

Morningstar DirectSM Asset Flows Commentary: Europe

As ECB's QE Kicks In, European Investors Buy Europe and Sell US and Emerging Markets

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Long-term funds domiciled in Europe continued to enjoy hefty inflows in March, raking in net inflows of EUR 45.73 billion. However, due to sizeable outflows from equity funds, this remained well behind February inflows of EUR 50.89 billion. Allocation funds took in EUR 22.69 billion, comfortably outpacing their record February inflows. The same holds for alternative funds, which achieved inflows of EUR 8.76 billion, topping record February inflows by EUR 2.1 billion. Fixed-income funds also had a field day and were showered with EUR 19.18 billion.

Equity funds saw net redemptions of EUR 6.49 billion, the worst month since June 2013. In a surprising turn of affairs, index funds suffered higher outflows than actively managed funds – EUR 3.52 billion versus EUR 2.99 billion. For the quarter to date, however, open-end index equity funds (ex ETFs) remain well ahead with inflows of EUR 1.09 billion, against outflows of 5.92 billion which exited from actively managed equity funds. Due to buoyant equity markets around the globe and virtually all global currencies appreciating versus the euro, assets under management in Europe-domiciled equity funds hit an all-time high of EUR 2.732 trillion.

Commodity funds were in the red for first time this year, suffering (slight) net redemptions of EUR 91 million.

Money market funds enjoyed the third straight month of positive inflows due foremost to high demand in the UK. By contrast, money market funds sold in France suffered outflows of EUR 11.1 billion.

Flows by Global Broad Category Group March (Open-End Funds)

Name	Net Assets (€Bil)	Market Share %	Estimated Net Flow (€Mil)			Org Growth Rate %
	3-2015	3-2015	1-Mo	QTD	12 Months	QTD
Allocation	986	13.14	22,693	55,076	160,395	6.39
Alternative	280	3.74	8,761	19,823	48,228	8.03
Commodities	18	0.23	(91)	1,750	1,067	11.47
Convertibles	76	1.01	1,328	2,895	1,815	4.32
Equity	2,717	36.20	(6,492)	(4,827)	13,943	(0.20)
Fixed Income	2,108	28.09	19,179	48,767	144,884	2.53
Property	138	1.83	925	2,004	11,543	1.54
Miscellaneous	136	1.81	(596)	(1,343)	1,536	(0.97)
Unclassified	6	0.07	17	(30)	321	(0.52)
All Long Term	6,463	86.12	45,725	124,115	383,734	2.16
Money Market	1,041	13.88	6,048	40,175	60,176	4.21
Total	7,504	100	51,773	164,290	443,910	

Source: Morningstar Direct

A look at the flows by Morningstar Category helps put the top-line data into perspective. As the bond-buying program of the European Central Bank kicked in on March 9, investors have bought heavily into European assets. The foremost beneficiaries were funds geared towards EUR-denominated assets, as becomes apparent in the below table. In fact, 15 of the 20 top-selling fund categories in March have European holdings (stocks and bonds) or hedge most of their non-EUR exposure.

The biggest spoils went to EUR cautious allocation and EUR moderate allocation funds, with JPMorgan Global Income, a moderate allocation fund, taking in the most at EUR 929 million. Nordea Stable Return Fund, Ethna-Aktiv, and Invesco Pan European High Income Fund were also among the top-selling EUR allocation funds. EUR flexible bond, EUR corporate, and EUR government bond funds were also in high demand.

The hefty inflows into Europe large-cap blend equity funds bear witness to the fact that the picture for equity funds was not completely bleak. The Northern Trust Euro Equity Index fund won big in March, enjoying inflows of EUR 1.13 billion, followed by MFS Meridian European Value, UBS (Lux) ES European Opportunities Unconstrained, and Invesco Pan European Structured Equity, which each saw inflows in excess of EUR 400 million. Among the other equity categories that saw high demand were Europe equity income and Europe ex UK large-cap equity.

Fund-Level Categories: Highest Inflows (excluding Money Market Funds)

Name	Net Assets (€Bil)	Estimated Net Flow (€Mil)			Org Growth Rate %
	3-2015	1-Mo	QTD	12 Months	QTD
EUR Moderate Allocation - Global	120	4,570	12,269	24,260	12.11
EUR Cautious Allocation - Global	88	4,433	10,029	20,490	13.19
Europe Large-Cap Blend Equity	178	4,390	11,574	15,147	8.09
EUR Cautious Allocation	85	3,614	7,766	23,967	10.80
Alt – Multistrategy	103	3,277	9,367	22,024	10.97
EUR Corporate Bond	136	3,158	11,031	26,129	9.04
EUR Government Bond	90	2,569	6,359	15,673	7.92
EUR Flexible Bond	48	2,480	5,041	17,263	11.88
Other Allocation	99	2,461	6,473	24,579	7.37
Other Bond	78	2,383	4,128	9,787	5.87

