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## Executive summary

- Since RDR, demand for model portfolios has grown exponentially and funds of funds are now seen as their unsexy and frumpy cousins — anachronistic and expensive. However, funds of funds play an integral role in making multi-asset investments accessible to investors who would not otherwise be able to access model portfolio or DFM services.
- Despite competition, funds of funds have continued to build a strong book of business. They represent 14% of total industry assets and 18% of industry net sales.
- The UK fund industry has grown at a fast pace for nearly two decades. Thanks to a compound annual growth rate of 11.8%, it is now the largest domestic industry in Europe. The funds of funds (FOF) sector has grown even faster. In 2001, it represented 5% of assets but by September 2017, it had risen to 14%.
- Funds of funds face stiff competition from model portfolios and other competitively priced solutions. In particular, internal funds of funds, whose popularity waned for years, are on the up thanks to cheaply priced in-house solutions, many of which are populated with in-house passive funds. Vertical integration is a factor.
- Overall, there are 109 FOF providers with 639 externally invested funds of funds. But the top five groups by assets account for 41% of FOF assets. The top three are Old Mutual, Hargreaves Lansdown and Schroders.
- Vertically integrated models have had a dramatic impact on the funds of funds industry. The top three groups (Old Mutual, Hargreaves and True Potential) are vertically integrated and accounted for 50% of total net sales in the year to September 2017.
- While Schroders, Hargreaves Lansdown and Jupiter are home to the largest funds of funds by assets, two OM Cirilium products top on sales, highlighting the impact of vertical integration business models.
- Charges for funds of funds vary widely with OCFs as low as 0.22% and as high as 1.60%. Ex-ante transaction costs for the top funds by sales were also reasonable. Calculation methods vary and it will take a while before accuracy is reliable.
- There are 445 underlying funds being selected by funds of funds. Of this number, half have only one FOF mandate. Conversely, there are only seven funds with more than ten FOF mandates across the entire FOF universe.
- The most popular fund (by FOF assets) is the Findlay Park American fund. Meanwhile, the most popular fund by number of mandates is Majedie UK Equity with 14 mandates.

- The fund groups with the most assets in funds of funds are BlackRock and Vanguard. It is no surprise that they are predominantly passive manufacturers and can benefit from the growing demand for passive components.
- Passive funds account for just under a quarter of all underlying funds and are particularly stealing a march in core and developed markets where it is hard to outperform or justify higher costs.
- Funds of funds tend to be concentrated in a 'lucky' handful of funds in each sector, creating systemic risk for the industry. The funds of funds industry should be casting its net much wider and diversifying its fund selections.
- Sector concentration is also a significant factor. Despite the diversification benefits of funds of funds, 31% of all FOF assets are invested in just three sectors — UK Equity Income, UK All Companies and Sterling Corporate Bond.
- Geographic concentration has reduced slightly, but 87% of funds of funds assets are invested in core markets.
- Forecasts for the sector to 2023: pessimistic scenario, £165bn, realistic scenario, £200bn and optimistic scenario, £235bn.