

Morningstar Direct™ Asset Flows Commentary: Europe

As markets turn sour, European investors start edging away from risky assets.

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Amid market participants' rising nervousness about the spread of the coronavirus and its ramifications on the global economy, inflows for long-term funds declined markedly in February 2020 but remained well inside positive terrain. As daily fund flow data revealed, outflows only hit Europe's fund industry in the last four days of February, indicating that investors underestimated the consequences of the contagion until just before the shutdown began in earnest. European long-term open-end funds and exchange-traded funds took in EUR 40 billion after receiving net subscriptions of EUR 63 billion in January.

Equity fund inflows slumped from EUR 14.8 billion in January to EUR 1.3 billion in February. Fixed-income funds stood at remarkably stable EUR 27.7 billion. While a few risky categories such as euro high-yield bonds were net flow negative, February inflows sent to bond funds still reflected the yield-chasing exercise that has been seen for the better part of the past 10 years. Flexible-bond funds, global high-yield bond funds, and global emerging-markets bond funds continued to see significant demand up until the last days of February.

After a one-month respite in January, alternative funds were back in the red, suffering outflows in excess of EUR 500 million.

The high demand for precious-metals funds was behind the continued inflows sent to commodity funds.

German- and French-domiciled property funds continued to attract inflows from local investors in those countries.

Money market funds barely received any new funds after raking in more than EUR 50 billion in January.

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 %	
	February 2020	February 2020	1 Mo	YTD	1 Year	1 Year
Allocation	1,492	13.77	6,946	15,749	47,790	3.40
Alternative	399	3.68	(544)	143	(39,694)	(8.73)
Commodities	96	0.89	2,235	4,832	11,320	15.28
Convertibles	56	0.51	268	474	(3,052)	(5.29)
Equity	4,014	37.04	1,273	16,887	37,895	0.99
Fixed Income	3,161	29.17	27,723	60,372	354,881	13.17
Property	167	1.55	1,833	3,916	15,779	9.94
Miscellaneous	99	0.92	211	952	(6,032)	(5.63)
Unclassified	5	0.05	157	479	534	4.84
All Long Term	9,490	87.58	40,102	103,805	419,422	4.76
Money Market	1,346	12.42	194	50,310	129,975	10.69
Total	10,836	100	40,296	154,115	549,397	

Source: Morningstar Direct.

Active Versus Passive

When adjusted for size and market growth, index funds have long outpaced actively managed funds. This trend reversed in February as actively managed funds not only saw higher inflows on absolute terms but also posted higher organic growth rates. This indicates that investors in passive products reacted more swiftly to the unfolding drama in the markets, while investors in actively managed products continued to flock to long-term funds.

When compared with the headwinds that have faced actively managed funds in recent years, the first two months of 2020 saw the turn of a friendly card. Actively managed equity funds and allocation funds were solidly in positive terrain, thanks to the rising demand for euro cautious and moderate allocation funds.

Ultimately, fixed-income funds yet again won the day for active funds, but passive bond funds continued to attract significant inflows, too. In a rare turn of events, passive equity funds suffered outflows while actively managed equity funds enjoyed inflows.

As per Feb. 29, index funds accounted for 18.8% of all assets in long-term funds domiciled in Europe, up from a market share of 17.3% one year earlier.

Flows by Global Broad Category Group: 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	6,893	47,531	1,489	53	259	4
Alternative	(751)	(39,070)	388	207	(623)	10
Commodities	348	134	15	1,887	11,186	81
Equity	2,474	(31,945)	2,679	(1,201)	69,840	1,204
Fixed Income	22,820	267,072	2,679	4,903	87,810	482

Source: Morningstar Direct.

Morningstar Categories: The Leaders

In a low-rate world, the search for yield beyond traditional fixed-income continued in February. A look at the top-selling Morningstar Categories revealed strong demand for US-dollar flexible-bond funds. With EUR 3.18 billion of inflows, February saw the strongest demand in a one-month period for this category since Morningstar started collecting European flow data on an industry level in 2007. JPM Income was the top seller, grabbing inflows of EUR 1.8 billion.

