

## Morningstar Direct™ Asset Flows Commentary: Europe

### Long-Term Funds Enjoy Steady Inflows in Spite of Volatile Equity Markets in October.

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#### Key Takeaways

- ▶ Inflows to long-term funds stood at EUR 41.8 billion in October, a noticeable increase over September.
- ▶ Demand for bond funds surpassed that for equity funds thanks to a big pick-up in flows to multiple categories, most prominently RMB Bond funds, EUR diversified short-term bond funds and EUR government bond funds.
- ▶ Flows for equity funds were solid but artificially boosted by huge subscriptions sent to UK-domiciled institutional funds.
- ▶ US large-cap blend equity funds saw the highest inflows on a Morningstar Category level, raking in more than EUR 5.7 billion in October. On the other hand, multistrategy funds shed EUR 1.8 billion.
- ▶ Nordea topped the list of asset-gatherers on the active side, followed by JP Morgan and ING Group. M&G and Franklin Templeton suffered the highest outflows.
- ▶ On the passive side, BlackRock outpaced its competitors, while State Street suffered from redemptions of its UK Equity Tracker Fund.
- ▶ The gap between Europe's largest long-term fund, Pimco's GIS Income fund, and AP 7 Aktiefond, widened due to market depreciation effects which impacted the Swedish pension fund.

#### 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 %
	Oct 2020	Oct 2020	1 Mo	YTD	1 Year	1 Year
Allocation	1.456	13,38	2.319	20.814	36.445	2,45
Alternative	330	3,03	(834)	(44.283)	(47.554)	(11,52)
Commodities	119	1,09	1.463	17.810	18.361	20,75
Convertibles	55	0,51	(39)	(2.579)	(2.751)	(4,86)
Equity	4.089	37,58	18.732	89.928	153.802	3,74
Fixed Income	3.111	28,59	19.538	123.570	170.080	5,55
Property	169	1,56	454	9.880	12.354	7,35
Miscellaneous	95	0,87	183	(2.846)	(5.906)	(5,41)
Unclassified	3	0,02	6	54	645	24,05
<b>All Long Term</b>	<b>9.427</b>	<b>86,63</b>	<b>41.822</b>	<b>212.348</b>	<b>335.476</b>	<b>3,53</b>
Money Market	1.455	13,37	8.424	210.966	199.610	15,17
<b>Total</b>	<b>10,882</b>	<b>100</b>	<b>50,246</b>	<b>423,314</b>	<b>535,086</b>	

Source: Morningstar Direct.

## **October 2020: Solid Demand for Long-Term Funds in October**

Equity markets continued to wobble in the run-up to the US presidential elections with many investors also increasingly calling the v-shaped recovery scenario for the global economy into question as COVID-19 continued to wreak havoc in societies worldwide. This, however, did not deter European investors who sent EUR 41.8 billion to long-term European-domiciled funds last month. This level of demand was robust considering sagging markets, and inflows came at a higher pace than in September when they had dwindled to EUR 28.3 billion.

Subscriptions for fixed income funds made an impressive rebound, nearly hitting the EUR 20 billion mark after seeing modest inflows of EUR 8.8 billion in September. The winner-categories were a mixed bunch with Renminbi Bond funds, EUR diversified short-term funds, and global bond funds seeing the highest demand, but the conservative EUR government bond fund category was also very popular.

At first glance, the high demand for equity funds in October comes as a surprise since fund investors tend to mirror the larger investment trends which were clearly negative for equities worldwide. But instead of taking money off the table, equity funds enjoyed remarkably stable inflows of EUR 18.7 billion. A closer look, however, reveals that more than EUR 15 billion targeted a small number of British domiciled institutional equity funds which made the rather somber equity flow picture appear in a different, more positive light.

Demand for allocation funds was tepid yet again. Excluding the disastrous month of March (which saw outflows of EUR 26 billion) October inflows of EUR 2.3 billion were the second-lowest in a one-month period for the year to date. EUR allocation funds which invest globally enjoyed steady inflows with aggressive EUR allocation funds (global) enjoying by far, the highest spoils. Conversely, "other" allocation funds suffered high outflows as did EUR allocation funds that limit their investment universe to European equities which saw redemptions across the board.

Precious metal funds again made the difference for commodity funds which posted net inflows of EUR 1.5 billion, the highest level seen since July.

Alternative funds had yet another negative month although outflows of EUR 830 were at relatively low levels when compared with the outflows these hedge fund-mimicking vehicles have suffered in the past two years.

