

Morningstar DirectSM U.S. Asset Flows Update

Morningstar Manager Research 20 October 2014

Data through September 30
U.S. Mutual Funds and Exchange-
Traded Products

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Active Fund Outflows High for U.S. Equity and Taxable-Bond Categories

The taxable-bond Morningstar Category Group registered the highest outflow in a single month since June 2013, as the announcement of Bill Gross' departure from PIMCO on Sept. 26 rocked the fixed-income investing world. However, excluding estimated outflows from Gross' flagship PIMCO Total Return, which amounted to \$17.9 billion¹ in September alone, the taxable-bond picture suddenly doesn't look so bad after all. The \$18.7 billion withdrawn this month from the category starts looking more and more like an isolated drop among an otherwise relatively consistent series of inflows this year.

Active and passive U.S. equity fund flows continued to move in opposite directions. Active U.S. equity experienced outflows for the seventh consecutive month, and passive U.S. equity experienced inflows for the eighth consecutive month.

¹This number excludes the roughly \$5.6 billion of outflows that occurred on Tuesday, Sept. 30, but were not processed until after the close. The combined \$17.9 billion and \$5.6 billion outflow matches the \$23.5 billion outflow mentioned in PIMCO's [press release](#).

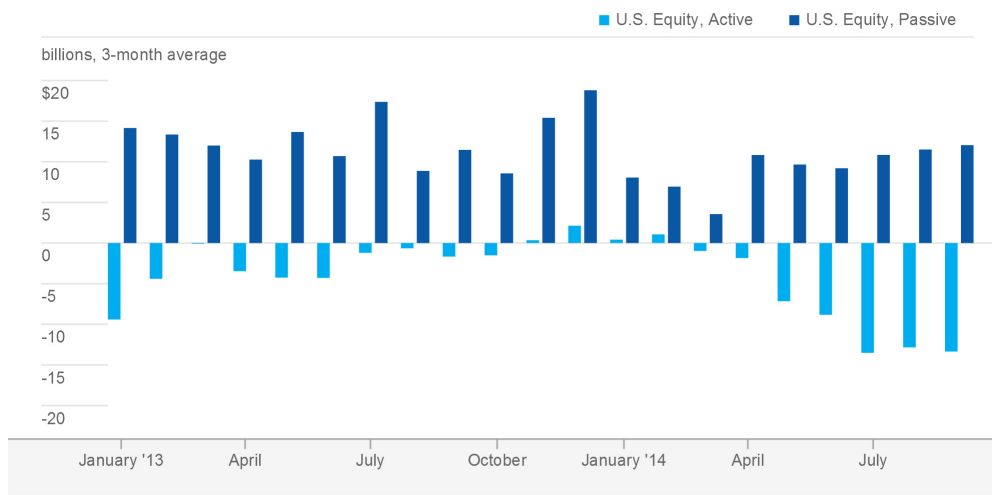
Estimated Net Flows*	Active			Passive		
	Sep 2014	1 Year	Assets \$Bil	Sep 2014	1 Year	Assets \$Bil
U.S. Equity	(12,635)	(63,076)	3,532	15,028	131,364	2,093
Sector Equity	1,189	17,631	368	844	37,900	314
International Equity	3,592	92,765	1,522	7,637	98,995	715
Allocation	3,586	48,647	1,106	296	2,915	46
Taxable Bond	(18,680)	(2,110)	2,294	2,916	58,494	601
Municipal Bond	3,212	(917)	549	383	2,825	16
Alternative	1,348	30,508	159	701	4,658	46
Commodities	575	(9,634)	36	(1,001)	(7,311)	62
All Long Term	(17,812)	113,852	9,568	26,803	329,841	3,894
Money Market	20,662	(65,827)	2,397			

*Includes liquidated and merged funds.

Source: Morningstar Direct Asset Flows.

