THE GLOBAL CITY

The UK: A gateway to global asset allocation

Contents

Foreword

The global economy has changed. For much of the world, economic recovery from the effects of the pandemic is the new priority.

The UK asset management industry is well positioned to help support that recovery. Here, the industry is mature, international and diverse, benefitting from the comprehensive ecosystem that underpins the UK's world-leading financial services sector. An open business environment, a skilled and diverse workforce, a transparent legal framework, a beneficial time zone, the presence of many international firms – all this combined means the UK's asset management sector has developed into what is now the largest global hub outside of the US. Its customers include a range of domestic clients, from retail investors to giant pension funds, as well as a very large number of international investors, who account for more than a third of assets under management in the UK.

Capital markets in the UK are highly liquid and international, with longstanding strengths in facilitating global asset allocation, which benefits UK asset managers. Alongside this market infrastructure, the UK offers world-leading talent, including both home-grown staff and specialist staff attracted to the opportunities the UK has to offer.

Firms can recruit from a pool of 2.3 million specialist financial and professional services workers. With 57% of the workforce educated to degree level, the UK offers one of the most skilled workforces in the world.

The UK's dynamic investment environment is bolstered by a time zone that has working hours which overlap with major markets from East to West. Fund managers can explore investment opportunities across the globe, supported by global connectivity and an international outlook.

This is underpinned by robust and forward-looking regulatory standards that developed to align with global regulation. Such coherence is important to asset managers investing across multiple sectors and markets.

A successful asset management industry must therefore be able to offer access to a multiplicity of asset classes and investment strategies and styles. The UK asset management industry offers an unparalleled level of diversity and choice. As a leading global financial services centre, the UK has a long and proven history of showing the resilience and innovation to ride out crises such as this one. The depth and breadth of the UK's offer means it will have a crucial part to play in the global recovery.

Alderman William Russell
Rt Hon Lord Mayor of the City of London

Catherine McGuinness
Policy Chair of the City of London Corporation

The UK's asset management industry: perfectly placed for success

The UK is the world's largest asset management centre outside the US. With £8.5 trillion of assets under management, the UK's asset management sector is larger than those of the next three largest European markets combined (France, Germany and Switzerland). The consistent growth of the industry reflects both strong market performance and healthy investment inflows. And in the Covid-19 era, UK asset management is once again proving its resilience.

The history and legacy of the UK's asset management sector is one of the strengths of the industry in the UK. From 18th century stockbrokers in the London coffee houses through Empire and the financial crisis of the 00's, the industry has displayed remarkable resilience and continued to grow. This history of resilience and adaptation stands the sector in good stead to weather the Covid-19 crisis now affecting economies worldwide.

The UK is a truly international market, with UK-based asset managers managing £3.6 trillion worth of asset for overseas investors as of end 2019; the industry therefore makes a significant contribution to the UK's services exports through overseas earnings. Its global assets under management grew to £8.5 trillion in 2019, a 10% increase year on year.

In the UK itself, the asset management sector is an important institutional shareholder. UK asset managers remain significantly invested in the UK economy holding £1.6 trillion in UK equities, corporate bonds, commercial property and, increasingly in recent years, in infrastructure. In addition, UK asset managers are owners of businesses worldwide: 70% of the shares managed by UK asset managers are listed on overseas markets.

Pioneers of innovation in asset management

The UK's asset management sector has a deep-rooted commitment to innovation. This is proving vital to the industry's response to Covid-19, where it has been able to fall back on robust digital infrastructure that has minimised disruption and increased resilience. Industry-wide groups have come together to develop technology-driven solutions to many of the challenges of the pandemic. The UK's internationally renowned fintech sector, meanwhile, is well placed to provide the digital solutions necessary to work around the challenges of the physical world.

Elsewhere, one important aspect of innovation is renewal in the sector itself. For example, in October 2018, the Investment Association launched Velocity (now known as Engine), a fintech innovation hub and accelerator for investment management and capital markets. It consists of a panel of 25 industry practitioners and experts who advise on how to accelerate the identification and adoption of emerging technologies across the sector.

Innovation in the client offer is also vital as investors' needs and demands evolve. UK asset managers have been pioneers of sustainable and responsible investing. One recent Investment Association survey found that at the end of 2019, 38% of total assets under management in the UK applied ESG integration. The funds under management in responsible investment funds grew by 89% between January 2019 and June 2020, reaching £33 billion in June 2020.[1]

The UK's record of innovation makes it highly attractive to overseas investors. Research published by the City of London Corporation in 2019, showed that fund managers looking at global opportunities to invest in fintech deals over the following 24 months ranked the UK and North America in joint first place as the region outside their home markets where they were most likely to invest. [2] Overseas fund managers that co-invest in fintech deals benefit from the expertise, networks and on-the-ground intelligence of UK fund managers.

[1] https://www.theia.org/sites/default/files/2020-09/20200924-imsfullreport.pdf
[2] https://news.cityoflondon.gov.uk/lord-mayor-visits-san-francisco-as-research-highlights-attractiveness-of-uk-fintech-sector-for-north-american-investors/

Clifton Suspension Bridge, Bristol (©Nathan Riley)

A talent pool with depth and breadth

The UK's asset management sector has access to a broad and deep talent pool. In 2019, the Investment Association estimated that the UK investment management industry supports around 113,000 jobs in the UK. Nearly 40,000 people are employed directly by investment management firms.[3]

The UK Government is committed to developing this talent pool. Its Investment Management Strategy Paper II sets out the need to develop a strong domestic pipeline of skills to support the UK asset management industry, with talent drawn from a diversity of backgrounds[4]. For example, building on its apprenticeship reforms, as well as work to promote workplace diversity, the Government has set out plans to establish Centres of Excellence at UK universities. In a Brexit context, the Government has said it will establish an immigration system that supports the economy so that the UK industries, including asset management, will continue to attract the brightest and best international talent.

The global asset management hub

The UK is a super connector for asset managers from markets around the world. For example, London is the leading centre for international bond trading, 70% of global secondary market bond trading takes place in London[5]. Asset managers seeking to attract investment into their products routinely meet with potential global investors via connections in the UK, supporting a two-way flow of investments.

In combination, all these factors have given the UK's asset management industry a strong competitive edge. Its unrivalled global focus, the ability to adapt and innovate in response to changing demands, its high-quality talent, and its location and connectivity are all crucial drivers of success. Importantly, the industry also recognises there is no room for complacency. Industry leaders are already actively looking ahead at how the UK will maintain its global competitive edge in the longer term.

[3] https://www.theia.org/sites/default/files/2020-09/20200924-imsfullreport.pdf
[4] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/665668/The_Investment_Management_Strategy_II.pdf
[5] https://docs.londonstockexchange.com/sites/default/files/documents/debt-presentation.pdf

The UK: as a centre for active investment

The UK is home to one of the world's largest active investment management industries, spanning multiple markets and asset classes.

The Investment Association reports that over two thirds of institutional client assets (69%) were managed by its members on an active basis, significantly more than in any other country in Europe.[6]

Moreover, the UK's active investment community is remarkably diverse. While the Investment Association's members account for around 85% of funds under management, the UK's hedge funds, private equity funds, discretionary private client managers and investment companies manage an additional £1.4 trillion of assets, almost all of it invested actively.[7]

The comprehensive eco-system in the UK financial services sector has led the industry to emerge as an active investment management hub outside of the US for global investors. The industry reflects a range of well-established strengths that enable active investment in the UK to flourish while simultaneously attracting mandates from overseas clients.

Global reach

The size of the UK asset management industry reflects its global nature, both in terms of where it invests and the clients it serves. Some 40% of UK-managed assets are sourced from overseas clients, led by European, North American and Asian investors, up from 31% in 2008. Asset allocation models are global – in equities, for example, only 30% of assets managed in the UK are listed on UK markets.

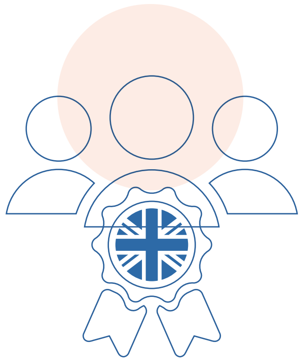
The UK's time zone location offers a natural competitive advantage for UK-based active asset managers, for whom trading hours overlap with those of markets from East to West. The industry has capitalised on its global reach, developing expertise in the broadest range of asset classes, including equities, fixed income and property, but also alternative assets from infrastructure to debt, and a growing number of assets not listed on public markets.

Slightly more than half the money managed by UK asset managers is invested on behalf of institutional investors, of which 69% is managed actively rather than passively.

Refinitiv Lipper UK Funds Key Facts

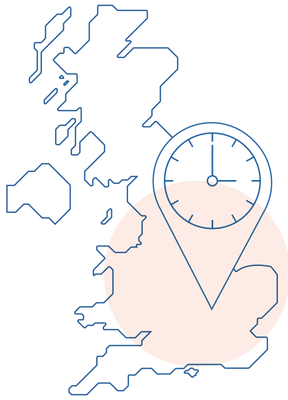
- The UK is dynamic and evolving market with almost 200 primary-share funds launched in 2019 alone.
- There are over 350 fund promotors in the UK ranging from large international players to small local boutiques.
- The UK has an extremely diversified fund range reflecting a comprehensive range of asset skills with over 100 Lipper Global Fund Classifications represented ranging from equities, fixed income and multi-asset through to absolute return, property and alternative strategies.
- The Lipper database of publicly available collective investments reveals that for the last 10-years (to end of February 2020) the assets under management for UK-domiciled funds has increased by 106%.

