

## Morningstar Direct™ Asset Flows Commentary: Europe

### Inflows turn positive in July amid investors' appetite for bonds and equities.

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#### Key Takeaways

- ▶ Europe-domiciled long-term funds experienced EUR 4.9 billion of net inflows in July 2023.
- ▶ Fixed-income funds topped the list of net inflows, as investors poured EUR 15.5 billion into bond strategies.
- ▶ Equity funds' flows turned positive again in July, with EUR 2.3 billion of net inflows, after net redemptions of EUR 14.2 billion between April and June. But actively managed equity fund strategies continued to bleed in July.
- ▶ Allocation funds were the biggest detractor in July, with EUR 7.2 billion of net outflows.
- ▶ Alternative funds also continued to bleed assets, with EUR 2.5 billion of net outflows.
- ▶ Outflows from sustainable funds slowed significantly month on month. Long-term funds classified as Article 8 had net outflows of EUR 2.9 billion in July, compared with a EUR 15.5 billion outflow in June; passive strategies even recorded net inflows. Article 9 funds showed net inflows of EUR 308 million after finishing June in the red.
- ▶ Like in the previous two months, global large-cap blend equity was the top-selling Morningstar Category in July. This was followed by US large-cap blend equity and fixed-term bonds.
- ▶ Once again, iShares topped the list of asset-gatherers, as three of the asset manager's exchange-traded funds ranked in the top 10 in July.
- ▶ Santander RF Ahorro topped the list of inflows among funds. BlackRock ACS UK Equity Tracker recorded the largest outflows, topped only by Abrdn (Lothian) UK Government Bond Trust, which was liquidated.
- ▶ Assets in long-term funds domiciled in Europe increased to EUR 11.146 trillion at the end of July, up from EUR 10.951 trillion as of 30 June.

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

Name	Net Assets	Market Share	Estimated Net Flow (EUR Mil)			Org Growth
	(EUR Bil)	(%)	1 Mo	YTD	1 Year	Rate (%)
	July 2023	July 2023				1 Year
Allocation	1,634	12.83	(7,217)	(27,678)	(45,153)	(2.65)
Alternative	164	1.29	(2,536)	(14,615)	(23,572)	(10.83)
Commodities	126	0.99	(1,947)	(4,183)	(12,247)	(8.70)
Convertibles	43	0.34	(637)	(4,645)	(7,316)	(14.46)
Equity	5,698	44.77	2,334	19,929	(24,378)	(0.43)
Fixed Income	3,182	25.00	15,560	115,299	118,271	3.63
Property	187	1.47	(576)	(2,425)	(2,303)	(1.16)
Miscellaneous	92	0.72	(515)	(56)	3,214	3.27
Unclassified	20	0.16	415	1,256	1,311	63.60
<b>All Long-Term</b>	<b>11,146</b>	<b>87.56</b>	<b>4,881</b>	<b>82,882</b>	<b>7,826</b>	
Money Market	1,583	12.44	13,900	41,343	204,299	14.23
<b>Total</b>	<b>12,728</b>	<b>100</b>	<b>18,781</b>	<b>124,225</b>	<b>212,125</b>	

Source: Morningstar Direct.

Net flows into Europe-domiciled long-term funds turned positive in July at EUR 4.9 billion, supported by stable inflows into fixed-income strategies and a renewed interest in equity funds, which had suffered outflows for the prior three months. July was a largely positive month for global equities amid hopes that the US Federal Reserve’s rate-hike cycle might have peaked. European markets gained nearly 1.6% in July, according to the Morningstar Europe NR Index.

Equity funds experienced EUR 2.3 billion of net inflows last month, after net redemptions of EUR 14.2 billion between April and June. While active strategies continued to experience net outflows, inflows into passive products turned positive following outflows in June. They attracted EUR 10.9 billion. Global large-cap blend equity and US large-cap blend equity were the top categories in terms of net inflows in July.

