

Morningstar DirectSM Asset Flows Commentary: Europe

Demand for European open-end funds rises as allocation and alternative funds rebound

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Inflows to European long-term funds rose in October from a brief slump in August and September. European-domiciled open-end funds enjoyed net inflows of EUR 45.6 billion after EUR 38.8 billion in September. Demand for alternative funds, which implement hedge-fund type strategies, rebounded the strongest as investors returned foremost to multistrategy and long-short debt funds.

Sales of allocation and equity funds were also up. Equity funds profited mainly from a return to favor of actively managed funds, which posted net inflows of EUR 12.5 billion, the second-highest level of inflows in a one-month period in four years.

On the other hand, net subscriptions of bond funds hit a 10-month low. This was attributable to flagging demand for global emerging-markets bond funds, especially those investing in local currencies, as well as for global and high-yield bond funds.

Money market funds attracted EUR 18.4 billion, mainly because of net inflows to France- and Luxemburg-domiciled funds.

With two months left in the year, the total tally into European open-end funds has risen above EUR 600 billion, translating to a healthy organic growth rate of 10%, as the equity market has continued to head higher despite recent jitters.

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

Name	Net Assets	Market Share	Estimated Net Flow			Org Growth
	(EUR Bil)	%	(EUR Mil)			Rate %
	10-2017	10-2017	1-Mo	YTD	1 Year	YTD
Allocation	1,265	14,23	11,018	111,826	116,196	10.16
Alternative	437	4,91	4,208	42,263	42,730	10.84
Commodities	17	0,19	(480)	428	833	2.51
Convertibles	66	0,74	351	646	(163)	1.04
Equity	3,193	35,91	12,999	95,209	100,280	3.42
Fixed Income	2,456	27,62	18,145	243,959	238,414	11.03
Property	125	1,40	111	5,293	5,922	4.20
Miscellaneous	114	1,29	(831)	1,376	2,795	1.19
Unclassified	6	0,06	77	245	837	4.35
All Long Term	7,678	86,34	45,597	501,244	507,844	7.36
Money Market	1,215	13,66	18,377	117,909	136,620	10.02
Total	8,893	100.00	63,974	619,153	644,464	

Source: Morningstar Direct.

Fund-Level Categories: Largest Inflows

Global flexible-bond funds were yet again the top-selling Morningstar Category. Nearly 90% of the net inflows in the category targeted one fund, PIMCO GIS Income. BlackRock and Allianz Global Investors were very distant runners-up, taking in EUR 630 million and EUR 100 million, respectively.

Global large-cap blend funds enjoyed inflows net inflows of EUR 2.8 billion. Union Investment, Mercer, and Swedbank were the main beneficiaries.

Global emerging-markets bond funds took in net EUR 2.4 billion. Funds offered by Franklin Templeton, Neuberger Berman, and Northern Trust enjoyed the highest demand.

While the comeback of alternative multistrategy funds was one of the main trends in October's flows, the monthly inflows of EUR 1.5 billion were still the third-lowest this year. AQR, Aviva, and BlackRock enjoyed the highest inflows on a by-company comparison. Interestingly, the largest funds in this category either suffered high outflows (Standard Life Global Absolute Return Strategies) or were well below this year's levels of inflows (Invesco Global Targeted Returns and Deutsche Concept Kaldemorgen).

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

Name	Net Assets (EUR Bil)	Estimated Net Flow (EUR Mil)			Org Growth Rate %
	10-2017	1-Mo	YTD	1 Year	YTD
Global Flexible Bond - USD Hedged	96	4,960	40,097	40,841	70.86
Global Large-Cap Blend Equity	486	2,783	37,458	41,369	9.23
Global Emerging Markets Bond	133	2,436	27,604	24,718	26.47
Other Bond	169	1,978	36,267	39,375	26.53
EUR Cautious Allocation	127	1,967	16,030	16,813	14.92
Europe ex-UK Large-Cap Equity	89	1,939	6,277	5,186	8.89
EUR Flexible Allocation – Global	130	1,663	18,532	20,268	17.79
EUR Diversified Bond - Short Term	106	1,562	15,746	18,909	17.71
Alt – Multistrategy	185	1,502	21,610	25,324	13.19
USD Moderate Allocation	80	1,493	15,059	14,505	23.81

Source: Morningstar Direct.