Money market funds saw inflows of EUR 8.4 billion. While USD and GBP products suffered outflows, EUR money market funds enjoyed hefty inflows.

Due to equity market depreciation effects of EUR 85 billion the assets of 30,800 unique long-term funds domiciled in Europe decreased from 9,453 trillion in September to EUR 9,427 trillion per 31 Oct. When including money market funds, assets sank to EUR 10.882 trillion down from EUR 10.895 trillion one month earlier.

### **Active Versus Passive**

Long-term open-end index funds and ETF posted net inflows of EUR 16.2 billion versus EUR 25.5 billion for actively managed funds. When adjusted for size, flows to passive funds easily upped inflows to actively managed funds. Thanks to the organic growth rate of 9.5% in the trailing 12-month period versus a 2.1% growth rate for actively managed funds, the market share of index funds rose from 18.8% in October 2019 to 19.98% of the assets of long-term funds in Europe in October 2020.

Of the inflows of EUR 16.2 billion which targeted index funds in October, EUR 10.7 billion were sent to equity index funds and EUR 4.2 billion to fixed-income index funds. On the active side, the lion's share of inflows was invested in bond funds.

Within the sphere of long-term index funds, open-end index funds grabbed EUR 12.0 billion in net flows in October, compared with EUR 4.2 billion which targeted ETFs. As at 31 Oct, EUR 981 billion were invested in open-end index funds (52.1%) while EUR 903 billion sat in ETFs (47.9%).

### Flows by the Main Global Broad Category Groups: Active Versus Passive

Estimated Net Flows EUR Mil	Active			Passive		
	1 Mo	1 Year	Assets EUR Bil	1 Mo	1 Year	Assets EUR Bil
Allocation	2,423	36,270	1,452	(104)	174	4
Alternative	(1,128)	(46,888)	320	294	(667)	10
Commodities	313	1,743	17	1,149	16,618	102
Equity	8,047	66,723	2,846	10,684	87,078	1,244
Fixed Income	15,357	103,443	2,594	4,182	66,638	517

Source: Morningstar Direct.

### Fund Categories: The Leaders

With EUR 5.7 billion in net inflows, US large-cap blend equity funds were the most sought-after products in October, marking their highest flows since April 2018. It was a one-sided affair with actively managed funds shedding EUR 1.2 billion and passive funds pulling in EUR 6.9 billion. Blackrock ACS US Equity Tracker Fund was the top seller, with EUR 8.3 billion coming in, making its best month flow-wise on record. These kinds of big movements can happen when institutional investors, platforms or asset managers switch vehicles or asset classes.

Sector equity ecology funds marked in October their highest inflows since Morningstar started collecting data on fund flows in 2007. These funds invest principally in companies whose products or services actively promote a cleaner environment. Most invest in a range of companies, including alternative energy, pollution control, water treatment, and energy efficiency companies. Bronze-rated Pictet's Global Environmental Opportunities Fund was the top seller of the month with EUR 380 million cashed in. The total assets sitting in the category jumped from EUR 21 billion to EUR 41 billion over the last year.

WisdomTree Physical Gold - GBP Daily Hedged ETF was the top seller within funds exposed to precious metals, grabbing EUR 530 million in October. The category attracted EUR 1.65 billion last month and almost EUR 18 billion year-to-date. The global pandemic continues to hurt the economy, which in turn is negatively impacting consumer demand for jewelry and technology. (The volume of gold used in electronic and other industrial applications remained soft compared with 2019 as the technology sector continued to feel the effects of the global pandemic; overall gold demand in the technology sector fell by 6% year on year). On the flip side, investment demand, primarily through gold ETFs remains strong.

## Flows by Morningstar Category: The Leaders (Long-Term Funds, Active and Passive)

Name	Net Assets	Estimated Net Flow (EUR Mil)			Org Growth
	(EUR Bil)	1 Mo	YTD	1 Yr	Rate %
	October 2020				1 Yr
US Large-Cap Blend Equity	385	5,694	(5,842)	1,244	0.33
Global Large-Cap Growth Equity	259	3,746	32,421	37,371	18.92
Global Large-Cap Blend Equity	652	3,169	15,477	30,542	4.83
Sector Equity Ecology	41	2,907	15,111	17,298	82.39
Commodities - Precious Metals	98	1,651	17,881	18,580	28.27

Source: Morningstar Direct.

## Fund Categories: The Laggards

With regard to the laggards, investors continued to shy away from alternative funds, particularly from multistrategy products, which shed EUR 1.8 billion, thus marking their 29th consecutive month of outflows. This category has seen its assets under management collapse from EUR 191 billion to EUR 121 billion over the past three years, owing to the combination of outflows and negative performance.