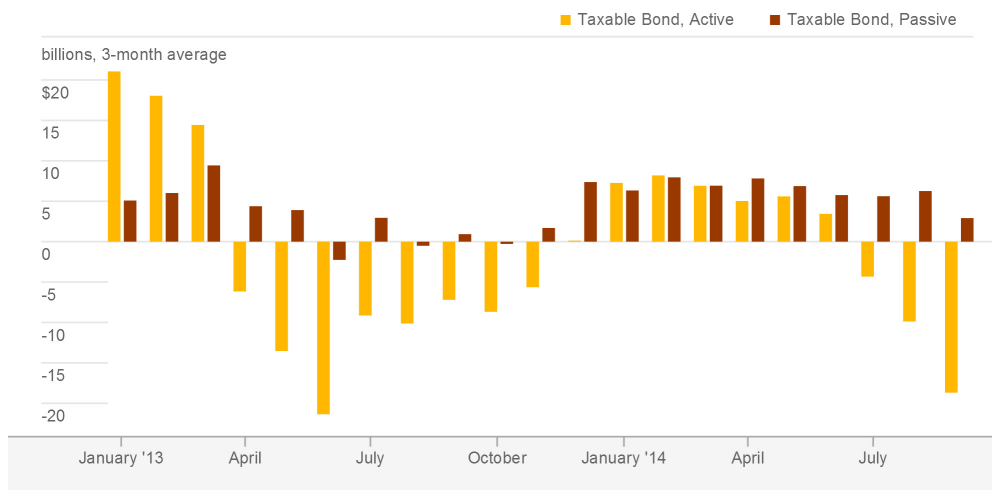
On the passive side, all categories except commodities are enjoying inflows, most notably U.S. and international equity. Total passive flows were larger than total active flows for the seventh consecutive month. The one-year flows, in particular, indicate that investors clearly prefer passive management in U.S. equity, sector equity, and taxable bond.

Exhibit 1. U.S. Equity Active Versus Passive Fund Flows



Source: Morningstar Direct Asset Flows

Exhibit 2. Taxable Bond Active Versus Passive Fund Flows



Source: Morningstar Direct Asset Flows

Equity Blend Popular This Month; High-Yield Outflows

Strong flows into passive U.S. equity funds were concentrated in the large-blend category, and to a lesser extent in foreign large-blend and mid-blend. Large-blend equity, the strongest receiving category on the passive side, nonetheless experienced outflows on the active side,

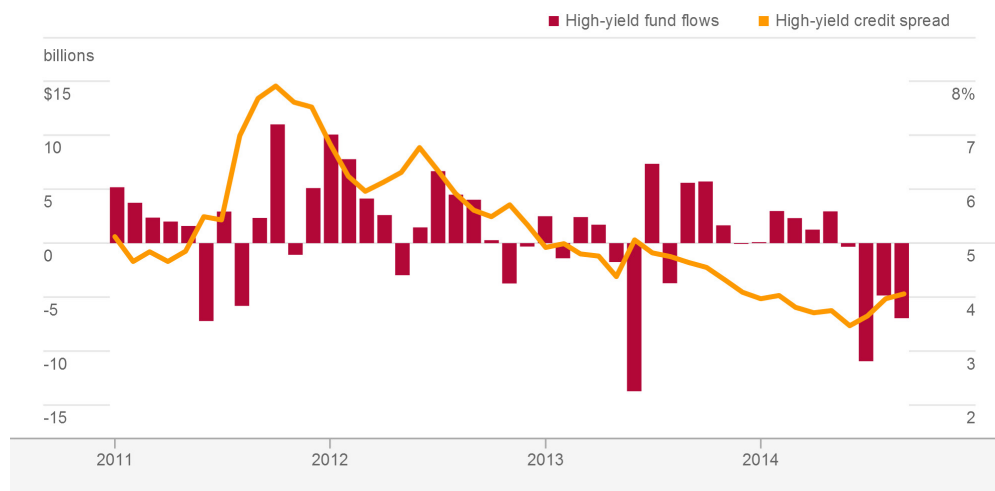
which continues the trend of the past few years. Investors continued to withdraw money from high-yield bond funds for the fourth month in a row, as high-yield credit spreads continued to rise.

Top- and Bottom-Flowing Categories in September

Estimated Net Flows* \$Mil	Active			Passive		
	Sep 2014	1 Year	Assets \$Bil	Sep 2014	1 Year	Assets \$Bil
Leading						
Large Blend	(2,207)	(5,067)	676	12,507	84,901	1,340
Foreign Large Blend	3,848	39,124	503	5,641	55,012	309
Mid-Cap Blend	184	4,453	94	1,877	15,181	200
Trading-Leveraged Equity	49	152	1	1,980	260	17
Conservative Allocation	1,906	16,859	210	29	326	2
Lagging						
High Yield Bond	(6,893)	(7,079)	275	(59)	869	33
Large Growth	(3,775)	(44,171)	1,161	(3,092)	5,127	144
Bank Loan	(3,382)	2,830	130	(377)	849	7
Intermediate-Term Bond	(8,554)	(36,182)	721	5,253	33,844	291
Foreign Large Growth	(3,106)	(1,655)	148	(31)	196	2

*Excludes money market and funds of funds.

