KB Associates
Offshore Fund Consulting

Funds, Flows & Facts

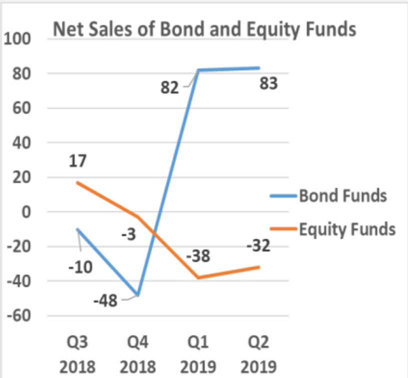
October 2019 (data: Q2 2019)
Quarterly update on Investment Funds
Volume 30

Fund Flow Digest

Net inflows of UCITS were €41bn in Q2 2019 compared to net inflows of €51bn in Q1 2019. UCITS attracted €92bn in new money in the first half of 2019 which is approx. 50% lower than inflows in the first half of 2018.

Twenty one countries registered net UCITS inflows in Q2 2019 with five countries recording net inflows above €1bn.

Q2 2019 was characterised by the continued bond rally and persisting outflows from equity funds as can be seen in the chart.



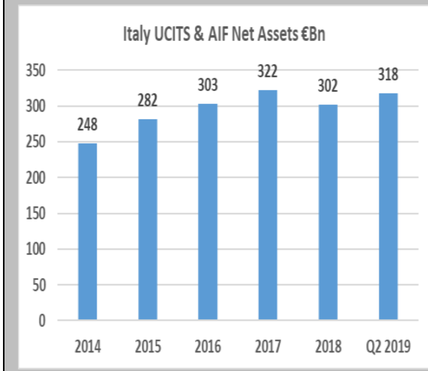
Slower growth and reduced inflationary risk increased the attractiveness of government bonds as safe haven assets. In addition, expectations that central banks would keep monetary policy loose and reduce rates further were factors in increased bond inflows.

The US-China trade war and Brexit resulted in global growth worries and stock market volatility. This led to a rise in investor risk aversion and a corresponding fall in the demand for equity funds. Europe's largest economy, Germany shrank in Q2 2019. Germany is an exporting powerhouse and demand for its products have reduced due to an economic slowdown in China and Brexit uncertainty in the UK.

Sources: EFAMA, Schroders, Broadridge, BBC.

Country Spotlight: Italy

The net assets of funds domiciled in Italy reached a peak in 2017, declined in 2018 and recovered up to the end of Q2 2019.



Although fund flows in the first two quarters were positive most recent data suggests that investors have pulled money from Italian funds. Italian investors, who traditionally prefer fixed income funds, have been put off by increased volatility in Italian government bonds due to political upheaval and a budget row with the EU.

The local asset management industry is large with six Italian asset managers in the Towers Watson 2018 top 200 rankings (Generali, Eurizon, Anima, Banco BPM, Monte dei Paschi di Siena and UBI Banca).

Distribution in Italy is dominated by the banks with financial advisor networks also having a substantial market share. The Italian market has been one of the best-selling markets for cross-border funds with financial advisors very active in these.

In a recent Morningstar global investor fee survey, Italian funds were shown to have some of the highest expense ratios in the 26 European countries examined. The report states that investors are routinely subject to initial charges and retrocessions.

Sources: Ignites, EFAMA, FT, Morningstar, Towers Watson.

The Quarter in Numbers

35 The number in €bn of UCITS ETF net sales - first half 2019.

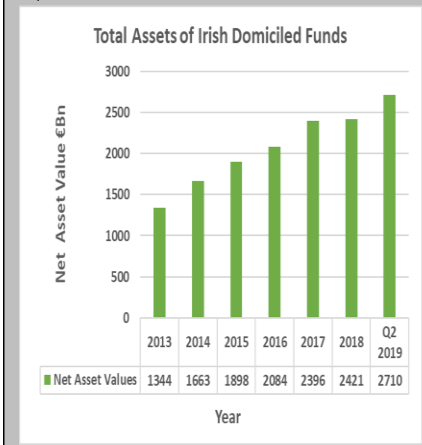
61.3% The % of European fund net assets represented by UCITS.

6,396 The number in €bn of AIF net assets at the end of Q2 2019.

17 The number of countries with net AIF inflows during Q1 2019.

Irish eyes…

Irish domiciled fund assets increased by 2.5% in Q2 2019. This compares favourably with the overall European fund asset Q2 increase of 1.7%.



In 2018, the CBI published guidance in which it confirmed that it would no longer require certain financial indices to be submitted for review prior to a UCITS fund investing in such indices. In place of this, the UCITS ManCo was required to provide certification that all indices invested in were UCITS compliant. In July 2019, the CBI made a welcome update to its guidance so that certification from a UCITS ManCo is only required:

1. Where the financial index is comprised of ineligible assets
2. Where on a "look through" basis, it would not be possible for a UCITS fund to invest directly in the index without transgressing the risk-spreading 5/10/40 rule.

Sources: Irish Funds, Dillon Eustace.