

Morningstar Direct™ Asset Flows Commentary: Europe

Investors trickle back to the European fund market in May.

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As equity markets continued to reclaim lost performance terrain in May 2020, fund investors edged back gingerly into risky assets as intramonth volatility continued to rock the boat. Long-term funds posted net inflows of EUR 53 billion in May, slightly more than the EUR 48 billion seen in April. But considering the significant rebound of risky assets' prices since markets hit their nadir in March, this was a tepid comeback. By way of comparison, market appreciation effects amounted to EUR 262 billion in May.

Bond funds led the way yet again, raking in EUR 38 billion. Most of the net new money targeted corporate-bond funds, including high-yield categories. Inflows sent to equity funds were cut down to less than half of last month's level and stood at EUR 9.75 billion. Allocation funds continued to recover, posting inflows of EUR 4.7 billion, the highest level seen in a one-month period since February.

Commodities funds enjoyed their best month ever. Inflows were driven by the high demand for gold exchange-traded funds and exchange-traded commodities, but flows to energy funds also continued, albeit at a lesser pace than in April, when oil-price-tracking investment vehicles had huge traction.

Alternative funds continued to be very much unloved, suffering net outflows of EUR 4 billion in May. These regulated hedge funds last enjoyed net inflows in August 2018.

Money market funds continued to see high demand, posting inflows of EUR 34 billion.

Europe's fund industry benefited for the second consecutive month from soaring markets. Assets under management of long-term funds rose from EUR 8.85 trillion at the end of April to EUR 9.00 trillion as of 31 May. When including money market funds, assets rose from EUR 10.228 trillion to EUR 10.385 trillion.

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 %	
	May 2020	May 2020	1 Mo	YTD	1 Year	1 Year
Allocation	1,416	13.63	4,692	(5,940)	22,496	1.61
Alternative	352	3.39	(4,084)	(34,356)	(58,959)	(13.50)
Commodities	108	1.04	3,365	13,239	20,709	28.72
Convertibles	51	0.49	(135)	(2,759)	(3,416)	(6.24)
Equity	3,867	37.24	9,753	(8,388)	48,615	1.29
Fixed Income	2,944	28.35	37,945	(15,831)	195,827	6.93
Property	166	1.60	989	6,838	15,650	9.75
Miscellaneous	93	0.89	297	(1,054)	(8,305)	(7.65)
Unclassified	7	0.06	62	655	(78)	(0.71)
All Long Term	9,004	86.70	52,885	(47,597)	232,539	2.63
Money Market	1,381	13.30	34,069	105,034	163,087	13.08
Total	10,385	100	86,954	57,437	395,626	

Source: Morningstar Direct.

Active Versus Passive

Actively managed funds benefited from the high demand for bond funds, which raked in EUR 27.2 billion, up from EUR 20.2 billion in April. Corporate-bond funds, including the high-yield bond categories, enjoyed the strongest demand. Actively managed global emerging-markets bond funds continued to suffer, as did short-term euro bond funds. Inflows sent to actively managed equity funds stood at EUR 12 billion, driven by the high demand for sector technology and healthcare funds and global growth funds. Because of the continued underperformance versus the broad market and the growth style, value funds suffered heavy outflows, as did actively managed global emerging-markets equity funds. Active allocation funds took in EUR 4.6 billion, thanks to the demand for the EUR flexible, EUR moderate, and EUR aggressive Morningstar Categories.

In a rare turn of events, passively managed equity funds suffered outflows in a positive market environment. This mainly went back to redemptions of ETFs, but open-end index equity funds also suffered a reversal. While healthcare, technology, and growth funds continued to see demand, this was dwarfed by outflows as investors yanked close to EUR 1 billion from US large-cap blend and Europe large-cap blend funds. Conversely, passively managed fixed-income index funds had their best month since July 2019. The EUR and USD corporate-bond fund categories saw the highest demand. Euro government-bond index funds and passive global emerging-markets bond funds also enjoyed high demand.

Inflows sent to long-term actively managed funds picked up significantly to EUR 41.4 billion up from EUR 28.7 billion in April. Inflows to long-term passive funds receded from EUR 17.9 billion to EUR 11.4 billion. The market share of index funds rose slightly from 19.5% per 30 April to 19.6% of all assets in long-term funds domiciled in Europe per 31 May.

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	4,592	22,072	1,412	101	423	4
Alternative	(4,070)	(57,461)	343	(13)	(1,498)	10
Commodities	152	183	15	3,213	20,526	93
Equity	12,025	(2,094)	2,691	(2,270)	50,695	1,176
Fixed Income	27,223	124,159	2,456	8,577	61,382	471

Source: Morningstar Direct.

