August 2012
Data thru July 31

Morningstar Direct℠ Asset Flows Commentary: Europe

Risk off with European Investors? Not When It Comes to Bonds
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European fund investors maintained an uneasy equilibrium between risk aversion and yield-seeking in July. While buoyant equity markets did not draw new net money into equity funds, plenty of risk-taking was evident on the bond side. In sum, long-term mutual funds available for sale in Europe attracted healthy inflows of EUR 16.15 billion in July, bringing the year-to-date total to net EUR 70.5 billion.

The schism between bonds and equities remained evident in July, with equity funds shedding EUR 5.30 billion, down from a net outflow of EUR 7.38 billion in June, and bond funds taking in a whopping EUR 19.48 billion, making July 2012 the best month for bond funds since at least 2007.

The continuing haemorrhage from equity funds in July came despite the rebound of stock markets for the second month running, with the MSCI World gaining 6.9% (in EUR terms) from 1 June through 31 July 2012. The DAX and the Euro Stoxx 50 also rose a solid 8.1% and 10.3%, respectively, during the same period. Outflows from equity funds came from across the board with no specific region or sector being singled out, arguably indicating that investors have broad concerns about the ability of global growth to support equity valuations.

The big picture for equity funds in July looks even bleaker when taking a one-off effect into consideration: One single Swiss institutional fund--the CSIF World ex CH Index Pension fund--posted inflows of EUR 2.38 billion in July. Without this singular shift, net flows out of equity funds would have been nearly double the current figure.

Broad Asset Groups €Mil

Estimated Net Flows €Mil	July 2012	YTD	12 Months	**Net Assets** €Bil
Allocation	2,501	13,564	7,021	521
Alternative	(460)	(284)	(11,400)	263
Commodities	33	(287)	(2,488)	24
Convertibles	572	374	(6,817)	39
Equity	(5,306)	(22,770)	(89,655)	1,613
Fixed Income	19,477	81,145	24,014	1,412
Property	(665)	(1,221)	(2,315)	110
All Long Term	**16,152**	**70,521**	**(81,640)**	**3,982**
Money Market	(10,227)	10,566	56,970	952

Money market funds also saw outflows, shedding a net EUR 10.23 billion in July. This marked a reversal from the sizable inflows during the better part of the first and second quarters of 2012, which included inflows of EUR 16.99 billion in April and EUR 14.23 billion in May.

On July 5 the European Central Bank lowered eurozone interest rates, reducing the main refinancing operating rate to 0.75% and bringing the deposit facility rate down to zero. This makes EUR money market funds not only a loss-maker for eurozone investors in real terms, but also in nominal terms, as these funds charge fees of around 0.4% on average. As reported in our fund flows analysis for

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July, JP Morgan, BlackRock, HSBC, and other fund providers subsequently closed EUR money market funds to new assets to prevent yields from being diluted by new investors. With inflows restricted into many EUR money market funds and flows going only one way, EUR money market funds predictably saw the lion's share of outflows, with the two Morningstar EUR money market fund categories posting combined outflows of EUR 8.3 billion.

Flows by Asset Class
Bond Funds Have a Field Day – Yet Again

One of the most surprising features of the eurozone crisis has been the steadily rising risk appetite of bond investors. This trend gained momentum in July with yield-seekers piling into high-yield, corporate, and emerging-markets bond funds. The 10 Morningstar bond categories enjoying the highest inflows in July mainly consisted of risky assets, with the USD High-Yield Bond category topping the list with July inflows of EUR 2.14 billion, followed by EUR Flexible Bond funds (funds in this category are go-anywhere offerings that can have high-yield and emerging-markets exposure in excess of 30% of assets), EUR Corporate Bond funds, and Global High Yield Bond funds, gathering net EUR 2.09 billion, EUR 1.69 billion, and EUR 1.66 billion, respectively.