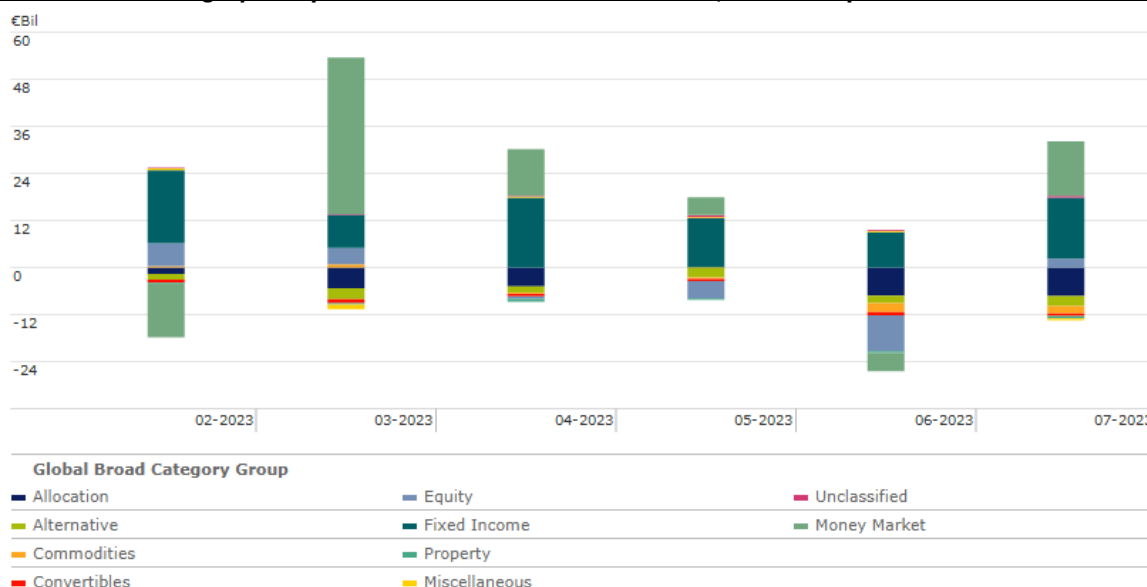
Bond funds marked their ninth consecutive positive month in terms of flows, with almost EUR 15.5 billion of net subscriptions. Net inflows since November 2022 total nearly EUR 155 billion. Last month, the majority of these inflows targeted funds exposed to fixed-term bonds (the portfolios of these funds carry bonds whose expiry date is aligned with the fund's target maturity date, and all the bonds are held to maturity), euro ultra short-term bonds, and government bonds held in US dollars.

Allocation funds were the biggest detractor in July, with another EUR 7.2 billion of net outflows, following redemptions of EUR 7.5 billion the month before. This brings total net withdrawals since June 2022, when redemptions began, to more than EUR 54 billion. Outflows have now continued for four consecutive quarters, matching the worst streak that the asset class posted back in 2009. As Morningstar’s Matias Möttölä and Thomas De Fauw concluded in their recent research on multi-asset funds, these strategies had difficulties beating their benchmarks, and the potential of such funds is severely limited by their cost level.

Commodities fund net outflows totaled EUR 1.9 billion, nearly matching the EUR 2.3 billion of net redemptions in June.

Assets in long-term funds domiciled in Europe increased to EUR 11.146 trillion at the end of July, up from EUR 10.951 trillion as of 30 June.

### **Global Broad Category Group Net Flows in the Past Six Months (ETFs and Open-End Funds, EUR Billion)**



Source: Morningstar Direct.

## Active Versus Passive

Last month was a positive one for passive strategies as equities recorded EUR 10.9 billion of net inflows, after a negative month of June. Passive commodities strategies were the only major category that recorded an outflow, while their actively managed counterparts recorded a small inflow. Fixed-income funds were the other actively managed category that attracted inflows.

### Flows by the Main Global Broad Category Groups: Active Versus Passive

Estimated Net Flows (EUR Mil)	Active			Passive		
	1 Mo	YTD	Assets EUR (Bil)	1 Mo	YTD	Assets EUR (Bil)
Allocation	-7,250	-27,942	1,629	34	264	4
Alternative	-2,646	-15,730	161	110	1,116	3
Commodities	68	-863	21	-2,015	-3,320	105
Equity	-8,547	-41,174	3,668	10,881	61,104	2,030
Fixed Income	4,298	57,954	2,513	11,261	57,345	668

Source: Morningstar Direct. Data in euros as of 31 July 2023.

## The Sustainable-Investing Wave

Outflows from sustainable funds slowed significantly from the previous month. Funds falling within the scope of Article 8 of the Sustainable Finance Disclosure Regulation had net outflows of EUR 2.9 billion in July, compared with EUR 15.5 billion in June, but passive strategies recorded net inflows. Article 9 funds meanwhile recorded positive net flows, after finishing June in the red. These “dark green” products attracted EUR 308 million in net inflows.

From an organic growth perspective, Article 9 funds showed a 5.92% organic growth rate over the past year. Products falling in the Article 8 group saw 0.91% organic growth over the same period, a lesser result compared with nonsustainable funds (according to the SFDR). Over the past 12 months, funds not considered to be Article 8 or Article 9 had average organic growth rates ranging from 0.78% to 1.48%.

