The Money in Motion Blog - EMEA – Q4 2016

Spence Johnson puts data and intelligence at the heart of successful institutional asset management businesses. This blog summarises themes identified by our Money in Motion dataset each quarter. Money in Motion collects data from over 100 Asset Managers globally and tracks over €7 trillion in Institutional flows.

Across the EMEA region in Q4 we saw very different flow patterns driven by local regulations, unique client group ambitions and continuing pressure from the macro-economic environment. Active Fundamental equities continued to suffer with €26.7bn of net outflows across all client groups in EMEA, largely driven by UK DB Pensions who accounted for €5bn of these outflows. This trend was however countered by German Institutions who put $1.1bn of net inflow into 3rd party asset managers. Institutions also pulled Passive Equity money. The €4bn of net outflows was led by UK DB Pensions (€1.3bn net outflows) but conversely countered by Dutch DB who allocated €1.8bn of net inflows, and UK DC who allocated €0.3bn of net inflows.

Net flows highlight an EMEA DB de-risking trend

Despite the nuances between different markets described above, the net-outflows we have tracked across all equity strategies in Q4 is systematic of the on-going de-risking trend amongst many large European pension markets. Equity strategies continue to suffer while fixed income and LDI strategies are the main beneficiaries.

EMEA DB pensions' net flows by market and asset class
€bn, Q1 2015 – Q4 2016

	Alternatives	Equity	Fixed Income	LDI	Money Market	Multi-Asset	Property	Solutions	Fund of Funds
United Kingdom	4.3	-25.2	14.2	103.0	1.4	3.1	0.5	-4.5	-0.3
Netherlands	0.5	-7.2	2.5	8.7	-1.0	0.5	1.2	9.4	0.0
Germany	0.1	0.2	4.5	1.2	0.5	0.6	4.4	0.2	-0.6
Switzerland	-0.2	2.0	6.5	0.0	4.0	0.2	0.1	-1.2	0.2
Nordics	0.6	-2.7	0.0	0.0	0.2	0.4	0.4	0.0	0.0
France	0.1	1.3	1.9	0.0	-0.6	-0.4	0.4	0.5	0.0
Italy	0.1	-2.1	1.8	0.0	0.6	0.1	0.0	0.7	0.0
Ireland	0.1	-2.6	-0.2	3.5	0.0	0.9	0.0	0.0	-0.1
Luxembourg	-0.3	-0.3	-0.3	3.3	0.7	0.0	0.0	-0.1	0.0
Belgium	0.0	0.1	0.2	-0.1	0.0	0.1	0.0	0.0	0.0
Iberia	0.0	0.3	0.1	0.0	0.3	0.1	0.0	0.1	0.0
Austria	0.1	0.2	0.3	0.0	0.0	0.1	-0.1	0.0	0.0

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Equity

Equities continue to see net outflows across most European DB markets. This has broadly been part of the de-risking story as DB markets mature. This is most acute in the UK.

The continued growth and dominance of fiduciary management, and the coinciding growth in the use of internal asset management teams is an important contributing factor to these net outflows in the Netherlands.

Fixed income

Fixed income has traditionally been the main beneficiary of the de-risking flows out of equities, offering greater liability-matching characteristics and more stable returns than equities.

Fixed income strategies continue to see large net inflows across most DB markets in Europe.

LDI, multi-asset and solutions

Appetite for investment management-designed 'solutions', including multi-asset DGFs and LDI, has been strongest in the UK, where there are large numbers of smaller pension funds seeking off-the-shelf solutions.

The large net outflows from 'solutions' in the UK comprise primarily out of net-outflows from segregated multi-asset solutions.

Property and alternatives

Some alternative asset classes can offer cashflow matching characteristics and higher yields than traditional asset classes. Therefore, flows into such strategies are partially driven by pension funds desire to match liabilities, as well as the search for yield.

The large net flows into property from German DB schemes can be explained by the search for yield, and also regulatory considerations affecting German funds.

