

Hopes of return to calmer times

News Analysis

Investors settling in for the long haul show cautious optimism, writes Steve Johnson

Signs are emerging that the rush for the exits by panic-stricken investors may have run its course, raising hopes that 2009 will be a far brighter year for the global fund management industry than the grim 2008.

European investors withdrew a net €416bn (\$588bn, £407bn) from investment funds (excluding low-margin money market funds) between June 2007 and September 2008, according to data from Lipper FMI. Combined with market falls, this saw the continent's assets under management plunge by 28 per cent to €3,200bn, even before a further haemorrhaging of money in October.

EPFR Global, a US-based fund data provider, said the assets of the European equity funds it tracks shrank from \$350bn (€248bn, £242bn) to \$188bn in 2008, with emerging market equity funds diminishing faster still, from a combined \$600bn to just \$232bn. It reported total "asset destruction" of \$700bn in October alone.

Yet there are tentative signs of stabilisation, with the army of sellers being replaced by a phalanx of hardy bargain-hunters.

Buyers of equity funds outnumbered sellers in each of the seven weeks to December 19, according to EPFR. Battered high-yield bond funds also posted three straight weeks of net inflows in the run-up to Christmas,

while bond funds as a whole saw outflows narrow to an 18-week low.

The figures come after the UK Investment Management Association reported net inflows of £1.04bn from retail investors in November, the second best month since the credit crunch struck in the summer of 2007, with both equity and bond funds reporting strong flows.

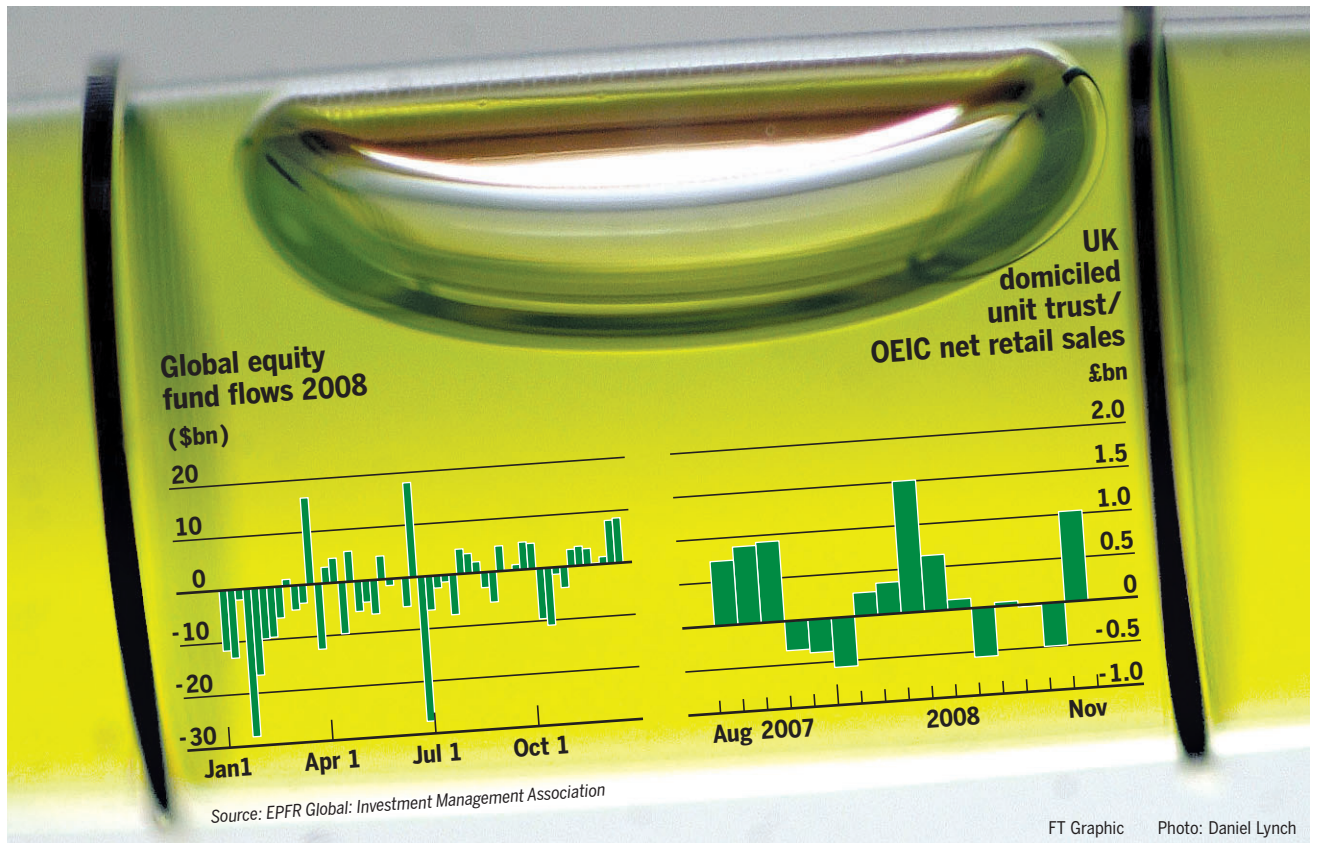
Michael Gordon, global head of institutional investment at London-based Fidelity International, told FTfm in December that his company saw net buying from both retail and institutional investors in the latter part of 2008.

"It feels like we have seen the worst," said Brad Durham, managing director of EPFR. "The pure panic seems to have passed and we are definitely more hopeful at this stage than a year ago."

Some will treat the data with caution. The brighter UK picture, at least, appears to be driven more by a fall in redemptions than by a rise in new money being put to work: gross retail purchases in November totalled £4.78bn (\$6.90bn, €4.88bn), one of the lowest figures of the year.

However, Mr Durham argued that the trend of lower redemptions was at least durable. "Maybe there is just a weariness in selling. We have gone through all of this wreckage, the credit crunch, Bear Stearns, Lehman Brothers, and I just don't see there are many catalysts left for further selling. Those who are not long-term investors have probably headed for the exits now."

Diana Mackay, managing director of Lipper FMI, feared continental European investors would take longer



to return to the fray than their Anglo-Saxon counterparts, given the relative dearth of a regular savings culture on the continent and the dominant role in the distribution process played by banks, which at present are desperate to push customers into deposits rather than funds.

"There is a battle for savings that is hitting bond and money market funds. Bonds are very susceptible to cannibalisation by banks and that probably is not going to go away, but 2009 won't be as bad as [2008]," said Ms Mackay.

Mr Durham foresaw global pressure on money market funds, one of the few success

stories of 2008, if a degree of risk appetite were to return. "I would think that the money market funds are vulnerable to some sizeable outflows," he warned.

Ms Mackay feared industry data for December, "a dreadful month, even in good times", was likely to be negative. But she did foresee a brighter picture in 2009, particularly for equity funds, with most of those likely to sell having done so and dividend yields looking increasingly attractive as interest rates tumble. "I think we are pretty close to the bottom on equities. The situation is stabilising and we will start to see inflows pretty soon," she said.

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