Following the same pattern, global flexible-bond funds hedged against US dollar gathered EUR 2.8 billion of net new money.

Global large-cap-blend equity funds were second in the rankings, with both active and passive products sharing the spoils. This confirms the positive trend already seen in the last quarter of 2019 and in January 2020. In February, investors arguably had still displayed optimism regarding the prospects for global economic growth, as inflows of almost EUR 3.1 billion indicate (as well as the EUR 2.7 billion of net inflows toward global large-cap growth equity funds).

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

Estimated Net Flows EUR Mil	Active			Passive		
	1 Mo.	YTD	Assets EUR Bil	1 Mo.	YTD	Assets EUR Bil
USD Flexible Bond	3,178	5,838	51	0	0	0
Global Large-Cap Blend Equity	1,590	4,634	403	1,502	3,983	225
Global Flex Bond—USD Hdgd	2,788	5,981	129	0	0	0
Global Large-Cap Growth Eq	2,445	5,174	204	244	406	2
EUR Corporate Bond	2,741	4,066	142	(53)	964	49

Source: Morningstar Direct.

Morningstar Categories: The Laggards

Japan large-cap equity funds suffered outflows for EUR 2.9 billion, making February the worst month for flows since Morningstar started collecting European flow data on an industry level in 2007. Index funds felt the most pain in this category. More than EUR 2.2 billion flowed out of those products; meanwhile, actively managed funds lost EUR 675 million. [iShares Core MSCI Japan IMI ETF](#) alone shed EUR 994 million.

US large-cap blend equity funds shed EUR 2.3 billion, basically repeating the pattern seen in January. UBS CH Institutional Fund 2—Equities USA Passive II was the category's main detractor, with EUR 1.5 billion of net redemptions.

Eurozone large-cap equity funds marked their third consecutive month of outflows (EUR 2.1 billion). Active products were hit particularly badly. By branding name, Brussels-based KBC suffered the most with EUR 317 million of net outflows.

Flows by Morningstar Category: The Laggards (Long-Term and ETFs, Active vs. Passive)

Estimated Net Flows EUR Mil	Active			Passive		
	1 Mo.	YTD	Assets EUR Bil	1 Mo.	YTD	Assets EUR Bil
Japan Large-Cap Equity	(675)	(740)	52	(2,202)	(1,354)	45
US Large-Cap Blend Equity	(709)	(2,227)	104	(1,634)	(2,385)	271
Eurozone Large-Cap Equity	(1,448)	(1,701)	83	(662)	(2,231)	62
EUR Ultra Short-Term Bond	(1,236)	(2,619)	116	(143)	(240)	3
Alt—Market-Neutral Equity	(1,226)	(1,637)	22	2	6	0

Source: Morningstar Direct.

Fund Providers: The Leaders

Pimco topped the list in terms of inflows within the active spectrum; February was the firm's 15th consecutive month of positive flows, thanks mainly to strong sales of Pimco GIS Diversified Income (EUR 1.2 billion).

UBS' range of actively managed funds contributed to its second consecutive month of positive flows, as it was showered with EUR 2.8 billion of net new money coming in. This mainly was due to the hefty inflows sent to its China and emerging-markets equity products. These flows might reflect top-down asset-allocation shifts in UBS' wealth-management channels, which have repeatedly made a noticeable imprint on European fund flows. (These flows were mirrored by outflows sent to UBS global and emerging-markets equity ETFs, as well as Europe fixed-income funds.)

Among the passive providers, Xtrackers stood at the helm of asset-gatherers with almost EUR 2.1 billion collected. Deutsche Bank's ETFs provider mainly sold European corporate-bond trackers (EUR 637 million), as well as yen-denominated bond products (EUR 337 million). Xtrackers II EUR Corporate Bond ETF was the best seller of the month with EUR 507 million of new net subscriptions.

