

Passive equity funds still gaining assets: Morningstar

By Editorial Staff Fri, Oct 21, 2016

U.S. equity attracted steady flows on the passive side, with an estimated inflow of \$19.3 billion in September, up from August's \$16.4 billion.

Active U.S. equity funds continued to lose assets in September, with an estimated \$23.6 billion in net outflow. That was slightly less painful than August's negative \$25.4 billion flow, according to Morningstar's monthly flow report on U.S. mutual funds and exchange-traded funds, or ETFs.

What active funds lost, passive funds largely gained. U.S. equity attracted steady flows on the passive side, with an estimated inflow of \$19.3 billion in September, up from August's \$16.4 billion. Net flow for mutual funds is based on the change in assets not explained by the performance of the fund and net flow for ETFs is based on the change in shares outstanding.

Highlights from Morningstar's report about U.S. asset flows in September:

- Flows into passive international equity funds slowed to \$2.1 billion in September from \$6.4 billion in August, a trend driven by falling flows into emerging-markets in recent months.
- Taxable-bond funds continued their undisputed rule as the category group with the highest inflows in September, with active funds receiving \$10.4 billion and passive funds \$12.9 billion.
- The MSCI Emerging Markets Index posted a 1.3% return in September. Flows into emerging-markets funds remained positive, but much lower than in July and August.
- The top Morningstar category remains unchanged from August: intermediate-term bond. However, intermediate-term bond was joined by the short and ultra-short bond categories on the list of top inflows.
- The bottom five categories were also little changed from last month, with large growth, world allocation, and Europe stock sustaining the largest outflows. WisdomTree Europe Hedged Equity and its Deutsche counterpart, Deutsche X-trackers MSCI Europe Hedged Equity, continued to suffer outflows.
- In September, all top 10 providers except Vanguard and State Street, which are known as passive specialists, experienced outflows on the active side.
- Vanguard continues to be the top passive provider in September with nearly \$21.0 billion in inflows. State Street fell to fourth place behind Vanguard, iShares, and Fidelity, with \$1.5 billion in inflows.
- Fidelity continued to receive inflows to its passive products after lowering fees three

months ago. However, the company still experienced a \$3.4 billion outflow on the active side.

- Prudential Total Return Bond, an intermediate-term bond fund that carries a Morningstar Analyst rating of Bronze, emerged as the top-flowing active fund.
- After garnering an \$11.1 billion inflow in July, SPY attracted \$600 million in August, which reflects the general trend away from the U.S. market. September's \$1.2 billion outflow could mean that active managers reallocated to other asset classes after temporarily placing assets in SPY.

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