EUR corporate-bond funds saw EUR 1.5 billion of net redemptions, marking their second consecutive month of outflows. Passive funds shed EUR 1.8 billion — iShares Core € Corp Bond ETF was again the main detractor, with EUR 1.7 billion walking out the door — meanwhile actively managed products attracted EUR 274 million of new subscriptions.

Eurozone large-cap equity funds lost almost EUR 1.3 billion, with active and passive products both taking punishment. iShares Euro Stoxx 50 saw EUR 163 million walking out the door.

## Flows by Morningstar Category: The Laggards (Long-Term Funds, Active and Passive)

Name	Net Assets	Estimated Net Flow (EUR Mil)			Org Growth
	(EUR Bil)	1 Mo	YTD	1 Yr	Rate %
	October 2020				1 Yr
Alt - Multistrategy	122	(1,822)	(18,595)	(19,181)	(12.33)
EUR Corporate Bond	206	(1,524)	18,846	21,627	11.82
Other Allocation	126	(1,476)	(8,194)	(7,818)	(5.55)
Eurozone Large-Cap Equity	125	(1,268)	(7,198)	(7,774)	(4.97)
Europe ex-UK Equity	90	(1,014)	(4,594)	(4,139)	(4.06)

Source: Morningstar Direct.

## Fund Providers: The Leaders

Nordea topped the list of fund houses on the active side, raking in EUR 2.2 billion, thanks mainly to the demand for its Europe fixed-income and global emerging markets equity funds, which attracted EUR 556 million and EUR 372 million each. The top-selling fund was the Emerging Stars Equity Fund, with EUR 424 million of net subscriptions.

JP Morgan earned the second place, with EUR 1.7 billion taken in. Greater China equity funds offered by the American asset manager were the main beneficiaries, a result almost entirely attributable to JPM China A-Share Opportunities Fund and JPM China Fund, with EUR 359 million and EUR 291 million of inflows, respectively.

ING Group saw hefty inflows toward its EUR aggressive and moderate allocation funds (investing globally). The Dutch fund provider introduced an array of 20 allocation funds in its home market in June 2020.

On the passive side, BlackRock topped the list of asset-gatherers by a wide margin, netting inflows of EUR 15.4 billion, marking its second month in terms of inflows on record (Morningstar's methodology distinguishes BlackRock's index funds from iShares' ETFs). Most of the net new money was sent to US large-cap blend equity and UK large-cap equity funds, which received EUR 8.3 billion and EUR 6.2 billion, respectively.

Finally, sector equity technology funds and sector equity healthcare funds were the main beneficiaries among Xtrackers' products. Xtrackers MSCI USA Information Technology UCITS ETF gathered EUR 594 million.

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

Name	Net Assets	Estimated Net Flow (EUR Mil)			Org Growth
	(EUR Bil)	1 Mo	YTD	1 Yr	Rate %
	October 2020				1 Yr
Nordea	169	2,199	5,701	6,229	3.82
JPMorgan	192	1,711	18,027	22,936	13.37
ING Group	17	1,612	10,609	10,670	160.36
BlackRock	199	1,600	9,630	10,100	3.95
Eurizon	149	1,548	(245)	2,957	2.02

Source: Morningstar Direct.

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

Name	Net Assets	Estimated Net Flow (EUR Mil)			Org Growth
	(EUR Bil)	1 Mo.	YTD	1 Yr	Rate %
	October 2020				1 Yr
BlackRock	180	15,393	23,230	26,703	16.56
Xtrackers	103	2,291	10,581	13,166	14.40
Vanguard	183	1,019	13,257	20,357	12.00
iShares	416	832	29,750	43,387	11.22
Amundi	71	801	5,120	8,624	13.34

Source: Morningstar Direct.

#### Fund Providers: The Laggards

In the active spectrum, M&G suffered redemptions of EUR 1.0 billion in October (the British asset manager had only three positive months flow-wise over the last 29 months). Its EUR cautious allocation funds shed EUR 366 million.

Franklin Templeton continued to lose assets (the California-based asset manager had only one positive month of flows over the past 18 months). The main detractors were its global flexible-bond funds, namely Templeton Global Bond and Templeton Global Total Return, which suffered outflows of EUR 361 million and EUR 264 million, respectively.

