Radnor View

Where has all the investor money gone?

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Without wishing to stray into classic British understatement territory; 2022 was a not a very good year. Share prices, domestic UK political farce, rampant inflation, geopolitical instability, a Covid induced hangover, Matt Hancock coming third in Australia…. take your pick. To add to this, we should also add fund redemptions. Not only did UK fund managers have to contend with share prices falling off a cliff; their own underlying investors took fright and pulled capital out of the market in bucketloads, further shrinking funds under management across the board.

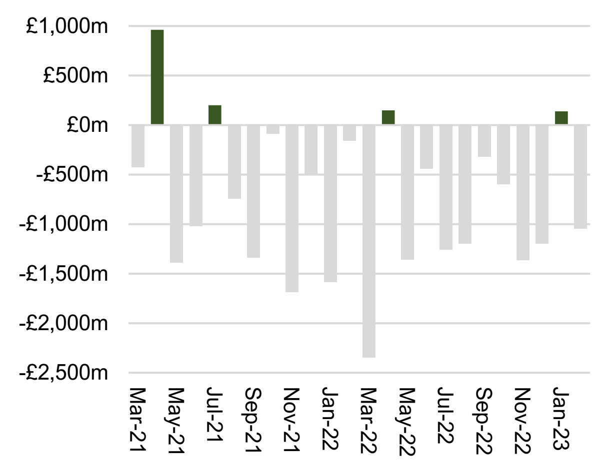
Now that we are almost three months into a bright and shiny New Year and with happier mood music echoing around the markets, the key question is whether active fund managers are feeling more chipper about life?

On balance; Yes. Although, as we explain below, 2022 saw material fund redemptions, the year actually ended with assets under management on the increase as the pace of share price recovery outstripped fund outflows. Moreover, we can see that for certain styles of fund (ie Small Cap, Growth and Income), 2022 ended in much better shape than it started. Whilst we are not yet in fully bullish territory (AUM on the increase and fresh money to burn), we are half way there.

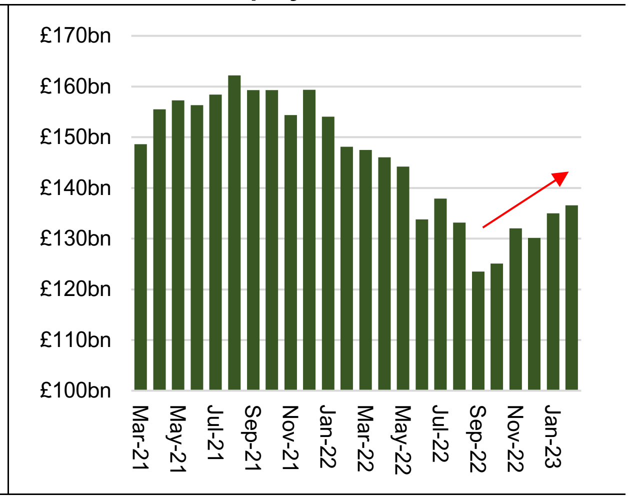
Redemptions remain negative but ….

When we say 2022 was a bad year for fund managers, we really mean it. The left hand chart below shows our analysis of monthly net redemptions over the last two years for 243 UK unit trusts, collectively managing c.£136 billion of assets. The right hand chart shows the total AUM of those same trusts.

