

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

### European investors maintain a cautious stance in April following the first-quarter correction.

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Despite rebounding equity markets across the globe in April 2018, European investors maintained a cautious stance. Long-term open-end funds and exchange-traded funds attracted net inflows of EUR 19.7 billion in April. In March, net inflows had dropped to EUR 18.7 billion from EUR 27.1 billion in February. These levels are comparatively low when compared with the record-breaking levels seen in January, when investors sent EUR 42.8 billion to long-term funds domiciled in Europe. Arguably, this reflects the effects of rising market volatility in the first quarter.

Net inflows to equity funds during April were only EUR 2.5 billion, the weakest demand seen in a one-month period since October 2016. While European equity categories suffered heavy outflows, global and U.S. fund categories enjoyed solid demand.

Allocation funds also witnessed flagging demand with net inflows dropping to a multimonth low of EUR 6.1 billion, down from EUR 10.4 billion in March. Cautious- and moderate-allocation funds were the products of choice, while riskier categories such as emerging-markets allocation funds and US-dollar aggressive-allocation funds suffered net redemptions.

Bond funds clawed back to positive flows for the first time in three months—albeit in a somewhat lacklustre manner. The demand for fixed-income products in the past three months was lower than in any month since November 2016. High-yield bond and corporate-bond funds sold off, but demand for the short-term, diversified, government, and global emerging-markets bond categories more than compensated for this.

Demand for alternatives funds picked up with April inflows of EUR 5.6 billion, which clearly surpassed February and March levels. April witnessed a comeback for long-short debt products, market-neutral equity funds, and global-macro funds. Thanks to high inflows to funds offered by Natixis' subsidiary H2O Asset Management, these funds saw the strongest demand in a one-month period since Morningstar started collecting European flow data on an industry level in 2007. Demand for alternative multistrategy funds, remained muted when compared with average monthly flows seen in the past five years. Net sales were tempered by outflows from several behemoth funds offered by Standard Life Investments, BNY Mellon, and DWS.

Commodities funds enjoyed the highest net inflows since February 2017. The high demand had two drivers: precious metals and broad basket commodity funds, which enjoyed net inflows of EUR 990 million and EUR 900 million, respectively.

Money market funds witnessed inflows of EUR 12.7 billion, thus making April the first positive month in three months. France-domiciled funds saw the highest inflows of EUR 14.6 billion. Ireland-domiciled funds suffered the highest outflows, shedding EUR 1.2 billion.

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

Name	Net Assets	Market Share	Estimated Net Flow			Org Growth
	(EUR Bil)	%	(EUR Mil)		Rate %	
	4-2018	4-2018	1 Mo	YTD	1 Yr	1 Yr
Allocation	1,347	13.90	6,095	44,564	133,096	11.27
Alternative	469	4.85	5,567	16,687	57,479	13.60
Commodities	71	0.73	1,819	3,097	5,722	8.56
Convertibles	65	0.67	(338)	98	373	0.58
Equity	3,693	38.12	2,483	63,793	189,909	5.65
Fixed Income	2,611	26.95	4,669	21,402	229,952	9.44
Property	136	1.40	236	2,744	7,569	5.70
Miscellaneous	109	1.13	(1,026)	2	369	0.33
Unclassified	6	0.06	220	371	677	12.34
<b>All Long Term</b>	<b>8,507</b>	<b>87.80</b>	<b>19,725</b>	<b>152,756</b>	<b>625,145</b>	<b>8.03</b>
Money Market	1,182	12.20	12,666	7,826	29,391	2.37
<b>Total</b>	<b>9,689</b>	<b>100.00</b>	<b>32,391</b>	<b>160,582</b>	<b>654,536</b>	

Source: Morningstar Direct.

### Active vs. Passive

While passive funds (open-end products and ETFs) continued to display higher growth rates than actively managed funds, the past three months saw compressed growth levels for both product groups. (On an absolute level, inflows to active funds dwarfed those targeting index funds in April.) Actively managed alternative, allocation, equity, fixed-income, and commodities products pulled in combined net inflows of EUR 16.15 billion compared with EUR 4.5 billion of net subscriptions for open-end index funds and ETFs.

Passive bond funds continued their winning streak in April. While making up only 12% of the European bond fund universe, passive bond funds grabbed EUR 2.2 billion in net new money in April, compared with EUR 2.5 billion sent to actively managed fixed-income products. Year to date, passive bond funds have displayed an organic growth rate of 2.2% compared with 0.6% for their active counterparts (organic growth rate defines flows as percentage of assets at the beginning of a given period).