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

Estimated Net Flows €Mil	July 2012	YTD	12 Months	**Net Assets** €Bil
USD High Yield Bond	2,139	8,761	7,533	36
EUR Flexible Bond	2,093	3,563	1,378	21
EUR Corporate Bond	1,692	7,906	(214)	88
Global High Yield Bond	1,655	5,226	666	36
Other Bond	1,577	12,903	14,103	82
Global Emerging Markets Bond	1,432	6,821	4,575	46
Global Bond	1,396	4,569	3,840	77
Global Emerging Markets Bond – Local Currency	1,249	3,137	2,029	41
High Yield Bond - Other Hedged	1,197	7,530	7,685	25
USD Flexible Bond	771	4,111	3,672	19

These very substantial inflows into risky bond assets went hand-in-hand with outflows from short-term and government bond funds. For the year to date, the Morningstar categories EUR Ultra Short-Term, EUR Diversified Bond Short-Term, GBP Government Bond, and EUR Government Bonds saw the highest outflows of all bond fund categories, a trend that also persisted in July.

Bottom 5 Morningstar Bond Categories, sorted by YTD Estimated Net Outflows €Mil

Estimated Net Flows €Mil	July 2012	YTD	12 Months	**Net Assets** €Bil
EUR Ultra Short-Term Bond	(662)	(8,806)	(18,601)	86
GBP Government Bond	(18)	(3,525)	(2,428)	23
EUR Diversified Bond - Short Term	(197)	(2,556)	(9,277)	63
EUR Government Bond	(588)	(1,260)	(4,808)	53
DKK Bond - Short Term	(21)	(1,110)	(548)	8

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Equity Funds Remain out of Favour in July

Investors´ aversion to equity funds was manifest in July yet again, although outflows came at a slower pace than in May and June. The US Large-Cap Blend and Asia ex-Japan Equity categories saw the largest outflows, shedding a net EUR 894 million and EUR 762 million, respectively. This pattern was also seen at Franklin Templeton, which had the highest equity-fund outflows of any European fund provider in July. The firm saw substantial outflows from the Templeton Asian Growth fund and, to a lesser degree, the Franklin US Opportunities and Franklin US Equity funds.

From a bird´s eye view, the July flow data shows a continuation of this year´s trend with categories in net outflows suffering greater reductions in assets and the categories with net inflows attracting more net inflows. There were a few noticeable changes to trends, however: The Morningstar category with the highest net inflows thus far in 2012, Global Emerging Markets Equity, experienced a break, seeing light outflows of EUR 23 million in July. Accelerating outflows from the Capital International Emerging Markets Fund, JPM Emerging Market Equity, and Amundi Actions Emergents funds contributed to disrupting the inflow streak for Global Emerging Markets.

Top 5 Morningstar Equity Categories, sorted by YTD Estimated Net Flows €Mil

Estimated Net Flows €Mil	July 2012	YTD	12 Months	**Net Assets** €Bil
Global Emerging Markets Equity	(23)	5,345	441	137
Global Large-Cap Value Equity	179	3,793	4,360	70
Sector Equity Consumer Goods & Services	328	2,498	3,279	12
Asia-Pacific ex-Japan Equity	81	1,127	(283)	50
Hong Kong Equity	131	859	1,032	4

Another notable exception in this year´s trend was the return to favour of the European equity categories. One of the most unloved categories this year, Eurozone Large-Cap Equity, took in EUR 277 million in July while seeing net outflows of EUR 3.33 billion year to date. The Morningstar categories Europe Large-Cap Blend Equity and Europe ex-UK Large-Cap Equity also rebounded in July against this year´s trend, seeing inflows of EUR 100 million and EUR 65 million, respectively.

