

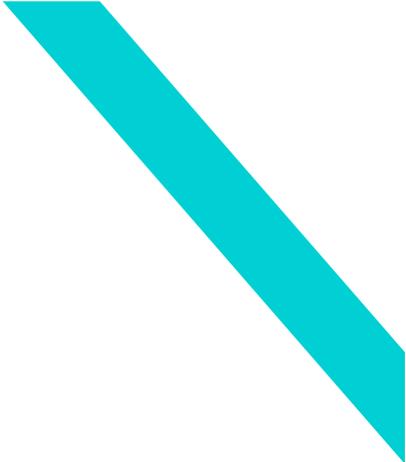
EVERYTHING FLOWS

UK FUND FLOWS
MAY 2022

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Working for the Yankee Dollar

USD assets were the flavour of the month, whether cash, equity, or fixed income, as investors sought to take advantage of rate differentials and the US' safe-haven status.

Asset Class View

- Money market GBP funds saw outflows of £12.1bn, with cash going to European-domiciled money market USD funds.
- Investors pulled £4bn from equity funds and £543m from bond funds, with mixed assets taking £1.8bn.

Active v Passive

- A good month for passives, as net flows stood at £774m, in contrast to £18.5bn of active money outflows.
- Passive bond funds took £1.2bn, divided between £784m to mutual funds and £373m to ETFs.

Classifications

- Mixed Asset GBP Aggressive and Balanced were the top money takers, netting £1.8bn between them.
- There is a clear inflation/rates trade occurring, with significant flows going to US assets—bond, cash, and equity—along with infrastructure equity funds.

ESG Flows

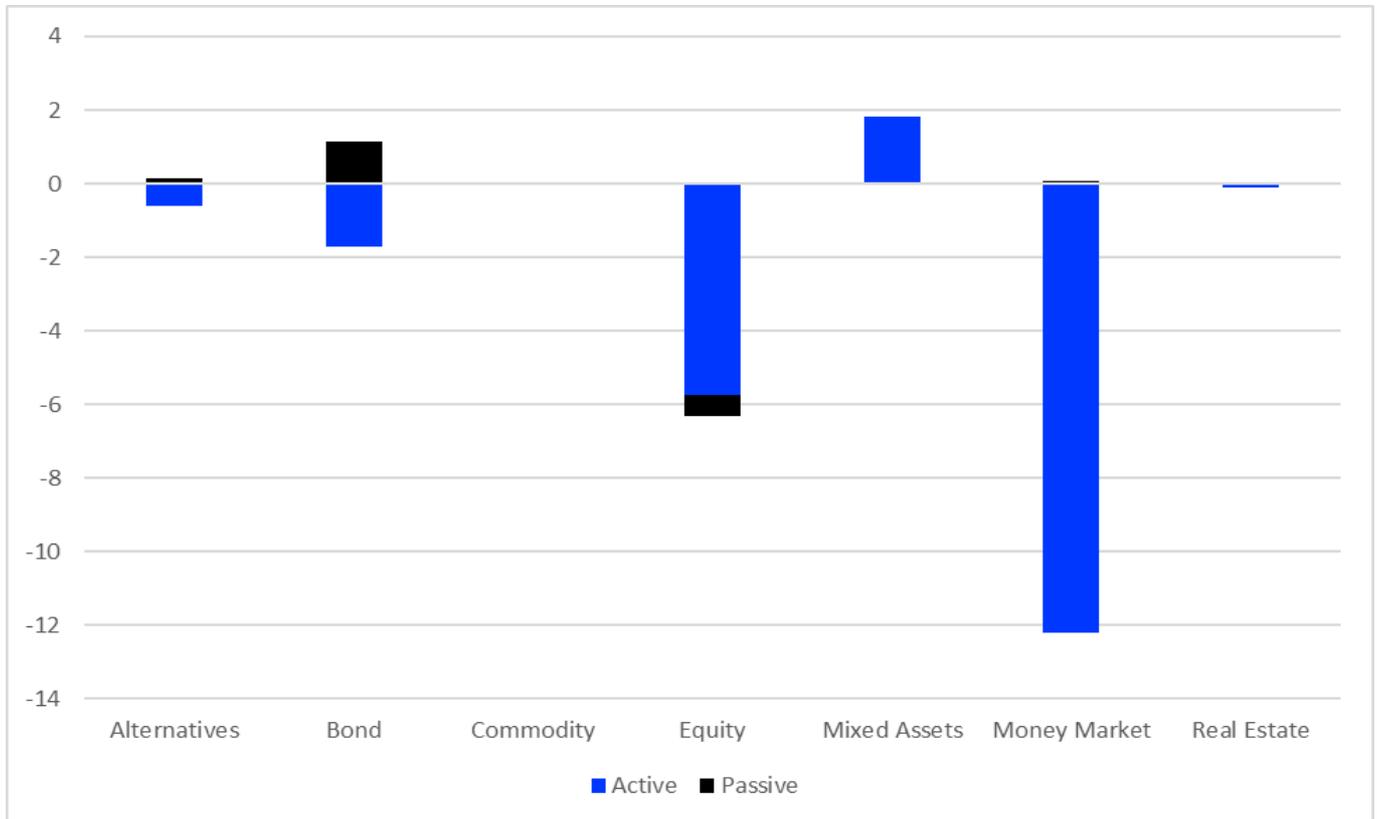
- Ethical equity and bond flows combined were £2bn, while their conventional peers suffered redemptions of £6.6bn.

