EFAMA

European Fund and Asset Management Association

MARKET INSIGHTS

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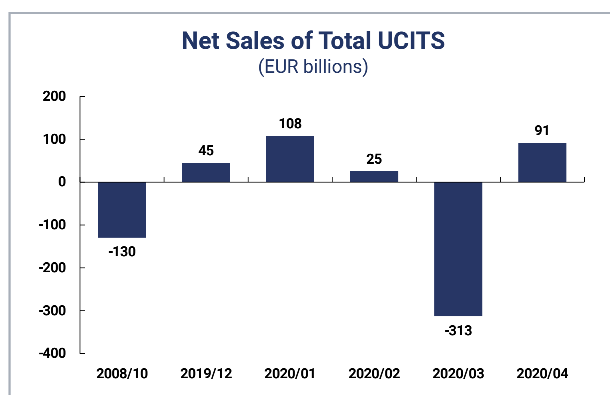
NET OUTFLOWS FROM UCITS IN MARCH 2020

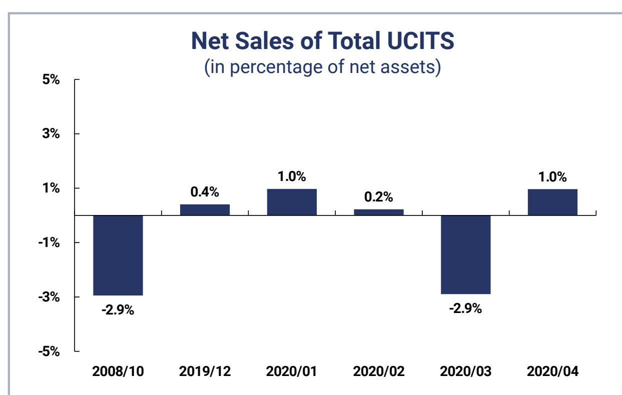
Industry remains resilient in face of Covid-19 crisis

Despite sizeable outflows in March, by and large, investors were able to redeem their money on a daily basis. This can be explained by the existence of a strong UCITS liquidity risk management framework, including the availability of a range of tools that UCITS managers can use in stressed market conditions in the interest of investors. Interventions from central banks also helped to stabilize markets and improve liquidity conditions.

THE FACTS

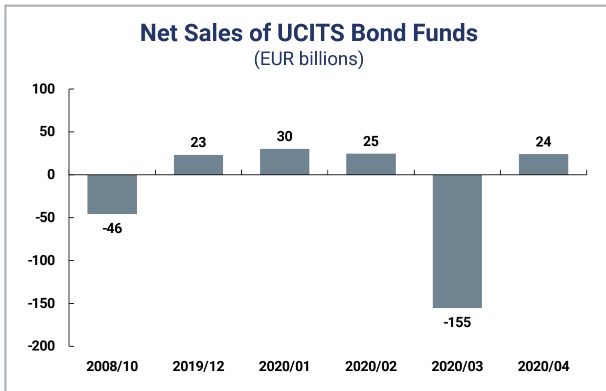
The Covid-19 pandemic significantly impacted financial markets in March 2020. Stock markets across the world suffered steep declines in response to the impact of the crisis on economic growth and corporate profits. Unsurprisingly, the European investment fund industry was also impacted. Investors withdrew EUR 313 billion of net money out of UCITS in March, of which EUR 26 billion from ETFs[1]. In absolute terms, these net outflows were the largest net monthly withdrawals ever observed. However, as a percentage of net assets, they were at the same level as in October 2008, at the height of the Global Financial Crisis (GFC) – a consequence of the increase of the AuM since the GFC. Despite the stress in financial markets, the vast majority of UCITS were able to function normally and only a small number (circa 80 out of more than 34,000 UCITS[2]) had to suspend trading for a limited period of time. This was primarily due to difficulties in providing reliable valuations of their portfolio assets.

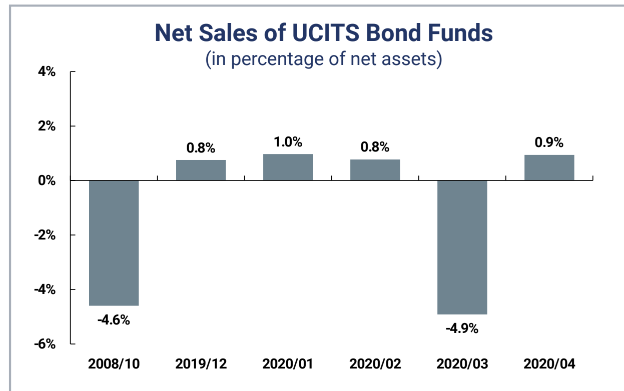




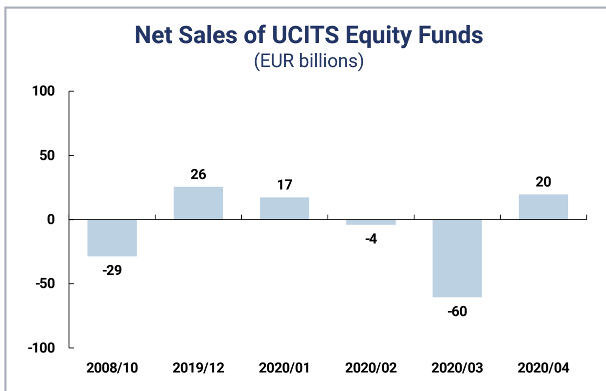
Sources: EFAMA until March 2020, Morningstar for April 2020 data