Morningstar Categories: The Leaders

With EUR 5.6 billion of net inflows, equity funds exposed to the technology sector were the most sought-after products in May, marking the second-strongest demand in a one-month period for this category (right after April 2020) since Morningstar started collecting European flow data on an industry level in 2007. Investors showed a clear preference for actively managed products. BGF World Technology was the top seller with EUR 1.3 billion of net new money.

Tech stocks have recovered faster from the coronavirus crisis. Recently, the Nasdaq Composite touched the 10,000-point milestone. The world's five largest companies by market value are Microsoft, Apple, Amazon.com, Alphabet, and Facebook. Demand for online services during the coronavirus lockdown also drove share prices of other online retailer and e-commerce companies globally.

Showered with almost EUR 5.0 billion, the EUR corporate-bond category continued the positive trend seen last month, mainly thanks to the European Central Bank's dovish monetary policy and its bond purchase program. Candriam SRI Bond Euro Corporate gathered a net EUR 349 million.

The US Federal Reserve's April 9 announcement that it would be including coronavirus-era fallen-angel bonds in its corporate liquidity facilities pushed flows toward the USD high-yield bond category. After having attracted EUR 3.0 billion in April, the category saw net inflows of almost EUR 4.0 billion in May, the best month of flows over the past decade.

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

Estimated Net Flows EUR Mil	Active		Assets EUR Bil	Passive		Assets EUR Bil
	1 Mo.	YTD		1 Mo.	YTD	
Sector Equity Technology	4,828	11,437	81	747	3,235	14
EUR Corporate Bond	3,326	6,975	141	1,663	3,948	50
Global Large-Cap Growth Eq.	4,328	12,620	222	(172)	79	1
USD High Yield Bond	3,040	445	57	951	(221)	7
Global Corporate Bond	3,108	3,347	44	769	1,676	11

Source: Morningstar Direct.

Morningstar Categories: The Laggards

US large-cap value equity funds suffered outflows of EUR 2.3 billion in May, the category's sixth consecutive month of net redemptions (it has only had five positive months of flows over the past three years). Assets collapsed from EUR 47.8 billion at the end of 2019 to EUR 30.9 billion through May 2020. Robeco BP US Large Cap Equities was the main detractor; it shed EUR 610 million.

Investors continued to shy away from global emerging-markets equity funds (EUR 2.3 billion of net redemptions). Indeed, the COVID-19 crisis had triggered a financial shock in developing markets resulting from massive foreign capital outflows. According to the International Institute of Finance, around USD 100 billion worth of emerging-markets assets were sold in a matter of a few weeks, already exceeding full-year 2019 inflows. Coupled with falling commodity prices, capital outflows from tourism and remittances can trigger significant external stress for the most vulnerable countries.

US large-cap blend equity funds continued to bleed, marking the fifth consecutive month of net outflows. Vanguard S&P 500 ETF shed EUR 554 million.

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

Estimated Net Flows EUR Mil	Active		Assets EUR Bil	Passive		Assets EUR Bil
	1 Mo.	YTD		1 Mo.	YTD	
US Large-Cap Value Equity	(2,065)	(7,228)	26	(227)	(1,705)	5
Gbl Emerging-Markets Equity	(1,608)	(3,135)	176	(652)	(2,276)	91
US Large-Cap Blend Equity	(843)	(7,426)	99	(1,126)	(10,290)	269
EUR Ultra Short-Term Bond	(1,800)	(13,435)	102	(108)	(367)	3
Alt-Long/Short Credit	(1,736)	(7,909)	77	(4)	(11)	0

Source: Morningstar Direct.

Fund Providers: The Leaders

With net inflows of almost EUR 4.4 billion, Pimco topped the list of the asset gatherers within the active spectrum. After having marked the worst one-month period of flows on record in March, the American asset manager rebounded in April and May. This is largely attributable to the sales of Pimco Income (EUR 1.1 billion) and Pimco Global Investment Grade Credit (EUR 1.0 billion).

The same story played out for JP Morgan with EUR 3.1 billion of net new sales, thanks mainly to the hefty inflows sent to its US-dollar high-yield bond funds. JPM Global High Yield Bond was the top seller of the month with EUR 1.2 billion coming in.

