

Morningstar DirectSM Asset Flows Commentary: Europe

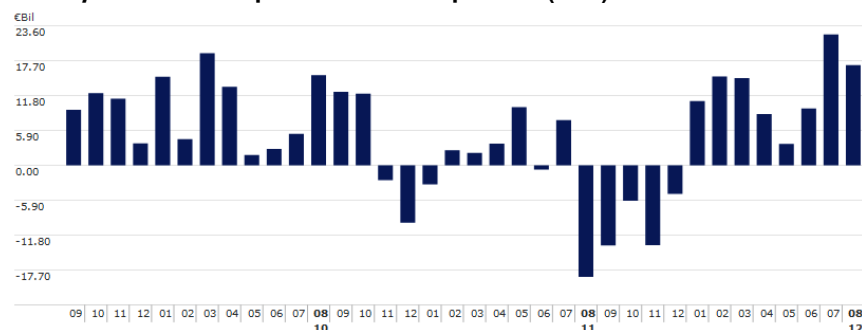
Everyone's Joining the Bond Party

By Ali Masarwah, European Research Team

Do bazookas make a difference? In war they certainly do, but apparently not so in the European fund market. ECB president Mario Draghi's emphatic July statement in support of the European currency and September's Outright Monetary Transaction programme have pushed up stock prices. But they have not changed European fund investor sentiment.

According to Morningstar's European Asset Flow data, investors continued to flee from equity funds in August while sending staggering net inflows of EUR 16.95 billion to bond funds. The same pattern emerged in the US, where net inflows into fixed-income funds surpassed USD 30 billion in August. Although August's European inflows remained well below July's record of EUR 22.9 billion, the run on bond funds abated just slightly compared with previous months' flows into European fixed-income products (see graph below).

Monthly Flows into European Fixed Income products (€Bil)



In stark contrast, equity funds saw net outflows of EUR 7.02 billion last month despite the rise of global equity prices for the third month running.

Flows into Morningstar's alternative funds asset class gained momentum with EUR 713 million in net inflows. Flows into allocation funds of various risk profiles slowed in August, but they still enjoyed EUR 587 million in net inflows. In sum, long-term funds took in EUR 11.72 billion in August, bringing their year-to-date total to EUR 90.01 billion. Meanwhile, after two months of outflows, money market funds posted net inflows of EUR 4.22 billion in August.

Broad Asset Groups €Mil

Estimated Net Flows €Mil	August 2012	YTD	12 Months	Net Assets €Bil
Allocation	587	14,522	10,389	529
Alternative	713	1,981	(5,153)	273
Commodities	226	(61)	(1,296)	24
Convertibles	24	412	(3,293)	39
Equity	(7,023)	(25,941)	(68,301)	1,620
Fixed Income	16,945	101,766	64,018	1,429
Property	245	(1,033)	(1,479)	110
All Long Term	11,718	91,646	(5,115)	4,025
Money Market	4,220	14,017	32,785	951

Bond Focus: Remember When Fundamentals Used to Matter?

Of the 71 fixed-income categories in Morningstar's European database, 49 saw net inflows in August, while 21 stagnated or posted outflows. Drilling down deeper, our data shows that yield-hungry investors are continuing to pin their hopes on corporate bonds (especially high yield) and emerging-markets debt. Topping the list of the most popular Morningstar categories for August were other bond funds, a mixed bunch, comprising Italian target maturity funds, a few emerging-markets bond funds, and the widely popular AB American Income Portfolio, which attracted EUR 1.88 billion. USD high-yield bond and global high-yield funds followed with net inflows of EUR 1.72 billion and EUR 1.43 billion, respectively. EUR corporate bond also featured prominently in the Rankings with net inflows of EUR 1,40 billion. Conversely, safe-haven vehicles investing in USD, EUR, and GBP government bonds remained on European investors' sell list in August.

Top 10 Morningstar Bond Categories, sorted by July Estimated Net Inflows €Mil

Estimated Net Flows €Mil	August 2012	YTD
Other Bond	1,876	14,839
USD High Yield Bond	1,716	10,681
Global High Yield Bond	1,430	7,005
EUR Corporate Bond	1,402	9,587
USD Flexible Bond	1,227	5,428
EUR Diversified Bond	1,178	567
NOK Bond	1,164	2,366
CHF Bond	993	3,312
USD Diversified Bond	917	3,822
EUR Flexible Bond	734	4,350

Looking ahead, there are no signs that the bond party will end soon. According to Morningstar bond strategist Dave Sekera, the ECB's readiness to purchase troubled European sovereign debt "will probably force corporate credit spreads tighter as this new liquidity looks for a home." "Remember when fundamentals used to matter?" asks Sekera, advising investors to "be cautious in selecting which bond offerings they participate in, lest they be plagued with buyer's remorse if the market takes a turn for the worse."

Equity Funds: A Bleak Picture Gets Bleaker

Investors continued to sell equity funds indiscriminately in August. Funds in Morningstar's US large-cap blend equity category suffered most last month, shedding net EUR 810 million, followed by UK large-cap blend equity and Asia ex Japan equity, posting net outflows of EUR 746 million and EUR 581 million, respectively.

Top and Bottom 5 Morningstar Equity Categories, sorted by August Estimated Net Inflows €Mil

Estimated Net Flows €Mil	August 2012	YTD
US Equity - Currency Hedged	324	313
Property - Indirect Global	232	12
Global Large-Cap Value Equity	224	3,941
Global Equity - Currency Hedged	194	102
Sector Equity Precious Metals	177	356
France Large-Cap Equity	(460)	(3,393)
Germany Large-Cap Equity	(502)	(2,055)
Asia ex Japan Equity	(581)	(2,244)
UK Large-Cap Blend Equity	(746)	(1,359)
US Large-Cap Blend Equity	(810)	(1,927)

The few equity categories that have been in favour in 2012 also posted inflows in August. Global large-cap value equity funds saw solid inflows of EUR 224 million; and US Equity – Currency Hedged saw the highest investor demand in August, posting net inflows of EUR 324 million.

