

2017 was another big year for Vanguard funds: Cerulli

By Editorial Staff Thu, Jan 25, 2018

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Favorable market conditions and advisor sentiment about active management could lead to another year of positive active net flows, especially for strategies in which passive funds are not as competitive, according to *The Cerulli Edge – U.S. Monthly Product Trends Edition* for January.

Vanguard, in Bill McNabb's final year as CEO, continued to dominate flows for all of 2017. Vanguard's total flows for year were over \$207 billion (DFA was second with \$31 billion). The coming year will be Vanguard's first under long-time heir-apparent Mortimer "Tim" Buckley.

Six out of seven of the funds with the most flows were Vanguard index funds (Total Stock Market, 500 Index, Total International Stock Market, Total Bond Market, Total Bond Market II, and Total International Bond Market).

In their first year of positive net flows since 2014, actively managed mutual funds and ETFs added net flows of \$19.1 billion in 2017. Of that, \$3.7 billion came from mutual funds and \$15.4 billion from ETFs.

Flows into active ETFs equate to organic growth of 53%, helping boost assets to \$45.2 billion at EOY 2017. On the passive side, assets closed the year above \$6.6 trillion, with \$3.3 trillion in mutual funds and \$3.4 trillion in ETFs. Passive ETFs brought in more than \$447.0 billion in 2017, up from \$279.7 in 2016.

Cerulli said it expects assets managers "to continue to be selective in their product development efforts." Here are a few more of Cerulli's comments on various sectors of the fund market:

ESG criteria. An area of focus will be to build out new vehicle capabilities. Additionally, incorporation of environmental, social, and corporate governance factors/criteria into investment products and processes and development of strategic beta or quantitative capabilities will also be likely areas of focus.

Mutual funds. Mutual fund assets experienced growth of more than 18% during 2017, closing the year at greater than \$14.6 trillion. Mutual funds reaped net flows of \$249.7 billion for 2017, with taxable bond mutual funds collectively receiving the most flows of any asset class in 2017.

Exchange-traded funds. ETFs had another banner year in 2017, with assets improving 35% to more than \$3.4 trillion. Net flows into the vehicle were a robust \$463.2 billion, representing organic growth of 18.3%.

Liquid alternatives. The number of new open-end liquid alternative mutual fund product launches in 2017 was essentially on par with 2016. Options-based strategies led new product development activity, with 18 products launched in 2017.

Quantamentals. Within the multi-alternative and long/short equity category, there has been a growing

trend of product development of quantitative strategies (factor-based with portfolio manager discretion). These strategies, often referred to as “quantamental,” attempt to combine the strength of fundamental research with quantitative investing.

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