

# Deeper Perspectives

## New players win market share



*The DGF market grew 15% last year and sits at the heart of the growth portfolios of many UK pension funds.*

Steady flows from UK pension funds continue to drive the DGF market but retail flows have supercharged growth for a handful of funds

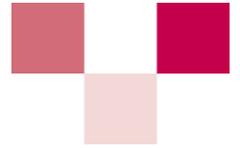
The DGF market grew 15% to £124bn at the end of 2014. UK DB and DC pension assets represent the key clients for almost all DGF managers, together representing 70%+ of the client base for most funds.

There is however a significant retail pool of assets (£26bn) already in the market. Most of these retail assets are confined within a handful of funds.

Concentration of assets is a characteristic of the whole DGF market. We do however see this changing as assets start to flow outside of the Top 5 funds into newcomers to the market.

This edition of Deeper Perspectives shares some findings from our new 2015 DGF Product Intelligence report:





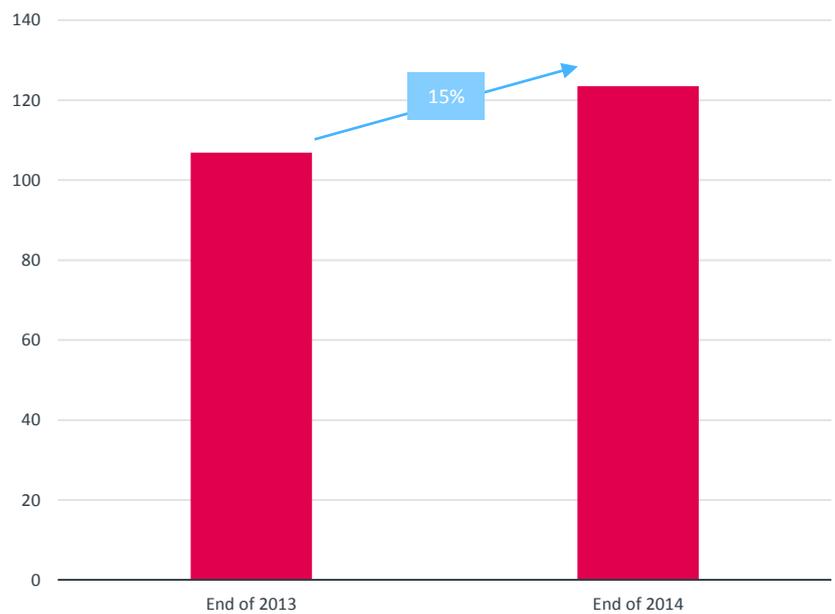
# The DGF market was £124bn at the end of 2014

We estimate the DGF market to be £124bn at the end of 2014, an increase of £16.2bn on the same time the previous year. This is a substantial and growing market with new flows from a number of channels.

This deeper perspectives includes analysis from our recent DGF report. This is the third year we've analysed this growing market and through our research we have witnessed the growing importance of DC and retail assets as a component of the DGF market.

We estimate that the DGF market grew by 15% last year, increasing from £107bn at the end of 2013 to £124bn at the end of 2014. Although £50bn+ of these assets are from DB pension funds the flows of the future will come from other sources.

DGF market size  
AUM (£bn)