Source: Refinitiv Lipper



The UK's reputation for high-quality active investment management is built on the foundations of its remarkably deep and wide pool of talent.

[6] https://www.theia.org/sites/default/files/2020-09/20200924-imsfullreport.pdf
[7] Ibid



The UK's time zone location offers a natural competitive advantage for UK-based active asset managers, for whom trading hours overlap with those of markets from East to West.

Meanwhile, amongst retail investors, 84% of assets are invested via active funds. UK asset managers continue to innovate, offering exposure to new asset classes, an evolving value proposition often married to financial planning priorities, new styles of fund management and access to an increasingly diverse range of asset classes.[8]

Unrivalled talent

The UK's reputation for high-quality active investment management is built on the foundations of its remarkably deep and wide pool of talent. This includes a core of around 10,000 people directly involved in activities central to active management, including asset allocation, stock selection, research, analysis and dealing. But the importance of the deep pool of expertise in areas such as fund administration, compliance, corporate finance and IT, all of which are central to active investment managers' ability to add value, should not be underestimated.

The fragmented nature of the UK's asset management industry ensures a wide array of specialist talent is available to clients sourcing active management. The industry comprises of a small number of very large businesses but a large number of medium-sized and smaller firms, including a significant number of boutiques and consultancies. These firms provide highly specialised products and services, ensuring demand for every flavour of active management can be met.

Innovative value proposition

UK asset managers have a long history of innovation, with many of the most established businesses descending from trading firms set up during the 18th and 19th century. The active management proposition continues to evolve at pace, reflecting the changing needs of its client base.

In particular, active investment firms are now meeting the demand from many retail investors for specific investment outcomes, as opposed to exposure to a particular asset class or investment style. While passive funds are sometimes used as a building block in outcome-focused products and services, the unique skills of active managers are at a premium in this regard. Many new products rely on multi-asset solutions, for example, requiring active management capabilities in several asset classes within one product.

In the institutional investment space, the growth of liability-driven investment, where the UK asset management sector has also been a pioneer, represents another example of innovation. Active managers are meeting demand from investors such as pension funds to build portfolios that deliver returns much more closely aligned with their liabilities.

[8] Ibid

Pioneers of ESG

Ethical investment products have been available to active managers in the UK for several decades, with the launch of funds such as Friends Provident Stewardship in the early 1980s, amongst the earliest of such offerings anywhere in the world. By their nature, these funds require an active investment approach, with managers required to make qualitative decisions about how and where to invest based on values-based criteria.

More recently, the UK has continued to be at the forefront of principles-based investment as a pioneer of funds managed with a focus on environmental, social and governance (ESG). The deep-seated experience and expertise of active managers in the UK has enabled them to respond with agility to rapidly growing demand for this type of proposition.

With ESG investment styles expected to grow even more quickly in the wake of the Covid-19 pandemic, the UK's leadership in this area will be paramount. This report contains more detail on the UK's ESG investment expertise (see ESG Investment section for further details).

Cutting-edge technology

Active asset managers have been quick to exploit technological innovation. Artificial intelligence, robotics and big data all offer exciting new opportunities for active managers to develop new products and services. The UK has an advantage in this regard, with a world-leading fintech industry – worth more than £6.6 billion to the UK economy and employing 76,500 people[9] – that is constantly innovating.

In the active investment space, fintech applications include robo-advisory models, where the UK has become a world leader over the past decade. Automated advice offers retail investors a bespoke portfolio construction service at an affordable price, alongside digital services that enable them to monitor the performance of their investments in real time.

[9] https://www.great.gov.uk/international/content/about-uk/industries/financial-services/

The UK: a centre for passive asset management

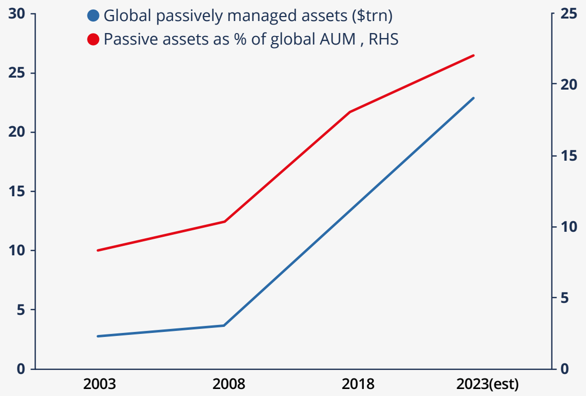
The rise of passive investment has been a major trend in the asset management sector over the last decade and appears set to continue. London, where the world's largest asset management firms, investment banks and index providers all have a substantial presence, is playing a leading role.

The rise of passive asset management

Passive asset management styles aim to replicate, rather than beat, the performance of a benchmark index, either by constructing a portfolio that precisely mirrors the index's constituents, or through financial instruments such as derivatives.

Boston Consulting Group research suggests passively-managed assets will reach $24 trillion worldwide by 2023, a dramatic 800% increase since 2003. This will take the market share of passive to nearly a quarter of global assets under management, up from 9% in 2003.[10]

The rise of passive asset management



Source: Boston Consulting Group, Global Asset Management Report 2019

Four major factors have contributed to the rise of passive investment:

- There is overwhelming evidence that it is difficult for active managers to consistently outperform the market index, prompting many investors to decide it's better to track the market than to try to beat it.
- The fees of passive funds are often much lower than those of actively-managed funds operating in the same market sectors, helping attract inflows from cost-conscious investors.
- Exchange-traded funds (ETFs) have become increasingly popular; ETFs, most of which track indexes, enable investors to enter and exit a broad range of markets at any time in the trading day. Globally, ETFs had over $6 trillion in assets at the end of 2019, a six-fold increase from a decade earlier.
- Advances in technology have also underpinned the development of the index industry and the rise of passive investing.

However, it's not just passive fund managers who use indexes as a matter of course. Active managers rely on them to benchmark performance, while investment banks create trading products and strategies based on index returns.

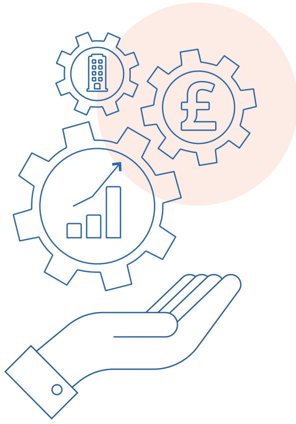
Research suggests passively-managed assets will reach $24 trillion worldwide by 2023, a dramatic

800%

increase since 2003.

[10] BCG, Global Asset Management 2019, 'Will these '20s Road?', http://www.bcg.com/publications/2019/global-asset-management-will-these-20s-roar

London skyline (©Ed Robertson)



Passive assets under management stood at

£220 billion

as of the end of September 2019.

The UK takes centre stage on passive asset management

The UK has also seen a shift towards passive fund management. The latest Investment Association data shows that £4.6 billion was poured into tracker funds between June and September 2019 alone. Passive assets under management stood at £220 billion as of the end of September, with an overall share of industry funds under management of 17%. By contrast, a decade ago, there was just £31 billion under management in tracker funds, equivalent to a 6% share.[11]

The index division of London Stock Exchange's FTSE Russell counts 98 of the world's 100 top asset managers among its clients, as well as the top 10 investment banks and 19 of the top 20 ETF issuers. In aggregate, these clients use FTSE Russell benchmarks for $16 trillion in client assets.

FTSE Russell's client statistics

98/100

top asset managers use FTSE Russell indexes.

Top 10

investment banks use FTSE Russell indexes.

19/20

top global ETF issuers work with FTSE Russell.

$16tn

in reported fund AUM for FTSE Russell benchmarks.

$3.5tn

...of which tracks our **fixed income** benchmarks.

72 countries

countries clients served in countries around the world.

Source: FTSE Russell estimates, as at end-2019

[11] https://www.theia.org/media/press-releases/equities-firmly-out-favour-record-quarterly-outflows

Millennium Bridge, St. Pauls Cathedral, London (©James Padolsey)

Diversity of indexes helps portfolio construction

The indexes underlying the most popular passive investment products are often well-established, 'brand name' benchmarks. The FTSE 100 index, which represents the largest 100 companies with a premium listing on the London Stock Exchange, is one example.

However, there is now huge diversity in the indexes available to the average investor via index funds and ETFs. From their beginnings in the equity market, indexes now cover the full range of asset classes, including bonds, currencies and commodities.

There is also significant variety in the way the indexes underlying passive funds are constructed. Many follow the traditional methodology of weighting individual constituents by their market capitalisation. However, others use alternative weighting methodologies, intended to produce specific risk or return outcomes.

A rapidly growing area of passive management involves indexes that aim to replicate "factors", such as value, size, quality, low volatility. Factors are best understood as shared characteristics amongst stocks and bonds. Other popular new indexes offer exposure to climate change-related measures, such as fossil fuel emissions or green revenues.

Investors seeking access to passive investment in the form of ETFs benefit from the liquidity provided by a central trading venue. The London Stock Exchange is the leading exchange in Europe for the trading of ETFs, with around a 30% share of regional trading volumes. There are over 1,000 ETFs listed on London Stock Exchange's main market.

