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Data through
May 31

Morningstar Direct℠ Asset Flows Commentary: Europe

Investors Stay Risk-Averse in May, but No Panic Evident Pending Brexit Poll

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Although stock markets ticked nervously upward in May, investors continued to pull their money out of open-end equity funds domiciled in Europe. It was the fifth month in a row of net outflows from the asset class. While equity funds' redemptions of EUR 7.1 billion were above the level witnessed in the previous month, the outflows fell short of outflows seen in March this year and August 2015 when EUR 13.1 billion walked out of the door. When seen in the context of the rising uncertainty surrounding the possible European Union exit-decision of UK voters in the "Brexit" referendum on June 23, this can be interpreted as investors were undecided in May regarding the dangers of a possible Brexit.

Flows by Global Broad Category Group (Open-End Funds)

	Net Assets (EUR Bil)	Market Share %	Estimated Net Flow (EUR Mil)			Org Growth Rate %
Name	**5-2016**	**5-2016**	**1-Mo**	**YTD**	**1-Yr**	**1-Yr**
Allocation	1,071	14.09	4,200	6,766	51,087	4.75
Alternative	394	5.18	3,278	21,078	66,769	18.51
Commodities	15	0.20	269	732	1,511	9.09
Convertibles	66	0.86	(717)	(5,475)	(6,304)	(8.32)
Equity	2,620	34.45	(7,052)	(43,131)	(15,302)	(0.53)
Fixed Income	2,082	27.37	5,367	14,333	(38,718)	(1.81)
Property	137	1.80	2,333	5,495	9,951	8.16
Miscellaneous	107	1.40	(307)	1,187	(2,286)	(1.84)
Unclassified	5	0.07	(11)	(76)	38	0.65
All Long Term	6,496	85.42	7,361	909	66,746	0.98
Money Market	1,109	14.58	16,657	24,632	68,536	6.48
Total	**7,605**	**100.00**	**24,018**	**25,541**	**135,282**	

Source: Morningstar Direct.

This somewhat hesitant posture was also reflected by inflows into money market funds, the typical products of choice during risk-off periods. While inflows into those short-term vehicles stood at a solid EUR 16.7 billion in May, this is far from spectacular and falls well short of inflows seen during the fall of 2015, which spiked at EUR 36.1 billion in November.

The same picture—weariness but not panic—arises also from net flows out of Morningstar Categories focusing on UK equities and sterling-denominated bonds. While flows were negative for all six sterling-denominated equity categories in May, the combined outflows of EUR 1.2 billion were below April levels, and much less significant than the outflows that the UK equity fund categories displayed in the first half of 2015 (see Exhibit 1 below).