Source: Spence Johnson analysis



# DGF remains a mostly institutional market

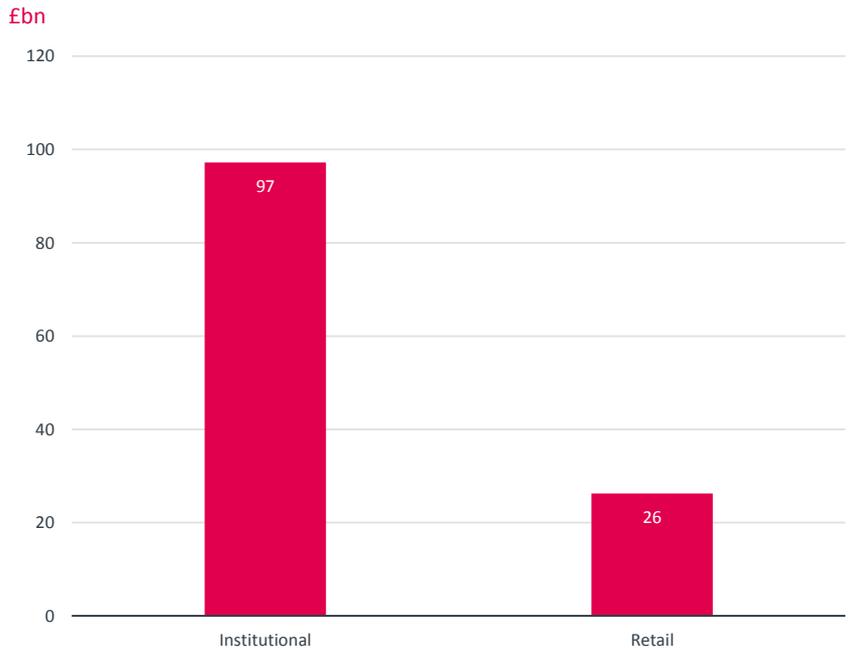
Institutional investors represent the largest investor group. Among these, UK DB pension investors remain the biggest group, but retail investors, the second largest distinct investor group we analyse, represent a significant minority.

The DGF market began as a predominantly Institutional market, gaining its foundation in the UK DB pensions market.

Despite growth in the retail segment, institutional investors still represent £97bn, or over 79% of the DGF market by assets. This is also the case for non-UK investors, who are mostly pension funds or other institutional clients.

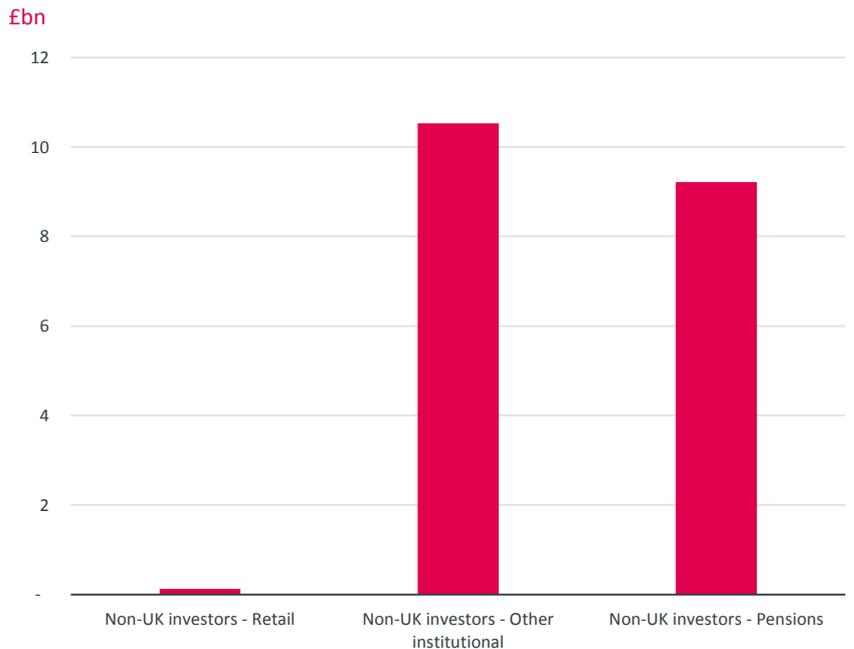
The focus of DGF managers will therefore continue to be on institutional distribution.

