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Data through
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Morningstar Direct℠ Asset Flows Commentary: Europe

Bond Fund Sell-Off and Weak Demand for Equity Funds Compress Inflows Into Long-Term Funds in June
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Inflows into long-term funds domiciled in Europe were compressed in June as bond markets continued to experience severe bouts of volatility, with German bund yields spiking in the first third of the month. Open-end funds excluding money market funds posted net inflows of EUR 8.32 billion, the lowest level of inflows seen in any one-month period since August 2013.

Although the seemingly imminent Greek default captured the headlines of the newspapers, investors kept calm, as evidenced by the continued sell-off of EUR government-bond funds and huge outflows of EUR 35.94 billion from money market funds. Both categories are perceived as safe havens in times of crisis. This illustrates that the Greek crisis is nothing like it was in 2010, when a potential default was considered as a systemic risk for the European banking system. Today, it is widely seen as a non-event for the markets.

Bond funds suffered outflows of EUR 8.85 billion, the highest outflows seen in one-month period since June 2013.

Inflows into equity funds stood at EUR 385 million–very much muted, but nonetheless still in positive terrain. However, this masks the big discrepancy between actively managed and passive equity funds. While equity index funds (excluding ETFs) took in net EUR 2.67 billion, actively managed funds shed whopping EUR 2.28 billion. This trend has been ongoing since the third quarter of 2014. In the past 12 months active equity funds hemorrhaged EUR 14.28 billion while their passive pendants took in EUR 19.09 billion.

Allocation and alternative funds carried the day yet again. Mixed-assets funds took in net EUR 9.57 billion and hedge-fund-like funds enjoyed inflows of EUR 7.07 billion, thus reflecting a trend that has been ongoing in Europe for some years. On one hand, investors are delegating the responsibility for the optimal asset mix to their asset managers, with most of the net new money being sent into moderate- and cautious-allocation funds. On the other hand, high hopes are pinned on alternative funds, which are viewed as offering downward protection in the bond and equity spheres as well as providing more-sophisticated allocation strategies than the more plain-vanilla allocation funds.

For the year to date, allocation funds have grown organically at a rate of 11.4%, and alternative funds have seen an impressive organic growth rate of 17.4%, second to none among all broad asset categories.

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

	Net Assets	Market	Estimated Net Flow			Org Growth
	(€Bil)	Share %		(€Mil)		Rate %
Name	**6-2015**	**6-2015**	**1-Mo**	**YTD**	**12 Months**	**YTD**
Allocation	991	13.56	9,566	98,287	166,959	11.44
Alternative	301	4.13	7,071	42,913	57,188	17.44
Commodities	18	0.24	202	2,234	1,586	14.92
Convertibles	76	1.04	(349)	3,838	1,423	5.72
Equity	2,602	35.63	385	(3,131)	4,810	(0.13)
Fixed Income	2,052	28.09	(8,851)	64,289	115,863	3.36
Property	139	1.90	1,174	5,163	12,253	3.98
Miscellaneous	117	1.60	(883)	(2,227)	(520)	(1.81)
Unclassified	6	0.09	(85)	(8)	16	(0.13)
All Long Term	**6,302**	**86.27**	**8,231**	**211,357**	**359,579**	**3.70**
Money Market	1,003	13.73	(34,664)	5,972	22,189	0.63
Total	**7,305**	**100**	**(26,432)**	**217,329**	**381,768**	

Source: Morningstar Direct.

Fund-Level Categories

The June bond fund rout is clearly illustrated by the flows by fund category. Eight of the 10 categories with the highest outflows were bond categories. EUR corporate-bond funds suffered the most, posting outflows of EUR 3.64 billion, followed by EUR diversified-bond funds and EUR government-bond funds, which hemorrhaged EUR 3.59 billion and 2.71 billion, respectively. It was not all about EUR bond fund categories, as investors also redeemed funds of the global bond and global emerging-markets bond–local-currency categories.

On the equity side, Asia-Pacific ex-Japan funds suffered the most. The story behind these outflows was a management change for the Newton Asian Income fund. After the announced departure of fund manager Jason Pidcock, investors pulled EUR 712 million from the fund in June. The fund has since been placed Under Review by Morningstar analysts. It previously held a Morningstar Analyst Rating of Silver.