Asset Manager View

- HSBC and Vanguard were the top-selling asset managers, with inflows of £1.8bn and £1bn, respectively.

Flows by Asset Class

Chart 1: Asset Class Flows, Active and Passive, May 2022 (£bn)



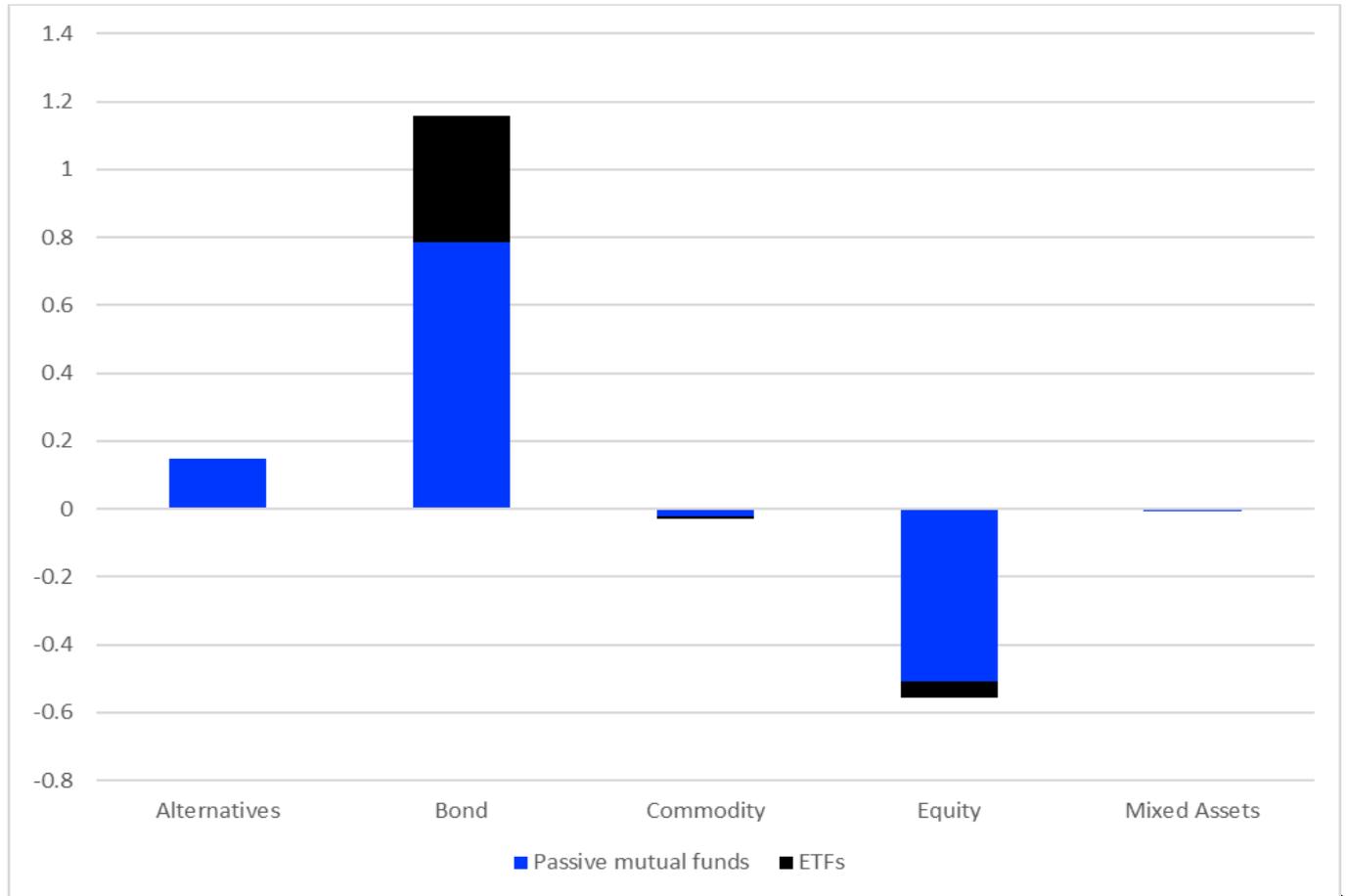
Source: Refinitiv Lipper

The negative flows (£12.1bn) from money market funds in a risk-on environment seems counterintuitive, until you widen the focus from country to region. Detlef Glow's review of the European fund flows for May found that Money Market USD (+€12.6 bn) was the best seller within the money market segment, while Money Market GBP (-€16.4 bn) suffered the highest net outflows overall. This shows investors dumping GBP and buying into the USD. These flows might be a sign that investors may expect that the dollar will further outperform sterling as a result of the Fed's more aggressive hiking.

The FTSE 100 was slightly up over the month, as its oil and gas majors showed that even in the darkest, most smog-laden clouds there is a silver lining. At least for somebody. The (on average) flat month stands in contradiction to the £6.3bn of equity fund outflows, following on from April's equity redemptions. All but £557m of the former has been from active funds.

Meanwhile, the yield on the 10-year gilt headed northwards from its month low on the June 12, from 167 basis points (bps) to 210 bps by month end. The trend has been upwards since the summer of 2020, accelerating over the recent period. Increasing fixed income yields mean that investors are finding opportunities in this market, though not enough to prevent overall redemptions. Passive bond managers haven't done so bad, however, having attracted £1.2bn in May. The corollary of this, of course, is that their active peers have a lot less to be happy about. The pattern in bonds is the same as in April, with passives in the black and active in the red.

With all other asset classes signalling red in aggregate, mixed asset stands out, with £1.8bn inflows, following March and April's intake of about £1.2bn each. If we had to guess at the source of this—and it is no more than a guess—it's retail investors putting saved cash to work as COVID fears subside, in an asset class that is characterised more by retail money than most.

Chart 2: Passive Asset Class Flows, Mutual Funds v ETFs, May 2022 (£bn)