DGF assets – institutional vs. retail split



Source: Spence Johnson analysis

Non-UK assets – investor split



Source: Spence Johnson analysis



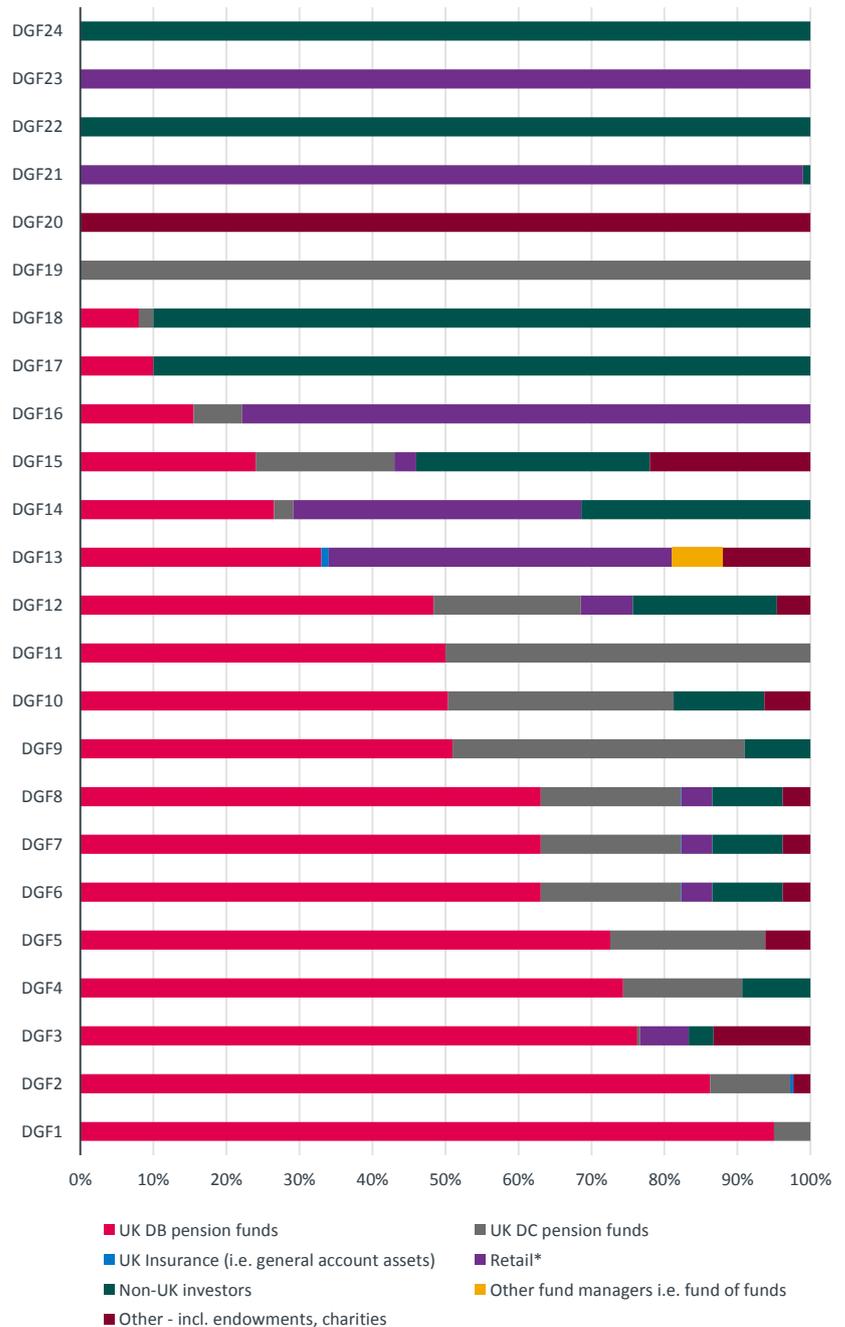
# UK DC and UK DB form the base of many DGFs

A significant number of DGFs draw over 70% of their assets from just UK DC and DB pension funds. DB pension funds account for over half of many DGF's assets.

