FUNDSCAPE

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THE CHANGING FACE OF THE UK FUND INDUSTRY

Fundscape and the Pridham Report have jointly published **the Definitive Guide to the UK Fund Industry 2015,** covering all aspects from fund manufacture to distribution.

Despite predictions to the contrary, two years after the Retail Distribution Review (RDR) was introduced, the UK's fund industry is flourishing. It is now the largest domestic market in the Europe with assets of £753bn, and is larger than the domestic fund markets of Switzerland, Germany, France and Italy.

Further expansion is predicted. Low interest rates, the rising number of baby boomers and the pension freedom that comes into force in April will help to fuel growth. Five-year projections with pessimistic, realistic and optimistic scenarios have been produced in the guide. Bella Caridade-Ferreira, CEO of Fundscape said "UK fund industry assets will skyrocket on the back of this unique combination of factors. Our realistic scenario sees assets rise to £1,449bn by 2019, a compound annual growth rate of 12.8%. In the optimistic scenario, 2019 assets could be in the region of £1,773n. Or even higher."

The RDR has had known and unknown consequences for distribution. Many commentators expected financial advisers to leave the industry in their droves — that hasn't happened so far, and financial advisers have maintained and even increased their share of fund flows. However, advice is consolidating, propositions are increasingly restricted and vertical integration is growing at a marked pace. In addition, advisers are outsourcing or centralising their investment decisions, which has consequences for how fund managers do business.

Fundscape estimates that around 70-75% of fund flows are under some kind of distribution influence. Brand plays a role, but the key to success in the UK market is good investment performance coupled with capacity. As a result, a large proportion of sales tends to flow to a handful of larger managers.

Helen Pridham, of the Pridham Report said “There is still scope for smaller, boutique-type groups to make their mark in the UK. In recent years, high-profile fund managers have successfully set up groups and other, smaller groups have produced stand-out performance and risen up the sales league.”

As a result of outsourced investment management, the use of mixed asset funds has shot up. In the first nine months of 2014, mixed asset funds accounted for £6bn in net flows compared to £1.7bn in net equity flows. The trend is expected to continue. In future, a large proportion of the money that previously flowed into annuities could end up in income-oriented mixed asset funds. Targeted absolute return has also been one of the top-selling product areas and property funds are also back in fashion.

Despite the regulatory and competitive pressures on the UK industry, there are many reasons to expect a robust future and continued growth. In the short to medium term, low interest rates should continue to make funds look attractive relative to cash and just as important are ageing demographics, with rising numbers of baby-boomers looking for ways to manage their retirement income. This will be accentuated by the pension freedom that comes into force in April 2015, which abolishes mandatory annuities and gives pensioners the freedom to manage their retirement pots as they choose.

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Notes to Editors:

The Definitive Guide to the UK Fund Industry 2015 is jointly published by Fundscape LLP and the Pridham Report.

For more information on this publication, visit http://www.fundscape.co.uk/services-4.php.

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