

Morningstar Direct™ Asset Flows Commentary: Europe

As markets plunge amid the coronavirus pandemic in March, European investors seek shelter in safe havens.

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While investors reacted to the spread of the coronavirus with a certain sluggishness in February 2020, COVID-19 wrought havoc in Europe's fund market in March. According to Morningstar's net flow estimates, Europe-domiciled long-term funds suffered record outflows of EUR 246 billion during the month, a staggering number that dwarfs even the darkest month in the 2007-09 financial crisis, when EUR 108 billion exited long-term funds in October 2008.

Bond funds shed EUR 140 billion, an unprecedented level. By a way of comparison, the previous monthly record for outflows was October 2008 when investors withdrew EUR 54 billion from fixed-income funds. The outflows were a mirror-image of the seemingly endless hunt for yield in the post-financial-crisis era, which had fed funds focused on the riskier parts of the global bond markets. The highest outflows stemmed from global flexible-bond funds, global emerging-markets bond funds, and euro corporate-bond funds.

Equity funds suffered outflows of EUR 56 billion, another record when compared with the previous low of January 2008 when investors withdrew EUR 46 billion from equity funds domiciled in Europe. Global large-cap blend funds bore the brunt of the exit, followed by US large-cap blend and global emerging-markets equity funds.

A closer look at equity fund investors' intramonth timing reveals that the lion's share of outflows occurred in the weeks ended 13 March and 20 March, when equities reached their nadir. In the subsequent market rebound, flows to equity funds were positive but reduced to a trickle, which suggests that losses for equity fund investors were for real.

Allocation funds suffered outflows of EUR 26 billion, which dwarfed redemptions suffered by mixed-asset funds in May 2009 when outflows amounted to EUR 16 billion. The same holds true with alternative products, from which investors withdrew EUR 23 billion. In October 2008, the previous low, investors yanked EUR 12.7 billion from these regulated hedge funds.

Money market funds were not the products of choice for investors. These short-term vehicles, which are typically sought-after in a risk-off environment, shed EUR 41 billion, suggesting that investors hedged their bets outside of fund vehicles by accumulating cash in their bank accounts.

Commodity funds were the only large broad category that bucked the trend, thanks to the high demand for gold products.

On top of these significant outflows, Europe's fund industry was hit by market depreciations that amounted to an asset drop of close to EUR 1 trillion for long-term funds. As per 31 March, assets in long-term funds dropped to EUR 8,214 billion, compared with EUR 9,490 billion one month earlier. When including money market funds, assets sank from 10,836 billion as of 29 Feb to EUR 9,509 billion at the end of March.

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 %
	March 2020	March 2020	1 Mo	YTD	1 Year	1 Year
Allocation	1,318	13.86	(26,123)	(11,284)	23,269	1.65
Alternative	345	3.63	(22,670)	(22,773)	(55,817)	(12.38)
Commodities	95	1.00	2,512	7,199	14,287	19.40
Convertibles	48	0.50	(2,850)	(2,406)	(5,135)	(8.95)
Equity	3,375	35.50	(56,403)	(40,358)	482	0.01
Fixed Income	2,770	29.13	(139,673)	(79,846)	188,071	6.82
Property	171	1.79	865	5,002	16,067	9.75
Miscellaneous	89	0.94	(1,855)	(836)	(6,547)	(6.15)
Unclassified	4	0.04	149	613	87	0.80
All Long Term	8,214	86.39	(246,050)	(144,690)	174,762	1.96
Money Market	1,294	13.61	(41,080)	9,402	85,655	7.04
Total	9,509	100	(287,130)	(135,287)	260,417	

Source: Morningstar Direct.

Active Versus Passive

Funds' rout in March was an all-market phenomenon that did not spare index funds, which were beneficiaries in the bear markets of 2008 and 2011. Long-term index funds shed EUR 28 billion in March, by far their highest outflow seen in a one-month period. Passive equity funds suffered redemptions of EUR 11.3 billion, and fixed-income index funds haemorrhaged EUR 18.2 billion. Inflows of EUR 2.9 billion sent to commodity products — mainly gold exchange-traded funds and exchange-traded commodities — mitigated the pain to a limited degree.

Long-term actively managed funds suffered outflows of EUR 218 billion, while active fixed-income funds saw EUR 121 billion walk out the door. Actively managed equity funds shed EUR 45 billion, allocation funds saw redemptions of EUR 26 billion, and alternative funds suffered outflows of EUR 22 billion.

Because of the huge outflows and significant market-depreciation effects, the market share of index funds rose from 18.8% per 29 Feb to 19.2% of all assets in long-term funds domiciled in Europe per 31 March.

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	(26,135)	22,990	1,314	12	279	4
Alternative	(21,635)	(54,018)	336	(1,035)	(1,799)	9
Commodities	(419)	52	13	2,930	14,235	81
Equity	(45,033)	(61,827)	2,342	(11,371)	62,309	1,033
Fixed Income	(121,443)	127,292	2,330	(18,230)	60,779	440

Source: Morningstar Direct.