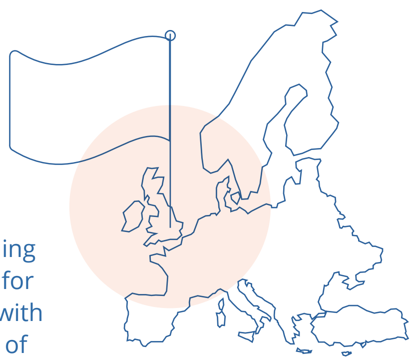
These give investors real-time access to an increasing diversity of indexes, covering all the major asset classes and a range of underlying strategies.

Integrating indexes, data and market analytics

After a record-breaking decade, it seems reasonable to ask if passive asset management can sustain recent rates of growth during the 2020s.

In its favour, index-based investing still meets many clients' key needs. The performance and cost advantages of passive asset management appear unlikely to disappear, while ETFs continue to gain in popularity. In addition, advances in technology provide an increasingly important support for the further growth of passive. Market participants now want to receive index information, market data and portfolio analytics in a single, seamless format, something that the leading index firms now provide across asset classes. Index firm clients rely on such inputs to build their own investment models and develop customised insights.

Indexing therefore appears poised for further growth during the 2020s – and the UK will continue to act as one of the major global hubs for this specialist activity.



The London Stock Exchange is the leading exchange in Europe for the trading of ETFs, with around a 30% share of regional trading volumes. There are over 1,000 ETFs listed on London Stock Exchange's main market.

Private assets

Private assets not listed or traded on a public market are increasingly in demand with international investors. Many such investments offer lower volatility than listed assets and offer attractive income and capital growth profiles. They also represent a valuable tool for diversification, generating returns with little or no correlation to returns on traditional assets.

However, accessing private assets is not always straightforward. Markets are illiquid and many opportunities are only available to investors who have very close relationships with managers and project sponsors. Also, the specialist nature of these investments requires expertise and experience that many investors lack.

The UK is uniquely well-placed to help global investors exploit the potential of private assets. It offers a range of attractive opportunities across a diverse range of asset classes, often through managers and sponsors that have pioneered innovative new structures to accommodate investors' needs. The UK is also home to many of the world's leading private asset advisers and managers whose expertise and experience can help unlock the potential of these investments, whether in the UK or globally.

The UK's expertise in the private assets space also benefits from the supportive legal and regulatory regimes maintained by policymakers. The UK Government is keen to embrace emerging opportunities such as China's Belt and Road Initiative, where it sees opportunities in areas ranging from infrastructure to financing.[12]

Private equity and venture capital

Private equity and venture capital investment offers equity exposure to fast-growing businesses not currently traded on a public stock market. In addition to capital investment, private equity and venture capital backers provide industry expertise, financial management skills, access to new networks and additional support, all with the aim of creating additional value more quickly.

The UK is the only country outside of North America to host more than one of the world's top 20 private equity firms.

View of UK Parliament, London (©Hugo Sousa)

[12] Gov.UK. [https://www.gov.uk/government/speeches/belt-and-road-forum-philip-hammonds-speech]

The UK is one of the world's leading locations for private equity and venture capital houses, with some 325 such firms based all around the country.[13] These firms collectively have investments in more than 4,330 companies in the UK,[14] but many also invest in opportunities in overseas markets, both in mainland Europe and throughout the rest of the world.

The UK is the only country outside of North America to host more than one of the world's top 20 private equity firms according to rankings compiled by Private Equity International,[15] but it also boasts a flourishing industry of mid-market and specialist firms offering individual skills and capabilities. UK-based venture capital firms are also numerous, boosted by support for the country's domestic industry through a number of generous tax supports from the UK government.

Private debt and direct lending

Private debt has been one of the fastest growing private asset classes in recent years,[16] with direct lending especially prevalent, but other forms of debt, from mezzanine finance to equity-linked instruments such as warrants, are also significant. While sovereign wealth funds and large state pension funds were early adopters of private debt, other institutional investors have been quick to follow.

The UK is the world's second most important centre for private debt managers, home to 12 of the 100 largest institutions in the sector, more than any other country other than the US,[17] and several hundred more specialist firms. In the first half of 2019 alone, the UK accounted for more than a third of all the private debt transactions conducted in Europe.[18]

British entrepreneurs, with the support of an innovation-friendly regulator in the form of the Financial Conduct Authority, have also pioneered new forms of lending. Peer-to-peer and marketplace finance, for example, has developed rapidly in the UK, with the leading players now expanding into new markets globally.

Commercial real estate

The commercial real estate sector offers investors access to a physical asset that generates a regular income stream and offers the potential for long-term capital growth. Spanning sectors such as retail, offices and warehousing, investors also have an opportunity to diversify, with geography and quality of asset – prime, near-prime, sub-prime and more – offering further diversification assets.

[13] BVCA [https://www.bvca.co.uk/About-Us]
[14] BVCA [https://www.bvca.co.uk/Our-Industry]
[15] Private Equity International 300 [https://www.privateequityinternational.com/database/#/pei-300] 17 Schroders [https://www.schroders.com/en/uk/asset-manager/strategiccapabilities/private-assets/]
[16] Schroders [https://www.schroders.com/en/uk/asset-manager/strategic-capabilities/private-assets/]
[17] Preqin. [https://docs.preqin.com/reports/Preqin-Special-Report-The-Private-Debt-Top-100-August-2018.pdf]
[18] Deloitte. [https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/corporate-finance/deloitte-uk-aldt-autumn-2019d.pdf?nc=1]

The Liver building, Liverpool

The UK's own commercial real estate sector is mature and a significant contributor to the value of the national economy, with a diverse range of firms offering expertise and experience in fields ranging from construction to finance. British Property Federation research suggests the sector accounts for 7% of the gross value added (GVA) of the UK economy.[19]

In addition, the UK is an important hub for commercial real estate investment, serving as headquarters for many of the leading managers with interest in the domestic and international market. UK-based institutions own $77 billion worth of commercial real estate assets on behalf of their clients, almost half the $171 billion owned by European institutions in total.[20]

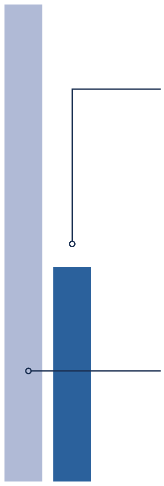
Infrastructure

Investment in infrastructure represents a huge and growing opportunity, particularly for investors seeking access to dependable, long-term yields. The global demand for new infrastructure, including physical assets such as transport networks and energy generation facilities, as well as digital capabilities, cannot be sated by public sector investment alone. Private capital is increasingly required, with providers benefitting from predictable income streams often underwritten by State guarantees. The need to combat the climate emergency, necessitating retooling of the world's energy and transport systems, only increases the imperative.

The UK is not only home to a number of the most significant global infrastructure investors by assets under management,[21] but can also offer world-renowned expertise in fields including engineering, project management, transport, energy and power, and digital infrastructure.

The UK's infrastructure investment community has interests in the infrastructure of the UK itself, where successive governments have sought to increase investment through a range of strategies,[22] but is also a major player in projects and initiatives all around the world.

[19] British Property Federation. [https://www.bpf.org.uk/sites/default/files/resources/16688%20BPF%20Economic%20Footprint%20Report%2014.08.19.pdf]
[20] IPE RealAssets. [https://realassets.ipe.com/surveys/top-100-real-estate-investors-2019/10030960.article]
[21] Top 75 Infrastructure Managers, IPE Real Assets. [https://realassets.ipe.com/top-75-infrastructure-managers-2019-why-big-is-often-best/10032018.article]
[22] National Infrastructure Delivery Plan 2016–2021, Infrastructure and Projects Authority. [National Infrastructure Delivery Plan 2016–2021]



UK-based institutions own

$77bn

worth of commercial real estate assets on behalf of their clients, almost half the

$171bn

owned by European institutions in total.

China's Belt & Road Initiative is just one example of where the UK's infrastructure community recognises an opportunity to participate. UK businesses are working hard to support UK involvement in the initiative,[23] with the UK Government also providing backing.[24]

Insurance-linked securities

Insurance-linked securities (ILS) are financial instruments that derive their value from insurance loss events and enable insurers and reinsurers to pass risk on to the capital markets. They are available in a tradeable format as bonds or as private contracts and are typically issued by a special purpose vehicle (SPV) that converts insurance and reinsurance contracts into investable securities.

For investors, ILSs offer a steady and predictable flow of premium income from policyholders, which is all the more valuable in this period of ongoing low interest rates. In addition, returns are uncorrelated with those from equity and bond markets, providing valuable diversification benefits. By the beginning of last year, the global ILS market was worth $93 billion, having increased in size every year for a decade.[25]

The UK is well-placed to become a significant global centre for ILS issuance given that it is home to Lloyd's of London, the world's leading insurance and reinsurance market. Regulatory reforms designed to boost the UK market have prompted rapid growth[26] and the launch of new ILS funds at Lloyd's.[27]

Opportunities for retail investors

While private assets are traditionally the preserve of institutional investors, the UK's mature collective fund sector offers retail investors access to many of the same opportunities. In the commercial real estate asset class alone, open-ended investment companies available to retail investors are currently capitalised at more than £23 billion.[28]

Elsewhere, the investment trust sector, which operates through closed-ended, publicly-listed fund vehicles, provides a highly accessible route into asset classes including private equity, infrastructure, credit and hedge funds (see further details on 'The UK: At The Heart Of Global Capital Markets' section).