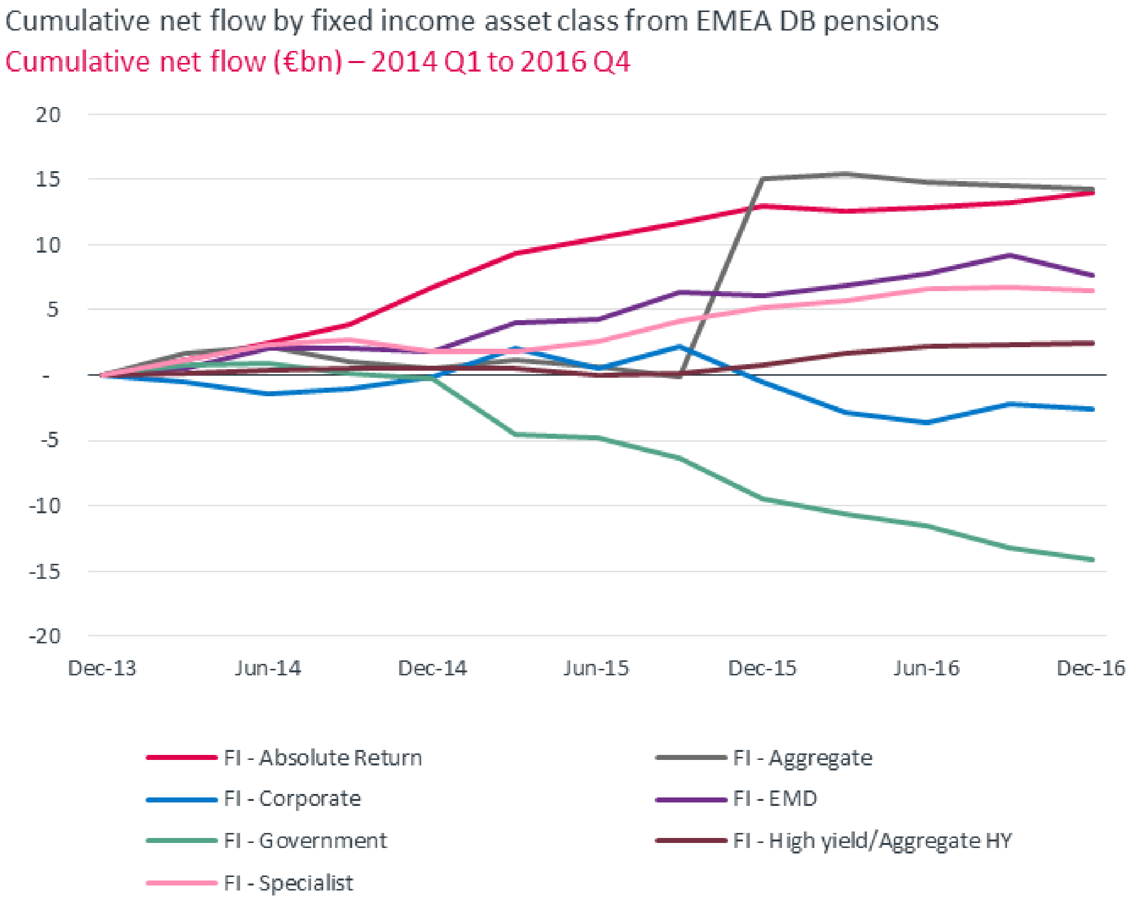
While reducing equity risk, EMEA DB pensions hunt for yield

EMEA DB pensions have all been moving up the credit risk spectrum, but doing so in a variety of ways. For some it is a move from government debt into investment grade credit, for others it is a move into unconstrained, or private debt.

Looking at a 3-year cumulative net flow picture below it evidences the move up the credit risk spectrum to as client attempt to maintain yields and support funding targets.

For some of Europe's pension funds a move out of government bonds and into credit has been enough. Not so for UK DB funds, where they have moved into more exotic 'aggregators' – more unconstrained strategies targeting absolute returns and moving into different HY credit sleeves, also known as Multi-Asset Credit. Both UK and European funds have moved into more specialist varieties of fixed income; private debt, bank loans (German, UK and French pension funds especially driving this trend).

Emerging market debt (EMD) and high yield bond strategies have been generally positive across the board, but EMD has been especially invested in by Dutch DB pensions.



We'll be keeping a close eye on the changing shape of global fixed income in the next quarter, as well as emerging new product opportunities and the changing role of institutional investment consultants in next quarter's blog out soon.

Thanks

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Spence Johnson