Morningstar Categories: The Leaders

In the most volatile month in history, investors sought safe havens. With EUR 4.6 billion of net inflows, US-dollar government-bond funds were the most sought-after products in March, marking the second-strongest demand in a one-month period for the Morningstar Category over the past decade. Focused SICAV US Treasury Bond USD was the top seller with almost EUR 5.4 billion of net new money. 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 from UBS' global, emerging-markets, and eurozone equity ETFs.)

Showered with more than EUR 4.0 billion, products offering exposure to precious metals—mainly ETCs tracking the gold price—saw their best flows in a one-month period since Morningstar started collecting European flow data on an industry level in 2007. Invesco Physical Gold ETC gathered EUR 1.6 billion in net new subscriptions.

Opportunistic investors, however, were not lacking even in moments of panic. UK large-cap equity funds attracted EUR 3.8 billion even in the face of a 25% plunge of the FTSE 100 in March. Arguably, investors have taken the chance to beef up their holdings as share prices reached lows not seen in decades. Vanguard FTSE UK All Share Index Unit Trust was the best seller of the category, with EUR 795 million coming in.

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 Government Bond	5,423	6,332	14	(814)	1,656	39
Commodities Precious Metals	110	541	4	3,903	6,999	73
UK Large-Cap Equity	88	(1,370)	57	3,680	5,457	82
Switzerland Equity	235	1,841	27	1,987	2,164	50
EUR Diversified Bond	1,934	3,877	122	(213)	(182)	5

Source: Morningstar Direct.

Morningstar Categories: The Laggards

After 14 months of inflows, global flexible-bond funds had a stunning EUR 18.0 billion of net redemptions in March, the worst result in a one-month period. Pimco GIS Income alone shed EUR 15.6 billion. As per the category's assets under management, EUR 30 billion was burned in March, falling from EUR 129 billion at the end of February to EUR 99 billion a month later.

The flight from risk also drove investors away from global emerging-markets bonds, both hard-currency (EUR 12.5 billion of net outflows) and local-currency (EUR 9.0 billion). iShares JP Morgan \$ EM Bond ETF was hit particularly hard, with EUR 2.0 billion walking out the door.

Global large-cap equity funds shed EUR 10.6 billion last month, which hit active and passive products alike. UniGlobal Vorsorge and UBS MSCI ACWI ETF were the main detractors with redemptions of more than EUR 3.0 billion each. The former is the risky asset bucket of the state-sponsored private pension plan of the cooperative bank sector special to investors in Germany. These outflows were mirrored by the inflows to the risk-off bucket, UniEuro Renta, a conservatively managed euro diversified-bond fund. UBS MSCI ACWI ETF's outflows were also mirrored by inflows that targeted UBS bond funds.

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	
Global Flex. Bond – USD Hdg	(17,997)	(12,012)	99	0	0	0
Global Emerging Mkts Bond	(10,022)	(2,015)	115	(2,475)	(810)	22
Global Large-Cap Blend Equity	(5,579)	(1,701)	346	(5,067)	(564)	193
US Large-Cap Blend Equity	(3,138)	(5,314)	88	(6,363)	(8,728)	231
Gbl Emerging Mkts Bond – Lc	(6,218)	(4,483)	76	(2,778)	(2,779)	15

Source: Morningstar Direct.

Fund Providers: The Leaders

With almost EUR 6.0 billion, UBS topped the list in terms of inflows within the active spectrum, marking the third consecutive month of positive flows, thanks mainly to strong sales of its US-dollar government- and diversified-bond funds. A very distant runner-up, with EUR 995 million of inflows, Mercer Global Investment earned itself second place in the rankings. Mercer Global High Yield Bond was its top seller (EUR 626 million).

Luxembourg-based LRI and Danish asset manager Formuepleje (whose funds are distributed in Denmark) entered the top five for the first time. LRI attracted EUR 360 million, mainly thanks to its OptoFlex Fund, a strategy exploiting volatility arbitrage.

Among the passive providers, Vanguard stood at the helm of asset gatherers with almost EUR 3.0 billion collected. The American giant mainly sold UK large-cap equity trackers (EUR 1.3 billion), as well as global large-cap blend equity index funds (EUR 1.2 billion). Vanguard FTSE All-World High Dividend Yield UCITS ETF was the best seller of the month with EUR 943 million of net new subscriptions.

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

Name	Net Assets (EUR Bil)	Estimated Net Flow (EUR Mil)			Org Growth Rate %
		March 2020	1 Mo.	YTD	
UBS	157	5,926	10,465	14,262	9.12
Mercer Global Investment	67	995	1,271	17,600	32.15
Generali	21	369	499	2,435	12.35
LRI	8	360	570	246	2.93
Formuepleje	3	344	818	1,263	57.16

Source: Morningstar Direct.