Open-ended investment companies available to retail investors at more than

£23 billion

[23] China-Britain Business Council. [http://www.cbbc.org/cbbc/media/cbbc_media/4.%20Files/CBBC_BRI_REPORT_2019_web.pdf]
[24] https://www.gov.uk/government/speeches/belt-and-road-forum-philip-hammonds-speech
[25] Insurance Linked Securities Market Grows to $93B in 2018, Insurance Journal. [https://www.insurancejournal.com/news/international/2019/02/01/516526.htm]
[26] Business Insurance. [https://www.businessinsurance.com/article/20190312/NEWS06/912327202/Insurance-linked-securities-deals-London-Singapore-markets-growth-potential]
[27] Brit Insurance. [https://www.britinsurance.com/news/ils-fund]
[28] Investment Association. [https://www.theia.org/industry-data/fund-statistics/statistics-by-sector]

The UK takes the lead on ESG investment

Environmental, social and corporate governance (ESG) issues are increasingly important to very large numbers of investors who want to take a more sustainable and responsible approach to managing their money.

The trend towards ESG is gathering pace, with global policy commitments such as the Paris Agreement on Climate Change and the Agenda 2030; these set out the framework for achieving 17 sustainable development goals (SDGs) by 2030. Clients, meanwhile, are conscious of the increasing evidence of financial materiality, as ESG integration leads to better outcomes for all.

There is every reason to expect the growth of ESG to accelerate further in the wake of the Covid-19 pandemic. The virus has prompted people worldwide to think again about the way they live their lives and to question what is most important to them. And the pandemic has once again underlined how investors can do well by doing good. When stock markets plunged in March 2020 investors began to appreciate the severity and scale of the Covid-19 principle, companies with good ESG ratings provided much-needed protection.

The ESG pioneer

The UK is widely regarded as a pioneer of sustainable investment. That reflects, in part, the UK's own ESG credentials: in 2019, it became the first developed country to set a net zero carbon emissions target for its economy, pledging to achieve this by 2050. In addition, the UK is a leading international hub for green finance, offering deep and liquid capital markets and a well-educated community of global investors.

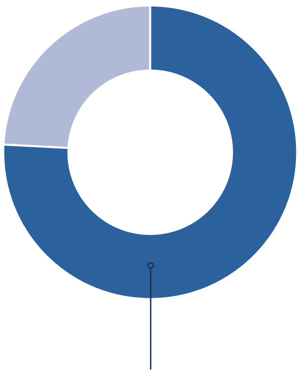
As the UK Government's Green Finance Strategy points out, the UK has a proven track record of mobilising flows of private finance into environmental sectors; since 2010, more than £92 billion has been invested in clean energy in the UK.[29] The UK has also intervened to accelerate green financing through bodies such as the Green Investment Bank (GIB). Working alongside more than 100 private sector and third-party investment partners, the GIB has so far committed £3.4 billion of its own capital to 100 projects with a total value over £12 billion.[30]

Data from Eurosif, Europe's sustainable and responsible investment membership organisation, further confirms that the UK is a frontrunner for socially responsible investment (SRI). The integration of ESG factors into investment decisions has increased by 76% in the UK compared with 60% in Europe overall.[31]

Today, ESG investment is one of the UK asset management industry's key strengths. Several factors underpin this expertise:

Long-term and robust policies and initiatives to support ESG investment

Since the UK introduced the first stewardship code in 2010, more than 20 countries and jurisdictions globally



The integration of ESG factors into investment decisions has increased by

76%

in the UK compared with 60% in Europe overall.

[29] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820284/190716_BEIS_Green_Finance_Strategy_Accessible_Final.pdf
[30] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820284/190716_BEIS_Green_Finance_Strategy_Accessible_Final.pdf
[31] https://uksif.org/wp-content/uploads/2018/12/UKSIFrelease_291118.pdf

have launched similar codes. Leading asset managers and investors have supported the code and it has played an important role in enhancing voting and engagement activity.

The UK has published its ambitious Stewardship Code 2020, redefining and strengthening its approach for the decade ahead. The code has been overhauled to ensure it remains fit for purpose in an environment of increased investor expectations on ESG integration, stewardship and climate change.

Elsewhere, the UK's green finance initiatives also create a supportive environment for investors to design and implement leading sustainable investment strategies. In support of its 2050 carbon neutral target, the government launched the UK Green Finance Strategy, aiming to "align private sector financial flows with clean, environmentally sustainable and resilient growth, supported by Government action" and to "strengthen the competitiveness of the UK financial sector". As part of this strategy, the UK government expects all listed companies and large asset owners to report and disclose in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations by 2022.

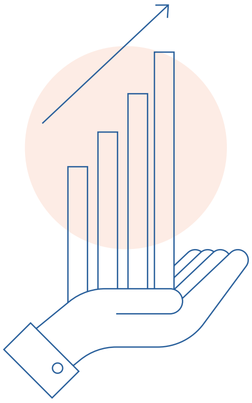
Sophisticated socially responsible investment (SRI) policies

Supporting the robust ESG related policies are the effort among UK asset owners and asset managers to establish sophisticated SRI policies, which help ESG investment to flourish in the UK.

According to Eurosif's 2018 study, ESG integration, suggests the practice of actively considering the impact of ESG factors in investing decisions is the fastest growing style of SRI in the UK. The UK manages €2 trillion of assets in this way, more than twice as much as Germany, the next biggest centre for this style of investment.[32]

Many UK asset management firms now have well-established and sophisticated SRI policies. Mercer's analysis suggests ESG-focused asset owners and asset managers in the UK typically have a centralised and relatively detailed over-arching SRI policy; below this level, further policies provide details on specific issues. Most UK asset managers have ESG and stewardship policies, and many leading UK asset owners have separate climate change policies. For instance, the Environment Agency Pension Fund has set market leading targets for both decarbonisation and clean energy.

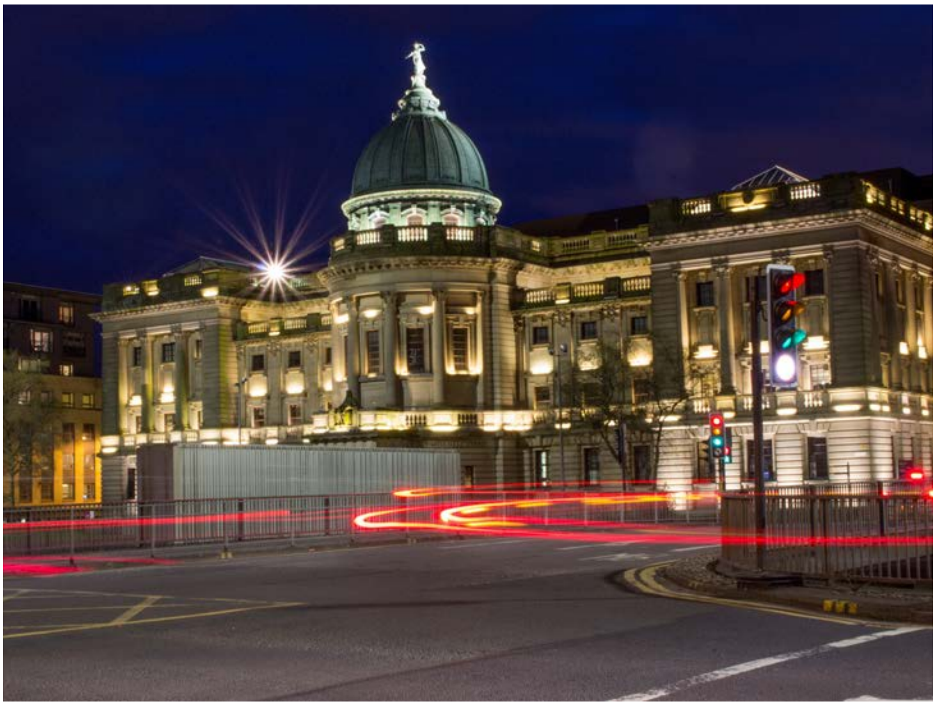
In addition, for asset managers, the stewardship code focuses on "active ownership" and the adoption of a long-term perspective to create sustainable investment returns. Asset managers then seek to persuade companies to align with their policy objectives. For example, Legal & General Investment Management's (LGIM) Climate Pledge sets out engagement objectives for decarbonisation; the Church of England Pension Board's (CEPB) Extractive Industries policy sets out objectives on data disclosure it hopes will improve the sector's ESG performance.



Actively considering the impact of ESG factors in investing decisions is the fastest growing style of SRI in the UK. With the UK managing

€2tn

of assets in this way.



Victoria Square, Birmingham

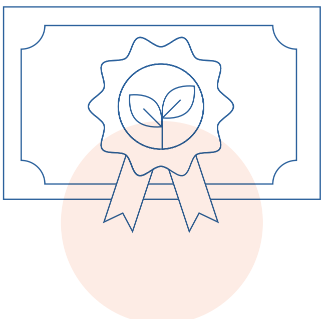
[32] https://uksif.org/wp-content/uploads/2018/12/UKSIFrelease_291118.pdf

Robust information for effective ESG processes and evaluation

Monitoring specific ESG issues and measure progress against stated objectives requires comprehensive and reliable data. In the UK, asset management firms have invested in processes and tools to gather the data they need. LGIM, for example, has developed a proprietary ESG scoring approach based on quantitative and qualitative data, while Aviva has built a heatmap algorithm based on ESG data, voting records and analysts' perspectives.