Source: Morningstar Direct

Turning to the laggard categories completes the big picture of last month's fund flows in Europe. The high outflows suffered by equity funds in March reflect first and foremost the sell-off seen in multiple US equity categories. US large-cap blend equity suffered the most pain, with large chunks of money being pulled out of both passive and active funds--BlackRock North America Equity Index lost net EUR 630 million, while active offering Fidelity America suffered net redemptions of EUR 275 million (the Fidelity fund changed managers in mid-2014 when Adrian Brass left Fidelity for Majedie Asset Management).

Global emerging markets equity funds also suffered high outflows, as did funds in the global emerging markets bond – local currency category. In fact, the only big emerging-markets categories with positive inflows were global emerging-markets bond funds that predominantly invest in hard-currency issuances--which took in EUR 920 million--and Asia ex Japan equity, with inflows of EUR 111 million.

Fund-Level Categories: Largest Outflows (excluding Money Market Funds)

Name	Net Assets (€Bil)	Estimated Net Flow (€Mil)			Org Growth Rate %
	3-2015	1-Mo	QTD	12 Months	QTD
US Large-Cap Blend Equity	168	(2,709)	(3,627)	2,427	(2.39)
Global Emerging Markets Equity	197	(2,688)	(4,173)	3,920	(2.35)
Global Large-Cap Blend Equity	337	(2,044)	(755)	6,434	(0.25)
US Large-Cap Value Equity	43	(2,037)	(3,461)	13	(8.37)
UK Flex-Cap Equity	45	(1,255)	(2,664)	(6,660)	(6.49)
Global Emerging Markets Bond - Local Currency	59	(1,254)	(1,846)	1,898	(3.35)
US Large-Cap Growth Equity	51	(1,153)	(2,550)	(5,771)	(5.46)
Guaranteed Funds	69	(979)	(2,796)	(4,773)	(3.71)
USD High Yield Bond	86	(968)	(1,134)	(14,341)	(1.45)
Asia-Pacific ex-Japan Equity	76	(942)	(2,316)	1,844	(3.43)

Source: Morningstar Direct

Turning to the providers, Eurizon Capital topped the ranks for the second month running. The asset management arm of Intesa Sanpaolo, an Italian Bank, took in EUR 3.44 billion in March and also topped the European providers' flow ranking for the first quarter. The main source of Eurizon's inflows are "other" allocation funds. These typically are fixed-term funds with a specific distribution period and include a placement fee for the distributor and redemption fees in case of early redemptions. Such offerings are especially popular in the Italian market, but Morningstar Analyst Francesco Paganelli notes: "We don't have a positive view on these funds, which tend to be relatively expensive and inflexible." According to Morningstar, the typical Italian investor does not make proper use of these fixed-term funds, as shown by premature redemptions for which investors pay sizable exit charges.

JPMorgan made a big leap forward in March due to evenly distributed flows sent to its allocation and fixed-income funds, with the abovementioned allocation fund JPM Global Income enjoying the highest inflows, followed by the JPM Managed Reserves, a short-term USD diversified bond fund, and JPM Europe Dynamic Fund and JPMorgan Europe Strategic Dividend fund.

Northern Trust was catapulted into the top asset-gatherers thanks to inflows into three equity index funds, Northern Trust Europe Equity Index Fund, Northern Trust North America Equity Index Fund, and Northern Trust Developed Real Estate Index Fund, which took in combined EUR 2.6 billion. These funds were launched in collaboration with ABN Amro for its Netherlands-based private and retail banking clients, according to Northern Trust.

Fund Providers: Highest Inflows (excluding Money Market Funds)

Name	Net Assets (€Bil)	Estimated Net Flow (€Mil)			Org Growth Rate %
	3-2015	1-Mo	QTD	12 Months	QTD
Eurizon Capital	92	3,438	6,527	15,133	7.94
JPMorgan	144	3,042	4,598	18,527	3.53
Northern Trust	7	2,620	2,746	3,200	78.97
Allianz Global Investors	98	2,327	5,146	13,892	5.88
HSBC	58	2,233	3,487	7,652	7.17
Invesco	123	2,150	4,605	9,188	4.40
Schroders	141	1,664	2,328	5,456	1.88
BlackRock	251	1,649	5,138	15,737	2.35
Deutsche Asset & Wealth Management	144	1,612	4,897	12,432	3.89
Nordea	84	1,452	4,340	13,658	6.11

Source: Morningstar Direct

Turning to the laggards, Franklin Templeton suffered the highest outflows in any month since the “taper tantrum” hit the fund industry in June 2013. Of the outflows of EUR 2.6 billion, its behemoth bond funds Templeton Global Bond Fund and Templeton Global Total Return suffered the most. Unsurprisingly, Templeton funds’ outflows reflect emerging markets falling out of favor with investors this year. However, redemptions also hit myriad other funds at the house, including Franklin Mutual European, Franklin Income and Franklin Mutual Global Discovery, each of which lost in excess of EUR 100 million.