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

Name	Net Assets (EUR Bil)	Estimated Net Flow (EUR Mil)			Org Growth Rate %
		March 2020	1 Mo.	YTD	
Vanguard	161	2,941	6,954	26,630	17.91
Invesco	30	1,110	1,911	8,303	36.47
Swisscanto	45	857	1,894	4,118	10.47
HSBC	24	817	2,196	4,855	21.97
Credit Suisse	89	795	2,174	7,614	9.03

Source: Morningstar Direct.

Fund Providers: The Laggards

Pimco suffered the highest outflows among active managers, shedding EUR 23.7 billion, the worst one-month period of flows on record for the American asset manager. These outflows largely came from its flagship fund Pimco GIS Income. Overall, the assets of actively managed Pimco funds collapsed from EUR 194 billion in February to EUR 154 billion per 31 March.

BlackRock's active funds shed EUR 10.3 billion. BGF Global Multi-Asset Income was the main detractor with outflows of EUR 933 million.

On the passive side, iShares suffered the highest outflows with EUR 7.1 billion walking out the door, largely attributable to the redemptions that hit its emerging-markets and euro corporate-bond trackers.

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 %
Pimco	154	(23,649)	(17,599)	16,261	10.46
BlackRock	212	(10,348)	(5,838)	(3,952)	(1.62)
Amundi	207	(8,867)	(9,091)	(5,779)	(2.34)
KBC	62	(7,795)	(4,358)	2,064	3.08
AllianceBernstein	71	(7,162)	(3,339)	12,495	17.88

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 %
iShares	349	(7,115)	(1,286)	39,782	11.65
UBS	122	(6,253)	(5,379)	108	0.08
Xtrackers	81	(5,034)	(1,423)	5,301	6.45
Amundi	57	(3,029)	(914)	6,128	10.72
Pictet	16	(2,396)	(2,689)	(498)	(2.69)

Source: Morningstar Direct.

The Largest Open-End Funds and ETFs

As the music of the markets stopped playing, myriad risky bond and allocation funds suffered stunning outflows in March. This was exasperated by tanking markets that further diminished the asset bases of many equity, bond, and allocation funds. The most staggering losses were sustained by Pimco's aforementioned GIS Income fund, a global flexible-bond fund that has seen immense demand in risk-on markets. Last month witnessed a huge drop in assets under management for Europe's largest open-end fund, which shrank from EUR 74 billion to EUR 52 billion. On top of outflows of EUR 15.6 billion, market-depreciation effects reduced the fund's total net assets by another EUR 6.6 billion.

It was the same story for JPM Global Income, AB FCP American Income Portfolio, and Allianz Income and Growth, whose income promises have prompted investments in risk-prone markets, and this resulted in significant losses for investors who exited the funds on a large scale.

Remarkably, several of the largest ETFs in Europe bucked the trend. While Europe's largest ETF, iShares Core S&P 500 ETF, shed EUR 211 million, Vanguard S&P 500 ETF enjoyed inflows of EUR 379 million. iShares Core MSCI World ETF also enjoyed hefty inflows of close to half a billion euro. However, Europe's largest passive corporate-bond fund, iShares Core € Corp Bond ETF, crashed in line with the outflows that hit the euro corporate-bond category, posting huge outflows of EUR 1.2 billion, close to 10% of its assets under management as of 29 Feb.

5 Largest Long-Term Actively Managed Funds by Net Assets

Name	Net Assets	Estimated Net Flow (EUR Mil)			Org Growth
	(EUR Bil)				Rate %
	March 2019	1 Mo	YTD	1 Yr	1 Yr
Pimco GIS Income	51,952	(15,599)	(13,664)	2,031	3.60
AP7 Aktiefond	45,331	(188)	(553)	3,374	7.04
JPM Global Income	23,110	(1,466)	(937)	1,916	7.37
AB FCP I American Income Portfolio	20,860	(3,187)	(1,188)	10,367	81.24
Allianz Income and Growth	19,596	(1,134)	(1,583)	(3,521)	(12.85)

Source: Morningstar Direct.

5 Largest Long-Term Passive Funds by Net Assets

Name	Net Assets	Estimated Net Flow (EUR Mil)			Org Growth
	(EUR Bil)				Rate %
	March 2019	1-Mo	YTD	1 Yr	1 Yr
iShares Core S&P 500 ETF	27,943	(211)	(633)	523	1.80
Vanguard S&P 500 ETF	19,316	379	814	771	3.86
iShares Core MSCI World ETF	18,242	460	1,078	4,072	25.24
Vanguard Global Bond Index	15,006	(449)	102	3,164	26.04
iShares Core € Corp Bond ETF	11,044	(1,194)	(1,531)	1,956	20.07

Source: Morningstar Direct.

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Data Notes

The figures in this report were compiled on 20 April 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.