

Morningstar DirectSM Fund Flows Commentary

United Kingdom

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Data through 30 April 2019
U.K.-Domiciled Open-Ended Funds

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Key Takeaways

- ▶ The uncertainty around Brexit continues to influence UK-domiciled fund flows, with asset managers moving assets into Luxembourg vehicles and investors de-risking their portfolios.
- ▶ For the second consecutive month, fixed-income and money market funds had notable inflows as the continued desire for lower risk assets saw GBP 1.5 billion flow into the two asset classes combined.
- ▶ Alternative and equity funds also had flows similar to March and experienced further outflows. We saw GBP 4.4 billion flow out of these asset classes.

Fixed Income Continues to Be of Interest

Fixed-income and money market funds saw inflows in April, continuing the trend seen in March, as investors seek relative safety in an environment of persistent political uncertainty. With the possibility of a general election in the UK, European parliamentary elections, and increasingly protectionist policy by the US, investors have been unwilling to ride out higher volatility in riskier assets. Those two asset classes were not the only beneficiaries, with allocation funds seeing small inflows for the first time since August 2018. From a peak outflow of GBP 285 million in December 2018, outflows from property funds have been reducing, month-on-month, and finally had a modest GBP 37 million inflow in April.

Equity funds had the largest outflow in April, though GBP 2 billion of this was from Fundsmith Equity moving assets from its UK-domiciled vehicle into a dedicated Luxembourg vehicle and ending the feeder fund structure previously in operation. Notwithstanding, equity funds still saw GBP 1.5 billion in outflows. Alternative funds also continued the trend from previous months with another GBP 1 billion being withdrawn.

Exhibit 1 Global Broad Category Group Flows

Global Broad Category Group	Total Estimated Net Flows £Mil		
	Apr 19	1 Year	Assets (£Bil)
Allocation	103	-3,818	167
Alternative	-1,083	-14,901	51
Equity	-3,298	-19,930	667
Fixed Income	944	1,669	167
Property	37	-667	15
Other	105	129	2
All Long Term	-3,191	-37,519	1,069
Money Market	570	2,317	24

Source: Morningstar Direct. Data as of 30/04/2019.

Exhibit 1 shows that there are some signs that the worst may be over for all broad asset classes except equity and alternative, which are still hemorrhaging assets. The total outflow over the last year for long-term assets is GBP 37.5 billion. However, when putting that into context, 37.5 billion is only 3.5% of total assets in open-ended UK-domiciled funds (excluding money market).

Morningstar Categories

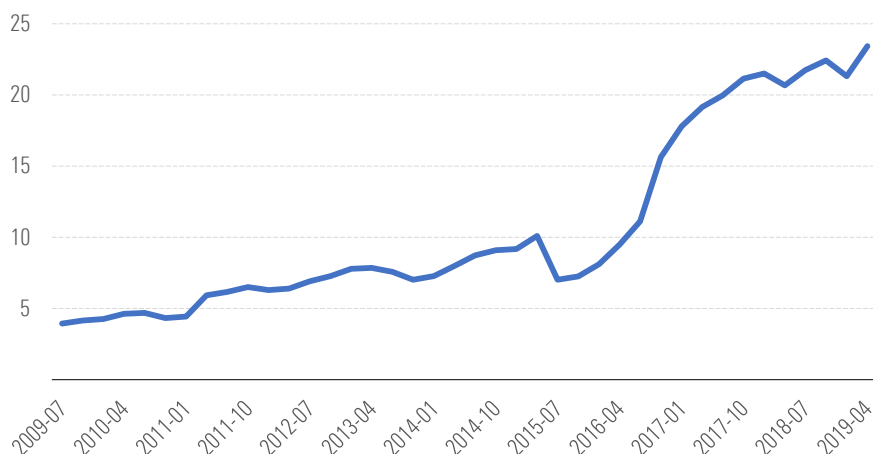
Short-term money market funds and government bonds were still popular for sterling investors in April, showing investors' lack of appetite for risk. Given the record levels of assets in money market funds (Exhibit 3), it will be interesting to see when and where the assets will be deployed. There has been significant growth in these funds since 2016.

Exhibit 2 Net Flows by Morningstar Category

Morningstar Categories	Total Estimated Net Flows £Mil		
	Apr 19	1 Year	Assets (£Bil)
Top			
GBP Money Market - Short Term	482	1,084	8
GBP Government Bond	422	995	11
Global Small-Cap Equity	353	898	2
Global Corporate Bond	185	574	3
US Large-Cap Blend Equity	151	-132	37
Bottom			
Global Large-Cap Blend Equity	-2,010	3,563	84
Alt - Multistrategy	-425	-4,657	18
Global Emerging Markets Equity	-249	-2,229	21
Japan Large-Cap Equity	-244	674	16
Europe ex-UK Large-Cap Equity	-242	-3,858	36

Source: Morningstar Direct. Data as of 30/04/2019.