Bottom 10 Morningstar Equity Categories, sorted by YTD Estimated Net Flows €Mil

Estimated Net Flows €Mil	July 2012	YTD	12 Months	**Net Assets** €Bil
Eurozone Large-Cap Equity	277	(3,326)	(6,021)	58
Europe Large-Cap Value Equity	(241)	(3,145)	(5,599)	27
France Large-Cap Equity	(352)	(2,933)	(2,913)	24
Global Large-Cap Blend Equity	(954)	(1,848)	(2,658)	180
Asia ex Japan Equity	(762)	(1,665)	(4,490)	42
China Equity	(133)	(1,601)	(3,413)	23
Europe Large-Cap Blend Equity	100	(1,560)	(6,946)	91
Germany Large-Cap Equity	(251)	(1,553)	(2,695)	26
Japan Large-Cap Equity	(100)	(1,543)	(2,395)	31
Europe ex-UK Large-Cap Equity	65	(1,390)	(2,692)	37

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Allocation Funds Are Still Going Strong; Carmignac Leads the Pack

Allocation funds attracted EUR 2.50 billion in July, bringing year-to-date inflows in mixed asset funds to a handsome EUR 13.56 billion. The best-selling Morningstar allocation categories in July were GBP Moderate Allocation and GBP Flexible Allocation, but EUR Allocation funds also held their own. Global Emerging Markets Allocation funds also continued to profit from investors looking for a risk-controlled exposure to emerging markets.

Top 5 Allocation categories, sorted by YTD Estimated Net Flow €Mil

Estimated Net Flows €Mil	July 2012	YTD	12 Months	**Net Assets** €Bil
GBP Flexible Allocation	519	3,937	6,373	31
EUR Flexible Allocation	477	2,950	1,572	74
EUR Cautious Allocation	441	2,061	(1,152)	88
GBP Moderate Allocation	393	1,433	2,161	22
Global Emerging Markets Allocation	290	1,312	1,587	4

Drilling deeper, our data shows that Carmignac was the main beneficiary of the continuing shift into allocation funds, gathering EUR 829 million in July and bringing the year-to-date total to EUR 2.87 billion. Although the flagship Carmignac Patrimoine still took in the largest chunk of Carmignac inflows, the French fund house has arguably found a successful runner-up in the new Carmignac Emerging Patrimoine, which has gathered close to EUR 1 billion this year.

Schroders, M&G, and Henderson also saw healthy inflows into allocation funds, while allocation funds at Sarasin and BNP Paribas were out of favour in July, losing EUR 288 million and EUR 178 million, respectively.

Top and bottom branding names for Allocation funds, sorted by July Estimated Net Flow €Mil

Estimated Net Flows €Mil	July 2012	YTD	12 Months	**Net Assets** €Bil
Top 5				
Carmignac	829	2,869	2,782	30
Schroders	658	759	963	3
M&G	466	3,068	3,713	14
Baillie Gifford	308	1,377	1,526	3
Mercer Global Investments	293	1,100	1,278	1
Bottom 5				
Eurizon Capital	(141)	(425)	(689)	5
Fideuram	(142)	(632)	(1,176)	4
Azimut	(152)	(676)	(1,474)	4
BNP Paribas	(178)	(1,302)	(2,321)	15
Sarasin	(288)	(251)	(323)	3

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Outflows from Guaranteed Funds Remain High

Outflows continued out of alternative funds, albeit at a slower pace than in the preceding three months, losing net EUR 460 million. The main driver behind the outflows were guaranteed funds, which continued to erode, seeing redemptions of EUR 978 million in July. This brought the total net outflows from guaranteed funds to EUR 4.56 billion year to date, most of which can be attributed to outflows from European cross-border funds and Spanish guaranteed products.

Flows by Firm: Top 5 Inflows and Bottom 5 Outflows

PIMCO Dominates Long-Term Fund Inflows

Looking at the top-selling fund providers across Europe reveals an unsurprising pattern in a bond-oriented environment: PIMCO led the rankings with inflows of EUR 3.87 billion. The PIMCO GIS Total Return Bond Fund, a clone of the US-domiciled Bill Gross flagship, contributed a great deal, grabbing net inflows of EUR 1.28 billion.

Runners-up were the French firm Crédit Mutuel, which surprisingly managed to continue to attract high inflows into its euro money market funds, the main attributer to its July inflows. The sales success of Credit Suisse in July hinged on one fund, the aforementioned CSIF World ex CH Index Pension Fund, which saw inflows of EUR 2.38 billion.