Most DGFs draw much of their asset base from either UK DB or DC pension funds. A significant number of DGFs draw over 70% of their assets from just UK DC and DB pension funds. DB pension funds account for over half of many DGF's assets.

The instances where funds are entirely made up of assets from other client groups are usually where very small new entrants have been seeded from a particular source. Their distribution goals remain closely aligned to the key client groups of their peers; DC and DB pensions.

Asset base of selected DGFs by investor type  
% of assets – Sample of 24 DGFs





# Scale is an important driver of MA demand

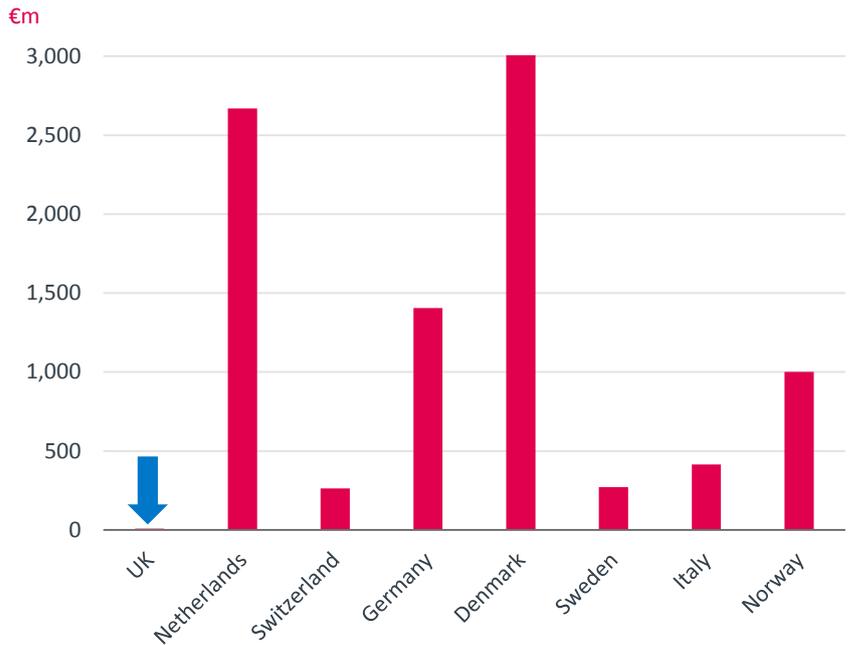
Multi-asset funds offer an ‘off-the-shelf’ solution for many schemes unable to diversify effectively. This scale factor, and other market specific factors, influences the uptake of DGF investing on the European continent.

Scale is an important driver of attitudes to multi-asset. Our experience in the Nordic markets indicates that large scale leans them away from multi asset. Assets per scheme in the UK are 570 times smaller than in Denmark, promoting a ‘we can do it ourselves in-house’ attitude.

The UK market is therefore an almost unique case where a lack of scale has likely been a factor in the strong growth in demand of multi-asset funds. We do not make the mistake of assuming that it is only the smallest pension funds that use DGFs; this was expected to be the case in the UK but large schemes also adopted DGFs. Large schemes, although likely investing a smaller proportion of assets, still perceived the same benefits through investing in DGFs that small schemes saw: growth, with less volatility.

Our European pensions research did highlight some pockets of interest in multi-asset, discussed in the graphic below, but not as much of a broad interest as we encounter in the UK pension community.

Pension assets per scheme (aggregate of DB and DC)



Spence Johnson European Pension Report 2014

## European pensions

### Interest in multi-asset

<b>German risk constrained multi-asset</b>	Smaller investors are attracted to multi-asset products with downward protection and broad exposure. This could perhaps tie into the German history of insurance products offering guarantees.
<b>Italian balanced – move to more diversified and dynamic funds</b>	Italian balanced funds are subject to tight and complex benchmarks usually around tracking volatility. MEFOP implies that this benchmark driven approach might no longer be as important after the new reforms. Under less stringent benchmarks there could be more of a role for dynamic investment strategies; like dynamic DGFs.
<b>Netherlands – fiduciary management</b>	Fiduciary management in the Netherlands controls about 90% of the pension assets. With the vast majority in these fiduciary management solutions there is less room for an ‘off the shelf’ multi-asset pooled fund solutions.