Exhibit 3 Total Net Assets in Money Market Funds Since July 2009 (GBP Billions)



Source: Morningstar Direct. Data as of 30/04/2019.

The low-cost Schroder Sustainable Multi-Factor Equity fund more than doubled in size due to a large transfer of assets from the equivalent nonsustainable strategy that Schroder offers. This has helped the Global Small-Cap Equity Morningstar Category to feature highly in net flows by category this month. The US Large-Cap Blend Equity category had an inflow of GBP 151 million, mainly attributable to three index tracker funds by Vanguard, HSBC, and Fidelity.

Manager Changes

On the bottom end of the categories table we see flows that have been influenced by changes in management. Firstly, the Japan Large-Cap Equity category had sizable outflows. With the retirement of Andrew Rose from the Schroder Tokyo fund (now with a Morningstar Analyst Rating of Neutral, previously Gold), investors have looked elsewhere for exposure to Japan. The escalation of the trade war by the US also made Japanese equities less favorable and may have also contributed to outflows from this category.

Secondly, Jupiter European, also now rated Neutral, previously Gold, had a large outflow due to the announcement that Alexander Darwall will be stepping down from this fund. An outflow of GBP 113 million from this fund contributed to another month of outflows for the Europe ex-UK Large-Cap Equity category. This category, as well as the Alternative - Multistrategy category, were amongst the worst categories for fund flows over the last year.

Finally, Janus Henderson's head of global emerging market equities, Glen Finegan, and his team of four other managers all left their posts in April. As a result, Janus Henderson Emerging Markets Opportunities fund had outflows of GBP 142 million, one fifth of the fund's assets, affecting the Global Emerging Markets Equity category.

In all three cases, the announcements of manager departures were sufficient cause for concern that investors withdrew their money immediately.

Fund Families

The majority of fund families showed signs of momentum in their flows, with those who had long-term outflows continuing to do so in April, and those with previous inflows seeing further inflows. However, for the first time since late 2017 Fidelity saw a modest inflow of almost GBP 100 million. Fidelity has seen over GBP 3 billion flow out of its UK-domiciled funds over the last year.

Royal London's short-duration products remained popular in April and helped the firm maintain its high growth rate in assets. Its organic growth rate in assets, defined as growth in assets not attributable to investment performance or mergers, was 12.4% over the last year and was the highest of the top 10 fund families. The next closest was Baillie Gifford at 7.9%. These funds are popular in part due to the very low fees charged (as low as 0.06% KIID OCG for the cheapest share class in the Short Duration Gilts fund).

An outflow of GBP 601 million for Invesco was the highest of any top-10 fund family in April. Invesco High Income, European Equity, and Global Targeted Returns alone contributed to over half of this. These funds are in categories that we have seen become unpopular in recent months, and so the outflows Invesco are seeing from these types of funds are also being experienced by other asset managers.

Exhibit 4 Estimated Net Flows (GBP Mil) for the Top-10 Fund Families (for Their UK-domiciled Funds)

Fund Families	Total Estimated Net Flows £Mil		
	Apr 19	1 Year	Assets (£Bil)
BlackRock	350	824	116
Invesco	-601	-5,402	48
Aviva	-215	-985	44
Legal & General	119	607	44
Royal London	652	4,203	38
Fidelity	96	-3,112	38
Baillie Gifford	119	2,595	38
Schroders	-325	-1,928	35
M&G	-174	-12,004	34
BNY Mellon	-402	-5,107	30

Source: Morningstar Direct. Data as of 30/04/2019.

Exhibit 5 Estimated Net Flows (GBP Mil) for the Largest Fund Inflows and Outflows

Funds	Total Estimated Net Flows £Mil		
	Apr 19	1 Year	Assets (£Mil)
Top			
Federated Short-Term Sterling Prime Fund	427	1,552	4,419
Schroder Sustainable Multi-Factor Equity Fund	336	622	633
Merian Global Equity Fund	198	354	1,279
Royal London Short Duration Gilts Fund	188	451	856
Aberdeen Global Corporate Bond Traker Fund	182	618	2,298
Bottom			
Fundsmith Equity	-2,045	-267	17,031
SLI Global Absolute Return Strategies Fund	-560	-9,660	8,786
Schroder Global Multi-Factor Equity Fund	-334	-84	523
Newton Real Return Fund	-329	-3,037	6,767
BlackRock Market Advantage Fund	-191	-190	443

Source: Morningstar Direct. Data as of 30/04/2019.

Note: The figures in this report were compiled on 22 May, 2019, and reflect only the funds that had reported net assets by that date. The figures in both the commentary and the extended tables are survivorship-bias-free. This report includes only open-ended funds domiciled in the UK, but not funds of funds or feeder funds unless specifically stated. It does not include collective investment trusts or separate accounts.

Important methodology note: 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. Please click [here](#) for a full explanation of our methodology. ■■■

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