Source: Refinitiv Lipper

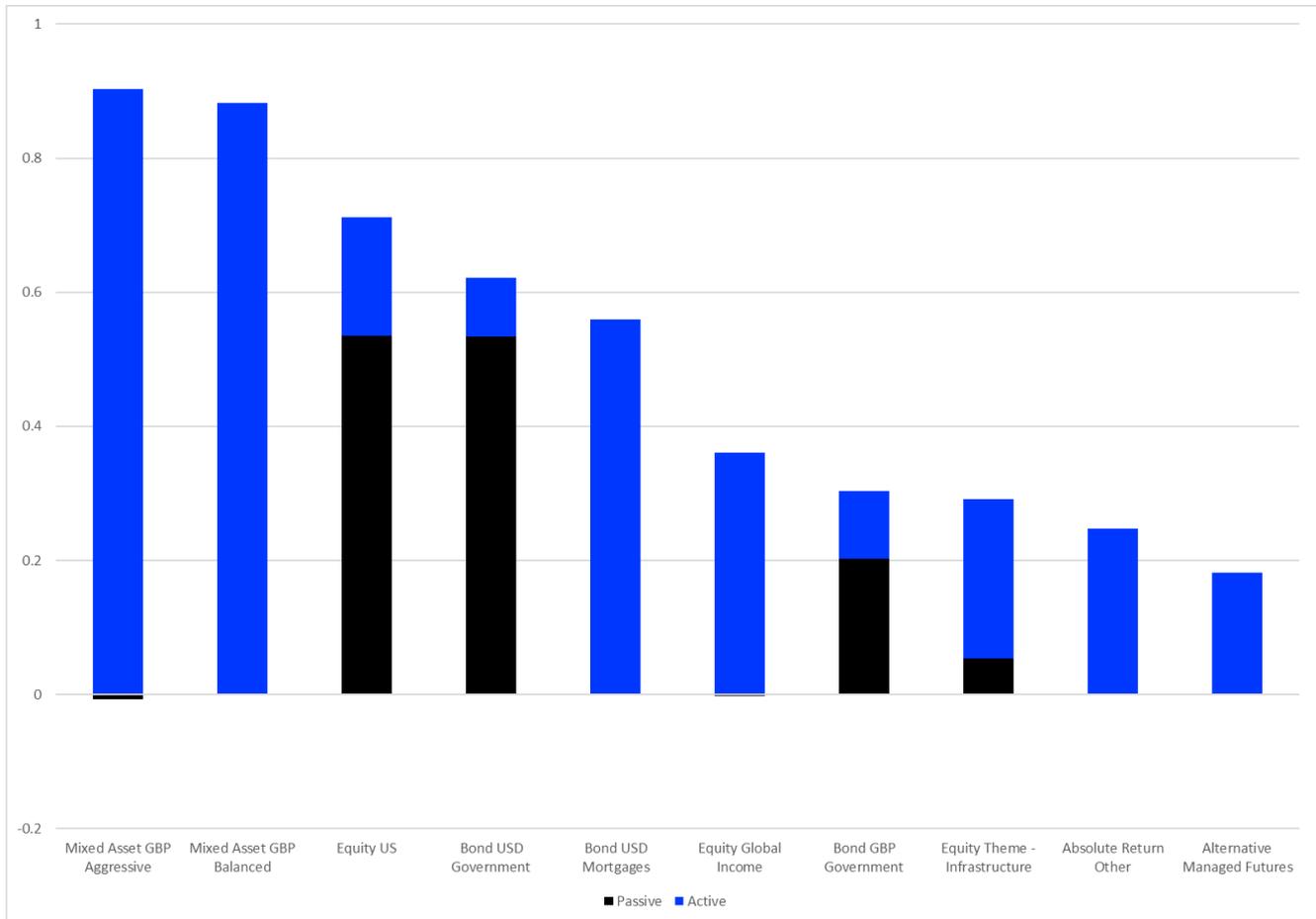
Net passive flows for May stood at £774m, in contrast to £18.5bn of active money outflows. All that and more went to bond funds: £784m to mutual funds and £373m to ETFs.

Meanwhile, passive equities, both mutual fund and ETF, shared in the misery of their active brethren, although equity ETFs suffered relatively minor outflows of £48m. And, as you can see from chart 1, active managers have shouldered the bulk of the month's pain.

It's been a positive month for passive alternatives (£147m), with £110m of this going to one fund seeking to replicate gilt performance—so one of the increasing number of inflation plays we are (finally!) seeing investors turn to—more on this directly below.

Flows by Classification

Chart 3: Largest Positive Flows by Refinitiv Lipper Global Classification, May 2022 (£bn)



Source: Refinitiv Lipper

Mixed asset—both aggressive and balanced—have together taken £1.8bn this month, with Abrdn taking a large slice of the flows (see tables below). Both classifications are perennial members of the top 10, but this is the first time we've seen them occupy the two top slots. As mentioned above, the most likely explanation for this is that retail investors, faced with inflation's corrosive effect on their savings, are putting them to work in mixed-assets funds.

There are some unusual top-10 incumbents this month. For example, Bond USD Mortgages (£560m): I couldn't have been more surprised at seeing this if I'd returned home to find a smoking jacket-clad aardvark in my armchair reading Proust.¹ There's doubtless some baseline effect going on here, with positive flows at a low. However, looking beyond this, the chart suggests a rather overdue positioning for the combination of inflation and economic downturn.