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

	Net	Estimated Net Flow (€Mil)			Org Growth
	Assets (€Bil)				Rate %
Name	**6-2015**	**1-Mo**	**YTD**	**12 Months**	**YTD**
EUR Corporate Bond	126	(3,635)	6,561	17,729	5.45
EUR Diversified Bond	141	(3,585)	296	13,189	0.21
EUR Government Bond	81	(2,708)	3,211	10,614	4.07
GBP Cautious Allocation	54	(1,483)	(1,769)	2,554	(3.37)
Global Bond	146	(1,465)	416	8,769	0.30
Global Emerging Markets Bond - Local Currency	56	(1,053)	(3,439)	(3,942)	(6.18)
Asia-Pacific ex-Japan Equity	70	(978)	(4,862)	(2,126)	(7.21)
USD High Yield Bond	82	(946)	(2,174)	(14,954)	(2.78)
Fixed Term Bond	71	(938)	(4,786)	(5,109)	(6.32)
EUR Diversified Bond - Short Term	78	(831)	1,228	5,846	1.60

Source: Morningstar Direct

A look at the highest inflows by category reveals a familiar picture. Alternative multistrategy funds yet again saw the highest inflows, taking in net EUR 3.11 billion. For the year to date, these funds have seen an organic growth rate of a stunning 22.95%. Luxemburg-domiciled Standard Life Investments Global Absolute Return Strategies, IP Global Targeted Returns, and the (UK domiciled) SLI Global Absolute Return Strategies funds enjoyed the most inflows in this category.

Protection-seeking investors found a safe haven in EUR ultra-short-term bond funds, which took in net EUR 2.82 billion. EUR moderate-allocation funds–global saw handsome inflows, with JPMorgan Global Income and Bronze-rated Carmignac Patrimoine seeing the highest inflows. The category EUR cautious-allocation–global also continued to see high demand, with Quality Cartera Conservadora BP FI and Neutral-rated Ethna-AKTIV posting the highest inflows.

Fund-Level Categories: Highest Inflows (excludes money market funds)

	Net	Estimated Net Flow (€Mil)			Org Growth
	Assets (€Bil)				Rate %
Name	**6-2015**	**1-Mo**	**YTD**	**12 Months**	**YTD**
Alt - Multistrategy	115	3,114	20,056	29,491	22.95
EUR Ultra Short-Term Bond	74	2,816	1,704	2,184	2.43
EUR Moderate Allocation - Global	131	1,836	21,294	32,382	20.16
EUR Cautious Allocation - Global	95	1,560	18,791	26,618	26.46
Japan Large-Cap Equity	81	1,541	5,471	9,669	9.06
EUR Flexible Allocation - Global	93	1,285	10,793	16,108	14.11
Global Flexible Bond	21	1,170	4,353	8,272	28.21
Europe Large-Cap Blend Equity	175	1,103	15,843	16,577	11.34
GBP Moderate Allocation	38	997	2,499	2,924	7.49
EUR Cautious Allocation	94	935	14,457	22,851	18.90

Source: Morningstar Direct.

Fund Providers

BlackRock enjoyed the highest inflows in June on the back of inflows into bond and allocation funds. The top-selling fund was BlackRock Fixed Income Global Opportunities Global Flexible, which took in net EUR 870 million, followed by Gold-rated BGF Global Allocation.

It was more of an equity story for Swiss UBS, with index funds enjoying the highest spoils. UBS AST Aktien Schweiz All Index posted inflows of EUR 493 million, followed by UBS (Lux) EF China Opportunity and Bronze-rated UBS (Lux) ES European Opportunity Unconstrained.

Eastspring thrived on the strong sales of Asia bond funds, and Mercer profited the most from inflows into global large-cap blend equity funds.

Fund Providers: Highest Inflows (Excluding Money Market Funds)

Name	Net Assets (€Bil) 6-2015	Estimated Net Flow (€Mil) 1-Mo	YTD	12 Months	Org Growth Rate % YTD
BlackRock	253	2,541	13,084	18,439	6.01
UBS	201	1,947	11,033	16,687	6.44
Eastspring Investments	24	1,498	1,964	3,343	9.97
Mercer Global Investments	24	1,360	1,741	3,382	8.68
Eurizon Capital	88	1,269	13,058	18,592	15.89
Vanguard	67	1,243	4,010	8,272	7.05
Credit Suisse	135	1,078	7,282	8,889	6.33
Goldman Sachs	48	977	2,349	4,305	5.63
Fidelity	141	962	4,660	4,969	3.86
Capita Financial	11	791	639	807	7.01

Source: Morningstar Direct.