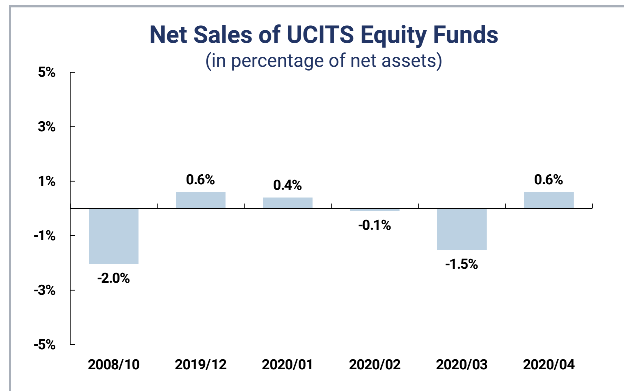
Bond funds recorded the largest net outflows (EUR 155 billion), accounting for 50% of total net outflows. The stress in the bond markets, particularly for high-yield corporate bonds, and the liquidity squeeze in short-term instruments – associated with reduced dealer capacity and willingness to act as market makers in all conditions – coincided with increased perceptions of risk and higher demand for cash, leading to redemptions from funds.



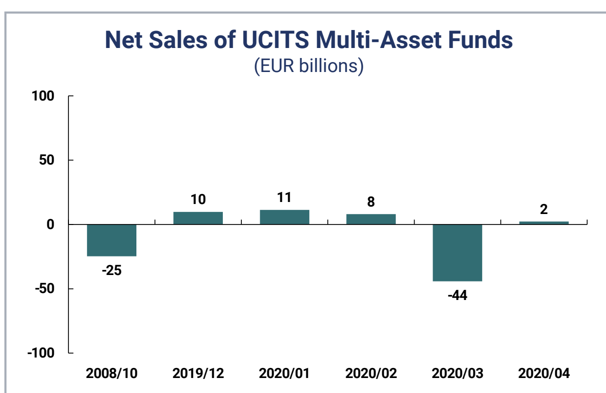


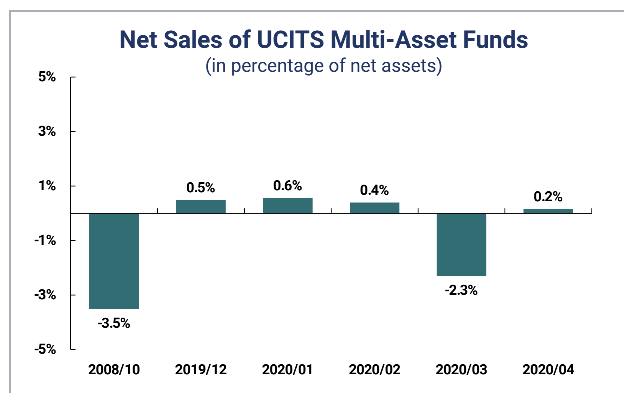
Equity funds recorded net outflows of EUR 60 billion, which represented 1.5% of net assets at end February. Given the steep fall in stock market prices in March, these net outflows can be considered moderate, suggesting that many investors avoided taking money out of equity funds at low valuations. Indeed, equity funds saw net inflows for the month of April, coinciding with a rebound in stock prices (+6.2% for the STOXX Europe 600 and +12.8% for the S&P 500 across the month).



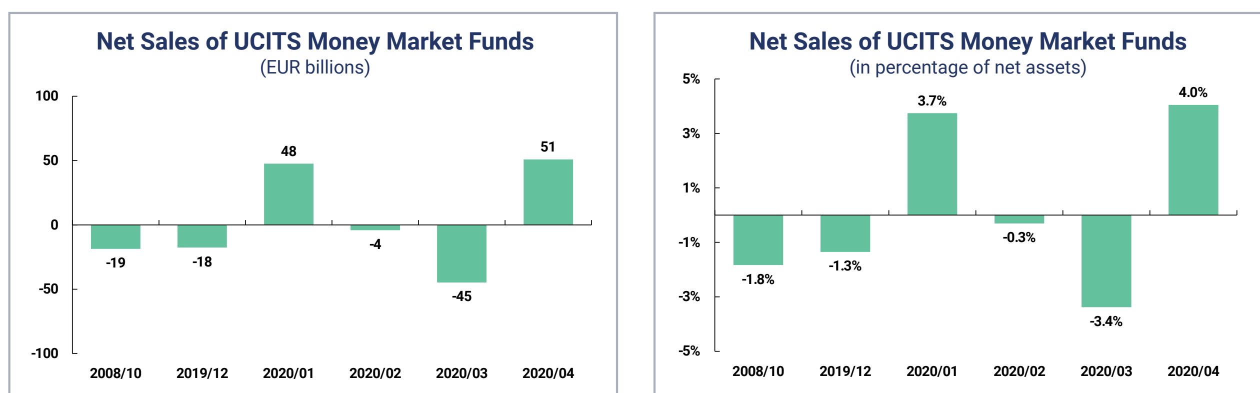


Multi-asset funds recorded net outflows of EUR 44 billion, or 2.3% of net assets. Investors in this type of funds behaved in a similar way to equity investors.