Many investors are finding value in fixed income for the first time in a long time—and government debt offering a haven at not-too dismal yields. While there's little shift to inflation-linked bonds, most of the £248m going to Absolute Return Other has been claimed by a fund synthesising the performance of this asset class. And—tracking back to that Bond USD Mortgage allocation—mortgage-backed securities are often touted as being good inflation-protecting assets, so this could be the explanation for the play—even if a rather esoteric one for the UK market.

¹ After all, I don't have any Proust in the library.

A classification noticeable by its absence from the above chart is Equity Global, which is normally first- or second-placed, depending on which way the money market flows are going. It falls just outside the bottom-10 classifications, with £414m of outflows.

Mixed Asset GBP Aggressive, May 2022	Flow (£m)
ASI MyFolio Managed IV Retail Acc GBP	223
ASI MyFolio Managed V Retail Acc GBP	108
Royal London Sustainable Growth R Acc	104
Vanguard LifeStrategy 80% Equity Acc	101
ASI MyFolio Multi-Manager IV Retail Acc GBP	74

Source: Refinitiv Lipper

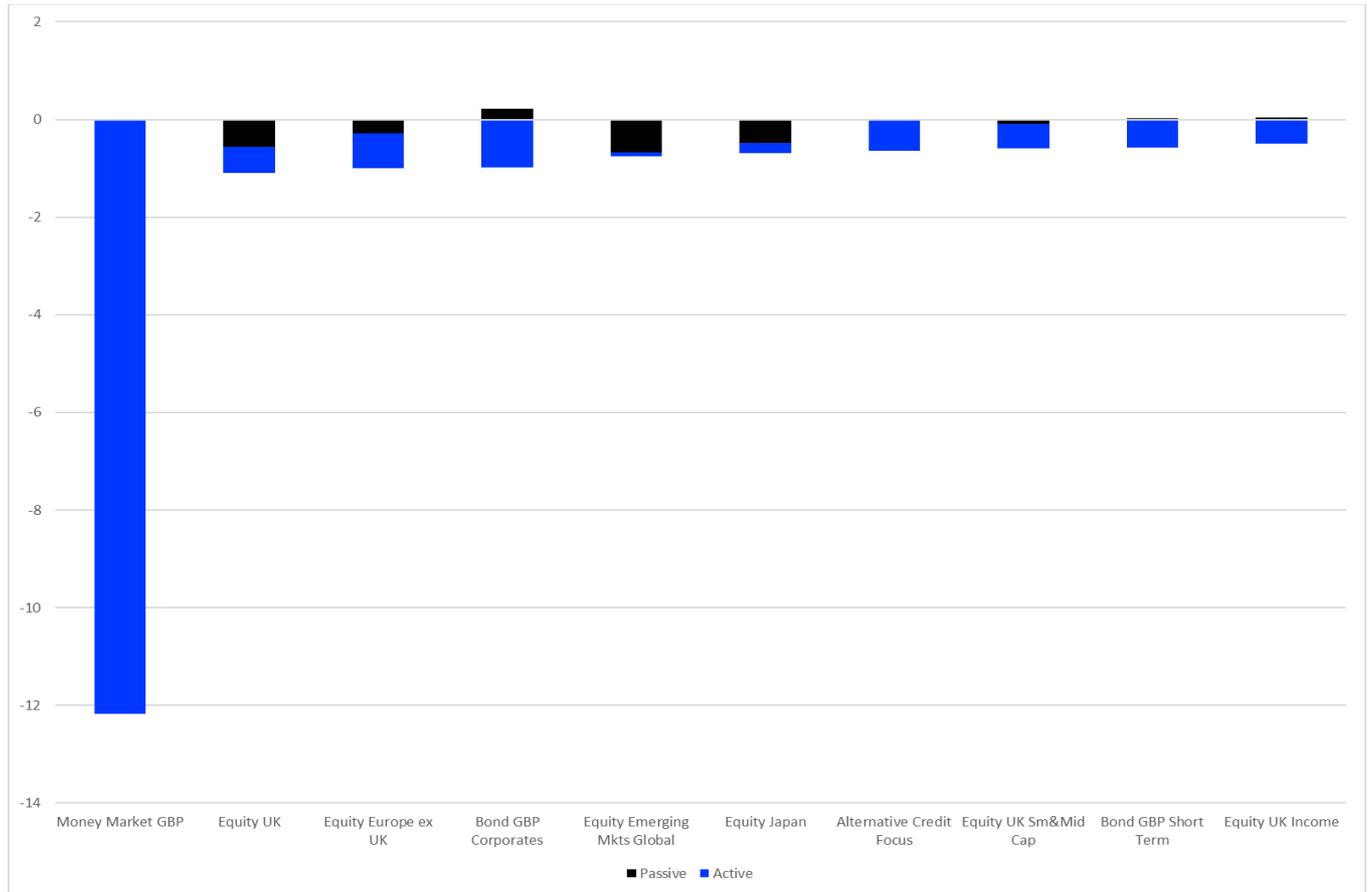
Mixed Asset GBP Balanced, May 2022	Flow (£m)
ASI MyFolio Managed III Retail Acc GBP	590
ASI MyFolio Managed II Retail Acc GBP	383
Vanguard LifeStrategy 60% Equity Acc	118
Trojan O Income	99
SPW Strategic Solution Fund G Acc	75