Turning to the laggards, M&G continued to suffer heavy redemptions of Silver-rated M&G Optimal Income, which shed EUR 1.74 billion. As seen through the lens of a UK investor, this fund sits in the 88th percentile of GBP cautious-allocation funds for the year to date, posting returns of negative 0.6%, thereby trailing the category average by 1.5 percentage points. The defensive posture that fund manager Richard Woolnoogh has taken—a minuscule equity exposure and a focus on short durations on the bond side—has hurt this fund's performance in the first six months of 2015, but its defensive stance during the second quarter helped it trump most other category funds.

Other M&G offerings continued to suffer as investors pulled substantial assets out of the M&G Global Dividend, M&G Recovery, and M&G Global Macro.

KBC reeled from outflows out of myriad bond categories, with most losses stemming from global bond, EUR diversified bond–short term, and EUR government-bond funds. However, eurozone large-cap and global large-cap-blend equity funds also shed assets.

The bond fund investor skittishness is further illustrated by redemptions from Santander, Franklin Templeton, and Deka.

Fund Providers: Largest Outflows (Excluding Money Market Funds)

Name	Net Assets (€Bil) 6-2015	Estimated Net Flow (€Mil) 1-Mo	YTD	12 Months	Org Growth Rate % YTD
M&G	109	(2,628)	(4,958)	(2,208)	(4.72)
KBC	55	(2,055)	1,255	4,343	2.46
Santander	38	(1,459)	(2,160)	(2,074)	(5.67)
Franklin Templeton	139	(1,334)	(8,574)	(7,310)	(6.25)
Deka	73	(1,030)	(63)	2,179	(0.09)
Aberdeen	61	(922)	(6,345)	(8,212)	(10.39)
BNY Mellon	65	(879)	(1,911)	(1,513)	(3.10)
La Caixa	20	(858)	(841)	(120)	(4.13)
NN	54	(815)	770	398	1.52
BlueBay	29	(777)	(1,114)	(256)	(3.70)

Source: Morningstar Direct.

The Largest Open-End Funds

Outflows from M&G Optimal Income surpassed all the other behemoth funds. In fact, the fund's outflows in June were second to none among all Europe-domiciled long-term funds.

Outflows for Templeton Global Bond and Templeton Global Total Return, while well below the nadir seen in March, remained substantial. This arguably reflects concerns of investors about the heavy exposure these funds have to emerging-markets bonds. Relative performance, however, has improved this year after a notable underperformance in 2014. For the year to date, the hedged share classes of Templeton Global Bond sit in the 40th percentile of the global bond–EUR hedged category and the 42nd percentile of the global bond–GBP hedged category, slightly ahead of the average funds of those categories but behind the respective benchmarks.

Outflows from AB Global High Yield increased again in June, reflecting the underperformance that this fund has suffered this year.

Inflows into moderate-allocation fund Carmignac Patrimoine picked up in June. While performance remains strong for the year to date, the aggressive posture that fund manager Edouard Carmignac has chosen this year has been a detractor in the past three months. The fund has recently been downgraded to a Morningstar Analyst Rating of Bronze following several manager departures in the past few years.

10 Largest Long-Term Funds by Net Assets

	Net Assets (€Bil)	**Estimated Net Flow (€Mil)**			**Org Growth Rate %**
Name	**6-2015**	**1-Mo**	**YTD**	**12 Months**	**YTD**
SLI Global Abs Ret Strat	36.474	398	2,649	4,620	8.87
M&G Optimal Income Fund	29.614	(1,740)	(2,501)	938	(7.96)
Templeton Global Bond Fund	29.369	(385)	(3,175)	(2,291)	(10.32)
Templeton Global Total Return	27.606	(362)	(2,206)	(854)	(7.76)
Carmignac Patrimoine	27.546	202	2.092	1,793	8.73
BGF Global Allocation Fund	21.383	447	448	1,591	2.37
AB Global High Yield Portfolio	18.783	(346)	(838)	(1,473)	(4.64)
IP High Income	17.474	(131)	(979)	(2,262)	(6.10)
JPM Global Income	14.462	516	4,134	7,153	40.18
DWS Top Dividende	13.610	(17)	325	872	2.66

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 27 July 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.