As ESG disclosures become increasingly important to investors seeking to make informed investment decisions, other financial institutions in the UK are also making data and information easier to access. The London Stock Exchange, for example, has its own ESG Disclosure Score, a percentage score that represents an investor's aggregated level of disclosure against quantitative ESG data points drawn from global standards. This quick online assessment tool gives investors a means with which to understand their current performance and identify additional metrics that help give clients a clearer picture.

UK asset managers are committed to ensure clear information on ESG issues is available to all in order to enable the highest standards of transparency for investors. The Fund EcoMarket, for example, is supported by 15 UK fund managers and provides a free-to use information hub on sustainable, responsible and ethical investment.[33] This ability to collaborate demonstrates the strength and commitment of the industry to help intermediaries understand and compare sustainable, responsible and ethical investment fund options. UK asset owners are also playing a central role in the development of ESG data. For example, the CEPB is working on several data-related partnerships, including the Extractives Industries initiative.



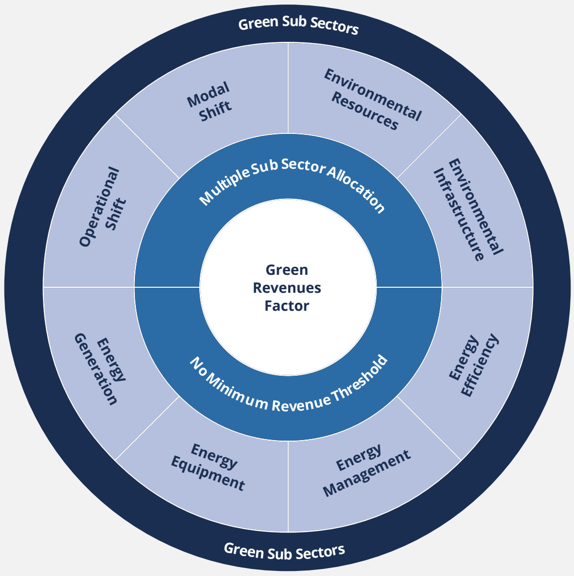
LSE became the first major exchange in the world to launch a dedicated green bond segment. It now lists more than

100

active green and sustainable bonds on its markets.

A benchmark for the green economy: the FTSE Green Revenues data model

The FTSE Green Revenue data model measures the green revenues of over 14,000 public companies globally across 133 microsectors, from advanced battery and solar panel manufacturer to sustainable agricultural and flood defence construction.[34]



Innovation in UK capital markets

The London Stock Exchange (LSE) has taken a range of steps to support investors and issuers in the transition to a low-carbon and sustainable economy. It has developed a comprehensive sustainable finance and investment framework and continues to innovate in support of market needs.

In 2015, LSE became the first major exchange in the world to launch a dedicated green bond segment. It now lists more than 100 active green and sustainable bonds on its markets, with issuers including corporates, municipalities, sovereigns and multilateral development banks from 16 countries. Collectively, these bonds have raised more than $29 billion in 12 currencies.

Renewable energy funds are also driving capital to the green economy. LSE now lists no fewer than 11 renewable funds, as well as others focused on energy storage, energy efficiency and environmental technologies; collectively, these funds are worth more than $9 billion. LSE's market for Yieldcos is also gaining traction with 12 such instruments capitalised at £7.6 billion. Meanwhile there are 146 ESG-focused Exchange Traded Funds worth $100 billion (as at February 2021) listed on the Exchange.

[33] https://www.fundecomarket.co.uk/help/about-us
[34] FTSE Russell https://www.ftserussell.com/data/sustainability-and-esg-data/green-revenues-data-model

LSE's index and analytics business, FTSE Russell has been active in the global index space since 2001 when the FTSE4Good Index Series was launched and currently has approximately $16 trillion benchmarked to its indexes. Its data and analytics tools support many of the world's largest asset owners as they look to integrate ESG into their investment strategies.

FTSE4Good Index Series currently has approximately

$16tn

benchmarked to its indexes.

Case study

China's banks issue green bonds for the greening of China

ICBC is one of several Chinese banks who have been among the leading issuers of green bonds. After issuances on the London market by Bank of China, Agricultural Bank of China and China Construction Bank, Industrial and Commercial Bank of China London Branch (ICBC London Branch) listed its $1.58 billion equivalent (USD and EUR) bond on the Green Bond Segment of the International Securities Market (ISM) – the largest green bond listing on London Stock Exchange to date and the first Chinese issuance on ISM.

ICBC London Branch will use the proceeds to finance eligible green assets under the bank's Green Bond Framework, including renewable energy, energy efficiency, low-carbon transportation, sustainable water and waste water management.

"Not only does our green bond highlight ICBC's ongoing commitment to sustainable and responsible financing, but launching it in London underscores our commitment to the growing positive relationship between the UK and China. ICBC London Branch sees the success of this issuance as testament to what can be achieved when you combine the strength and reputation of the world's largest financial centre with that of the world's largest bank."

Ruixiang Han, General Manager, ICBC London Branch

A diverse talent pool shapes the UK as an ESG knowledge hub

The UK is a global centre for financial services with an enduring history of offering a diverse pool of talent across all its sub-sectors. This diverse talent pool has brought new perspectives and fresh ideas to the UK, helping to shape it as an ESG knowledge hub. In interviews conducted by Mercer for the City of London Corporation with UK asset owners and asset managers, the majority of respondents agreed that good ESG knowledge has become an important attribute of the UK asset management industry.

This expertise continues to evolve, not least thanks to the efforts of educators and industry trade bodies. For example, the Chartered Banker Institute, the largest professional body for bankers in the UK,[35] has launched the world's first Green Finance Certificate, while CFA UK now offers all investment professionals the opportunity to secure the Certificate in ESG Investing, the first qualification of its kind in the UK.[36]

The Lloyds building, London

[35] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820284/190716_BEIS_Green_Finance_Strategy_Accessible_Final.pdf
[36] https://www.hedgeweek.com/2019/11/20/280663/new-qualification-esg-investing-launch-december

How the UK supports' diversification and risk management

Asset managers operate in a complex environment in which they must constantly scan the horizon for emerging and evolving global risks. The unprecedented Covid-19 crisis has once again highlighted the value of the UK's risk management expertise and experience.

Risk is a crucial investment consideration, requiring asset managers and owners to diversify their portfolios to avoid over-exposure to, for example, any single geographical market, asset class, political hazard or economic danger. In addition, asset managers must consider a broad range of operational risks, from regulatory problems to the threat of digital disruption. Both types of risk require an agile response that exploits a range of strategies and tools.

As a global financial and professional services hub, the UK is uniquely well-positioned to help.

The UK's highly liquid and international capital market has a long track record of facilitating cross-border transactions. With more than 250 international banks here in the UK, it offers the global connectivity that asset managers require to mitigate risk and has an unparalleled reputation for developing innovative financial products to manage international exposure.

Alongside financial risk, the UK offers vital advantages for asset managers as they manage other types of hazards. A diverse and mature insurance market provides opportunities to mitigate a range of business and specialist risk. The UK offers easy access to the world's leading legal, accounting and consultancy firms. The UK's regulatory regime is widely regarded as robust, forward-looking and internationally coherent. And its world-leading fintech sector is a constant source of new innovation.

As a leading global financial services centre, the depth and breadth of the UK's risk management services offers asset managers everything they need to protect themselves in this fast-moving and volatile world.

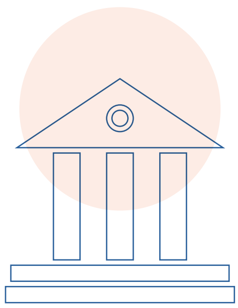
Market risk

The ability to use a broad range of markets, asset classes and financial instruments is essential to asset managers as they seek diversification benefits and look to manage their exposures. In this regard, London's deep capital market, extensive array of financial instruments and high levels of global connectivity offer crucial advantages.

The London Stock Exchange, with a capitalistion of £3.81 trillion in March 2021,[37] is among the world's largest, while its bond market is among the world's most popular for both issuance and trading, where 70% of global secondary market bond trading takes place in London.[38] London also hosts markets with global scale and reach in forex, derivatives and private, non-exchange traded assets.

In addition, the highly connected nature of London provides asset managers with an easy route to international diversification. In addition to strong links between UK exchanges and their overseas counterparts, such as the initiative to allow Shanghai listed firms to issue depositary receipts in London,[39] the city is home to a thriving community of financial professionals offering global trading facilities; it is an international financial centre with more than 250 international banks.

The UK also benefits from an advantageous time zone, with trading hours that overlap major markets from Asia to North America. This makes London the ideal location for asset managers managing risk across international markets.



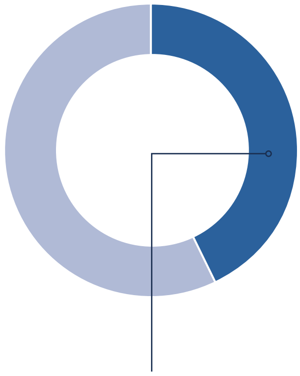
The City is an international financial centre with more than

250

international banks.