Source: Refinitiv Lipper

Turning our attention briefly to third-placed Equity US (which saw outflows of £1.1bn in April, £535m of the £712m has gone to passive funds, and the top five money takers are all tracker mutual funds. It's likely that investors are attracted by a combination of the market's haven status, rising rates, and large-cap exposure these funds provide.

Equity US, May 2022	Flow (£m)
Legal & General US Index R Inc	236
BlackRock ACS US Equity Tracker X1 GBP Acc	194
HSBC American Index Institutional Acc	143
iShares North American Equity Index (UK) D Acc	127
Vanguard US Equity Index GBP Acc	118

Source: Refinitiv Lipper

Chart 4: Largest Negative Flows by Refinitiv Lipper Global Classification, May 2022 (£bn)

Source: Refinitiv Lipper

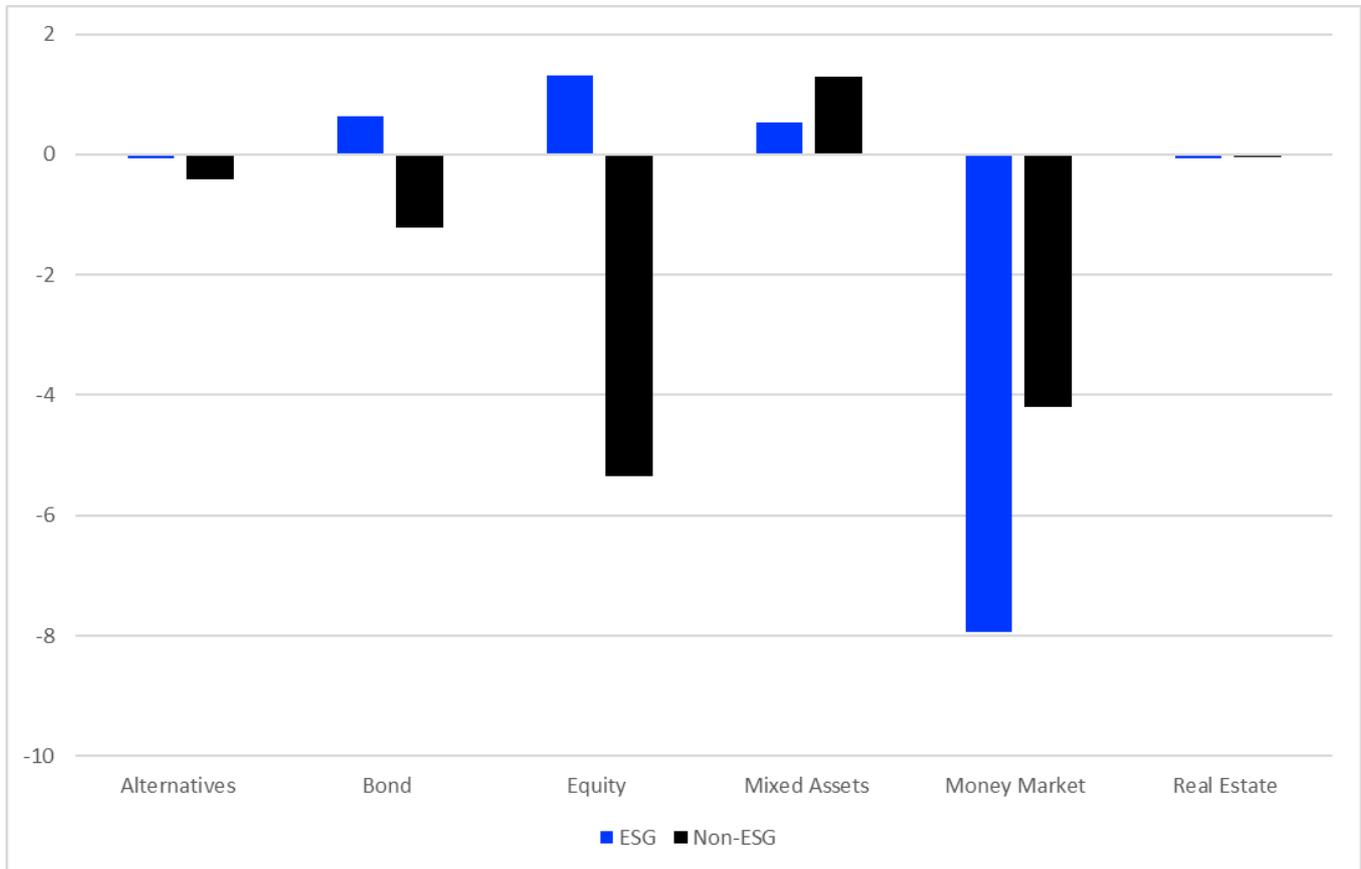
We've already covered the likely explanation for the biggest negative mover this month, so I won't spill any more virtual ink on that one.