### Flows by EU SFDR Fund Type: Active Versus Passive

Estimated Net Flows (EUR Mil)	Active				Passive			
	1 Mo	YTD	Assets EUR (Bil)	No of Funds	1 Mo	YTD	Assets EUR (Bil)	No of Funds
Article 8	(6,278)	(15,356)	4,288	9,178	3,343	28,343	555	872
Article 9	(41)	7,391	280	838	349	1,735	36	57
Not Stated	(1,951)	(14,400)	2,469	10,899	14,488	65,548	1,441	1,589
N/A	(6,978)	(10,586)	1,270	4,585	1,893	20,498	791	919

Source: Morningstar Direct. Data in euros as of 31 July 2023. Money market funds excluded.

Note: Based on SFDR data collected from prospectuses on around 98% of open-end funds and exchange-traded funds available for sale in the European Union. Historical flows and assets indicated in asset flows are based on EU SFDR fund types at the time of writing, even though the information didn't exist or apply to the funds prior to this time.

## EU SFDR Fund Type: Monthly Organic Growth Rate in the Past Six Months (ETFs and Open-End Funds)



Source: Morningstar Direct.

## Morningstar Categories: The Leaders

Investors continued to favor the same asset classes as the months before. Like in May and June, global large-cap blend equity was the top-selling category in July. This was followed by the US large-cap blend equity and fixed-term bond categories, which also held positions two and three in June. Amid the unabated interest in fixed income, investors also poured euros into the EUR ultra short-term bond and USD government-bond categories.

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

Name	Net Assets	Estimated Net Flow (EUR Mil)			Org Growth
	(EUR Bil)	July 2023	1 Mo	YTD	1 Year
Global Large-Cap Blend Equity	1,172	8,956	48,792	68,947	6.48
US Large-Cap Blend Equity	649	3,286	8,215	16,421	2.69
Fixed Term Bond	122	3,185	34,376	53,048	79.41
EUR Ultra Short-Term Bond	90	3,048	(5,734)	(19,303)	(17.65)
USD Government Bond	85	2,141	8,967	14,476	19.01

Source: Morningstar Direct.

## Morningstar Categories: The Laggards

Outflows targeted asset classes exposed to the pound sterling as Britain's economic chills weighed on markets, though the outflow from the GBP government bond category was tilted by the liquidation of two Abrdn funds. Meanwhile, allocation funds also were unpopular in July.

## Flows by Morningstar Category: The Laggards (Long-Term Funds, Active and Passive)

Name	Net Assets	Estimated Net Flow (EUR Mil)			Org Growth
	(EUR Bil)	July 2023	1 Mo	YTD	1 Year
GBP Government Bond	52	(2,011)	807	3,200	5.55
EUR Moderate Allocation - Global	251	(1,879)	(3,132)	188	0.07
UK Large-Cap Equity	171	(1,725)	(12,696)	(19,364)	(10.14)
GBP Flexible Allocation	55	(1,597)	(4,192)	(6,945)	(10.52)
Other Allocation	89	(1,373)	(6,903)	(17,060)	(13.55)

Source: Morningstar Direct.

## Fund Providers: The Leaders

Once again, iShares topped the list of asset-gatherers, as three of the asset manager's ETFs ranked in the top 10 in July. Vanguard attracted EUR 2.7 billion in July. Santander ranked third as investors channeled funds into Santander RF Ahorro, a EUR ultra short-term bond strategy that gathered EUR 2.0 billion of net inflows in July.

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

Name	Net Assets			Org Growth	
	(EUR Bil)	Estimated Net Flow (EUR Mil)		Rate (%)	
	July 2023	1 Mo	YTD	1 Year	1 Year
iShares	679	7,541	41,355	58,274	9.48
Vanguard	282	2,709	17,228	20,626	7.94
Santander	64	2,272	4,269	3,860	6.15
Xtrackers	151	1,611	8,390	5,963	4.21
Royal London	75	1,567	(6,648)	(7,000)	(8.54)
Swisscanto	131	1,545	12,142	15,162	13.36
Mercer Global Investments	99	941	4,892	15,507	15.27
Pictet	145	938	(2,010)	(4,174)	(2.75)
Pimco	158	903	5,851	4,071	2.39
State Street	96	895	5,022	4,787	4.65

Source: Morningstar Direct.

## Fund Providers: The Laggards

Abrdn continued to see high outflows, and its assets under management shrink as it grapples with turbulent market conditions. The FTSE 100 company said in the presentation of its half-year results that net outflows jumped by 16% to GBP 4.4 billion in the first half of 2023. Assets under management and administration fell to GBP 495.7 billion from GBP 500.0 billion at the end of 2022. Apart from merging away its flagship global absolute return strategies fund, it also liquidated Abrdn (Lothian) UK Government Bond Trust and Abrdn (Lothian) Short Dated UK Government Bond Trust, which placed on the list of funds with the highest outflows.

Swiss asset managers UBS and Credit Suisse also continue to bleed amid the turbulent merger of the two houses that was initiated earlier this year.