Demand for equity index funds sagged markedly. After enjoying net inflows of EUR 2.9 billion in March, net inflows were down to about EUR 740 million in April. This goes back to outflows from equity ETFs, which saw their first negative month of flows since May 2016, shedding net EUR 1.3 billion. (Open-end index equity funds, conversely, continued to see strong demand.)

While (physical) commodities funds are by now dominated by exchange-traded products, which make up 75% of the market, index funds grabbed an even higher share of April flows: Their net inflows of EUR 1.6 billion amounted to 86% of all inflows sent to commodities funds. In the trailing 12 months through April, the organic growth rate of passive commodities funds was 10.8% versus 1.6% for actively managed commodities funds. Within the index fund realm, precious-metals and broad-basket funds enjoyed the highest demand, with most of the net new money pulled in by funds distributed throughout Europe.

## Flows by Global Broad Category Group: Active vs. Passive

Estimated Net Flows EUR Mil	Active			Passive		
	1 Mo.	1 Year	Assets EUR Bil	1 Mo.	1 Year	Assets EUR Bil
Allocation	6,1	133	1,345	12	63	1.5
Alternative	5,6	55,9	456	(52)	1,5	13
Commodities	246	256	16.6	1,6	5,5	54.1
Equity	1,7	90,7	2,719	737	99,2	974.4
Fixed Income	2,5	198,5	2,295	2,2	31,5	316.6

Source: Morningstar Direct Asset Flows.

### Fund-Level Categories: The Leaders

A look at the most loved Morningstar Categories reveals that “other bond” (a heterogeneous lot that includes funds that invest in bonds and have currency exposures that do not qualify them for inclusion in the other fixed-income categories) enjoyed the highest inflows. This was due, however, to technical reasons: as per 29 March, two funds were merged into Deka-OptiRent 3y; however, only the outflows of EUR 1.9 billion were registered in March. The proceedings of this merger—close to EUR 2.0 billion—are shown as inflows in April data.

Investors arguably displayed optimism regarding the prospects for global economic growth, with international large-cap blend equity funds attracting EUR 3.5 billion of net inflows in April. Despite the positive flows toward the active component, investors favored passive products for exposure to global equities; the inflows sent to iShares Developed World Index—EUR 830 million—came close to matching the total net inflows to active global large-cap blend funds.

Driven by good macroeconomic data and by the fiscal reform, inflows continued to target US large-cap blend funds. Again, investors clearly preferred the passive option in this market, as demonstrated by Vanguard S&P 500 ETF gathering EUR 600 million. However, when seen against the backdrop of the recent grim history, actively managed US large-cap funds had a positive month taking in EUR 715 million of net inflows. Inflows of EUR 422 million to JPM US Select were a large contributor.

April was only the fifth month of positive net flows for actively managed US large-cap blend funds since January 2015, a stark contrast to the high demand seen for passive US equity funds domiciled in Europe.

Investors remained positive on the global emerging-markets equity category as well. Inflows were particularly high for two passive products: iShares Core MSCI EM IMI ETF and iShares Emerging Markets Index (EUR 473 million and EUR 223 million during the month, respectively). It is worth mentioning that for the second month in a row investors preferred passive vehicles for their emerging-markets equity exposure. This contrasts the trend seen in the first two months of the year.

## Flows by Fund-Level Categories: The Leaders (Long-Term and ETFs, Active vs. Passive)

Estimated Net Flows EUR Mil	Active		Assets EUR Bil	Passive		Assets EUR Bil
	1 Mo.	YTD		1 Mo.	YTD	
Other Bond	3,578	9,885	196	(81)	374	1
Global Large-Cap Blend Equity	1,050	5,281	368	2,430	3,468	158
US Large-Cap Blend Equity	715	292	97	2,267	8,642	187
EUR Div. Bond – Short Term	2,016	8,025	117	50	91	0.2
Glb Emerging Markets Equity	392	7,383	215	1,397	4,780	76

Source: Morningstar Direct Asset Flows.

## Fund-Level Categories: The Laggards

Turning to the unloved categories, the fact that in many cases outflows hit both active and passive funds alike indicates that asset-allocation decisions were the main driver for redemptions out of these products. Equity investors shied away from European large caps and emerging-markets regional funds. Corporate-bond and high-yield bond funds also remained on the sell list of European investors.

Japan large-cap equity funds suffered redemptions for the second month in a row, which has not happened since February 2016. Arguably, this reflects the effects of rising market volatility in the first quarter, or even some profit-taking after a long period of stellar performance. Within the category, iShares Japan Equity Index was hit particularly hard, shedding EUR 559 million.