What is noteworthy is that, despite the continuing outperformance of UK equities, they're still shedding money (-£1.1bn), and despite the increasing value of dividends in an inflationary environment, the same is true of Equity UK Income (-£462m). Investors are instead finding equity income opportunities globally.

One slight upset to our "investors waking up to inflation" thesis is the £550m outflows from Bond GBP Short Term. That's a little strange, as such funds were favoured at various points over the first half of the previous decade, and the back of (albeit unrealised) inflation fears.

ESG Flows

Chart 5: ESG Asset Class Flows, May 2022 (£bn)



Source: Refinitiv Lipper

We noted last month that equity market downturns hadn't stopped the rotation out of "conventional" into ethical funds in the asset class, but they have rather muted the ESG inflows. That's still the case this month, as is the ongoing rotation from "green" to "brown" funds within other classes—something that was initially just an equity phenomenon. Ethical equity and bond flows combined were £2bn, while their conventional peers suffered redemptions of £6.6bn.

ESG Equity Takers, May 2022	Flow (£m)
Robeco BP Global Premium Equities KE GBP	793
ACS World Esg Equity Tracker Fund Class T2 Acc GBP	763
Legal & General Fut Wld ESG Developed Index R Acc	593
ACS Wld ESG Insights Eqty X1 Acc GBP	408
Baillie Gifford Responsible Global Eq Inc B Acc	107