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 %
	Feb. 2020				1 Yr
Pimco	194	2,971	6,038	42,406	28.12
UBS	165	2,829	4,274	9,517	6.26
JP Morgan	179	2,673	6,927	18,018	11.37
Pictet	99	2,622	4,616	11,502	13.72
BlackRock	273	2,009	5,318	6,614	2.44

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 %
	Feb. 2020				1 Yr
Xtrackers	96	2,075	3,611	10,103	12.52
Vanguard	177	1,938	4,014	24,071	16.58
WisdomTree	21	865	975	1,608	9.43
HSBC	27	807	1,379	4,261	19.87
Credit Suisse	98	541	1,379	6,989	8.54

Source: Morningstar Direct.

Fund Providers: The Laggards

M&G suffered the highest outflows among active managers, shedding EUR 1.6 billion, the worst one-month period for the British asset manager since January 2019. These outflows largely came from its cautious allocation funds, with the Optimal Income strategy shedding more EUR 1.0 billion alone.

On the passive side, UBS suffered the highest outflows with EUR 1.6 billion walking out the door. This was largely attributable to the redemptions that hit its US large-cap equity trackers. (These outflows were mirrored by inflows sent to UBS global and emerging-markets equity funds.)

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 %
M&G	80	(1,641)	(2,416)	(8,116)	(9.24)
Invesco	98	(1,639)	(2,351)	(16,169)	(14.16)
Schroders	149	(1,586)	(1,040)	(6,589)	(4.40)
Franklin Templeton	82	(1,526)	(3,264)	(8,514)	(9.24)
Aviva	86	(1,138)	(1,553)	659	0.79

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 %
UBS	141	(1,636)	661	5,680	4.55
ACTIAM	5	(802)	(2,441)	(5,697)	(56.15)
iShares	399	(306)	5,829	51,142	15.45
Lyxor	76	(270)	163	(2,545)	(3.35)
Deka	8	(260)	(240)	(939)	(10.43)

Source: Morningstar Direct.

The Largest Open-End Funds and ETFs

Since the yield-chase continued unabated for the better part of February, the high demand for the PIMCO GIS Income was not a surprise as this flexible-bond fund tends to hunt in higher-yielding bond terrain. However, inflows came at a much slower pace than in typical risk-on markets.

It was the same story for JPMorgan Global Income. The fund received subscriptions of EUR 288 million, most of which targeted US-dollar-denominated share classes. This was slightly above January's levels but significantly below the average monthly flow seen in 2019.

Turning to the passive side, the largest ETF in Europe, iShares Core S&P 500 ETF, shed EUR 205 million, thus making February the second negative month in a row. The second-largest ETF, Vanguard S&P 500 ETF, enjoyed inflows of EUR 181 million. Europe's largest passive corporate-bond fund, iShares Core € Corp Bond ETF, suffered its highest outflows since May 2019.

5 Largest Long-Term Actively Managed Funds by Net Assets

Name	Net Assets	Estimated Net Flow (EUR Mil)			Org Growth
	(EUR Bil)	1 Mo	YTD	1 Yr	Rate %
PIMCO GIS Income	74,138	622	1,935	19,537	36.25
AP7 Aktiefond	53,861	(27)	(365)	3,833	8.27
BGF European	29,793	711	691	530	1.57
JPM Global Income	27,988	288	529	3,680	14.47
AB FCP I American Income Portfolio	27,246	1,194	1,999	14,429	124.33

Source: Morningstar Direct.

5 Largest Long-Term Passive Funds by Net Assets

Name	Net Assets	Estimated Net Flow (EUR Mil)		Org Growth	
	(EUR Bil)	1-Mo	YTD	1 Yr	1 Yr
iShares Core S&P 500 ETF	32,142	(205)	(422)	1,120	4.03
Vanguard S&P 500 ETF	21,711	181	435	119	0.60
iShares Core MSCI World ETF	20,500	124	618	4,395	29.37
Vanguard Global Bond Index	15,990	143	551	4,538	41.11
iShares Core € Corp Bond ETF	13,153	(618)	(338)	4,332	51.27

Source: Morningstar Direct.

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

Data Notes

The figures in this report were compiled on 20 March 2020. 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. 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.