Netting $317 billion, Vanguard dominated fund flows in 2016: Morningstar

By Editorial Staff *Thu, Mar 9, 2017*

'2016 was more filled with uncertainty than other years, particularly in light of a few extraordinary political events that nobody believed would happen until they did,' said Morningstar in its summary of global mutual fund and ETP flows report for last year.

Worldwide asset flows of mutual funds and exchange-traded products (ETPs) fell to $728 billion in 2016 from about $1 trillion in 2015, but net flows to the U.S. fund industry rose to $288 billion in 2016 from $260 billion in 2015, according to Morningstar's fifth annual Global Asset Flows **Report**, released this week.

In 2016, investors went "back to the basics, looking for less risky assets, positioning their portfolios in expectation of rising interest rates, or selling off equities after a significant run-up," said Alina Lamy, senior market analyst for Morningstar, in a release.

"Fixed-income strategies saw the largest flows globally in 2016 and commodity funds experienced a high organic growth rate, with the largest inflows going to the precious metals category," the release said. Outside the U.S., cross-border funds had flows of $138 billion, European funds had flows of $103 billion, and Asia funds had flows of $134 billion.

Highlights from Morningstar's 2016 Global Asset Flows Report include:

- Flows shifted to low-risk assets last year. In 2016, fixed income and money market received the largest flows, with $412 billion and $196 billion, respectively. In 2015, the top-receiving category was equity, with $346 billion, followed by allocation, with $167 billion. In terms of organic growth rates, commodities grew the fastest at 25.7% in 2016.
- Vanguard, buoyed by the popularity of its low-cost index funds, dominated with 2016 net inflows of $317 billion. BlackRock/iShares was second with $154 billion. State Street grew at an organic growth rate of 12.5% in 2016, the fastest among the top 10 firms.
- Generally, firms that included ETPs and lower-cost options grew, while active managers like Franklin Templeton (net outflow of $72 billion in 2016) shrank.
- U.S. index funds attracted $492 billion in 2016, while active counterparts saw outflows of $204 billion. In the Asia, cross-border, and Europe regions, however, active flows beat their passive counterparts.
- In the equity category, $390 billion went into index funds and $423 billion flowed out of active funds. Fixed income received inflows across both active and passive strategies worldwide.

- Funds with quantitative Morningstar Ratings of 4 or 5 stars saw inflows in 2016 of $127 billion and $221 billion, respectively, while 1-, 2-, and 3-star funds suffered outflows. Similarly, funds that have a qualitative Morningstar Analyst Rating of Gold and Silver attracted the largest inflows of $29 billion and $14 billion, respectively, and posted the only positive organic growth rates.
- Growing sensitivity to fees helped drive ETP assets to $3.6 trillion globally at the end of 2016.

The Morningstar Global Asset Flows Report is based on assets reported by more than 4,000 fund groups across 85 domiciles. The report represents more than 95,000 fund portfolios encompassing more than 240,000 share classes and includes a global overview as well as analysis about the United States, Europe, Asia, and cross-border offerings.

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 ETPs by computing the change in shares outstanding.