Exhibit 3. High Yield Fund Flows Versus High Yield Credit Spread



Source: Morningstar Direct Asset Flows and St. Louis Federal Reserve

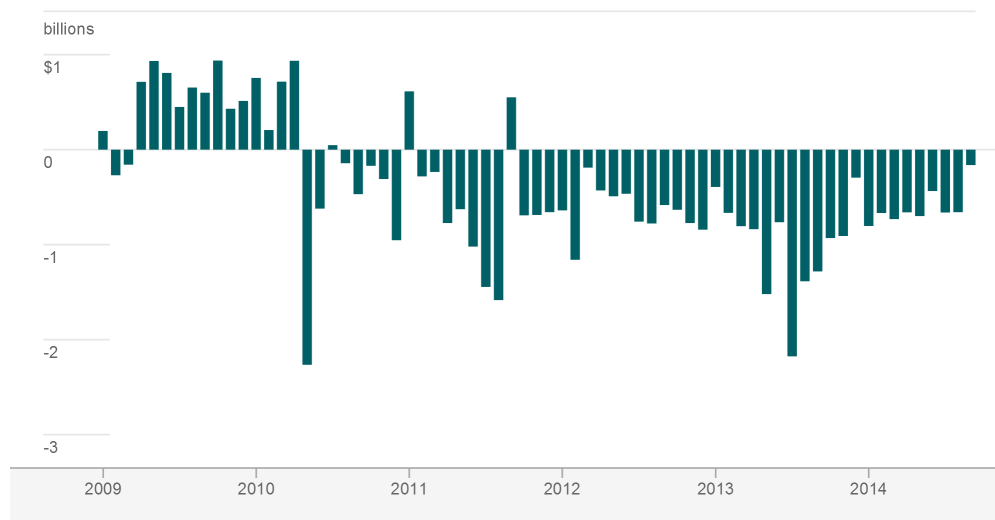
Top 10 U.S. Fund Families

Estimated Net Flows \$Mil	Active			Passive		
	Sep 2014	1 Year	Assets \$Bil	Sep 2014	1 Year	Assets \$Bil
Vanguard	1,785	10,939	734	13,390	167,159	1,794
Fidelity Investments	(2,579)	(19,269)	1,045	1,884	10,067	168
American Funds	521	(5,217)	1,152			
Blackrock/ iShares	879	13,754	202	2,039	51,882	713
PIMCO	(26,233)	(84,374)	478	(146)	1,078	6
Franklin Templeton Investments	369	4,065	451			
T. Rowe Price	988	14,584	421	(11)	1,453	25
SPDR State Street Global Advisors	25	175	1	7,429	15,963	405
JPMorgan	1,138	23,797	245	2	(101)	9
Dimensional Fund Advisors				2,668	27,260	242

Obviously, PIMCO has been hit the hardest, not only in September but also throughout the past year. As noted before, Fidelity's outflows are mostly the result of conversions to collective investment trusts. Vanguard is thriving among investors' ongoing preference for passive (and less expensive) fund management.

Janus, Bill Gross' new home, has been experiencing consistent outflows for the past five years, and it will be interesting to see whether a reversal is in the cards for them in the following months.

Exhibit 4. Janus Firm-Level Monthly Fund Flows



Flows by Individual Fund

This is where it should get really interesting. Knowing that so much money went out of PIMCO Total Return so fast, it raises the question: Where did that money go, or where will it go in the future as investors are reassessing their fixed-income positions?