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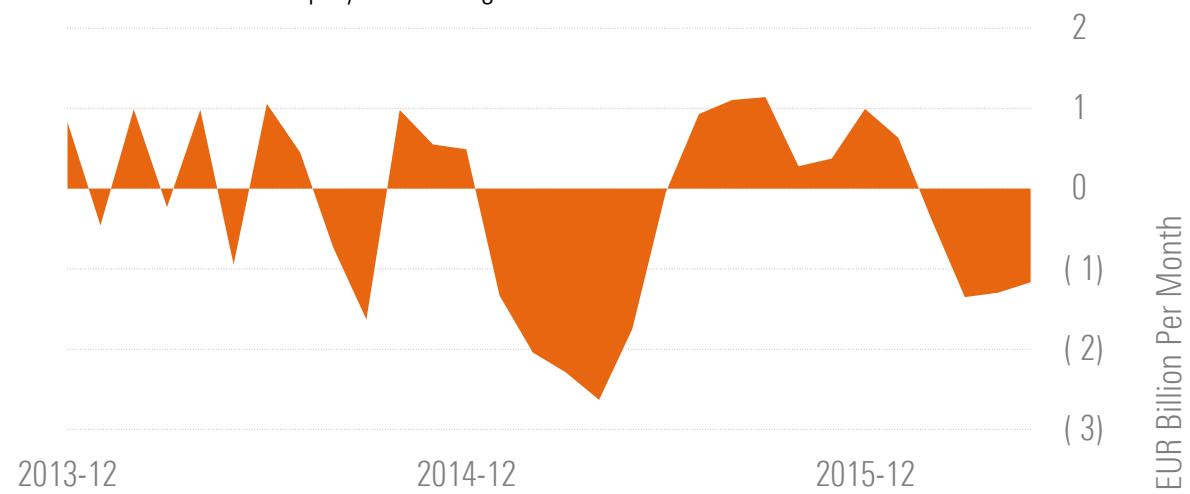
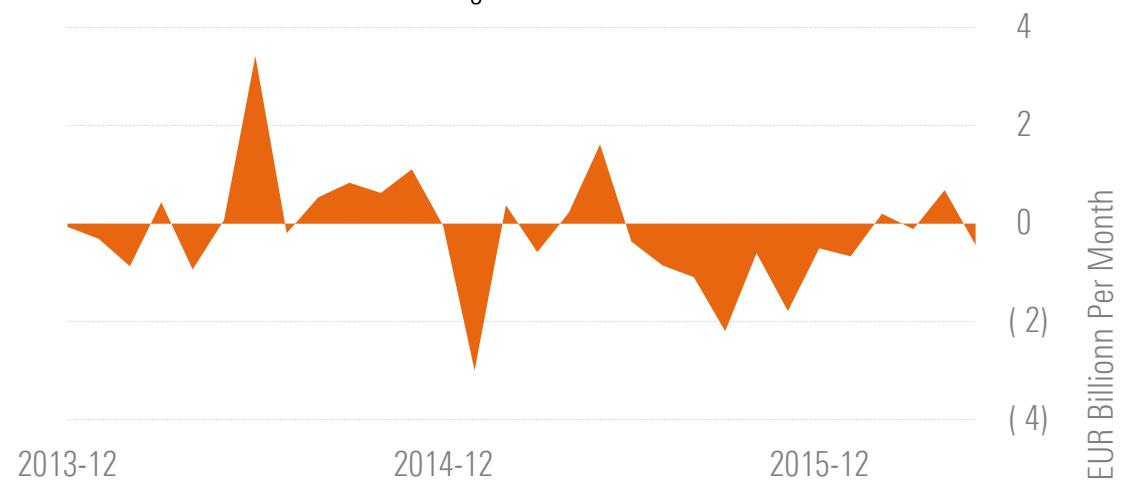
Exhibit 1 Net Flows: UK Equity Fund Categories 2013-16



Source: Morningstar Direct.

Sterling-denominated bond categories' increasing outflows in May were yet the clearest indication of more UK-specific concerns that European investors might have had. The combined outflows of the sterling-denominated government, corporate, diversified, high-yield, and inflation-linked bond categories amounted to EUR 457 million in May compared with net inflows of EUR 686 million in April. However, again, these outflows fell well short of the outflows observed in the wake of the summer correction in 2015 (see Exhibit 2 below).

Exhibit 2 Net Flows: UK Bond Fund Categories 2013-16



Source: Morningstar Direct.

In all, our outflow data for the UK equity and fixed-income categories do not support the widely cited stampede out of UK equities and sterling-denominated bonds in the run-up to the Brexit poll. This complacency arguably explains to some degree the extreme market reactions after the pro-Brexit vote materialized on June 23. Simply put: Investors may have had some concerns, but a reading of our asset-flow data begs the conclusion that they apparently did not expect Brexit to happen.

Fixed-income funds were also sought last month, with the asset class garnering total inflows of net EUR 5.4 billion. Most of these inflows arrived into the euro and US-dollar flexible- and corporate-bond categories. Allocation funds saw a return to strength in May, taking in EUR 4.2 billion, the highest level witnessed in a month since November 2015. Alternative funds also enjoyed solid inflows of EUR 3.3 billion.

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Fund-Level Categories

Funds in the EUR moderate allocation – global category garnered the most new assets in May on the back of continuous high inflows into Nordea-1 Stable Return, which succeeded in weathering the volatility that has mauled equity markets since August 2015. In the trailing 12-month period, the Nordea fund took in net new assets of EUR 5.2 billion, which amounted to a stunning organic growth rate of 84%. US-dollar short-term diversified bond funds witnessed their highest inflows in a one-month period on record, primarily because of inflows into JPMorgan Managed Reserves, which took in a net EUR 1.2 billion.

Alternative multistrategy funds were also among the top asset gatherers, although assets flowed at a much more tepid pace than during the past 18 months. The main beneficiaries were target-return strategies on offer by Aviva and Invesco.

Euro flexible- and corporate-bond funds arguably continued to benefit from the expansion of the European Central Bank's bond-buying program, which has sparked a buying-spree from investors who are hoping for ever-narrowing spreads. Inflows into emerging-markets equity funds were carried by the demand for index funds, with BlackRock and Vanguard sharing most of the spoils.

