

## Morningstar Direct<sup>SM</sup> Asset Flows Commentary: Europe

### EUR Allocation Funds and other European Assets Remain the Focus of European Investors

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Investors continued to send handsome inflows to open-end funds domiciled in Europe in April. Thanks to hefty inflows into allocation and bond funds, long-term funds welcomed EUR 41,87 billion. This healthy demand was, however, well below record-breaking inflows of EUR 52,21 billion seen in February and did not match inflows seen in March.

With net inflows of EUR 18,63 billion, allocation funds remained the bedrock of European fund sales, topping all other broad category groups for the eighth month running. Fixed-income funds also achieved substantial inflows of EUR 17,46 billion, as did alternative funds, which received net EUR 8,01 billion – the second-best month on record since Morningstar started publishing European fund flows on an industry level in 2007. The high demand for these hedge-fund-like vehicles is illustrated by an organic growth rate of 11,6% for the year to date.

Equity funds, on the other hand, continued to suffer outflows, albeit at a slower pace than in March, with actively managed funds suffering the lion's share of outflows of EUR 2,16 billion. (Due to massive redemptions of iShares' DAX tracker, equity ETFs domiciled in Europe also witnessed net outflows in April.)

Money market funds, on the other hand, enjoyed positive inflows for the fourth month in a row thanks to gargantuan inflows of EUR 24,6 billion into money market funds domiciled in France (which had suffered outflows of EUR 12,39 billion in March).

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

Name	Net Assets	Market	Estimated Net Flow			Org Growth
	(€Bil)	Share %	(€Mil)			Rate %
	4-2015	4-2015	1-Mo	YTD	12 Months	YTD
Allocation	996	13.29	18,626	74,086	168,076	8.60
Alternative	288	3.84	8,005	28,516	51,774	11.59
Commodities	18	0.24	7	1,870	1,089	12.30
Convertibles	75	1.01	593	3,328	1,631	5.00
Equity	2,697	36.01	(2,160)	(5,731)	5,903	(0.24)
Fixed Income	2,095	27.97	17,464	65,956	152,006	3.41
Property	138	1.85	927	2,842	11,780	2.19
Miscellaneous	129	1.72	(1,838)	(2,941)	(65)	(2.22)
Unclassified	6	0.08	244	239	464	4.24
<b>All Long Term</b>	<b>6,442</b>	<b>86.00</b>	<b>41,868</b>	<b>168,166</b>	<b>392,659</b>	<b>2.92</b>
Money Market	1,048	14.00	12,065	53,339	61,164	5.58
<b>Total</b>	<b>7,490</b>	<b>100</b>	<b>53,93</b>	<b>221,53</b>	<b>453,89</b>	

Source: Morningstar Direct

## Fund-Level Categories

The two EUR cautious allocation categories are gaining traction: Santander Tandem 0-30 FI, which saw inflows of EUR 493 million, followed by Ethna Aktiv (EUR 455 million) and Invesco Pan European High Income Fund (EUR 407 million), leading all other funds in these two categories.

Alternative multistrategy funds also saw increasing demand thanks to high inflows into the two versions of the SLI Global Absolute Return Strategy (GARS), Europe's largest long-term fund, with the UK-based version taking in EUR 510 million and the Luxemburg clone adding another EUR 811 million.

Inflows into EUR-denominated bond-heavy funds continued unabated in April, which reflects that investors were not deterred by volatility spikes in the EUR bond markets. Inflows into EUR government-bond funds (not included in the table below) stood solid at EUR 1,22 billion despite the marked correction suffered by German bunds, which sent yields soaring from 0,05 mid-April to close to 0,8 in the first week of May. In all, eight of the 10 top-selling fund categories invest in EUR and other European stocks and bonds.