[37] https://www.statista.com/statistics/324578/market-value-of-companies-on-the-london-stock-exchange/
[38] https://docs.londonstockexchange.com/sites/default/files/documents/debt-presentation.pdf
[39] https://www.lseg.com/markets-products-and-services/our-markets/shanghai-london-stock-connect

Salford Quays, Manchester



The UK accounts for

43%

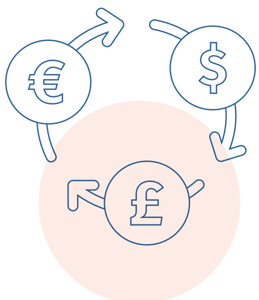
of global foreign exchange trading.

Currency risk

For asset managers investing in a broad array of global markets and asset classes, foreign exchange rate fluctuations pose a constant risk, both to their own businesses and to their clients' investments. The foreign exchange market is characterised by high levels of volatility and many asset managers are exposed to multiple currencies. Such risks have been particularly elevated by the impact of Covid-19 on foreign exchange rate volatility.

For asset managers seeking to manage these exposures, the UK is home to many of the world's leading forex specialists, who offer advice on how to manage currency risk through operational and strategic processes and controls. In addition, London is a crucial market for many of the hedging solutions that asset managers employ to mitigate this form of risk, from borrowing in different currencies to investing in FX derivatives; such trades have proved valuable during the Covid-19 crisis. The UK accounts for 43% of global foreign exchange trading, well ahead of other international financial centres.[40] It offers access to both developed and developing market trades; for example, London is now the biggest Western centre for offshore renminbi forex transactions, accounting for 44.5% of the market.[41]

In addition, London has a broad and deep currency derivatives market, offering both common currency pairs and more exotic currencies; bespoke over-the-counter contracts are available for non-exchange traded FX derivatives. The UK is also a leading market for interest rate derivatives, with a 50% share of global transactions.



London is a crucial market for many of the hedging solutions that asset managers employ to mitigate this form of risk, from borrowing in different currencies to investing in FX derivatives; such trades have proved valuable during the Covid-19 crisis.

[40] https://uk.reuters.com/article/uk-global-forex-bis/global-daily-forex-trading-at-record-6-6-trillion-as-london-extends-lead-idUKKBN1W1210
[41] https://www.theglobalcity.uk/PositiveWebsite/media/Research-reports/London-as-a-centre-for-management-of-financial-risks.pdf

Operational risk

Asset managers are critically exposed to failures related to internal processes, people and systems, as well as external shocks such as recession. The resources available in London provide a means with which to manage these risks effectively.

London is the headquarters of many of the world's leading professional services businesses, including accountants, auditors, law firms and specialist consultancies, as well as hosting the offices of international firms. These businesses' expert advisers provide constant support as asset managers seek to protect themselves against operational risk.

In addition, the UK's insurance and reinsurance markets are among the most developed in the world – the only market in which all 20 of the world's biggest insurers are active[42] - supporting asset managers to transfer material operational risks to third parties. The UK's insurance sector includes Lloyd's of London, the world's largest specialty insurance market.

Meanwhile, the UK's Financial Conduct Authority is conducting ground-breaking work on operational resilience, setting out minimum standards and requirements for regulated firms, including asset managers. The regulator's proposals will ensure London remains at the forefront of operational risk mitigation.

City of London Skyline

Financial Conduct Authority's (FCA) Consultation Paper on Building Operational Resilience[43]

FCA's proposals build on the approach first outlined in the Discussion Paper (DP) 'Building the UK Financial Sector's Operational Resilience' published in July 2018. Respondents were supportive of the ideas in the DP and sought further information about how the ideas would work in practice.

This Consultation Paper (CP) aims to expand on and develop the ideas discussed in the DP based on the responses received and asks for your feedback on our proposals.

FCA proposes firms:

- Identify their important business services that if disrupted could cause harm to consumers or market integrity
- Identify and document the people, processes, technology, facilities and information that support a firm's important business services (mapping)
- Set impact tolerances for each important business service (i.e. Thresholds for maximum tolerable disruption)
- Test their ability to remain within their impact tolerances through a range of severe but plausible disruption scenarios
- Conduct lessons learned exercises to identify, prioritise and invest in their ability to respond and recover from disruptions as effectively as possible.

[42] https://www.theglobalcity.uk/insurance
[43] https://www.fca.org.uk/publication/consultation/cp19-32.pdf

Technological risk

Innovative and reliable technology systems represent a crucial source of competitive differentiation for many asset management firms. Asset managers unable to maintain such systems risk substantial adverse impacts; they must guard against failures and outages, focus on repelling cyber criminals and innovate in order to remain competitive.

The importance of technology in effective risk management, has been underlined during the Covid-19 crisis, with digital solutions providing and maintaining crucial competencies that have prevented disruption. The UK's leadership in financial services sector technology – including in risk management expertise – has proved crucial in this regard.

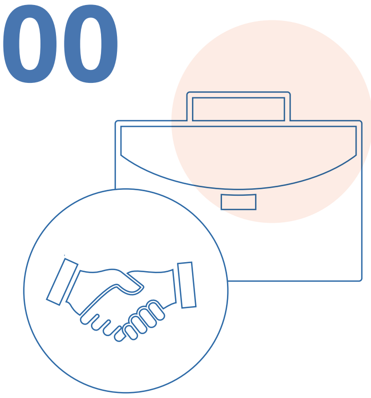
Indeed, this skill base is at the centre of the London's resilience. The UK is home to more technology companies than any other country in Europe, and is Europe's leading fintech centre, accounting for more than two-thirds of European fintech investments in 2018.[44] These industries work alongside asset managers to design, develop and maintain cutting-edge IT infrastructure, applications and systems that offer robustness and integrity.

The UK is also a centre for the global cyber security industry, providing a range of services to keep asset manager safe from bad actors and to maintain the highest standards of data privacy. The sector is the largest in Europe, valued at more than £6 billion and employing 30,000 people. Government support for the sector include a commitment to an investment totaled £1.9 billion by 2021.[45]

The UK global cyber security sector is the largest in Europe, **valued at more than £6bn** and employing

30,000

people



Compliance risk

The UK's legal and regulatory framework provides a consistent and reliable environment in which asset managers can do business. The Financial Conduct Authority has a strong track record of taking a principles-based approach to regulation that is focused on outcomes rather than adopting a "tick-box" mindset. Its record of supporting innovation is widely admired on the international stage: for example, its regulatory sandbox, providing fintech businesses with a space to innovate before being subjected to the full glare of regulation, has been copied in a number of other jurisdictions. The FCA was also quick to respond to the Covid-19 pandemic, with practical advice to the businesses it regulates.

For asset managers keen to forge strong and collaborative relationships with the regulator, this environment is invaluable. The UK's regulatory regime provides market and customer confidence while ensuring regulated firms remain able to innovate and compete.

A strong community of compliance professionals had developed around this regime, providing asset managers with easy access to a range of professional support and expertise on both the UK and international compliance. This includes the UK's growing regtech sector, an increasingly important element of the country's world-leading fintech sector.

More broadly, asset managers instinctively feel very comfortable with the UK legal system; 27% of the world's 320 legal jurisdictions use systems based on English common law,[46] which as a result is by far the most popular choice for cross-border contracts. For many international businesses, including global asset management firms, the UK is a natural second home.

[44] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/801277/UK-fintech-state-of-the-nation.pdfhttps://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/801277/UK-fintech-state-of-the-nation.pdf
[45] https://www.theglobalcity.uk/cyber-security
[46] https://www.theglobalcity.uk/legal-services

The UK: at the heart of global capital markets

The UK has always been at the forefront of financial innovation, bringing the UK and international companies and investors together to raise and invest capital efficiently.

London Stock Exchange's thriving markets has established London as the focus of the international financial community – and as the ideal place for companies to raise capital and enhance their corporate profile.

London Stock Exchange can trace its history back over more than 300 years. And in modern times, London has maintained its leading position as a financial centre with balanced and globally respected standards of regulation and corporate governance. These strengths have led to London being consistently recognised as among the most competitive world financial centres in the Global Financial Centres Index.[47]

London's central location spanning global time zones, its world-class standards of corporate governance, its high-quality talent and its deep pools of capital, are just some of the strengths that attract the world's foremost investors and issuers to its markets.

THE WORLD'S MOST INTERNATIONAL EXCHANGE

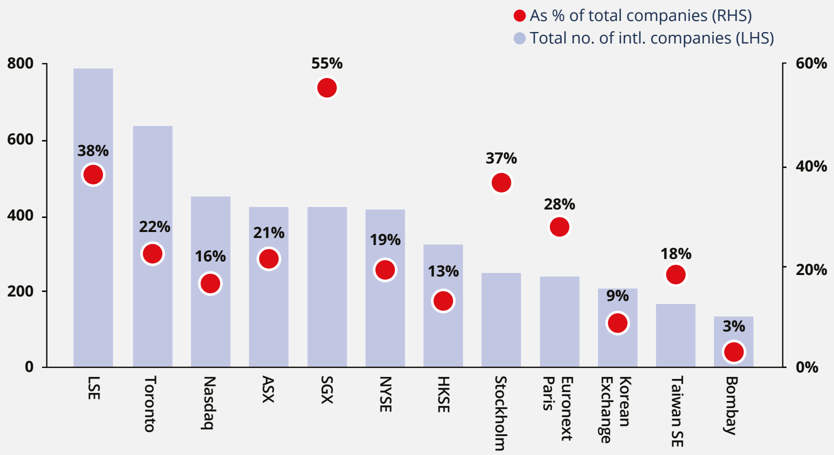
London Stock Exchange's main market is the world's most international market for the admission and trading of equity, debt and other securities, outpacing the global competition in attracting international companies. It is home to more than 2,000 companies, including many of the world's largest, most successful and most dynamic businesses.

