted). This proportion was broadly the same for all groups of fund managers with the main exception of the stockbrokers who invested over 60% of funds in UK equities. The equity holdings reported by the firms surveyed accounted for around a quarter of total UK equities in issue. Some 14% of funds managed for UK residents were invested in UK public sector bonds and less than 3% in UK corporate bonds. Holdings of foreign assets—mostly equities—constituted a large proportion (about one quarter) of funds managed for UK residents.

The proportion of managed funds invested in foreign assets by the different groups of UK managers varied considerably. The lowest proportion (13%) was held by the stockbrokers and the highest (39%) by the 'other' UK managers. This could possibly be explained by the differences in the client mix of the various fund managers. A large number of the investment trusts and unit trusts managed by the 'other' managers would be specifically geared towards foreign markets. Holdings of sterling and foreign currency cash and money-market instruments accounted for under 5% of managed funds leaving 6% of assets in an 'other' category including property.

The UK offices of foreign firms included in the survey managed funds totalling rather more than £1 billion for UK residents (largely pension funds and unit and investment trusts). The asset distribution used by these managers was similar to that of UK managers, although a higher proportion (40%) of the funds was invested in foreign assets. The foreign offices of these firms probably handle a sizable amount of investment in overseas assets for UK residents which would not have been captured by the survey.

Table D
Funds managed for overseas residents
£ billions; *percentage shares in italics*

	UK managers										UK offices of foreign managers		All managers	
	Accepting houses		Clearing banks		Insurance companies		Stockbrokers		Other					
Analysis by clients														
Government and public sector	4.7	*35.3*	0.1	*5.3*	—	—	2.2	*88.0*	—	—	4.6	*47.4*	11.6	*40.7*
Private clients	1.2	*9.0*	0.8	*42.0*	—	—	0.2	*8.0*	—	—	0.3	*3.1*	2.5	*8.8*
Pension schemes	3.2	*24.1*	0.1	*5.3*	—	—	—	—	0.5	*45.4*	2.8	*28.9*	6.6	*23.1*
Unit and investment trusts	1.1	*8.3*	0.1	*5.3*	—	—	—	—	0.3	*27.3*	0.2	*2.1*	1.7	*6.0*
Insurance companies	1.9	*14.3*	0.2	*10.5*	—	—	—	—	0.3	*27.3*	0.8	*8.2*	3.2	*11.2*
Industrial and commercial companies	0.6	*4.5*	0.5	*26.3*	—	—	—	—	—	—	0.4	*4.1*	1.5	*5.3*
Other	0.6	*4.5*	0.1	*5.3*	—	—	0.1	*4.0*	—	—	0.6	*6.2*	1.4	*4.9*
Total	**13.3**	*100.0*	**1.9**	*100.0*	—	—	**2.5**	*100.0*	**1.1**	*100.0*	**9.7**	*100.0*	**28.5**	*100.0*
Analysis of assets(a)														
Cash and money-market instruments (sterling and foreign currency)	1.8	*13.5*	0.2	*11.1*	—	—	0.1	*4.4*	0.1	*9.1*	1.1	*11.3*	3.3	*11.7*
Equities of UK companies	1.7	*12.8*	0.4	*22.2*	—	—	0.2	*8.7*	0.2	*18.2*	0.6	*6.2*	3.1	*11.0*
Fixed-interest securities of UK companies(b)	0.2	*1.5*	—	—	—	—	—	—	—	—	0.1	*1.0*	0.3	*1.1*
UK government and other public sector securities	0.7	*5.3*	0.3	*16.7*	—	—	0.3	*13.0*	—	—	0.3	*3.1*	1.6	*5.7*
Equities of foreign companies	4.4	*33.1*	0.4	*22.2*	—	—	0.5	*21.7*	0.6	*54.5*	2.9	*29.9*	8.8	*31.2*
Bonds issued by foreign companies(b)	2.1	*15.8*	0.3	*16.7*	—	—	—	—	—	—	2.3	*23.7*	4.7	*16.7*
Securities issued by foreign governments and international institutions(b)	2.4	*18.0*	0.2	*11.1*	—	—	1.2	*52.2*	0.1	*9.1*	2.4	*24.8*	6.3	*22.3*
Other investments (UK and overseas) including property	—	—	—	—	—	—	—	—	0.1	*9.1*	—	—	0.1	*0.3*
Total(c)	**13.3**	*100.0*	**1.8**	*100.0*	—	—	**2.3**	*100.0*	**1.1**	*100.0*	**9.7**	*100.0*	**28.2**	*100.0*

(a) Unit trusts were shown under the category which accounted for most of their assets. Where a clear distinction could not be drawn they were included under 'other investments'.