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

Name	Net	Estimated Net Flow (€Mil)			Org Growth
	Assets (€Bil)	1-Mo	YTD	12 Months	Rate %
EUR Cautious Allocation - Global	90	3,843	13,937	23,413	18.48
EUR Moderate Allocation - Global	123	3,814	16,361	28,453	16.08
Alt - Multistrategy	108	3,734	13,771	25,567	15.81
EUR Cautious Allocation	88	3,546	11,189	24,898	15.55
Other Allocation	103	2,394	8,868	23,769	10.10
EUR Flexible Allocation - Global	82	2,165	7,724	14,561	10.87
Europe Equity Income	27	1,907	5,586	9,902	29.65
Europe Large-Cap Blend Equity	178	1,774	13,265	15,445	9.35
EUR Diversified Bond - Short Term	80	1,515	728	7,174	0.92
EUR Corporate Bond	136	1,404	12,513	26,456	10.25

Source: Morningstar Direct

A look at the laggards reveals that emerging-markets equity funds bled the most in April, suffering substantial outflows of EUR 2,44 billion. This was only slightly below the breathtaking March outflows of EUR 2,70 billion. Investors pulled EUR 434 million out of SKAGEN Kon-Tiki, a fund that had a rough spell in 2014 when it underperformed its MSCI Emerging Markets benchmark by a wide margin, relegating this fund into the 94<sup>th</sup> fund percentile. (The fund, however, retains its Morningstar Analyst Rating of Gold.) Fidelity's FF – Emerging Markets fund also witnessed high outflows of EUR 380 million, followed by BlackRock ISF EM Fundamental Weighted Index Fund, which lost EUR 334 million.

It was a somewhat mixed picture on the bond side, with the global emerging markets bond – local currency category seeing outflows of EUR 677 million while global emerging markets bond funds that focus on hard currency issuances had net inflows of EUR 1,11 billion. Asia-Pacific ex Japan equity funds saw the highest outflows in any one month period since March 2011 with AB Asia Pacific Ex-Japan Equity Portfolio losing a staggering EUR 643 million.

While US large-cap blend and large-cap value equity funds remained very much unloved in April, the large-scale sell-off of USD assets seen in March abated somewhat. (Notably, USD high-yield bond funds attracted EUR 792 million, the second-best month since April 2014.)

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

Name	Net	Estimated Net Flow (€Mil)			Org Growth
	Assets (€Bil)	1-Mo	YTD	12 Months	Rate %
	4-2015				YTD
Global Emerging Markets Equity	197	(2,450)	(6,612)	(411)	(3.72)
Guaranteed Funds	63	(2,014)	(4,354)	(5,733)	(6.05)
US Large-Cap Blend Equity	159	(1,873)	(5,179)	74	(3.44)
Asia-Pacific ex-Japan Equity	75	(1,157)	(3,470)	633	(5.14)
UK Large-Cap Blend Equity	147	(967)	(3,464)	(2,107)	(2.60)
Fixed Term Bond	72	(965)	(2,877)	(2,644)	(3.76)
US Large-Cap Value Equity	41	(922)	(4,383)	(1,544)	(10.60)
GBP Cautious Allocation	56	(866)	782	7,332	1.49
US Large-Cap Growth Equity	48	(721)	(3,269)	(6,019)	(7.01)
Global Emerging Markets Bond - Local Currency	58	(677)	(2,521)	(187)	(4.52)

Source: Morningstar Direct

Turning to the providers, Eurizon Capital topped not only the April ranking of the strongest asset gatherers but is also second to none for the year to date. The asset manager of Italian bank Intesa Sanpaolo boasts an organic growth rate of 11,7% this year. As in the previous months, the main source of Eurizon's inflows was "other" allocation funds, which are fixed-term funds with a specific distribution period.

BlackRock, Europe's largest fund provider, took in EUR 2,85 billion on the back of high inflows into its fixed-income and allocation fund ranges. The highest April inflows were sent to the BGF Euro Short Duration Bond Fund (EUR 747 million), followed by BGF European Equity Income (EUR 370 million) and BlackRock China Fund (EUR 304 million).

Standard Life Investments profited from continuous inflows into its alternative funds, and Amundi continued to see high inflows into global flexible bond funds USD hedged.