Money market funds (MMF) recorded relatively strong net outflows (EUR 45 billion, or 3.4% of net assets). Large institutional investors – such as pension funds, insurers and foundations – built liquidity buffers to be able to make their scheduled payments in an environment of lower contributions from their members. In addition, MMF managers had to meet recurring redemptions at quarter-end, when surges in outflows are typically expected - as a number of large corporate investors move cash around these quarterly accounting intervals.

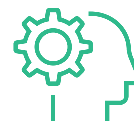


LESSONS LEARNED SO FAR

Despite one of the sharpest market downturns in modern history, the European investment fund industry remained resilient in March 2020. This can be attributed to several factors:

- **A robust regulatory framework:** liquidity management tools available to UCITS managers proved useful to manage redemption requests effectively avoiding forced selling or suspensions for the vast majority. The few UCITS suspensions observed in March were mainly caused by challenges in the valuation of underlying assets (mostly bonds in markets with less depth, and in real estate) in the prevailing market conditions, as reduced intermediation impacted liquidity in the underlying securities; and widespread uncertainty led to volatile prices. In such circumstances, suspensions were justified as a tail-end tool to protect the investors' interests. Indeed, they prevent fund managers having to sell assets at prices below their intrinsic value and generate losses, which can engender further selling pressure and price dislocation.
- **Liquidity measures:** central banks reacted quickly to the crisis and took a broad range of measures to limit the strains in the financial markets by driving greater liquidity and improving price stability.
- **Close cooperation between the industry and supervisors:** cooperation and exchange of information between the industry, National Competent Authorities, ESMA and IOSCO strengthened confidence in the capacity of the authorities to develop appropriate courses of action in light of the evolution of the crisis.
- **Market infrastructure resilience:** equity markets and market infrastructures managed to withstand the extraordinary volatility and stress under which they were operating in March. Bond markets continued to trade, albeit with higher transaction costs. This allowed fund managers to continue trading in these markets.
- **Government intervention:** large scale economic and fiscal stimulus packages to support the economy had a positive impact on prospects for companies, improved valuations, and may have contributed to convince many investors not to divest.
- **Fully operational fund management companies:** fund managers managed to maintain operational continuity despite most of their teams having to work from remote (home) locations.
- **Investor resilience:** the relatively low size of net outflows from equity funds in March suggests that many investors have learned from the Global Financial Crisis that it is better to think long term than to panic and sell when the stock market declines. Conversely, a number of investors saw the market downturn as an opportunity to buy while prices were low.

LOOKING AHEAD



- **Financial stability:** the substantial outflows we observed in March did not create any disruptions to the global financial system. Concerns about run risk, fire sales and illiquid assets did not materialize. This demonstrates the effectiveness of the current regulatory framework for EU domiciled funds, especially as it relates to liquidity risk management.
- **Liquidity management tools:** the crisis is accelerating the regulatory adoption of certain liquidity management tools in a number of Member States. This promising development ensures that the full range of tools, such as redemption gates and swing pricing, will soon be available in each jurisdiction. It will increase the ability of all fund managers across Europe to effectively manage redemptions and liquidity risk in the future.
- **Outlook:** in view of the uncertain evolution of the sanitary crisis and its severe economic impact, there is no room for complacency. In this difficult environment, fund managers will continue playing their part by helping investors mitigate the impact of the crisis on their savings and supporting a sustainable recovery from the Covid-19 pandemic.

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1. Total UCITS net sales have been calculated using the following sources: 1) data for Oct 2008: EFAMA figures aggregated for 19 European countries: AT, BG, CH, DE, DK, ES, FI, FR, GR, HU, IT, LU, NO, PL, PT, SI, SK, SE and UK; 2) data from Dec 2019 to Mar 2020: EFAMA figures aggregated for 28 European countries: AT, BG, CY, CZ., CH, DE, DK, ES, FI, FR, GR, HR, HU, IE, IT, LI, LU, MT, NL, NO, PL, PT, RO, SI, SK, SE, TK and UK; and 3) data for Apr 2020: estimated figures from Morningstar aggregated for 20 European countries: AT, BE, CH, DE, DK, ES, FI, FR, GR, IE, IT, LI, LU, MT, NL, NO, PT, SI, SE and UK.

2. In a recent note, Fitch Ratings mentioned 76 as an indicative figure (see https://www.fitchratings.com/research/fund-asset-managers/european-mutual-fund-gatings-rise-as-coronavirus-spooks-markets-20-04-2020). This figure includes 15 property funds, which are not UCITS but Alternative Investment Funds; these suspensions were due to valuers qualifying their valuations with a material uncertainty clause meaning that fund managers cannot price units with any certainty.