## Fund Providers: Largest Outflows, Active and Passive (Excluding Money Market Funds)

Name	Net Assets			Org Growth	
	(EUR Bil)	Estimated Net Flow (EUR Mil)		Rate (%)	
	July 2023	1 Mo	YTD	1 Year	1 Year
Abrdn	87	(4,478)	(4,916)	(5,799)	(5.88)
BlackRock	542	(1,923)	7,277	(1,387)	(0.27)
Eurizon	155	(1,712)	(8,109)	(12,464)	(7.31)
Schroders	163	(1,568)	(1,704)	(2,879)	(1.70)
Robeco	75	(1,558)	(4,200)	(3,056)	(3.65)
Fidelity International	202	(1,535)	(3,871)	(4,954)	(2.39)
Amundi	436	(1,013)	173	(1,817)	(0.42)
UBS	328	(981)	(809)	(12,664)	(3.68)
Credit Suisse	155	(967)	(9,948)	(19,742)	(11.00)
BNP Paribas	153	(854)	(819)	(268)	(0.17)

Source: Morningstar Direct.

## Largest Inflows and Outflows by Fund

Santander RF Ahorro FI topped the list of inflows. Blackrock ACS UK equity tracker funds recorded the largest outflows, topped only by Abrdn (Lothian) UK Government Bond Trust, which was liquidated.

### Funds With the Largest Net Inflows

Name	Estimated Net Flow (EUR Mil)			Org Growth Rate (%)	Net Assets (EUR Mil)
	1 Mo	YTD	1 Year	1 Year	July 2023
Santander RF Ahorro	2,063	1,799	1,782	93.65	3,706
Pictet CH I-Wrld ex Swiss Eq Trckr ex SL Pension	1,152	1,152	1,152		1,163
iShares UK Gilts 0-5yr ETF	1,010	1,471	1,891	121.58	3,343
Invesco S&P 500 ETF	892	1,659	1,622	11.29	16,723
Blackrock ACS US Equity Tracker	854	2,148	2,562	14.08	21,965
ASI Obbligazionario Euro 06/2028	823	823	823		827
Xtrackers S&P 500 Equal Weight ETF	746	973	733	20.65	4,220
iShares Core MSCI World ETF	736	5,006	7,183	16.43	53,681
iShares \$ Corporate Bond ETF	733	1,668	1,734	24.79	7,793
Pimco GIS Income	720	6,571	8,134	14.29	59,892

Source: Morningstar Direct.

### Funds With the Largest Net Outflows

Name	Estimated Net Flow (EUR Mil)			Org Growth Rate (%)	Net Assets (EUR Mil)
	1 Mo	YTD	1 Year	1 Year	July 2023
Abrdn (Lothian) UK Government Bond Trust	(2,541)	(2,833)	(2,756)	(80.74)	
BlackRock ACS UK Equity Tracker	(1,499)	(1,969)	(2,574)	(20.12)	10,599
Abrdn (Lothian) Short Dated UK Gov Bond Trust	(1,277)	(1,459)	(1,525)	(93.07)	
BlackRock ACS 30:70 Global Eq Tracker	(899)	(997)	(1,104)	(48.81)	1,294
FundLogic Global Solutions S&P 500 Index Trust	(836)	(885)	(997)	(78.90)	312
Schroder Diversified Growth	(739)	(843)	(1,789)	(43.15)	2,097
Neuberger Berman Short Dur Emerging Mkt Dbt	(668)	(1,068)	(1,399)	(26.57)	3,729
Struct Inv GSQrtix Mod Strat Blmbrg Cmdty Idx	(605)	(973)	(1,124)	(40.16)	1,161
iShares Env & Low Carbon Tilt Real Est Idx (UK)	(566)	(276)	492	6.57	6,824
HSBC GIF Glb Credit FI Rate Fix Term Bd 2023-1	(487)	(512)	(566)	(91.36)	

Source: Morningstar Direct.

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**Data Notes**

The figures in this report were compiled on 18 August 2023 and reflect only the funds that had reported net assets by that date. Approximately 31,300 Europe-domiciled open-end funds and exchange-traded funds that Morningstar tracks from more than 2,900 fund companies across 36 domiciles were included. The organic growth rate is flows as a percentage of beginning assets.

**Methodology**

Morningstar computes flows using the approach that is standard in the industry: Estimated net flow is the change in assets not explained by the performance of the fund. Our method assumes that flows occur uniformly over the course of the month. Adjustments for mergers are performed automatically. When liquidated funds are included, the final assets of the fund are counted as outflows. Reinvested dividends are not counted as inflows. We use fund-level reinvestment rates to improve accuracy in this respect. We make ad hoc adjustments for unusual corporate actions, such as reverse share splits, and we overwrite our estimates with actual flows if managers are willing to provide the data to us.

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.