### Fund Providers: Highest Inflows (Excluding Money Market Funds)

Name	Net	Estimated Net Flow (€Mil)			Org Growth
	Assets (€Bil)	1-Mo	YTD	12 Months	Rate %
	4-2015				YTD
Eurizon Capital	95	3.085	9.623	17.473	11,70
BlackRock	253	2.846	7.998	16.031	3,65
Standard Life	102	1.930	4.066	8.636	4,56
Amundi	91	1.543	3.463	8.524	4,26
UBS	198	1.402	6.305	15.252	3,68
Deutsche Asset & Wealth Management	152	1.373	6.376	14.033	4,78
Nordea	85	1.321	5.731	13.797	7,76
Invesco	124	1.299	5.907	9.544	5,64
Allianz Global Investors	99	1.239	6.356	13.573	7,26
Neuflyze	14	1.169	1.539	1.728	12,58

Source: Morningstar Direct

Franklin Templeton continued to reel under outflows out of Templeton Global Bond Fund and Templeton Global Total Return. This, however, was not the complete story as the Templeton Asian Growth equity fund also suffered net redemptions of EUR 481 million.

M&G suffered a sharp setback in April with its biggest fund, M&G Optimal Income, losing net EUR 1,06 billion, by far its highest one-month outflow ever. As of April 30, this fund represented almost 30% of M&G's European fund assets.

Spanish bank La Caixa witnessed redemptions foremost out of its fixed-term bond funds, and BlueBay emerging-markets bond funds took the brunt of April outflows.

### Fund Providers: Largest Outflows (excluding Money Market Funds)

Name	Net	Estimated Net Flow (€Mil)			Org Growth
	Assets (€Bil)	1-Mo	YTD	12 Months	Rate %
Franklin Templeton	144	(1.802)	(5.657)	(4.733)	(4,13)
M&G	114	(1.344)	(639)	3.959	(0,61)
La Caixa	20	(945)	(579)	1.295	(2,88)
BlueBay	31	(897)	(263)	1.703	(0,87)
Aberdeen	70	(745)	(4.619)	(7.418)	(6,94)
AllianceBernstein	49	(714)	(191)	1.644	(0,42)
BNY Mellon	67	(649)	(468)	374	(0,76)
Robeco	44	(607)	(415)	998	(1,03)
SKAGEN	12	(528)	(1.345)	(2.981)	(10,42)
Ignis	17	(383)	(4.934)	(9.996)	(25,13)

Source: Morningstar Direct

A look at the largest open-end funds in Europe reveals a possible fall from favor of M&G Optimal Income Fund. The outstanding success of this cautious allocation fund, which carries a Morningstar Analyst Rating of Silver, stems from the high inflows into the EUR-hedged share classes since 2012. The Retail and Institutional shares distributed in the eurozone now boast close to two thirds of the fund's assets of EUR 32,5 billion and have taken in net EUR 16,1 billion in the years 2012, 2013, and 2014. In contrast, the retail GBP share classes of the M&G Optimal Income Fund have suffered net redemptions of EUR 1,8 billion since 2013. The April outflows of EUR 870 million out of the EUR-hedged Retail share classes arguably indicate that eurozone investors have woken up to the underperformance versus the average EUR cautious allocation fund since 2014.

It was another month of pain for Silver-rated Templeton Global Bond Fund and Bronze-rated Templeton Global Total Return as they witnessed redemptions of EUR 448 million and EUR 324 million, respectively.

Carmignac Patrimoine, on the other hand, continued to attract net new money on the back of a strong performance this year, as did SLI Global Absolute Return Strategies, which has seen its Bronze rating reinstated recently.

## 10 Largest Long-Term Funds by Net Assets

Name	Net	Estimated Net Flow (€Mil)			Org Growth
	Assets (€Bil)	1-Mo	YTD	12 Months	Rate %
SLI Global Abs Ret Strat	34,842	510	1,780	4,093	5.96
M&G Optimal Income Fund	32,518	(1,060)	219	5,554	0.70
Templeton Global Bond Fund	30,596	(448)	(2,257)	(1,766)	(7.34)
Templeton Global Total Return	28,639	(324)	(1,566)	(497)	(5.50)
Carmignac Patrimoine	28,156	354	1,779	18	7.42
BGF Global Allocation Fund	21,141	149	(52)	1,564	(0.28)
AB Global High Yield Portfolio	19,640	146	(185)	(11)	(1.03)
IP High Income	17,687	(194)	(744)	(2,464)	(4.64)
DWS Top Dividende	14,088	52	317	746	2.60
JPM Global Income	13,692	598	3,002	7,046	29.18

Source: Morningstar Direct

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### Data Notes

The figures in this report were compiled on 27 May 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.