Fund-Level Categories: Largest Outflows

EUR diversified-bond funds suffered the most at the category level in October, with Amundi's funds shedding more than any other provider. Amundi suffered mostly from outflows in the former Pioneer Euro Aggregate Bond fund (Pioneer and Amundi finalized the merger in July this year). Delta Lloyd and Allianz Global Investors were also prominent laggards.

The redemptions of funds categorized as "Other" can be attributed mainly to outflows from French-domiciled Amundi short-term bond funds.

Swiss large-cap equity funds suffered their worst outflows in seven months. UBS and--to a much lesser degree--Credit Suisse open-end index funds were the main drivers of these outflows.

On a relative basis, the above-mentioned outflows were dwarfed by the stampede seen in Spain equity funds, which shed close to 6% of their assets in October. Outflows of EUR 580 million were the highest seen since January 2008. This was arguably a result of the political turmoil seen in the Catalan region, which has been put under direct administration of the central government in Madrid. Investors mainly exited funds of La Caixa, but EDM and Santander were also affected.

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

Name	Net Assets (EUR Bil) Estimated Net Flow (EUR Mil)				Org Growth
	10-2017	1-Mo	YTD	1 Year	Rate %
EUR Diversified Bond	123	(1,047)	(6,657)	(10,164)	(5.18)
Other	28	(830)	1,998	2,587	6.46
Switzerland Large-Cap Equity	56	(815)	(3,053)	(2,235)	(5.72)
USD Corporate Bond	36	(666)	(352)	(1,498)	(0.93)
Global Large-Cap Value Equity	67	(602)	(2,096)	(1,452)	(3.15)
Spain Equity	10	(584)	199	390	2.43
Commodities - Broad Basket	14	(553)	166	529	1.12
Fixed Term Bond	77	(514)	2,815	4,673	4.06
US Large-Cap Value Equity	36	(493)	(3,578)	(1,525)	(9.24)
UK Equity Income	95	(460)	(5,257)	(5,713)	(5.50)

Source: Morningstar Direct.

Fund Providers: Largest Inflows

PIMCO was again the sales-powerhouse in Europe, raking in EUR 4.7 billion in October. Most of the net new money (EUR 4.2 billion) was sent to the GIS Income fund. Of the EUR 45.8 billion in net inflows sent to the funds in the year to date, EUR 35.3 billion targeted the behemoth flexible-bond fund. The numbers illustrate how the current PIMCO success story hinges on the fortunes of a single fund.

BlackRock continued to have a strong run, pulling in the second-highest inflows. This goes back to the distribution of actively managed funds. The most-sought funds were BGF Euro Short Duration Bond and BGF Fixed Income Global Opportunities.

Mercer Global Investments, an institutional fund provider with a focus on offshore distribution, thrived on the sales of global large-cap equity, GBP diversified-bond, and GBP moderate-allocation funds.

Fund Providers: Largest Inflows (Excluding Money Market Funds)

Name	Net Assets (EUR Bil) Estimated Net Flow (EUR Mil)				Org Growth
	10-2017	1-Mo	YTD	1 Year	Rate %
PIMCO	140	4.700	45.839	46.880	49.09
BlackRock	330	3.563	57.429	55.052	22.39
Mercer Global Investments	40	2.567	9.519	10.623	31.37
Eurizon	140	2.165	16.733	19.320	14.23
Amundi	235	1.897	19.453	17.983	9.27
Allianz Global Investors	121	1.757	14.375	14.750	14.13
Natixis	84	1.699	7.076	6.401	9.65
Union Investment	153	1.598	11.944	13.665	8.74
Morgan Stanley	50	1.594	5.455	4.405	12.86
Aviva	72	1.315	6.440	8.303	10.47

Source: Morningstar Direct.

Fund Providers: Largest Outflows

Standard Life was net flow negative in all asset classes, but its alternative funds suffered the highest outflows: EUR 899 million, the highest level seen since April.