(b) Including fixed and floating-rate eurobonds.

(c) These totals are not identical to those in the top half of the table because a few respondents were unable to provide a breakdown by type of asset.

Table E
Investment advice for UK residents[a]

	Accepting houses	Clearing banks	Stockbrokers	Other UK managers	Total
Advisory business (£ billions)	12.0	3.3	30.4	1.6	47.3
Percentage share of total	25.4	7.0	64.2	3.4	100.0

(a) The insurance companies surveyed had no business in this category and UK offices of foreign managers surveyed did only £8 million of advisory business.

Investment advice for UK residents (Table E)
The firms which responded to the survey provided advice on portfolios totalling £47 billion for UK residents. Much of the business of UK stockbrokers falls into this category; they provide detailed advice on the structure of clients' portfolios and are remunerated by the commission income generated by the business. There may be a considerable amount of double counting in these figures because clients frequently use more than one investment adviser.

Fund management for overseas residents
(Table D)

The UK firms which responded to the survey managed funds totalling £19 billion for overseas residents. The UK offices of foreign firms handled a further £10 billion of funds for overseas residents, almost ten times the amount of management business which they did for UK residents. The merchant banks, clearing banks and stockbrokers are the main UK fund managers involved in this type of business. Stockbrokers' overseas clients are mainly public sector bodies whereas the merchant banks manage funds for a wide range of customers, including public sector bodies and pension funds. Private individuals form a large proportion of the clearers' overseas clients. UK firms managed around £3½ billion of assets for US pension funds and UK offices of foreign firms managed a further £2½ billion of such funds.

Of the funds managed by the firms surveyed for overseas residents 70% were invested in foreign assets. The mix of foreign assets in portfolios managed for overseas residents was rather different from that in portfolios managed for UK residents. Foreign company bonds are considerably more prominent in the portfolios of overseas residents than they are in the portfolios of UK residents.

The firms which participated in the survey provided advice on a regular basis on overseas residents' portfolios totalling some £6 billion (Table F).

Table F
Investment advice for overseas residents[a]

	Accepting houses	Clearing banks	Stockbrokers	Other UK managers	Foreign managers	Total
Advisory business (£ billion)	1.2	0.4	1.4	0.5	2.4	5.9
Percentage share of total	20.3	6.8	23.7	8.5	40.7	100.0

(a) The insurance companies surveyed had no business in this category.

Income from fund management

The importance of the fund management industry to the UK economy as a whole is not easy to assess with any accuracy. The survey indicated that over 6,700 staff are employed by the respondent firms in the United Kingdom in managing customer accounts or advising on their portfolio structure. This figure is an underestimate because only 116 firms were able to supply a figure for staff and a number do not appear to have made any allowance for 'back-room' employees.

Perhaps understandably, firms had difficulties in assessing the volume of gross revenue (in fees and other income) from fund management and advisory business. Not all firms were able to supply figures for gross revenue from this part of their business. The figures in Table G refer to those firms which answered this question.

The figures shown for stockbrokers include the commission income generated by this management or advisory business. The 103 firms which answered this question together earned around £380 million on their investment management and advisory business in their latest financial year—equivalent to over 0.2% of the stock of their managed and advisory funds at the end of the financial year. This implies that revenue for all the firms surveyed could be of the order of £450 million.

Table G
Income from fund management[a]

	Gross revenue		Number of firms responding
	£ millions	As percentage of funds managed or advised	
Accepting houses	119.4	0.2	13
Clearing banks	28.5	0.1	8
Insurance companies	27.2	0.2	17
Stockbrokers	67.0	0.3	27
Other UK managers	99.2	0.4	27
UK offices of foreign managers	34.2	0.3	11
Total	**375.5**	**0.2**	**103**

(a) In latest financial year.