Aberdeen saw assets hemorrhaging out of its many emerging-markets equity funds, with the Aberdeen Global Indian Equity Fund losing the most; it shed EUR 537 million, contrary to the friendly flow trend for India Equity Funds in March.

PIMCO suffered outflows of net EUR 1.06 billion. While these were substantially below the level of outflows suffered in the wake of the resignation of company-founder Bill Gross in September 2014, outflows gained pace when compared with the previous month. In fact, save August 2014 and January 2015, PIMCO has suffered outflows in every month since June 2013. Assets in the firm’s European offerings have since fallen from EUR 110.94 billion to EUR 87.3 billion as per March 31st. The highest outflows hit PIMCO GIS Emerging Local Bond Fund, PIMCO GIS Total Return Bond Fund and PIMCO GIS Unconstrained Bond which lost in excess of EUR 300 million each.

Fund Providers: Largest Outflows (excluding Money Market Funds)

Name	Net Assets (€Bil)	Estimated Net Flow (€Mil)			Org Growth Rate %
	3-2015	1-Mo	QTD	12 Months	QTD
Franklin Templeton	149	(2,607)	(3,859)	(3,562)	(2.81)
Aberdeen	72	(1,331)	(3,868)	(6,821)	(5.82)
PIMCO	87	(1,062)	(988)	(18,348)	(1.23)
KBC	55	(1,030)	844	1,960	1.72
Payden & Rygel	1	(622)	(504)	(392)	(30.77)
Sanlam	1	(578)	(605)	(573)	(48.29)
Covéa	5	(576)	(390)	388	(8.53)
State Street	22	(529)	(81)	461	(0.41)
Ashmore	9	(478)	(873)	(1,826)	(9.62)
Danske Invest	46	(458)	(102)	1,043	(0.24)

Source: Morningstar Direct

A look at the largest open-end funds in Europe illustrates the return to favor of moderate allocation fund Carmignac Patrimoine. The fund, which carries a Morningstar Analyst Rating of Silver, garnered inflows of EUR 538 million, the highest in any month since July 2012. The showing comes on the heels of substantial outperformance achieved in 2014 and the year to date.

The UK-domiciled version of Standard Life Investments Global Absolute Return Strategies, Europe’s largest open-end fund which boasts a (re-instated) Bronze Rating, saw inflows of EUR 191 million while Silver-rated M&G Optimal Income Fund received inflows of EUR 76,64 million, the lowest in any one-month period since September 2013.

Templeton Global Bond Fund, which boasts a Morningstar Analyst Rating of Silver, and Bronze-rated Templeton Global Total Return witnessed rising redemptions in March, suffering combined outflows of EUR 1.9 billion.

10 Largest Long-Term Funds by Net Assets

Name	Net Assets (€Bil)	Estimated Net Flow (€Mil)			Org Growth Rate %
	3-2015	1-Mo	QTD	12 Months	QTD
SLI Global Abs Ret Strat	34.794	191	1,270	3,947	4.25
M&G Optimal Income Fund	33.801	77	1,279	7,574	4.07
Templeton Global Bond Fund	31.628	(1,222)	(1,809)	(1,881)	(5.88)
Templeton Global Total Return	29.577	(657)	(1,242)	(607)	(4.37)
Carmignac Patrimoine	28.494	538	1,425	(1,156)	5.94
BGF Global Allocation Fund	21.497	(53)	(201)	1,415	(1.06)
AB Global High Yield Portfolio	20.156	(173)	(331)	10	(1.83)
IP High Income	17.814	(166)	(550)	(2,507)	(3.43)
DWS Top Dividende	14.126	(36)	265	631	2.17
Newton Real Return Fund	13.622	(174)	(155)	262	(1.26)

Source: Morningstar Direct

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Data Notes

The figures in this report were compiled on 23 April 2015. Over 25,000 of 30,000 funds that Morningstar tracks from over 1,200 fund companies across over 30 domiciles are included. Swedish funds are not included because some key fund groups report assets on a quarterly basis only. Organic growth rate is flows as a percentage of beginning assets.