At the category level, fund-specific stories had their impact. The outflows from the Asia-Pacific ex-Japan equity category were motivated to a large degree by the outflows from Stewart Investors Asia Pacific Leaders, which has a Morningstar Analyst Rating of Silver. It suffered EUR 1.7 billion of net sales alone.

## Flows by Fund-Level Categories: The Laggards (Long-Term and ETFs, Active vs. Passive)

Estimated Net Flows* Mil	Active		Assets EUR Bil	Passive		Assets EUR Bil
	1 Mo.	YTD		1 Mo.	YTD	
Japan Large-Cap Equity	(607)	561	66	(1,325)	254	46
EUR Corporate Bond	(1,554)	(5,430)	117	(210)	(1,030)	34
Global High Yield Bond	(1,607)	(5,722)	89	(62)	(299)	1
Eurozone Large-Cap Eq.	395	4,455	101	(2,062)	(451)	71
Asia-Pacific ex-Jap. Eq.	(1,399)	79	46	(208)	119	5

Source: Morningstar Direct Asset Flows.

## Fund Providers: The Leaders

Natixis topped the list in terms of inflows within the active spectrum, thanks mainly to strong sales of British subsidiary H2O Asset Management, which specializes in alternative funds. H2O gathered more than EUR 1.5 billion of new assets during the month. Particularly, H2O Adagio (an absolute return strategy managed with an annual ex-post volatility target) attracted EUR 726 million in April.

At the beginning of May, H2O Asset Management announced the soft closure of two of its flagship global-macro funds following huge levels of inflows into its whole absolute return range since the start of the year. The London-based group will impose a 5% entry fee on H2O Multistrategies and H2O Vivace from 1 July.

BlueBay also benefited from a high demand for alternative products, which attracted EUR 1.34 billion, with BlueBay Total Return Diversified Credit enjoying the highest spoils.

UBS enjoyed handsome inflows within both the active and passive universes. Within actively managed products, fixed-income funds were the most sought-after with more EUR 1 billion of net inflows in April. On the passive side, UBS ETF MSCI United Kingdom posted the highest inflows of EUR 174 million, thus bucking the negative trend for UK large-cap blend funds.

Turning to the passive providers, the surprise (for the second consecutive month) was the absence of iShares among the top five companies in terms of inflows. The April ranking was dominated by Vanguard's net inflows of EUR 1.69 billion. The US index fund provider enjoyed hefty inflows to its equity products, particularly US large-cap blend equity funds, which accounted for more than EUR 1 billion of new net subscriptions.

#### Fund Providers: Largest Inflows, Active (Excluding Money Market Funds)

Name	Net Assets (EUR Bil)	Estimated Net Flow (EUR Mil)			Org Growth Rate %
	4-2018	1 Mo.	YTD	1 Yr	1 Yr
Natixis	89	2,325	6,440	15,313	21.74
Deka	82	2,043	1,283	3,318	4.34
BlueBay	22	1,815	2,420	2,750	14.75
UBS	143	1,510	6,529	11,558	8.20
Eurizon	139	1,388	4,178	19,204	16.53

Source: Morningstar Direct.

#### Fund Providers: Largest Inflows, Passive (Excluding Money Market Funds)

Name	Net Assets (EUR Bil)	Estimated Net Flow (EUR Mil)			Org Growth Rate %
	4-2018	1 Mo.	YTD	1 Yr	1 Yr
Vanguard	131	1,685	4,582	12,433	10.67
UBS	116	977	4,647	11,289	10.57
Lyxor	68	890	2,230	7,391	13.99
Amundi	38	558	2,609	5,234	48.89
State Street	45	448	2,151	4,162	10.09

Source: Morningstar Direct.

#### Fund Providers: The Laggards

First State topped the list of laggards within the active spectrum. Redemptions of Asia ex-Japan equity funds were the most significant detractor (EUR 1.6 billion) for the Australian-based asset manager.

Janus Henderson continued its negative streak. Since the start of the year, the British-American asset manager has shed almost EUR 3 billion in net redemptions within the active universe. April was a negative month for both its equity and fixed-income products, with EUR 395 million and EUR 349 million of net sales, respectively. Silver-rated Janus Henderson Strategic Bond just barely bucked the trend with EUR 19 million of net inflows.

On the passive side, redemptions of eurozone large-cap equity funds were the most significant detractor for iShares, which suffered outflows of EUR 879 million from its 15 Eurozone products, largely owing to redemptions of iShares Euro Stoxx 50, from which investors withdrew EUR 535 million, which brings to EUR 1.44 billion the total net redemptions from this fund in the past three months.