Powered by client-inspired innovation

Amid the need for dynamic product development, capital markets are in a constant process of development and innovation. London has a proud record of keeping pace with the needs of market users. By listening to customers, it is able to respond quickly with new and improved products and services.

London Stock Exchange is committed to expanding not only the range and capacity of its markets but also the types of asset and security that can access them. This plays a key role in fuelling market growth. Recent years have seen the launch of Shanghai-London Stock Connect, International Securities Market (ISM) and Global Equities Segment (GES), all providing new opportunities for investors.

London has more international companies than any other major exchange



- **38%** of all London-listed companies are of international origin
- **3 of the 5** largest IPOs in 2020 were executed by international issuers.
- **5/10** top IPOs were international in 2020
- **Since 2017**, London has been the leading exchange for cross-border IPOs

[47] China Development Institute, September 2019, The Global Financial Centres Index, (http://en.cdi.org.cn/component/k2/item/636-the-global-financial-centres-index-26-gfci-26)

A Capital Market for All Comers

London issuers range from the very big to the very small. The London markets offer products for every risk appetite:

Main Market

The Main Market represents a badge of quality for every company admitted to and traded on it and is an aspiration for many companies worldwide. London's world class standards of regulation reflect the stringent requirements of the UK Listing Authority (UKLA).

A listing on the Main Market demonstrates compliance with the UK's standards of regulation and disclosure but does not have to be a company's first or sole listing.

Case study:

Network International Holdings, the Largest MEA IPO on London Stock Exchange

Network International is a leading enabler of digital payments in the Middle East, based in Dubai. It operates in over 50 countries across the Middle East and Africa and allows companies to accept digital payments either in their shops or through desktop computers and smartphones, in a similar manner to bigger US rivals like PayPal or Square.

In April 2019, Network International made its trading debut on London Stock Exchange (LSE) and a total of $1.593 million was raised. As well as being the largest ever Middle East and Africa (MEA) IPO on LSE, Network International's offering makes up the largest MEA tech IPO globally and the largest public offering from the region since 2014.

The deal allowed long-standing shareholders to monetise their positions in the fast-growing company. Shares in the company rose 17% on debut with 25m traded in the first two hours.

Company Name	Network International Holdings
LSE Market	Main Market - Premium
Sector	Payments/Fintech
Main Countries of operation	UAE
Admission date	10 April 2019
Capital raised	$1,593 million
Market cap at admission	$2,844 million
Bookrunners	JP Morgan, Citi, Morgan Stanley, Barclays, Emirates NBD, Goldman Sachs, Liberum

"The Middle East and Africa are at an early stage in the shift from cash to digital payments and our new listing on London Stock Exchange will enable all new shareholders to benefit from this structural growth opportunity."

Simon Haslam, CEO, Network International

London is now the listing market of choice for more than 1,600 ETPs from over 39 issuers, including exchange traded commodities (ETCs).

City Hall, London

Alternative Investment Market

The Alternative Investment Market (AIM) is the world's leading international growth market. Since its launch in 1995, more than 3,800 companies from across the globe have chosen to join AIM. Powering the companies of tomorrow, AIM continues to help a wide range of businesses - including early-stage, venture-capital-backed and more established companies – to raise the capital they need for growth.

International Order Book

The International Order Book (IOB) is a London Stock Exchange-dedicated service to support the trading of global depositary receipts (GDRs). GDRs are securities issued by depositary banks, which represent ownership of a given number of a company's shares. The IOB offers cost-efficient, secure and transparent access to an investment in some of the world's fastest-growing markets. It is also home to Chinese issuers listing in London through the Shanghai-London Stock Connect programme.

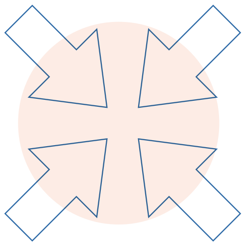
Exchange Traded Products

Popular worldwide, London is now the listing market of choice for more than 1,600 ETPs from over 39 issuers, including exchange traded commodities (ETCs), exchange traded notes and exchange traded funds (ETFs). ETFs combine the diversification of an investment fund with the tradability of a share, enabling investors to track a broad range of asset classes and markets through one affordable product.

Since its launch in 1995, more than

3,800

companies from across the globe have chosen to join AIM.



Highlights of Exchange Traded Products on London Stock Exchange (as of February 2021)

1,600

ETPs listed in London, offering investors access to a wide range of asset classes

382 ETPs

US focus ETPs (317) and ETC/ETNs (65)

£730m

February 2021 average daily trade for ETPs, accounting for 15.4% of total LSE order book average daily turnover

33 ETFs

China focus through both Fixed Income (6 ETFs) and Equity (27 ETFs) asset classes

$925bn

Total assets in European ETF/ETP market at the end of September 2019

1 ETFs

Israel focused ETF that can be traded in USD and GBX

Fixed Income

London Stock Exchange is a leading global venue for international debt fund-raising, with 13,000 listed debt instruments in 43 currencies from more than 1,170 issuers. Its markets are home to debt securities issued by household names from the corporate world, national and regional governments, as well as leading supranational development banks. London is also the world's leading offshore trading hub, a status due in part to over 100 dim sum bonds – bonds issued outside of China but denominated in RMB - listed in London.

Fixed income offerings are further enhanced by the ISM, a specialist market aimed at professional investors, which provides access to an even wider range of debt and debt-like securities.

2019 alone saw multiple debut and landmark international bond issues, including Saudi Aramco's first-ever international public market transaction and the first sovereign green bond from the Americas issued by Chile, as well as China's second sovereign bond listing in London.

Case study:

AIIB ASIAN INFRASTRUCTURE INVESTMENT BANK

Asian Infrastructure Investment Bank Inaugural Bond Issuance

The Asian Infrastructure Investment Bank (AIIB), headquartered in Beijing, is a multilateral development bank that aims to support the building of infrastructure in the Asia-Pacific region. By investing in sustainable infrastructure and other productive sectors in Asia and beyond, AIIB aims to better connect people, services and markets that over time will impact the lives of billions and build a better future.

AIIB priced its first ever $2.5 billion 5-year debut global bond, listed on LSE. The bond attracted orders of over $4.4 billion from over 27 countries – nearly twice the estimated figures. Proceeds from the bond will be used to develop debt capital markets for infrastructure; enhance infrastructure as an asset class; and promote Environmental, Social and Governance (ESG) investment principles in Emerging Asia.

"Increased multilateralism through cooperation, connectivity and investment in sustainable infrastructure is integral to all our futures. The AIIB has already grown to 97 members since we began operations in 2016 and I'm delighted to mark the occasion of our debut bond in the UK – a founding member"

Jin Liqun, President, AIIB

(©Tom Chen)

Company Name	Asian Infrastructure Investment Bank
Rating	Aaa/AAA/AAA
Sector	Supranationals
Market	Main Market
Issue date	17 May 2019
Issue Size	$2.5 billion
Coupon	2.25%
Maturity	5 years

Investment Funds

London Stock Exchange's investment fund market has more than 450 listed funds worth over $280 billion. London-listed funds offer exposure to a range of investment strategies across different geographies and mainstream asset classes, as well as alternative asset strategies including infrastructure, real estate, private equity, royalties and renewable energy.

London Stock Exchange's investment fund market has more than 450 listed funds worth over

$280bn

Case study:

JPMorgan Global Core Real Assets

In September 2019, JPMorgan Global Core Real Assets (JARA) was listed on London Stock Exchange. The IPO comfortably cleared the £100 million required for the issue to proceed. The launch marked the fifth investment trust to launch in 2019 and the first to be focused on private investors.

The company seeks to provide shareholders with stable income and capital appreciation from exposure to a globally diversified portfolio of Core Real Assets. The Company will pursue its investment objective through diversified investment in private funds or managed accounts managed or advised by entities within J.P. Morgan Asset Management (together referred to as "JPMAM"), the asset management business of JPMorgan Chase & Co.

These JPMAM Products will comprise "Private Funds", being private collective investment vehicles, and "Managed Accounts", which will typically take the form of a custody account the assets in which are managed by a discretionary manager. Around 80% of the new trust's investment will be used to invest in physical real assets, such as property, infrastructure and transportation assets.

> "Offering access to our global real asset capabilities through the closed end fund structure for the first time, backed by one of the world's leading managers of core real assets strategies, has been a long time in the works as we sought to build a differentiated product which would truly meet the needs of today's investors."

Simon Crinage, Head of investment trusts at JP Morgan Asset Management

Company Name	JPMorgan Global Core Real Assets Limited
LSE Market	Main Market – Premium
Admission date	23 September 2019
Market Cap at admission	$185m
Current Market Cap	$222m
Legal Counsel	Herbert Smith Freehills LLP
Fund Management	J.P. Morgan Asset Management
Premium to NAV(%)	7
Management Fee	0.98% up to GBP 300m 0.97% between GBP 300m and 500 0.91% between GBP 500m and 1,000m 0.87% above 1,000m.
Performance Fee	15% on NAV Total Return. Benchmark: 7% IRR

74 issuers have been awarded the Green Economy Mark, an award that is underpinned by FTSE International's existing and comprehensive taxonomy for Green Revenues.