Source: Refinitiv Lipper

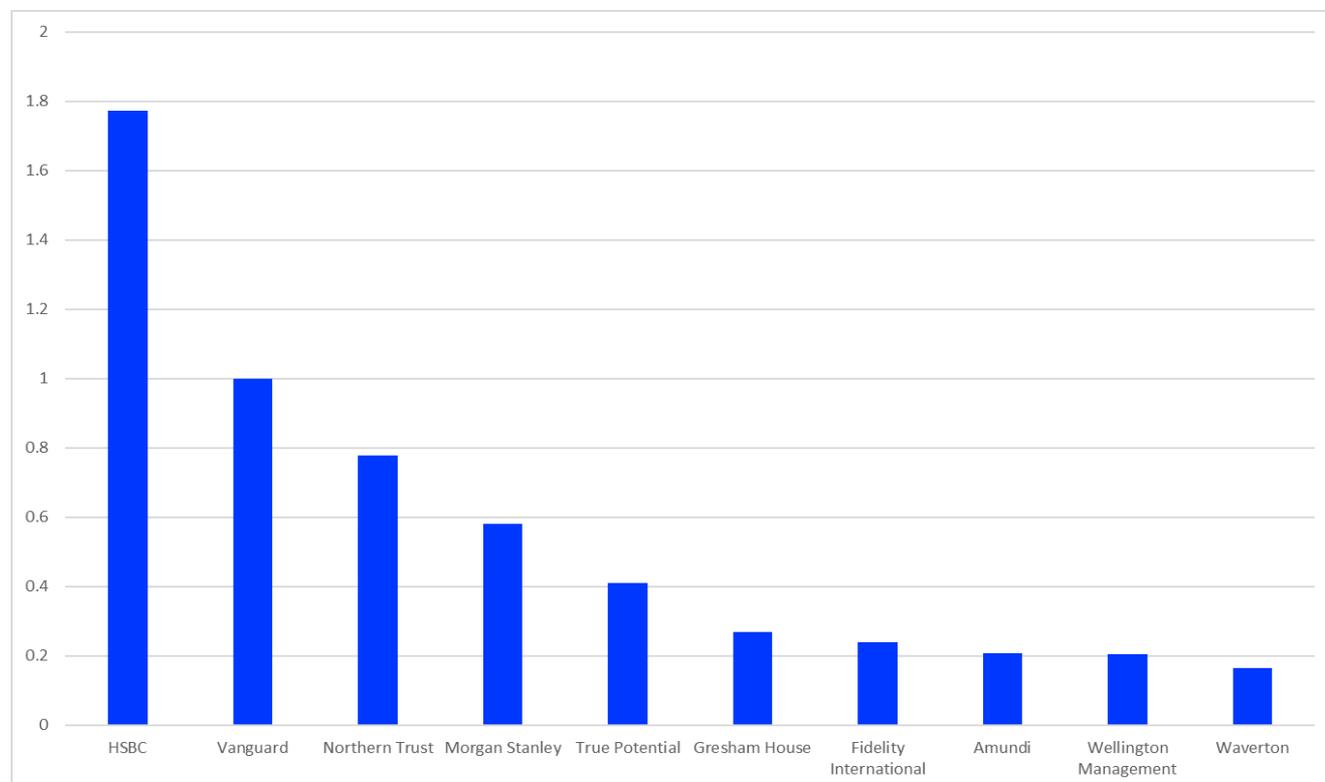
What's apparent from looking at the classifications taking the money in ESG mixed-assets is that there's a spread of aggressive and balanced strategies (as the "Classification" section suggests), along with flexible but precious little in the cautious bucket.

ESG Mixed-Assets Money Takers, May 2022	Flow (£m)
Baillie Gifford Sustainable Multi Asset B Acc	169
Royal London Sustainable Growth R Acc	104
Trojan O Income	99
Trojan Ethical O Acc	46
SUTL Cazenove Charity Resp Multi-Asset S Inc	25

Source: Refinitiv Lipper

Flows by Promoter

Chart 6: Largest Positive Flows by Promoter, May 2022 (£bn)



Source: Refinitiv Lipper

HSBC (£1.8bn), Vanguard (£1bn), and Northern Trust (£779m) were May's top selling asset managers. The biggest contributors to HSBC's flows were £925m to money market funds and £463m to bonds .

HSBC Top-Selling Share Classes, May 2022	Asset Class	£m
HSBC Sterling Liquidity Class G	Money Market	305
HSBC Sterling Liquidity Class H	Money Market	264
HSBC Sterling Liquidity Class F	Money Market	151
HSBC American Index Institutional Acc	Equity	143
HSBC GIF Global Government Bond ZQH GBP D	Bond	139

Source: Refinitiv Lipper

Vanguard's largest contributor was from equity funds, at £642m, and mixed assets (£243m).

Vanguard Top-Selling Share Classes, May 2022	Asset Class	£m
Vanguard FTSE Dvlpd World ex-UK Eq Index GBP Acc	Equity	249
Vanguard US Equity Index GBP Acc	Equity	118
Vanguard LifeStrategy 60% Equity Acc	Mixed Assets	118
Vanguard LifeStrategy 80% Equity Acc	Mixed Assets	101
Vanguard Global Short-Term Bond Index GBP Hgd Acc	Bond	97

Source: Refinitiv Lipper

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