BlackRock's passive offerings shed EUR 1.35 billion, largely because of its UK equity large-cap products. (Morningstar's branding-name methodology distinguishes between iShares ETFs and BlackRock funds.)

#### Fund Providers: Largest Outflows Active (Excluding Money Market Funds)

Name	Net Assets (EUR Bil)	Estimated Net Flow (EUR Mil)		Org Growth Rate %	
	4-2018	1-Mo	YTD	1 Yr	1 Yr
First State	31	(1,710)	(1,760)	(4,208)	(12.49)
Nordea	133	(1,540)	(2,176)	(6,641)	(4.78)
Janus Henderson	65	(954)	(2,975)	(3,666)	(5.57)
Fidelity	143	(931)	560	(655)	(0.47)
PIMCO	151	(886)	112	39,719	34.57

Source: Morningstar Direct.

#### Fund Providers: Largest Outflows Passive (Excluding Money Market Funds)

Name	Net Assets (EUR Bil)	Estimated Net Flow (EUR Mil)		Org Growth Rate %	
	4-2018	1-Mo	YTD	1 Yr	1 Yr
iShares	302	(1,840)	4,726	29,419	10.80
BlackRock	130	(1,345)	(1,439)	27,534	27.83
Degroof Petercam	4	(155)	(560)	140	3.91
Deka	9	(146)	279	(478)	(4.89)
GAM	6	(146)	(292)	(830)	(11.26)

Source: Morningstar Direct.

#### The Largest Open-End Funds and ETFs

PIMCO GIS Income, Europe's largest actively managed fund, witnessed the third month of net outflows. In April, it shed EUR 209 million, well below February and March levels when the Silver-rated flexible-bond fund bled EUR 611 million and EUR 548 million, respectively. Assets had peaked at EUR 60.5 billion in January and have since dropped to EUR 59.2 billion.

Silver-rated M&G Optimal Income enjoyed its 17th consecutive month of net inflows, although they came at levels well below the average of previous months.

JPM Global Income also continued its winning streak despite a negative 1.9% performance for the year to date as of April 30 (this pertains to the A share class from the perspective of eurozone investors), thus underperforming both the peer group and benchmark.

It was another month of pain for the UK-domiciled version of Standard Life Aberdeen Global Absolute Return Strategies, which shed EUR 446 million. The Bronze-rated multistrategy fund has seen assets dwindle from EUR 38.1 billion in November 2015 to EUR 21.3 billion because of continuous outflows.

### 5 Largest Long-Term Actively Managed Funds by Net Assets

Name	Net Assets (EUR Bil)	Estimated Net Flow (EUR Mil)			Org Growth Rate %
	4-2018	1 Mo	YTD	1 Yr	1 Yr
PIMCO GIS Income	59.158	(209)	489	30,892	99.60
AP7 Aktiefond	40.328	(14)	351	1,977	5.48
M&G Optimal Income	27.046	141	1,667	6,063	29.23
JPM Global Income	25.160	358	2,010	5,964	31.05
SLI Global Absolute Return Strategies	21.268	(446)	(1,832)	(6,140)	(21.40)

Source: Morningstar Direct.

Save the iShares UK Equity Index, which suffered astounding outflows of EUR 1.99 billion, the rest of the largest index funds enjoyed net inflows in April. In the duel between the two largest S&P 500 trackers, which are both rated Gold, Vanguard S&P 500 ETF clearly upped iShares Core S&P 500 ETF, posting net inflows of EUR 600 million versus EUR 69 million.

iShares Core MSCI World ETF and open-end index fund iShares Developed World Index also were net flow positive, thus reflecting the high demand seen for funds sitting in the global large-cap blend equity category.

### 5 Largest Long-Term Passive Funds by Net Assets

Name	Net Assets (EUR Bil)	Estimated Net Flow (EUR Mil)			Org Growth Rate %
	4-2018	1-Mo	YTD	1 Yr	1 Yr
iShares Core S&P 500 ETF	21.270	69	21	1,592	8.26
Vanguard S&P 500 ETF	19.037	600	1,303	2,379	14.42
iShares Core MSCI World ETF	11.537	142	79	2,440	27.58
iShares Developed World Index (IE)	11.287	830	714	800	7.79
iShares UK Equity Index (UK)	10.513	(1,993)	(1,973)	(2,107)	(17.35)

Source: Morningstar Direct.

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#### Data Notes

The figures in this report were compiled on May 22, 2018. Approximately 31,000 Europe-domiciled open-end funds and ETFs that Morningstar tracks from more than 1,750 fund companies across more than 35 domiciles were included. Organic growth rate is flows as a percentage of beginning assets.