Follow the Money: Vanguard’s new REIT II Index Fund draws $6.3 billion in September

By Editorial Staff *Fri, Oct 20, 2017*

Despite expectations of another interest rate hike this year, taxable bond remained the leading category group in September with $34.9 billion in flows overall, up from $27.5 billion in the previous month.

Investors put a net $12.7 billion into U.S. equity passive funds and pulled a net $18.5 billion out of U.S. equity funds in September, according to Morningstar’s report on U.S. mutual fund and exchange-traded fund (ETF) asset flow for September 2017.

The flow into U.S. equity passive rose by almost half, from $8.5 billion in August 2017, while the flow out of U.S. active fund declined by almost 20%, from $23.0 billion in the previous month, the report said.

For Morningstar’s commentary on the flows, click **here**. (Morningstar estimates net flow for mutual funds by computing the change in assets not explained by the performance of the fund and net flow for ETFs by computing the change in shares outstanding.)

In other highlights from the report:

Despite expectations of another incremental interest rate hike by the Federal Reserve this year, taxable bond remained the leading category group in September with $34.9 billion in flows overall, up from $27.5 billion in the previous month. Unlike in August, however, passive taxable-bond flows surpassed active ones: $20.5 versus $14.4 billion.

Sector equity saw $10.5 billion of inflow in September, after sustaining a $4.2 billion outflow in August. The flow was driven by the real estate Morningstar Category and by a net flow of $6.3 billion into Vanguard’s new REIT II Index Fund.

International equity flows fell to $9.8 billion in September compared with $16.1 billion during the previous month. The decline may have been driven by Britain’s planned exit from the European Union and Catalonia’s attempted secession from Spain.

The three Morningstar Categories with the highest inflows in September are intermediate-term bond, foreign large blend, and real estate. The three Categories with the largest outflows are large growth, large value, and allocation—50% to 70% equity.

Passive. On the passive front, Vanguard was the top fund family, with inflows of $28.1 billion, followed by BlackRock/iShares with inflows of $18.5 billion. Vanguard’s newly created REIT II Index attracted the highest flows of $6.3 billion immediately after its inception, boosting overall flows for the entire real estate category and sector-equity category group.

Vanguard Total Bond Market II Index Fund and Gold-rated Vanguard Total Stock Market Index Fund followed, with respective inflows of $4.0 billion and $2.5 billion.

Vanguard Institutional Index Fund and PowerShares NASDAQ-100 Index Tracking ETF had the highest outflows, $1.2 billion and $1.0 billion, respectively.

Active. In active flows, PIMCO led with $3.2 billion. The two active funds with the highest inflows were PIMCO Income, with flows of $2.7 billion, and Vanguard Growth and Income Fund, with $2.2 billion in flows. Fidelity, Franklin Templeton, and T. Rowe Price sustained outflows from their active funds. Fidelity Series Emerging Markets had the highest outflows—$1.8 billion—among active funds in September.