Sky Garden, London

A focus on green finance

London has rapidly become a global centre for green and sustainable finance and London Stock Exchange is supporting this shift. In October 2019, the Exchange launched the Green Economy Mark for equities and funds and the Sustainable Bond Market (SBM).

So far 74 issuers have been awarded the Green Economy Mark, an award that is underpinned by FTSE International's existing and comprehensive taxonomy for green revenues, ensuring consistency and familiarity for global investors. Meanwhile, the SBM is already home to more than 200 bonds which have collectively raised £36 billion.

London's Green Economy Mark: Identifying listed companies and funds with a strategic focus on environmental solutions

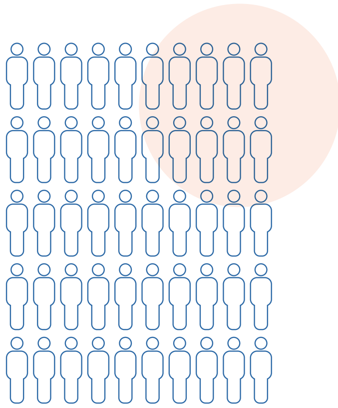
The London Stock Exchange Green Economy Mark identifies London-listed companies and funds that generate between 50% and 100% of their total annual revenues from products and services that contribute to the global green economy as defined by the above methodology. The Mark is assigned to qualifying equity issuers on all segments of the Main Market and AIM.

The 50%+ threshold for the Mark ensures that a majority of the issuer's activities and a material revenue contribution stems from the green economy.

Connecting to London

Not only does London have a broad range or international securities, but it is also home to more than 500 trading members from nearly 50 countries. This constitutes a deep diverse pool of international capital, benefitting both issuers and investors.

London Stock Exchange Trading Services are designed to maximise liquidity for all participants and include fully electronic order-driven services for liquid securities and quote-driven market maker services for less liquid securities. London's central location spanning global time zones, enables investors to access a wide range of international securities through brokers they are familiar with and provides real-time access to global products.



London is home to more than

500

trading members.

The UK as a major allocator of global capital

The UK – and London in particular – is an important hub for global asset allocation.

While the UK's domestic fund management industry has significant (and growing) assets under management, London is also an important destination for asset managers from all around the world seeking to attract international investors to their own products and services.

The UK's role in this regard is to connect those with capital to those seeking to manage and service such assets. It offers a safe, convenient and comfortable venue to global asset managers seeking to do business with investors, both from the UK itself and from other jurisdictions.

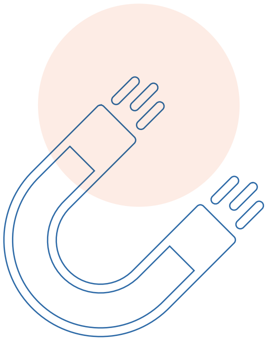
The UK as an HQ for global investment teams

The UK's domestic fund managers invest in markets all around the world, but the UK is also a favoured location for the global investment teams of asset management firms based in other jurisdictions. For those looking to attract assets from such managers, London is therefore a vital marketplace to engage with.

Leading asset management firms from many different regions now manage significant proportions of their global assets under management from the UK – and this trend has gathered pace. In 2019, around 46% of all assets managed in the UK were managed by organisations with a headquarters in the US, up from 27% in 2009. Continental European headquartered managers accounted for a further 10% of assets managed from the UK.[48]

New U.S. Embassy in London 9 Elms

[48] https://www.theia.org/sites/default/files/2020-09/20200924-imsfullreport.pdf



The capital attracted

8.67m

business visitors during 2019 and has a well-developed infrastructure to service such guests.

Global asset managers with significant international operations based in the UK span all the main asset classes, including equities, fixed income and property, as well as a wide range of alternative investments. Their UK base provides services to international clients including central banks, sovereign wealth funds, pension funds, insurance companies, corporations, foundations and endowments and individual investors.

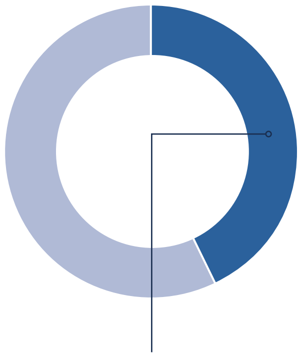
This has allowed the UK to be one of the top destinations to seek for capital and attracted those who are seeking for investors to use the UK as a platform to reach out to global investors.

The UK as a fund listing centre

London has successfully established itself as an international centre for the global asset management industry. This success rests in part on a regulatory framework that safeguards the interests of investors, while achieving the right balance between stability and competition. A legal system renowned for its fair treatment of all, the natural advantages of its time zone and the use of the English language are all contributing factors in London's prominent position.

The UK Government is determined to protect and enhance London's status, particularly as the UK loosens its ties with the European Union following Brexit. It has launched successive Investment Management Strategy documents setting out its intentions to support the sector, including in its efforts to remain a crucial global hub.[49] The Government points to its success in encouraging firms, funds and associations to establish in the UK as a place for business.

Paternoster Square, London



46%

of all assets managed in the UK were managed by organisations with a headquarters in the US.

[49] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/665668/The_Investment_Management_Strategy_II.pdf

The UK is home to a broad range of funds managed by overseas asset managers and open to global investors. Around 14% of investment funds in the UK are cross-border funds promoted by overseas providers.[50]

The options for such providers include authorised funds, including Undertakings for Collective Investment in Transferable Securities (UCITS), where the Financial Conduct Authority has halved the length of time it takes to authorise a fund since 2013.[51] In addition, the London Stock Exchange is the leading exchange for trading exchange traded funds (ETFs) in Europe with a 7.1% market share of European ETP trading in 2020 (according to iShares) and more than 1,300 ETFs – as well as over 300 exchange trade commodities (ETCs) and exchange traded notes (ETNs) listed on its main market.[52] It is also the exchange of choice for almost 400 closed-ended investment companies; around a third of these are managed by overseas asset managers.[53]

International asset managers listing funds in London can be confident that the investing audience is global too. Around 25% of shares in financial companies listed on the London Stock Exchange are owned by overseas investors.[54]

The UK as a place to do business

The UK's geographical location, between the markets of Asia and the Americas, and close proximity to continental Europe, makes it the perfect meeting place for global asset managers with an international client base. Time zone overlaps with leading markets provide opportunities to connect with clients worldwide and the UK's excellent levels of digital service provide the foundations for seamless communication. In the post Covid world, if and when travel once again become more frequent, the UK has direct air connections to more than 40 destinations around the world and more connections with Europe (almost 250 routes) than any other European city.[55]

This connectivity continues to ensure London is regarded worldwide as a place to do business, both virtually and physically. The capital attracted 8.67 million business visitors during 2019[56] and has a well-developed infrastructure to service such guests. This includes some of the world's leading hotels, as well as a range of conference centres, business facilities and other meeting points, good internal transport links and a safe and welcoming environment. A wealth of tourist, cultural and sporting attractions provide additional incentive to choose London as the venue for international business contact. For global asset managers seeking to meet with existing and prospective clients, London is therefore an ideal location, even where products and services are not (or will not be) provided from the UK. In addition to individual meetings, London also hosts a number of leading international asset management industry conferences, with a varied programme of events that appeal to front, middle and back office professionals and managers across a range of specialisms.

[51] https://www.efama.org/Publications/EFAMA_Ownership_Investment_Funds.pdf
[50] https://www.efama.org/Publications/EFAMA_Ownership_Investment_Funds.pdf
[51] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/665668/The_Investment_Management_Strategy_II.pdf
[52] https://www.lseg.com/areas-expertise/our-markets/london-stock-exchange/fixed-income-markets/listed-products/etfs
[53] https://www.theaic.co.uk/sites/default/files/statistics/attachment/AICIndustryOverview31Jan20.pdf
[54] https://www.ons.gov.uk/economy/investmentspensionsandtrusts/bulletins/ownershipofukquotedshares/2018
[55] https://www.corptraveller.co.uk/resources/blog/london-most-connected-14062019
[56] https://www.ons.gov.uk/peoplepopulationandcommunity/leisureandtourism/datasets/overseasresidentsvisitstotheuk

Acknowledgements:

We would like to thank the following organisations for their contribution to this report:

Aberdeen Standard Investments
Allianz Global Investor
ATC Initiative
Barclays Private Bank
CDAM (UK) Limited
China Construction Bank (UK) Ltd.
FNZ Group
FTSE Russell
Invesco
Investment Association
London Stock Exchange Group
Mercer
MillTech FX
Ninety One
PwC UK
Refinitiv
Schroders

With support from:

Department for International Trade
HM Treasury

www.cityoflondon.gov.uk

Report designed by: Pitcher & Crow

About the Global City campaign:

The Global City campaign is The City of London Corporation's overarching initiative to promote the UK as a world-leading international financial centre. It showcases the UK as a great place for financial and professional services firms to invest, locate and grow.

theglobalcity.uk

About The City of London Corporation:

The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally successful UK.

We aim to:

- Contribute to a flourishing society
- Support a thriving economy
- Shape outstanding environments.

By strengthening the connections, capacity and character of the City, London and the UK for the benefit of people who live, work and visit here.

www.cityoflondon.gov.uk
www.theglobalcity.uk

CITY OF LONDON

THE GLOBAL CITY