Fund-Level Categories: Largest Inflows (Excluding Money Market Funds)

	Net Assets (EUR Bil)	Estimated Net Flow (EUR Mil)			Org Growth Rate %
Name	5-2016	1-Mo	YTD	1 Yr	1 Yr
EUR Moderate AllocationGlobal	155	2,227	10,153	18,647	12.88
USD Diversified Bond—Short Term	16	1,740	36	(382)	(2.35)
Alt—Multistrategy	154	1,492	10,185	31,867	24.63
EUR Flexible Bond	39	1,430	350	1,218	3.58
EUR Corporate Bond	127	1,355	2,387	(4,859)	(3.72)
Property—Direct UK	41	1,071	795	2,682	8.20
Global Emerging Markets Equity	162	900	3,874	361	0.18
EUR Diversified Bond—Short Term	81	831	1,552	(1,232)	(1.52)
Property—Direct Global	17	796	1,253	1,693	10.66
Global Large-Cap Blend Equity	366	743	558	8,692	2.32

Source: Morningstar Direct.

After a one-month respite, flows wandered back into negative terrain for US-dollar high-yield funds, with AXA WF US High Yield Bonds suffering redemptions of EUR 980 million, followed by UBS (Lux) BS USD High Yield and Fidelity Funds US High Yield, which suffered outflows of EUR 500 million and EUR 460 million, respectively. Despite narrowing spreads and positive currency effects, euro investors remain wary of investments in this category, which suffered under widening spreads in the fourth quarter of 2015 and the first quarter of 2016.

Outflows from Europe large-cap blend equity funds accelerated in May and were in the red for the fourth consecutive month, with BGF European and Invesco Pan European Equity suffering the most. Noticeably, active funds in the category took all of the pain while index funds posted slightly positive inflows. It was also more of the same for the Japan large-cap and US large-cap growth categories, which remain out of favor this year. Investors' appetite for global emerging-markets bond funds denominated in local currencies turned sour in May after two months of inflows.

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Fund-Level Categories: Largest Outflows (Excluding Money Market Funds)

Name	Net Assets (EUR Bil) 5-2016	Estimated Net Flow (EUR Mil) 1-Mo	YTD	1 Yr	Org Growth Rate % 1 Yr
USD High-Yield Bond	70	(2,467)	(2,953)	(10,629)	(12.48)
Europe Large-Cap Blend Equity	170	(2,108)	(5,265)	5,644	3.17
Other Bond	103	(1,197)	(834)	4,240	4.22
Global Emerging Markets Bond—Local Currency	50	(1,124)	970	(4,103)	(7.00)
Japan Large-Cap Equity	74	(945)	(3,828)	1,515	1.83
US Large-Cap Growth Equity	41	(900)	(3,056)	(2,780)	(6.12)
Global Bond	133	(830)	(4,326)	(13,229)	(8.65)
USD Moderate Allocation	59	(657)	(2,831)	(1,425)	(2.21)
China Equity	22	(625)	(2,667)	(4,771)	(13.12)
Global High-Yield Bond	79	(566)	(929)	(2,621)	(3.09)

Source: Morningstar Direct.

Fund Providers

J.P. Morgan and Nordea topped the list of asset-gatherers in May, thanks to inflows into their behemoth funds Nordea-1 Stable Return and JPMorgan Managed Reserves.

UBI, a Luxembourg subsidiary of Italian Unione di Banche Italiane, benefited from inflows into euro flexible-bond funds and, to a much lesser degree, euro cautious-allocation funds. Germany's Union Investment saw hefty inflows into its property and allocation funds. BNP Paribas bucked the trend and registered sizable inflows in its US and Japan large-cap equity index funds.

PIMCO continued to see inflows in its GIS Income and GIS Global Investment Grade funds, while inflows into PIMCO GIS Total Return Bond were only slightly negative, reflecting this year's slowing down of outflows, which have been negative every month since January 2013.

Fund Providers: Largest Inflows (Excluding Money Market Funds)

Name	Net Assets (EUR Bil) 5-2016	Estimated Net Flow (EUR Mil) 1-Mo	YTD	1 Yr	Org Growth Rate % 1 Yr
J.P. Morgan	140	2,143	495	1,694	1.16
Nordea	120	1,828	9,272	14,728	13.27
UBI	25	1,556	4,013	4,731	22.81
Union Investment	128	1,527	3,089	8,708	7.02
Standard Life	104	1,362	(355)	4,405	4.23
BNP Paribas	104	1,095	2,764	2,348	2.24
PIMCO	84	1,016	1,826	1,245	1.48
Aviva	58	1,001	5,761	8,130	15.28
Amundi	103	952	2,419	(929)	(0.87)
Robeco	46	924	2,217	3,037	6.67

Source: Morningstar Direct.