UK Monthly Fund Redemptions



Total AUM – UK Equity Unit Trusts



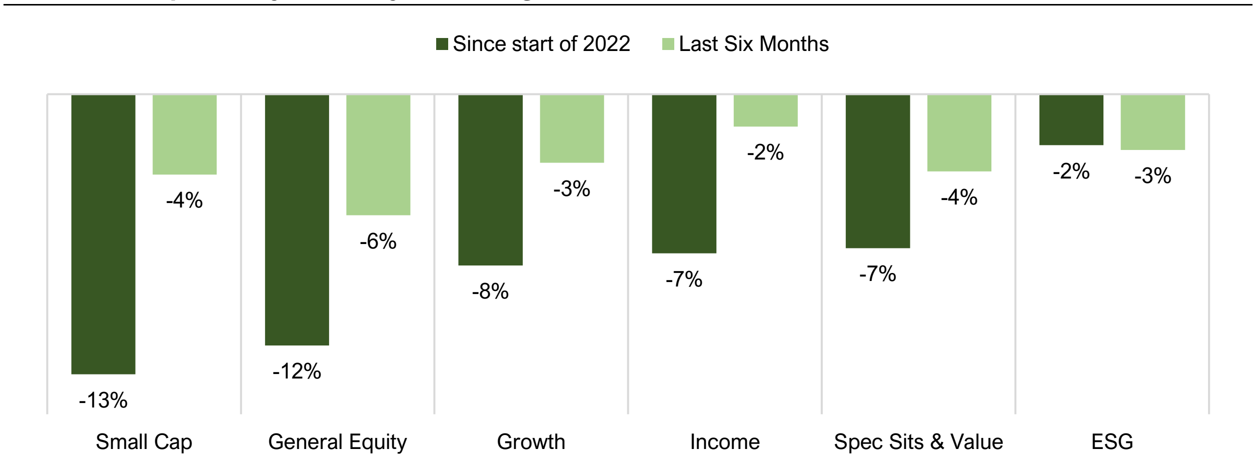
Source: FactSet, Radnor

By our reckoning, investors pulled a net £11.7bn out of mainstream UK equity unit trusts across 2022, a net outflow of c.9%. The only positive month was April (tax year end no co-incidence), and this was a relatively anaemic net inflow of £136m compared to April 2021 which saw a net £961m flow into unit trusts. More recently, hearts quickened in January 2023 as we saw another positive month only for normal service to be resumed in February.

Despite investors pulling money out of the market, albeit at a reduced rate in the second half of the year, the strength of underlying share price recoveries were sufficient to still lift the overall level of assets under management in funds. From the September low point of £123.5 bn, UK equity fund AUM closed at the end of February at £136.6bn, an increase of 11%.

These are headline numbers and different styles of funds did vary significantly. In the chart below, we show how each of the main styles fared since the start of 2022 and over the last six months.

Fund redemptions by Fund Style – Change since start of 2022 vs last six months



Source: FactSet, Radnor

Although headline fund flows have remained negative throughout 2022; we can see a divergence between the first and second halves.

Broadly speaking; Small Cap, Growth and Income funds had a better end to 2022 and start to 2023 than the first half of 2022. Conversely, ESG, General Equity and Special Situations & Value funds all fared worse in the second half of the year. ESG funds were especially notable as they were the only UK fund style that saw positive net inflows in H1 2022 (+£177m).

Taking a step back from the raw numbers, these movements make intuitive sense. The first half of 2022 saw a continuation of the market rotation away from smaller cap and higher rated PE stocks. During this period the AIM, Small Cap and FTSE 250 indices all underperformed the FTSE100. This began to reverse through the second half of 2022 and into 2023.

If history is to repeat itself, we should begin to see more positive fund inflows begin to favour those areas of the market where value and positive underlying share price momentum have boosted unit trust price performance.

Concluding thoughts

This circles us back around to our original statement. Active fund managers are likely to be feeling more chipper about life than they were six months ago, yet this mood could improve even further once fund flows break into positive territory.

Why does this matter? Taking a look at this through our advisory lens; fund redemptions matter when it comes to investor targeting. A fund manager seeing both AUM decline as a result of both share price declines and investor withdrawals is, at worst, going to be a forced seller across the board or, at best, less inclined to entertain new ideas. Clearly as both AUM and fund flows move into positive territory the head is going to rise above the parapet and the new idea antennae start twitching once again. We are half way there. All we need now, is not to have a run on the banks…

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ENDS.