

Morningstar DirectSM Asset Flows Commentary: Europe

Equity funds enjoy strongest inflows in a year, as compromise over Greece's third bailout lifts markets.

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Relief over the accord on a third bailout for Greece and forecast-beating earnings reports encouraged European investors to jump back into long-term funds in July. European open-end funds excluding money market funds gathered a total of EUR 25.97 billion of new assets during the month, with both the equity and bond markets rallying across the developed world after suffering losses in June.

Equity funds in particular benefited from investors' newfound risk appetite with inflows of EUR 8.29 billion during the month. That tally is higher than in any month since July 2014. However, the positive effects of the eurogroup compromise to avoid a "Grexit", reached on 13 July, was mostly limited to developed-markets funds. Emerging-country funds saw outflows stemming from worries over China's growth, mounting pressure on emerging currencies from a looming Chinese devaluation, and the U.S. Federal Reserve's intentions to raise interest rates. As the Chinese A-Share market fell a dramatic 14.5% (in USD terms), it was no wonder that funds in Morningstar's Chinese equity categories (China equity, greater China equity, China A-Shares equity) were hard hit, with outflows totaling EUR 2.12 billion.

Apart from equities, funds in Morningstar's alternative and allocation categories profited from yet another strong month of inflows. After taking in EUR 9.03 billion of new money in July, European alternative funds have now amassed a total of EUR 51.60 billion in net flows for the year to date. Net inflows to alternatives through July surpass the asset-class calendar-year record intake of EUR 46.2 billion reached in 2014.

July brought mixed news for bond funds. European bond investors enjoyed mostly positive returns as yields compressed after the Greek compromise. However, with the German 10-year bund ending the month with a lowly yield of 0.65%, long-term prospects for the fixed-income market remained subdued. In this light, it was not surprising that money market funds posted a strong month with EUR 21.38 billion of inflows, whereas bond funds saw EUR 591 million walk out the door.

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

Name	Net Assets	Market	Estimated Net Flow			Org Growth
	(€Bil)	Share %	(€Mil)			Rate %
	7-2015	7-2015	1-Mo	YTD	12 Months	YTD
Allocation	1,020	13.74	9,297	112,486	165,016	13.06
Alternative	313	4.22	9,028	51,598	62,682	21.08
Commodities	16	0.21	(181)	2,079	1,542	13.89
Convertibles	77	1.03	(56)	3,836	2,041	5.71
Equity	2,651	35.71	8,292	5,076	2,714	0.22
Fixed Income	2,068	27.85	(591)	65,586	103,490	3.43
Property	132	1.78	667	6,363	13,358	5.08
Miscellaneous	117	1.58	(485)	(2,344)	(1,214)	(1.92)
Unclassified	5	0.06	(1)	(184)	(286)	(3.92)
All Long Term	6,399	86.17	25,971	244,496	349,343	4.29
Money Market	1,027	13.83	21,383	27,747	33,136	2.91
Total	7,425	100	47,354	272,243	382,479	7.20

Source: Morningstar Direct.

Fund-Level Categories

For emerging-markets equity funds, especially ones focused on Asia, July proved to be yet another difficult month. Diversified global emerging-markets equity funds lost more than EUR 2 billion of assets, which pushed the category's year-to-date outflow to EUR 7.84 billion. Asian equities as a whole have suffered from weakness in China, and this has resulted in outflows not only from China funds but also from funds investing in the Asia-Pacific (ex-Japan) region.

In July, apart from emerging-markets equities, investors shied away from euro-denominated corporate-debt and diversified-bond funds and, to a smaller degree, from EUR government-bond funds. Shrinking spreads and lowering yields left most funds in the EUR diversified bond and EUR corporate bond Morningstar Categories in the black. But with anemic yields and rising rates broadly anticipated, funds in these two categories had outflows of EUR 1.35 billion and EUR 1.15 billion, respectively.

