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Brexit Challenges May Be Overstated, According To Institutional Investors Investing Into The UK

Despite fund managers and investors expecting the industry to move major headcount out of the UK, the impact on the industry may not be as significant as thought. **Recent research and analysis by MJ Hudson's IR & Marketing team** finds that fund investors are less affected by Brexit than fund managers first feared. Although 17% of fund investors outside the UK said that they felt the UK was less attractive since the Brexit vote, an identical percentage found either that markets had performed better than they had expected after the vote or that the vote had even proven a shot in the arm for the UK industry.

Around the first anniversary of the vote, MJ Hudson surveyed 300 fund managers and fund investors, in the UK, Europe and beyond, asking them to express their opinions and experiences.

Although the general sentiment amongst both fund managers and investors is that Brexit will have a negative impact on the UK asset management industry, deeper analysis shows that the stronger impulse for investors remains allocating between specific asset classes, rather than specific regions in Europe (inside or outside the UK). Asked to assess likely inflow/outflow for their asset classes in the next 12 months, 41% of fund managers expected UK products to see reduced allocations (against 16% expecting increased allocations). Whilst 28% of investors agreed that UK products, in general, would experience reduced allocations, almost as many (25%) anticipated increased allocations to UK products. The net change in allocation may be close to 0.

Matthew Craig-Greene, Managing Director | IR & marketing solutions explained:

"Our data shows that institutional investors take a much more asset class-driven view than fund managers imagine and, whilst individual UK asset classes may see some outflows from international investors, the net impact on the UK industry is unlikely to be as severe as some managers in the UK might have feared. Despite the expectation of 70% of fund investors outside of the UK, that the UK might fall behind France into third place, globally, in terms of its AUM by the end of 2020, it would have to lose more than EUR 2 trillion (more than 25% of its current total AUM) of assets to France in order for this to happen. This seems very unlikely to us, particularly in the context of the investor sentiment regarding specific asset classes uncovered by our research. It appears that the expectation of a significant Brexit impact on the UK at a holistic level may not be borne out by actual investment activity, at the fund and asset level. UK managed funds investing or raising money outside of the UK may, of course look at alternative structures such as parallel UK and EU funds, but we believe the rationale for maintaining operations in the UK is strong."

In the mainstream markets, however, investors in corporate bonds (both UK and, to a lesser extent, non-UK) and UK hedge funds signalled movement out of UK asset classes was more likely with Brexit impacting UK growth, interest rates and currency. A move away from UK listed equities was also anticipated by some. The key beneficiaries in this shift are expected to be the US, real assets, venture capital (both inside and outside, particularly, the UK) and non-UK private equity funds.

Matthew Hudson, CEO of MJ Hudson, said:

"Since the results of the Brexit vote last year, fund managers have feared that uncertainty in the UK's status would impact investor activity. Our research shows that, even before the results of the Brexit negotiations are known, fund managers are exaggerating the impact on investor appetite for UK products. Indeed, across the board, our research shows that institutional investors are looking to increase investment activity in the next 12 months – any initial period of introspective uncertainty appears to have passed."

He continued:

"Quite apart from the draw of London as a global centre for asset management, the ability for UK managers to easily set up parallel fund structures within jurisdictions such as Luxembourg, means that there is little to be feared – and much to be gained. Structuring vehicles across multiple jurisdictions provides a new level of flexibility for investors and fund managers alike, protecting against economic and regulatory change in both the short and longer term. Working with a team such as MJ Hudson can help ensure that the move to a multi-jurisdictional model with the required substance is quick, robust and cost-efficient"

About the research and report

In March and April 2017, MJ Hudson's IR & Marketing team surveyed more than 300 fund managers and fund investors in the UK, the rest of Europe and beyond, to understand the effects of the June 23 vote and the asset management's expectations for the road ahead. The results of the survey have been published in two volumes, under the title WOW, That's What I Call The Asset Management Industry Post-Brexit, vol 1 and 2. The reports include information form the survey results, as well as analysis and commentary from MJ Hudson, industry associations, fund managers and investors.