Carmignac was also particularly touched by outflows. It saw more money leave its long-term funds than in any one-month period since May 2014. This was mainly attributable to redemptions of fixed-income funds, with the Carmignac Sécurité shedding EUR 780 million. But assets also continued to drain from its allocation and—to a lesser degree—alternative funds.

While KBC allocation funds continued to see handsome growth, this only mitigated the heavy outflows from its bond and equity fund offerings. Noticeably, equity funds distributed in Belgium made up the lion's share of KBC outflows.

Fund Providers: Largest Outflows (Excluding Money Market Funds)

Name	Net Assets (EUR Bil)	Estimated Net Flow (EUR Mil)		Org Growth Rate %	
	10-2017	1-Mo	YTD	1 Year	YTD
Standard Life	79	(1,191)	(6,269)	(8,109)	(7.58)
Carmignac	56	(889)	2,667	3,498	5.13
KBC	76	(675)	(726)	1,626	(1.08)
Nordea	145	(638)	3,091	(611)	2.32
BNY Mellon	58	(627)	1,435	824	2.57
Aletti Gestielle	16	(606)	(5,891)	(6,915)	(37.00)
ABN AMRO	17	(585)	(1,389)	(1,258)	(8.34)
Storebrand	28	(575)	975	1,040	3.80
La Caixa	27	(488)	1,347	2,086	5.59
Robeco	62	(485)	2,131	3,500	3.81

Source: Morningstar Direct.

The Largest Open-End Funds

PIMCO GIS Income, which holds a Morningstar Analyst Rating of Silver, continued to be by far the most popular fund in Europe. Its net sales of EUR 4.2 billion were the third-highest level on record for this fund.

Bronze-rated JPMorgan Global Income, a moderate-allocation fund, enjoyed the best month since March 2015, pulling in EUR 700 million. Most of the net new money targeted EUR share classes, which also make up the lion's share of this fund's assets. USD share classes of JPMorgan Global Income, which are distributed globally, suffered slight outflows in October.

Silver-rated M&G Optimal Income enjoyed stellar inflows for the 11th month running. In a similar vein, EUR-based investors have also been crucial to the success of this fund, with EUR share classes contributing to EUR 4.5 billion of total year-to-date inflows of EUR 5.1 billion. This defensive-allocation fund has done less well in its UK home market, with GBP share classes shedding EUR 110 million so far this year.

The U.K.-domiciled version of Standard Life Investments Global Absolute Return Strategies continued to bleed. It suffered the highest outflows among Europe's largest long-term funds. Net redemptions amounted to EUR 650 million, the highest level since April this year. This fund has shed more than 17% of its assets in the year to date. (The Luxemburg-domiciled version shed another EUR 190 million in October.)

10 Largest Long-Term Funds by Net Assets

Name	Net Assets (EUR Bil)	Estimated Net Flow (EUR Mil)			Org Growth Rate %
	10-2017	1-Mo	YTD	1 Year	YTD
PIMCO GIS Income Fund	54,839	4,230	35,336	36,684	177.91
AP7 Aktiefond	38,184	9	942	2,097	2.87
SLI Global Absolute Return Strategies Fd	24,596	(654)	(5,212)	(6,027)	(17.25)
M&G Optimal Income Fund	24,366	703	5,100	5,331	27.35
Carmignac Patrimoine	23,526	(370)	(1,065)	(1,025)	(4.38)
JPM Global Income Fund	22,729	745	5,118	5,381	30.59
AB FCP I Global High Yield Portfolio	21,920	162	4,450	4,584	23.96
DWS Top Dividende	19,844	(15)	1,042	1,638	5.64
Templeton Global Total Return Fund	18,070	210	936	(97)	5.22
Nordea 1 - Stable Return Fund	17,744	(406)	(969)	(2,001)	(5.25)

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 17 Nov. 2017. Approximately 27,000 of 31,000 funds that Morningstar tracks from more than 1,700 fund companies across more than 30 domiciles are included. Organic growth rate is flows as a percentage of beginning assets.