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 %
GBP Cautious Allocation	52	(2,186)	(3,999)	(564)	(7.61)
Global Emerging Markets Equity	178	(2,056)	(7,839)	(7,341)	(4.41)
EUR Diversified Bond	139	(1,350)	(1,265)	8,490	(0.91)
Asia-Pacific ex-Japan Equity	69	(1,293)	(6,114)	(5,648)	(8.83)
EUR Corporate Bond	127	(1,151)	5,672	15,490	4.69
China Equity	29	(1,127)	161	1,018	0.63
GBP Aggressive Allocation	47	(846)	(59)	1,279	(0.10)
Fixed Term Bond	72	(786)	(5,408)	(6,171)	(7.19)
Greater China Equity	12	(756)	(2,882)	(2,710)	(22.06)
USD Corporate Bond	33	(651)	1,933	3,666	6.53

Source: Morningstar Direct.

The table of highest inflows by category reveals that a large part of assets flowing into equities landed on developed-markets large-cap funds led by those investing with a large-cap blend style in European and US equities. Interestingly, 41% of inflows into the US large-cap blend category were sent to index funds, whereas this share was only 6% in the corresponding European category. Index trackers already claim 34.5% of assets in the US large-cap blend category.

Among the fund-level categories with highest inflows, alternative multistrategy funds continue their impressive growth with an intake of EUR 3.66 billion in net capital. For the trailing 12 months, these funds have seen a stunning organic growth rate of 43.04% by drawing in EUR 32.3 billion of new assets. The highest inflows in the category were again sent to the Luxemburg-domiciled Standard Life Investments Global Absolute Return Strategies Fund and IP Global Targeted Returns Fund.

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 %
Europe Large-Cap Blend Equity	186	3,712	19,464	20,399	13.93
Alt - Multistrategy	120	3,664	23,756	32,295	27.18
US Large-Cap Blend Equity	167	3,074	(2,252)	1,948	(1.50)
EUR Flexible Allocation - Global	95	2,684	13,427	17,358	17.57
EUR Moderate Allocation - Global	134	2,292	23,581	32,782	22.46
Europe ex-UK Large-Cap Equity	79	1,585	5,451	5,184	8.83
Japan Large-Cap Equity	83	1,543	7,025	10,209	11.64
EUR Cautious Allocation - Global	104	1,537	22,373	30,042	29.48
Alt - Market Neutral - Equity	22	1,536	6,056	7,573	40.15
Eurozone Large-Cap Equity	95	1,533	2,479	122	3.18

Source: Morningstar Direct.

Fund Providers

July was an exceptionally strong month for BlackRock, the European market leader in terms of fund assets under management. BlackRock's net inflows of EUR 3.84 billion outpaced those of its competitors by a large margin and were the highest net inflows the company has enjoyed since November 2009 (excluding money market funds). On top of strong demand for its equity funds, BlackRock was able to gather EUR 915 million into its fixed-income funds in a month when that asset class suffered outflows on a European level.

Jumping onto the list of largest winners were two players from outside the ranks of Europe's largest names, Odey and UBI, both on the back of the success of a single new fund from each firm. In Odey's case, its July inflows of EUR 1.55 billion can be fully credited to Odey European Focus equity fund, which was launched for manager Oliver Kelton as a new home for assets in Waverton European, which he ran before moving to Odey. (Kelton had an agreement with Waverton allowing him to take the assets with him if he left the firm.) UBI was lifted by the launch of UBI SICAV Income Opportunities, whose success is yet more proof of the strong demand for allocation funds in today's low-yield environment.

Fund Providers: Highest Inflows (Excluding Money Market Funds)

Name	Net	Estimated Net Flow (€Mil)			Org Growth
	Assets (€Bil)	1-Mo	YTD	12 Months	Rate %
BlackRock	258	3,841	16,910	19,567	7.77
Odey Asset Management	8	1,548	1,268	902	19.88
Deutsche Bank	157	1,290	9,233	13,725	6.75
Standard Life	107	1,207	6,267	10,512	6.99
Union Investment	124	1,117	7,181	11,091	6.43
UBS	203	1,086	12,080	15,024	7.05
Henderson	63	1,084	5,908	9,669	11.39
Pioneer Investments	102	1,079	8,132	12,393	9.11
UBI	24	867	868	1,164	4.42
Vanguard	68	866	4,876	8,251	8.57

Source: Morningstar Direct.