Among the passive providers, iShares stood at the helm with more than EUR 5.4 billion collected. The main success for BlackRock's ETF provider came on the back of high demand for precious-metals products (EUR 1.3 billion) and US large-cap blend equity ETFs (EUR 636 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 %
Pimco	169	4,392	(9,045)	16,017	9.68
JP Morgan	174	3,103	5,819	16,183	10.11
BlackRock	248	2,355	(776)	1,794	0.72
Morgan Stanley	69	2,323	3,490	8,053	14.14
Aviva	83	1,728	1,079	6,223	7.81

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 %
iShares	392	5,425	11,192	49,521	14.55
Xtrackers	91	820	1,570	7,165	8.75
Swisscanto	51	662	2,858	4,994	12.23
Credit Suisse	96	621	3,556	8,140	9.65
SPP	10	610	127	1,044	12.43

Source: Morningstar Direct.

Fund Providers: The Laggards

Invesco suffered the highest outflows among active managers, shedding almost EUR 1.4 billion. Invesco's range of actively managed funds has not marked a positive month of flows since January 2018. Europe large-cap blend equity was the category most affected, with EUR 206 million of net outflows.

La Française had its third consecutive month of outflows, shedding EUR 854 million. These redemptions largely came from Eole Rendement 2018, a product distributed exclusively in France that falls in the "other allocation" category, a heterogeneous grouping of funds that do not fit in other allocation categories.

On the passive side, Actiam suffered the highest outflows with EUR 322 million walking out the door, largely attributable to the redemptions that hit Actiam Responsible Index–Equity Pacific, which shed EUR 447 million in May.

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 %
	May 2020				1 Yr
Invesco	84	(1,371)	(9,166)	(18,846)	(17.37)
La Française	11	(854)	(3,872)	(3,030)	(19.88)
36 South	3	(794)	(890)	(693)	(34.55)
Ninety One	45	(780)	(2,112)	(1,158)	(2.50)
Eastspring Investments	29	(734)	(2,535)	(2,970)	(9.11)

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 %
	May 2020				1 Yr
Actiam	5	(322)	(2,663)	(5,998)	(58.46)
HSBC	27	(254)	2,250	4,645	21.13
Candriam	3	(247)	(242)	(855)	(20.81)
FundLogic	1	(240)	(420)	(444)	(32.73)
Royal London	18	(215)	239	883	5.00

Source: Morningstar Direct.

The Largest Open-End Funds and ETFs

Inflows sent to Europe's largest long-term fund, Pimco GIS Income, surpassed the EUR 1 billion mark for the first time since January this year. The lion's share — EUR 650 million — targeted euro-hedged share classes; EUR 310 million was sent to US-dollar-hedged share classes. Institutional and semi-institutional share classes enjoyed the highest spoils.

AP7 Aktiefond, a Swedish private pension equity fund, continued to chug along smoothly, gathering EUR 71 million in May. This state-run fund attracts net inflows in nearly every market environment; even at the height of the COVID-19 crisis, investors hardly blinked as witnessed by the relatively modest outflows of EUR 187 million in March.

JPM Global Income suffered outflows of EUR 229 million, all of which exited the euro share classes marketed to retail investors. AllianceBernstein's American Income Portfolio, a USD flexible-bond fund with a high exposure to higher-yielding bonds, enjoyed inflows of EUR 690 million, its highest level since February this year.

Europe's largest ETF, iShares Core S&P 500, bucked the negative trend which hit US large-cap equity funds and pulled in a net EUR 473 million. Conversely, Vanguard' S&P 500 ETF shed EUR 554 Million. The inflows that targeted Vanguard Global Bond Index and iShares Core € Corp Bond ETF bore witness to the high demand for bond funds seen in May.

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	55,944	1,142	(11,748)	(50)	(0.08)
AP7 Aktiefond	52,747	71	(457)	2,634	5.55
BGF Global Allocation	25,013	(37)	(914)	(2,136)	(7.83)
JPM Global Income	24,152	(229)	(1,138)	1,122	4.28
AB FCP I American Income Portfolio	23,027	690	151	9,109	58.44

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	Rate %
iShares Core S&P 500 ETF	32,407	473	(766)	4	0.01
Vanguard S&P 500 ETF	21,976	(554)	282	489	2.53
iShares Core MSCI World ETF	20,951	(560)	1,083	3,590	22.05
Vanguard Global Bond Index	15,774	218	867	3,418	26.98
iShares Core € Corp Bond ETF	13,902	128	892	4,756	50.50

Source: Morningstar Direct.

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Data Notes

The figures in this report were compiled on 18 June 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.