

Vanguard continues to dominate mutual fund flows: Morningstar

By Editorial Staff Thu, Aug 18, 2016

"Cost definitely plays an important part [in Vanguard's success], but it's not the only reason," Morningstar's Alina Lamy (pictured) told RIJ. "A lot of it has to do with quality and transparency, as well—building a reputation and living up to it."

With \$32.9 billion exiting in July, outflows from actively-managed U.S. equity funds surpassed the estimated \$21.7 billion in outflows in June, according to Morningstar's monthly asset flow [report](#) on U.S. mutual funds and exchange-traded funds (ETFs) for July 2016. All passive category groups saw net inflows during the month, led by \$33.8 billion in inflows to passive U.S. equity funds.

The ongoing flight to index funds continues to benefit The Vanguard Group, which pioneered the use of retail index funds 40 years ago and offers a long list of index mutual funds and ETFs. Vanguard passive funds gathered \$21.1 billion in July, or about 62% of the total net flow into index funds, even though its European Stock Index Fund lost \$1.5 billion, one of the highest outflows. Vanguard and State Street were the only top-10 U.S. fund families to see positive flows into active strategies for the second consecutive month.

In 2015 (about \$220 billion) and so far in 2016 (about \$160 billion), Vanguard's flows are positive while the rest of the fund industry, collectively, has net outflows of about \$60 billion. Actively managed funds, though battered in recent years, still dominate the broker-dealer channels and account for almost twice as much in total assets under management as passive funds, by \$9.75 trillion to \$5.09 trillion.

The Vanguard index funds cost as little as 10 basis points (0.1%), but low cost is not the firm's only advantage, according to Morningstar. "Cost definitely plays an important part [in Vanguard's success], but it's not the only reason," Morningstar's Alina Lamy told *RIJ*. "A lot of it has to do with quality and transparency, as well—building a reputation and living up to it."

| Top 10 U.S. Fund Families | | | | | | |
|-----------------------------------|--------------|----------|-----------------|--------------|---------|-----------------|
| Estimated Net Flows \$Mil | Active | | | Passive | | |
| | July 2016 | 1 Year | Assets \$Bil | July 2016 | 1 Year | Assets \$Bil |
| Vanguard | 2,003 | 26,256 | 850 | 21,147 | 207,538 | 2,409 |
| American Funds | (1,800) | 1,846 | 1,253 | | | |
| Fidelity Investments | (8,890) | (37,964) | 1,001 | 4,708 | 23,789 | 232 |
| BlackRock/iShares | (1,789) | (11,518) | 212 | 20,607 | 106,933 | 932 |
| T. Rowe Price | (844) | (2,939) | 470 | 5 | 76 | 30 |
| SPDR State Street Global Advisors | 93 | 2,024 | 4 | 10,892 | 25,761 | 456 |
| Franklin Templeton Investments | (3,765) | (47,405) | 389 | | | |
| PIMCO | (754) | (36,586) | 302 | (182) | (350) | 4 |
| Dimensional Fund Advisors | | | | 205 | 20,826 | 296 |
| J.P. Morgan | (792) | (2,293) | 270 | 52 | (47) | 6 |

Source: Morningstar Direct Asset Flows.

“Many investors saw their savings wiped out almost overnight during the crisis and lost trust in money managers who had promised stellar returns. Vanguard didn’t over-promise and didn’t disappoint. All they promise is market returns at low cost, and this is something transparent and reasonable that resonates with investors.

“Also, in their own words from their website: “Vanguard is client-owned. As a client owner, you own the funds that own Vanguard.” This keeps them free from potential conflicts of interest that might arise for a fund company that’s affiliated with other institutions, such as big banks, etc.

Invesco Diversified Dividend Fund, which has a Morningstar Analyst Rating of Silver, led flows into active funds in July, garnering nearly \$1.3 billion. The highest inflow to a passive fund went to SPDR S&P 500 ETF, which took in more than \$11 billion in July, representing the fund’s highest monthly inflow since December 2014.

The data in the flows report only includes open-end and exchange-traded funds, Morningstar said. Target date funds or funds of funds are excluded in order to avoid double counting. The data doesn’t include defined contribution investment options, retirement accounts or variable annuity subaccounts.

Taxable bonds offer high returns

When bond yields fall, bond prices rise. That’s good for current bond fund owners and it attracts new money. In the first half of 2016, international bonds returned 17.3% and emerging market bonds returned 10.9%. Long-term government and corporate bonds returned 11.9% and 11.7%, respectively. Overall, active and passive funds in the taxable bond category group garnered \$34.0 billion in July.

The intermediate-term bond fund category garnered the most flows for the fifth month in a row, taking in nearly \$15.0 billion in July. The diversified emerging markets and emerging-markets bond categories joined the top five categories in July, in terms of inflows, collecting \$6.5 billion and \$4.6 billion, respectively.

Investors continued to withdraw assets from funds in the large growth, Europe stock, and world allocation categories. Fidelity and Franklin Templeton led active outflows in July, experiencing \$8.9 billion and \$3.8 billion in outflows, respectively. Total outflows in the allocation category group were \$3.5 billion.

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.

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