Bottom-Flowing Active and Passive Funds

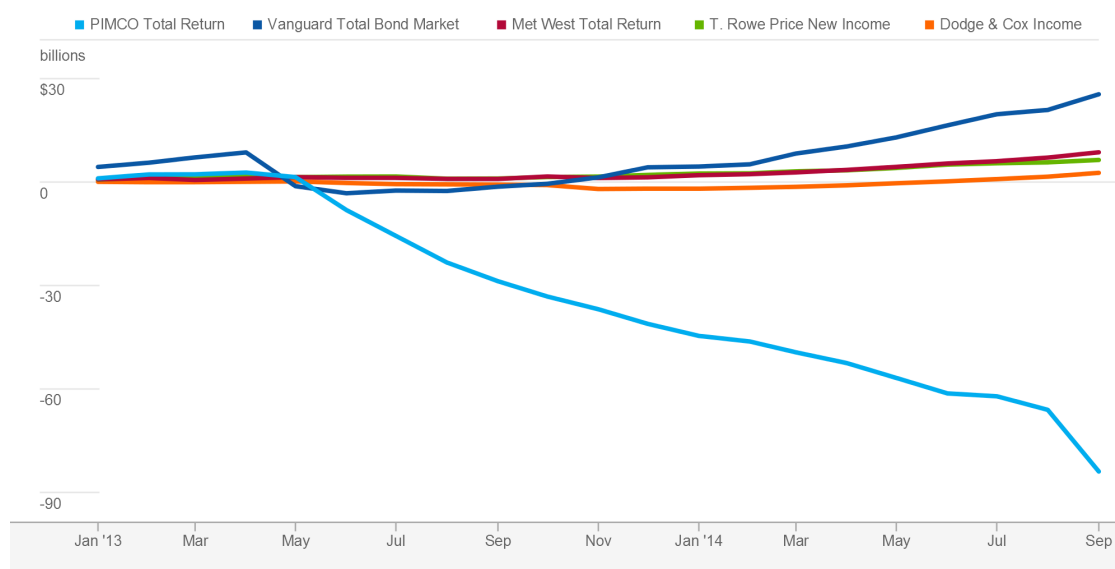
Estimated Net Flows \$Mil	Sep 2014	1 Year	Assets Sep 2014 \$Mil	Assets Sep 2013 \$Mil
Active Funds				
PIMCO Total Return Fund	(17,879)	(55,178)	201,585	250,051
PIMCO Unconstrained Bond Fund	(3,235)	(10,898)	18,277	28,801
PIMCO Low Duration Fund	(2,167)	(4,504)	19,993	24,203
Thornburg International Value Fund	(1,816)	(13,451)	15,873	29,288
Fidelity Series High Income Fund	(1,396)	(3,505)	7,736	10,594
Passive Funds				
PowerShares QQQ	(4,315)	(5,559)	42,596	38,219
iShares 7-10 Year Treasury Bond	(2,735)	853	4,898	4,030
Vanguard Institutional Index Fund	(2,309)	2,254	178,173	146,919
iShares MSCI Emerging Markets	(1,830)	(2,156)	39,253	41,443
SPDR S&P MIDCAP 400 ETF	(1,311)	(1,714)	14,017	14,392

Top-Flowing Active and Passive Funds

Estimated Net Flows \$Mil	Sep 2014	1 Year	Assets Sep 2014 \$Mil	Assets Sep 2013 \$Mil
Active Funds				
Dodge & Cox International Stock Fund	1,933	9,386	64,673	48,882
Metropolitan West Total Return Bond Fund	1,539	7,726	33,580	24,724
GMO Implementation Fund	1,374	7,041	14,178	6,527
Fidelity Series Investment Grade Bd Fd	1,320	(4,132)	24,356	27,537
Dodge & Cox Income Fund	1,111	3,416	30,264	25,563
Passive Funds				
SPDR S&P 500 ETF	9,843	11,585	180,378	145,766
Vanguard Total Bond Market Index Fund	3,901	11,634	124,224	109,023
Vanguard Total Intl Stock Idx Fund	3,245	22,254	129,885	103,210
iShares Core S&P Mid-Cap	2,558	4,071	23,368	17,614
Vanguard Total Stock Market Index Fund	2,101	33,547	355,358	272,924

Unsurprisingly, the top three active funds with the heaviest outflows were PIMCO funds formerly managed by Bill Gross, losing a little over \$23 billion in a single month. On the inflow side, large sums of fixed-income-oriented money went into Gold-rated Metropolitan West Total Return Bond and unrated Fidelity Series Investment Grade Bond, two intermediate- bond funds that would appear to be reaping the benefits of investors moving away from PIMCO. The same can be said of Vanguard Total Bond Market Index on the passive side.

Exhibit 5. Notable Intermediate-Term Bond Funds Cumulative Fund Flows since January 2013



Morningstar Direct Asset Flows

Note: Vanguard Total Bond Market flows are the combination of I and II versions of the fund.

In Exhibit 5, the massive outflows out of PIMCO Total Return appear to dwarf the other four funds altogether. However, these four funds received a combined \$43.2 billion since January 2013.

Note: The figures in this report were compiled on Oct. 9, 2014, and reflect only the funds that had reported net assets by that date. The figures in both the commentary and the extended tables are survivorship-bias-free.

Also note that this report includes both mutual funds and ETFs, while past commentaries excluded ETFs. The decision to include ETFs and to split some of the data tables into active and passive groups was based on the fact that ETFs now account for a significant share of assets and flows. In addition, a large share of the flows to mutual funds during the past several years have gone to passive investments, often within retirement savings accounts. These flows may not be completely representative of incremental investment decisions.

Important methodology note: Morningstar computes flows using the approach that is standard in the industry: Estimated net flow is the change in assets not explained by the performance of the fund. Our method assumes that flows occur uniformly over the course of the month. Adjustments for mergers are performed automatically. When liquidated funds are included, the final assets of the fund are counted as outflows. Reinvested dividends are not counted as inflows. We use fund-level reinvestment rates to improve accuracy in this respect. We make ad hoc adjustments for unusual corporate actions such as reverse share splits, and we overwrite our estimates with actual flows if managers are willing to provide the data to us. Please click [here](#) for a full explanation of our methodology.



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