Allocation funds: Tread Carefully or Delegate

Turning to allocation funds, the picture reveals that investors are opting either for defensive positioning or delegating asset allocation to their fund manager. Thus, the EUR cautious allocation category topped the list, with net inflows of EUR 356 million. And GBP flexible allocation saw net inflows of EUR 290 million. Conversely, aggressive allocation funds saw significant redemptions, as did US dollar and Swiss franc mixed asset products, indicating that European fund investors may be feeling safe enough to shift money back into the euro.

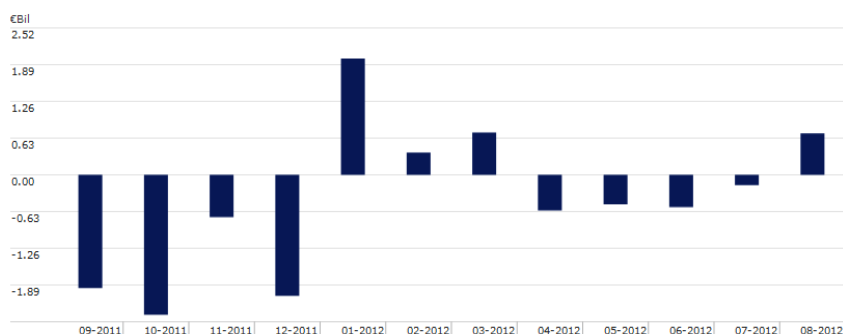
Top and Bottom 5 Morningstar Allocation Categories, sorted by July Estimated Net Inflows €Mil

Estimated Net Flows €Mil	August 2012	YTD
EUR Cautious Allocation	356	2,433
GBP Flexible Allocation	290	4,181
Asia Allocation	205	506
EUR Flexible Allocation	198	3,074
Global Emerging Markets Allocation	188	1,525
PLN Allocation	(93)	(474)
Other Allocation	(109)	376
Target Date 2000-2014	(190)	(1,424)
EUR Aggressive Allocation	(191)	5
USD Moderate Allocation	(203)	(459)

Buoyant Equity Markets Unexpectedly Boost Alternative Funds

Morningstar asset flow data suggest that European investor sentiment to alternative funds tends to track equity markets, despite the fact that many such funds have absolute return targets and aim for uncorrelated returns. Looking back, alternative funds fell out of favour in July 2011 with sales plummeting in line with the equity market downturn. Flows to alternative funds witnessed a dramatic turnaround in January 2012, then flows fell back into deep red terrain again in April when equity markets turned volatile. In August, with equity markets back on the rise, sales into alternative funds picked up again.

Monthly Flows into European Alternative products (€Bil)



At the Fund Level, Big Brands Carry the Day

In an uncertain market environment investors stuck to the assurance offered by familiar names.

Three PIMCO funds populate August's top 10 list, among them the European clone of the Bill Gross' massive US-domiciled PIMCO Total Return Bond Fund (EUR 1.21 billion in fresh money). Allianz Global Investors, which along with PIMCO forms the second asset management pillar of the German insurer, saw inflows of EUR 495 million in August with Allianz US High Yield, managed by US subsidiary NFJ. Nataxis, KLP, BlackRock, and Standard Life funds also feature prominently in August's list of top-selling funds.

Top 10 funds, sorted by July Net Estimated Inflows €Mil

Estimated Net Flows €Mil	August 2012	YTD
PIMCO GIS Total Return Bond Fund	1,214	5,313
KLP Obligasjon Global I	880	338
Nataxis Trésorerie Plus	720	862
PIMCO GIS Diversified Income Fund	673	2,857
Standard Life Global Abs Ret Strat	540	3,378
AB American Income Portfolio	520	4,957
PIMCO GIS Global Investment Grade Credit	508	4,572
ZKB-CIF Swiss Bd TM Idx AAA-BBB Dom	497	691
Allianz US High Yield	495	5,835
M&G Optimal Income Fund	450	3,579

Bond Giants Prosper

Considering the ongoing bond boom, PIMCO unsurprisingly tops the list of fund promoters by new inflows in August, collecting EUR 3.1 billion (excluding money market funds), followed by BlackRock, whose bond funds saw EUR 1.1 billion of the group's EUR 2.07 billion of net inflows. French houses AXA and Natixis also capitalized on their bond strength with virtually all of the inflows going into fixed-income products. Prominent exceptions to the "bond rule" were Carmignac, whose success hinged entirely on its allocation (Carmignac Patrimoine) and equity funds (Carmignac Investissement), and, to a lesser degree, M&G, which had sizable inflows in its allocation funds.

Top 10 providers, sorted by July Net Estimated Inflows €Mil

Estimated Net Flows €Mil	August 2012	YTD
PIMCO	3,106	19,951
BlackRock	2,070	3,046
KLP	913	685
Natixis	872	2,014
AXA	842	6,004
Carmignac	779	4,214
Pioneer Investments	748	(2,669)
JPMorgan	744	2,055
AllianceBernstein	721	7,777
M&G	653	7,046

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

Data Notes: The figures in this report were compiled on 24-Sept-2012. Over 23,000 of 30,000 that Morningstar tracks from 1,100 fund companies across 29 domiciles are included. Between €1 and €4 bn of AUM from these groups are not included because assets were not reported by the publishing date: Barclays, Allianz, and Amundi. BlueBay is not represented due to their disclosure policy. Sweden-domiciled funds are not included in this report.