# Assets will be more evenly distributed

Last year we predicted the more even distribution assets. We stand by this and believe there is evidence of it beginning to happen.

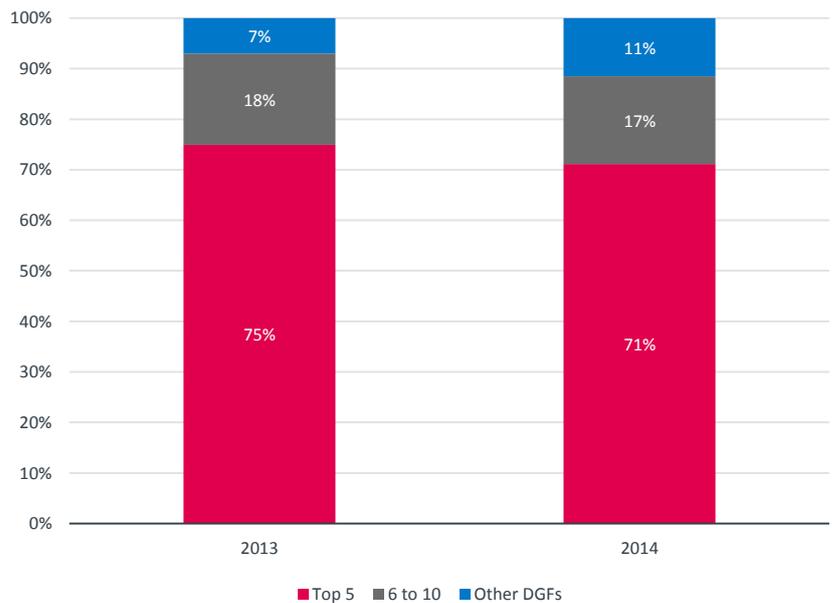
We stand by last year's forecast that the asset spoils of the future will be more evenly shared in the future. The share of the top five have fallen over the last year with the share of other DGFs increasing.

A number of factors provides opportunities for DGF managers who get their propositions right.

1. **Capacity:** There are already examples of DGF managers who are closing as a result of capacity within the funds. The asset inflows we predict cannot be managed by today's winners alone.
2. **Blending:** The future looks likely to be less about which single DGF to invest in but more likely which combination of DGFs are best suited to your needs. DGFs are diverse in approach and clients are increasingly looking at blending DGFs to gain access to a wider range of investment approaches.
3. **Open market:** Some of the early assets flowing into DGFs were from managers converting their managed balanced funds to DGFs in a defensive move as appetites for balanced faded. Asset flows from this source are largely over and DGF assets in the future will be won in the open market.

## Market share

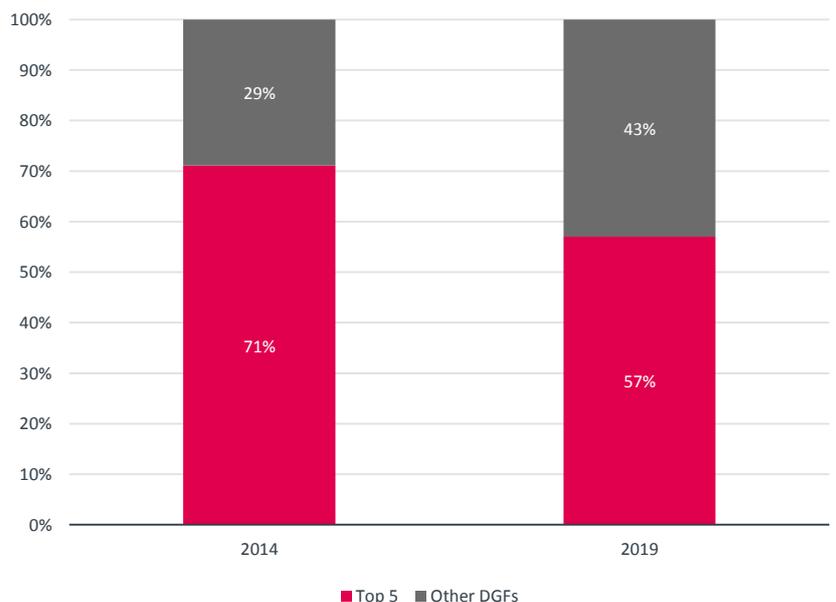
Market share in terms of AUM of the top 5 DGFs