Top 5 providers, sorted by July Net Estimated Inflows €Mil

Estimated Net Flows €Mil	July 2012	YTD	12 Months	**Net Assets** €Bil
PIMCO	3,873	16,574	16,961	88
Crédit Mutuel	2,448	7,435	2,096	53
Deutsche Global Liquidity Series	2,106	4,934	6,193	35
Morgan Stanley	1,956	6,885	7,875	30
BlackRock	1,594	5,826	4,505	176

Largest Outflows by Firm: Money Market Woes hit JPM, Others

On the other hand, JP Morgan continued to suffer high outflows from euro and US dollar money market funds. With redemptions of EUR 3.36 billion, JP Morgan saw the highest outflows of all fund providers in July, followed by Amundi. High outflows out of money market funds were one of the main reasons for the lowly rankings.

Bottom 5 providers, sorted by July Net Estimated Outflows €Mil

Estimated Net Flows €Mil	July 2012	YTD	12 Months	**Net Assets** €Bil
JPMorgan	(3,356)	(15,980)	5,842	196
Amundi	(2,499)	9,998	(4,475)	167
Legg Mason	(1,611)	(2,232)	(2,578)	9
ING	(1,552)	(1,539)	(1,884)	41
Franklin Templeton	(1,389)	(343)	(4,255)	113

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Top 10 Long-Term Funds by Assets
Largest Long-Term Funds: Templeton Flagship Fund Continues to Bleed in July

Among the largest long-term funds registered for sale in Europe, the July data does not signal a change in the big picture, but it does allow a few interesting insights. The largest fund, Templeton Global Bond, continued to shed assets, losing a net EUR 546 million in July, its highest outflow since December 2011. This brings redemptions to EUR 1,99 billion year to date. The accelerating outflows in July came despite performance picking up this year. The Silver-rated fund, managed by Michael Hasenstab, has easily outpaced its Morningstar peer group and index this year after a sharp underperformance last year and, to a lesser extent, in 2010. The asset flows pattern at this fund illustrates the danger of market-timing. The bulk of the fund´s EUR 33 billion assets flooded into the fund in 2010 and the first half of 2011. Since August 2011, the fund has continuously lost assets. Morningstar calculates the typical investor´s returns in a given fund, a method that takes into consideration the timing of flows. By this calculation, the typical investor in Templeton Global Bond Fund saw a return of 11.24% in 2010 and -4.2% in 2011, substantially less than the total return of 19.43% and 0.1%, respectively.

The second Templeton bond flagship fund, Bronze-rated EUR 19.9 billion Templeton Global Total Return, has fared much better, gathering EUR 947 million this year. July, however, saw outflows of EUR 58 million for this fund, which is also run by Hasenstab.

Most of the other large long-term funds saw inflows in July with the AB Global High Yield Portfolio drawing in EUR 252 million, Standard Life Global Absolute Return seeing inflows of EUR 324 million, and M&G Optimal Income Fund gathering EUR 476 million.

A net redemption of EUR 167 million was suffered by IP High Income (a UK Equity-Income fund), and BGF Global Allocation Fund lost a net EUR 134 million in July. Deka-Immobilien Europa, a German property fund, and IP Income fund (another UK Equity-Income offering) were flat in July.

10 largest long-term funds, sorted by net assets €Mil

Estimated Net Flows €Mil	July 2012	YTD	12 Months	**Net Assets** €Bil
Templeton Glb Bond	(546)	(1,999)	(3,435)	33,504
Carmignac Patrimoine	553	1,715	1,432	28,096
PIMCO GIS Total Return Bond Fund	1,281	4,100	4,164	22,247
Templeton Global Total Return	(58)	913	947	19,869
AB Global High Yield Portfolio	252	1,690	(108)	16,911
Standard Life Global Abs Ret Strat	324	2,838	3,681	15,578
PIMCO GIS Global Investment Grade Credit	741	4,065	5,251	15,297
IP High Income	(167)	(179)	(164)	15,178
Templeton Asian Growth	(246)	544	369	12,907
Deka-ImmobilienEuropa	8	180	280	11,878

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