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Franklin Templeton continued to feel the pain for yet another month, suffering outflows of EUR 3.0 billion in May. There were widespread outflows from myriad funds and categories at the firm, with Templeton Global Total Return and Templeton Global Bond accounting for EUR 930 million of the month's total outflows.

Fidelity and HSBC witnessed outflows primarily out of its bond offerings, while BlackRock's actively managed equity funds were the main share-redemption victims. In money terms, Templeton has suffered the most this year, shedding EUR 11.8 billion year to date. On a relative basis, Stone Harbor has lost more than 20% of its assets in the beginning of 2016 due to redemptions out of its emerging-markets bond funds.

Fund Providers: Largest Outflows (Excluding Money Market Funds)

	Net Assets (EUR Bil)	Estimated Net Flow (EUR Mil)			Org Growth Rate %
Name	5-2016	1-Mo	YTD	1 Yr	1 Yr
Franklin Templeton	102	(3,025)	(11,756)	(26,330)	(18.14)
Fidelity	133	(1,159)	(2,254)	686	0.48
BlackRock	252	(1,017)	(1,614)	11,149	4.31
HSBC	54	(1,010)	(585)	(1,974)	(3.24)
UBS	203	(964)	4,873	5,227	2.49
Stone Harbor Investment Partners	9	(957)	(2,199)	(3,352)	(24.75)
AXA	86	(939)	(3,400)	(2,293)	(2.47)
Goldman Sachs	43	(859)	(3,212)	(2,933)	(5.94)
Danske Invest	46	(730)	(2,321)	(2,563)	(5.00)
Invesco	115	(711)	(2,642)	(726)	(0.58)

Source: Morningstar Direct

The Largest Open-End Funds

Successful funds with efficient distribution channels tend to become bigger and bigger as more and more investors are intrigued by the success story. Big is beautiful in asset-gathering terms. The same dynamic, however, holds true when the going gets tough. In that case, big funds tend to lose big, irrespective of the qualities that the funds have displayed in the past. This phenomenon is illustrated by the not-so-recent outflows out of a wide array of behemoth funds. Out of the largest European open-end funds, Carmignac Patrimoine, M&G Optimal Income, and the above-mentioned Templeton bond funds have suffered heavily in the past months and years. While the latter two funds have, in euro terms, delivered positive returns for the past two months, this has not convinced investors, as recent gains are still dwarfed by the negative performance over the trailing 12 months. All of the above funds hold positive Morningstar Analyst Ratings, which indicate that our manager research team thinks highly of the managers of those strategies.

Redemptions out of the two UK- and Luxemburg-domiciled Standard Life Investments's Global Absolute Return Strategies funds, on the other hand, are a more recent phenomenon.

Turning to the few winners among Europe´s largest open-end funds, inflows into the DWS Top Dividende, a global equity income fund carrying a Morningstar Analyst Rating of Silver, thrived on the fund's substantial outperformance. JPMorgan Global Income Fund also saw, albeit small, inflows in May.

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10 Largest Long-Term Funds by Net Assets

	Net Assets (EUR Bil)	Estimated Net Flow (EUR Mil)			Org Growth Rate %
Name	**5-2016**	**1-Mo**	**YTD**	**1 Yr**	**1 Yr**
SLI Global Absolute Return Strat (UK)	35.103	(75)	561	2,287	6.33
AP7 Aktiefond	28.067	23	18	1,170	3.94
Carmignac Patrimoine	23.906	(188)	(825)	(1,845)	(6.50)
Templeton Global Bond	20.425	(423)	(2,606)	(6,901)	(22.64)
Templeton Global Total Return	19.569	(509)	(2,929)	(6,360)	(22.10)
M&G Optimal Income	19.066	(225)	(3,229)	(12,182)	(38.47)
BGF Global Allocation	18.646	(339)	(1,551)	(1,319)	(6.07)
DWS Top Dividende	16.172	242	1,251	1,994	13.89
JPM Global Income	15.458	217	(223)	1,837	12.81
SLI Global Absolute Return Strat (Lux)	15.447	(59)	(302)	3,209	25.25

Source: Morningstar Direct

To learn more about Morningstar Direct Asset Flows, visit us at this link.

Data Notes

The figures in this report were compiled on June 24, 2016. Approximately 27,000 of 31,000 funds that Morningstar tracks from over 1,700 fund companies across over 30 domiciles are included. Organic growth rate is flows as a percentage of beginning assets.

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