Turning to fund houses losing assets, M&G had yet another difficult month, with EUR 1.96 billion of assets going out the door this time. The company has seen EUR 6.92 billion leave its funds through the first seven months of 2015, translating to a negative organic growth rate of 6.6%.

Two providers known especially for their emerging-markets focus, Aberdeen and Franklin Templeton, continued to suffer outflows as well. Aberdeen hasn't seen a month of positive flows since August 2014, and the depth of its slump is reflected in the company's organic growth rate, which has reached a negative 15.87% for the trailing 12 months. Most of Aberdeen's outflows this year have been from its equity products, with Aberdeen Global Asia Pacific Equity suffering the most, while two thirds of Franklin Templeton's outflows have come from its fixed-income funds, most notably the emerging-markets-heavy Templeton Global Bond Fund and Templeton Global Total Return run by Michael Hasenstab.

Thesis jumped onto the list because of nasty outflows from TM NewCourt, which saw four fifths of assets leave in outflows totaling EUR 797 million. The fund was trailing its GBR Aggressive Allocation category by 187 basis points in GBP terms for the year to date through the end of July.

Fund Providers: Largest Outflows (Excluding Money Market Funds)

Name	Net	Estimated Net Flow (€Mil)			Org Growth
	Assets (€Bil)	1-Mo	YTD	12 Months	Rate %
M&G	107	(1,957)	(6,916)	(4,724)	(6.59)
Aberdeen	60	(1,271)	(7,616)	(9,651)	(12.48)
Franklin Templeton	138	(1,036)	(9,615)	(8,890)	(7.01)
AB (AllianceBernstein)	48	(952)	(1,653)	(1,593)	(3.66)
Thesis	7	(727)	(333)	55	(4.51)
Danske Invest	44	(701)	(219)	(167)	(0.52)
Russell	35	(659)	(2,121)	(2,694)	(6.25)
Insight	23	(623)	263	2,384	1.27
NN	55	(598)	195	(128)	0.38
Neuberger Berman	17	(432)	689	1,154	4.50

Source: Morningstar Direct.

The Largest Open-End Funds

For the largest open-end funds in Europe, July proved a mixed bag. Five of these behemoths suffered withdrawals. M&G's Optimal Income Fund led the way, with outflows of EUR 1.58 billion, dropping the fund to third place in the list of Europe's largest funds. Investors have punished this fund, which has a Morningstar Analyst Rating of Silver, for its lagging short-term performance: The fund was trailing its category average by 1.9 percentage points for the year to date at the end of July from the point of view of a GBP investor. As noted above, Templeton's two fixed-income giants, Global Bond Fund and Global Total Return, also saw July outflows, although smaller ones than in previous months.

The fastest riser on the top 10 list is JPM's Global Income Fund, managed by Talib Sheikh and Michael Schoenhaut, which has put on a remarkable 43.25% organic growth rate thus far in 2015.

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	37,007	157	2,807	4,687	9.39
Templeton Global Bond Fund	28,893	(292)	(3,466)	(2,657)	(11.27)
M&G Optimal Income Fund	28,102	(1,584)	(4,086)	(1,407)	(13.00)
Carmignac Patrimoine	28,024	153	2,245	2,264	9.36
Templeton Global Total Return	27,008	(358)	(2,564)	(1,478)	(9.02)
BGF Global Allocation Fund	21,731	204	653	1,107	3.46
AB Global High Yield Portfolio	18,068	(733)	(1,571)	(2,162)	(8.69)
IP High Income	17,795	(237)	(1,217)	(1,910)	(7.58)
JPM Global Income Fund	14,968	317	4,450	6,650	43.25
DWS Top Dividende	14,383	103	428	956	3.51

Source: Morningstar Direct.

To learn more about Morningstar Direct Asset Flows, [visit us at this link](#).

Data Notes

The figures in this report were compiled on 25 August 2015. Over 27,000 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.