Turning to the laggards on the index fund side, State Street suffered the highest outflows. This was due to huge outflows of EUR 6.8 billion from State Street UK Equity Tracker Fund, which arguably reflects an institutional asset allocation shift.

Scottish Widows marked monthly outflows (EUR 759 million) for the 21st time in 23 months. Scottish Widows Corporate Bond Tracker was the main detractor in October with EUR 756 million of net redemptions. Products offered by the Edinburgh-based asset manager are distributed in the UK.

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

Name	Net Assets	Estimated Net Flow (EUR Mil)			Org Growth
	(EUR Bil)	1-Mo	YTD	1 Yr	Rate %
	October 2020				1 Yr
M&G	71	(1,018)	(9,915)	(10,310)	(11.94)
Franklin Templeton	95	(900)	(13,198)	(15,376)	(13.16)
Kemper	8	(704)	(4)	176	2.13
Amundi	222	(652)	(8,651)	(8,747)	(3.57)
Fideuram	40	(593)	(2,398)	(2,034)	(4.76)

Source: Morningstar Direct.

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

Name	Net Assets	Estimated Net Flow (EUR Mil)			Org Growth
	(EUR Bil)	1-Mo	YTD	1 Yr	Rate %
	October 2020				1 Yr
State Street	64	(7,042)	(3,422)	(1,082)	(1.41)
Scottish Widows	13	(759)	(1,645)	(1,389)	(8.03)
Invesco	38	(452)	5,477	6,285	20.80
Pictet	17	(319)	(3,436)	(320)	(1.75)
HSBC	28	(291)	3,031	4,680	19.02

Source: Morningstar Direct.

### The Largest Open-End Funds and ETFs

Due to market depreciation effects, the gap between Pimco's GIS Income fund, Europe's largest active fund, and the second-largest fund, the fund AP7 Aktiefond, widened in October. In terms of asset flows, more money seeped from Pimco's bond fund. While EUR hedged share classes suffered outflows of EUR 270, the USD-hedged share classes of this behemoth fund took in EUR 50 million in inflows.

Save the Fundsmith Equity fund which saw inflows of EUR 114 million, all the other largest actively managed funds suffered outflows in October with JPMorgan's Global Income Fund suffering the most. The share classes hedged against EUR-related currency risks shed the highest outflows, followed by the USD-hedged share classes.

Turning to the index funds, the gargantuan inflows which targeted the institutional equity fund Blackrock ACS US Equity Tracker Fund made themselves felt in the ranking of the largest index funds domiciled in Europe. Thanks to EUR 8.3 billion of net new money, the assets of the BlackRock fund nearly hit the EUR 14 billion mark thus comfortably outpacing Europe's largest corporate bond fund, the iShares Core € Corp Bond ETF which hemorrhaged EUR 1.7 billion and displayed total net assets of EUR 12 billion as at 31 Oct.

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

Name	Net Assets	Estimated Net Flow (EUR Mil)			Org Growth
	(EUR Bil)				Rate %
	Oct 2020	1 Mo	YTD	1 Yr	1 Yr
PIMCO GIS Income Fund	57.406	(200)	(9.427)	(7.367)	(10,53)
AP7 Aktiefond	55.890	(156)	(644)	685	1,26
AB FCP I American Income Portfolio	23.617	(0)	1.392	2.758	11,76
Fundsmith Equity Fund	23.557	114	437	473	2,23
JPM Global Income Fund	22.873	(461)	(2.426)	(1.787)	(6,35)

Source: Morningstar Direct.

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

Name	Net Assets	Estimated Net Flow (EUR Mil)			Org Growth
	(EUR Bil)				Rate %
	Oct 2020	1-Mo	YTD	1 Yr	1 Yr
iShares Core S&P 500 ETF	31.981	(256)	(2.238)	(1.293)	(4,05)
Vanguard S&P 500 ETF	21.440	(320)	(794)	(688)	(3,21)
iShares Core MSCI World ETF	21.351	(163)	953	2.024	10,47
Vanguard Global Bd Idx	16.819	120	2.772	3.734	26,12
Blackrock ACS US Equity Tracker Fund	13.995	8.332	8.373	8.370	159,29

Source: Morningstar Direct.

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#### Data Notes

The figures in this report were compiled on 25 Nov 2020. Approximately 31,300 Europe-domiciled open-end funds and ETFs that Morningstar tracks from more than 2,900 fund companies across 36 domiciles were included. Organic growth rate is flows as a percentage of beginning assets. Please note that Morningstar's current asset-flows methodology might not include pre-inception subscription-period inflows of so-called target-date funds in net asset-flows estimations.