
Vanguard continues to dominate fund in-flows

By Editorial Staff Thu, Nov 27, 2014

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Fixed income is the focus of the November issue of *The Cerulli Edge - U.S. Monthly Product Trends*. Its Monthly Spotlight feature takes a close look at product development in the area of managed volatility strategies.

The strong flow of assets into Vanguard funds, driven by the appeal of low-cost passive investing, was again reflected in the report. As of October, Vanguard has almost \$2.2 trillion in mutual fund assets, an 18.5% market share. With 10.4% and 9.9% market shares, Fidelity and American Funds run a distant second and third, respectively.

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Among the top-ten fund families for equity fund flows in the first ten months of 2014, Vanguard occupied the top four spots, with its Total Stock Market Index, Five Hundred Index, Mid-Cap Index and Small Cap Index Funds. Vanguard Total International Stock Index Fund had the highest in-flows among international equity mutual funds for October and for 2014.

The mutual fund with the highest inflows in October 2014, however, was the Metropolitan West Total Return Bond Fund, with \$6.7 billion. This intermediate-term, actively managed bond fund has returned 5.63% through November 25. It holds as much as 20% of its assets in below-investment grade securities, has more than 35% of assets in mortgage-backed securities and holds just 32.7% in U.S. government issues. The expense ratio of its non-institutional share class is 68 basis points.

Vanguard Total Bond Market Index Fund, by contrast, has 64% U.S. government securities and holds no bonds with a rating under Baa. The expense ratio of its Investor Shares is 20 basis points and for its Admiral Shares (\$10,000 minimum) is eight basis points. It has also had a good year, with a return of 5.34% through November 25.

Other highlights from this month's report included:

- Total mutual fund flows were negative (-\$6.7 billion) for the second month in a row. The taxable bond mutual fund asset class experienced redemptions for a second straight month. International equity mutual funds garnered the most flows in October (\$3.4 billion).
- ETF assets grew 2.9% in October, bringing total assets closer to \$2 trillion. ETF flows reached their highest level thus far in 2014, reaping \$29.9 billion in October.
- Investors are increasingly considering unconstrained or absolute return fixed-income strategies. Asset managers feel compelled to position clients against volatility and future rate tightening.
- Retail investors' appetite for income and reduced tax exposure will persist as Baby Boomers shift into retirement. Most financial advisors (78%) surveyed currently use municipal bond funds, and generally have sufficient understanding of their role in a portfolio.

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