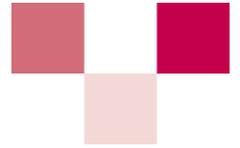
Spence Johnson analysis

## Spence Johnson analysis

Market share in terms of AUM of the top 5 DGFs



Spence Johnson analysis



# Previous editions

Previous editions Available from <http://www.spencejohnson.com/>

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## July 2016 – Number 29 – Our fastest growing MI Segment

The rapid expansion of the Smart Beta market in 2014 makes it the fastest growing market segment covered by Spence Johnson's Market Intelligence Service

## June 2015- Number 28-Targeting growth markets in European Institutional

We project future annual growth rates in institutional assets varying from -0.5% to 31%.

## June 2015 – Number 27 - Opportunities in insurance asset management

The search for yield in a low interest rate environment and regulatory pressure are driving outsourcing opportunities

## March 2015 - Number 26 - Excellent Client Management Provides Tangible Added Value

In this edition Spence Johnson reveals what it is that makes for excellence in client management.

## February 2015 - Number 25 - Opportunities across the map

We look at how asset concentration and distribution issues are related in Europe.

## December 2014 - Number 24 - The year of the master trust

As with target date funds, master trusts also offer a less intermediate channel than those for more traditional trust or contract-based schemes, especially in the large scheme sector.

## November 2014 - Number 23 - European growth opportunities for US asset managers

The European Institutional market is a market going through transformation. As this transformation takes place, we have identified 3 growth opportunities that US managers could take advantage of.

## October 2014 - Number 22 - Opportunities in a transformed market

Retirement Income is now predominantly an investment based fund market. Both the life & pensions and asset management sectors are facing major challenges to protect and grow their strategic interests in this £1.7 trillion opportunity.

## September 2014 - Number 21 - Solutions will win in the end game

Not only will the specialist third party asset manager share be greatly reduced but the source of assets greatly changed. Specialist providers in the future will look to solutions providers for nearly 40% of their assets.

## May 2014 - Number 20 - DGFs still room for new players

The speed of adoption by DB schemes witnessed in 2013 was much faster and more significant than expected. The market grew by £10 billion from this source in 2013, off a previously estimated base of only £30 billion.

## April 2014 - Number 19 - Smart Beta the new alternative

Alternative index product flow is estimated to be largely from UK clients, unlike flows into advanced beta and advanced index products which are estimated to emanate more from European clients.

## December 2013 - Number 18 - The three spirits of pensions, past, present and future

In this holiday edition of Deeper Perspectives we evoke the Three Spirits of Pensions – Past, Present and Future – to enlighten and inspire our readers about the exciting world of pension investment.

## November 2013 - Number 17 - New opportunities for asset managers in workplace pensions

In this new edition of Deeper Perspectives we make four predictions of the future of workplace pensions that could have a significant impact on your strategic planning today.

## October 2013 - Number 16 - New opportunities emerge in Insurance Asset Management

We describe how the management of insurers' general accounts is a growing and changing revenue opportunity for European asset managers

## June 2013 - Number 15 - Growth of US OCIO reveals one clear winner

We share some high level findings of our OCIO Market Intelligence report, and we describe one very clear winner emerging in this market

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