IGNITES

Against All Odds: Active Shops With Equity Fund Inflows

By Adrian D. Garcia
August 13, 2021

Just 13 of the 55 largest active shops recorded positive organic growth rates for their U.S. equity lineups during the first half of 2021, data shows.

Collectively, the complexes with inflows added $22.9 billion to their actively managed domestic stock funds. The five shops with highest organic growth rates accounted for 55% of those sales, according to an Ignites analysis of data from Morningstar Direct.

METHODOLOGY

For this analysis, Ignites examined fund shops with actively managed, U.S. equity mutual funds. Fund complexes with less than $15 billion in assets in those strategies as of June 30 were excluded.

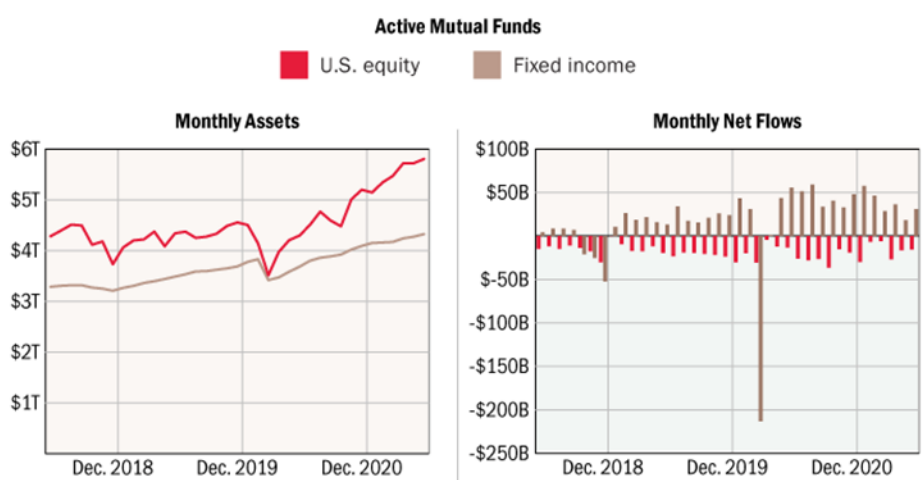
Data is from Morningstar Direct. All data is as of June 30, unless otherwise stated. ETFs, money market funds and fund of funds are excluded.

Industrywide, redemptions eclipsed sales of active stock mutual funds, with investors pulling a net $101.1 billion from the category between Jan. 1 and June 30, according to Morningstar data.

Yet, despite investors' yanking money from the products, assets in them climbed 12% from 2020 to an all-time high of $5.8 trillion as of June 30.

The Best and Worst of Times

Even though investors yanked $101 billion from active U.S. equity funds during the first half of 2021, assets in such products surged, according to Morningstar Direct. At the end of June, they had $5.8 trillion in assets, up 12% from the end of 2020.



Source: Morningstar Direct. Data includes actively managed, open-end mutual funds. It excludes ETFs and money market funds.

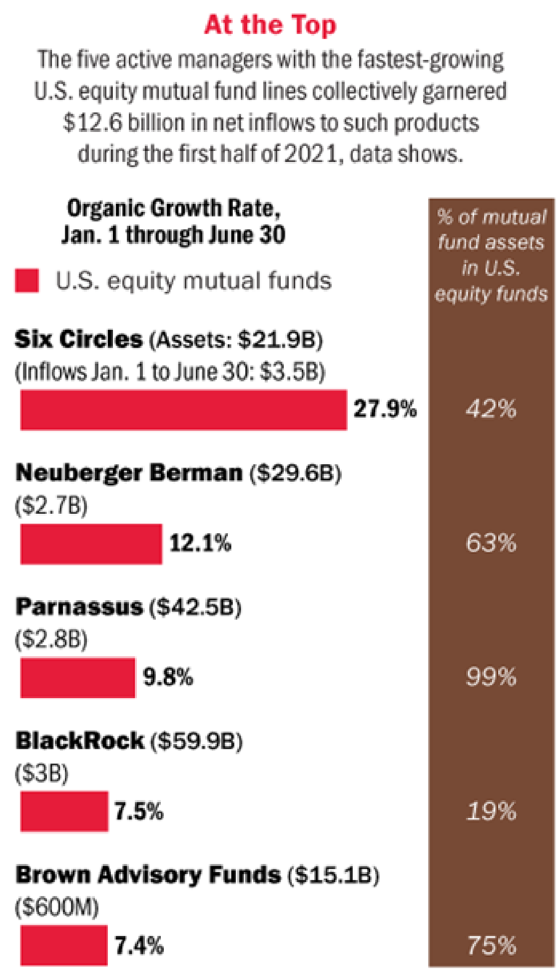
Six Circles' U.S. stock suite organically grew 28% during the first half, the most among the companies examined. The shop has two funds in the asset class that are available exclusively through JPMorgan discretionary portfolios, which combined captured $3.5 billion in flows during the period.

A JPMorgan spokesperson declined to comment.

Six Circles held $52.7 billion in assets as of June 30, with 42% in domestic stock funds, Morningstar's data shows.

Six Circles is JPMorgan's model portfolio solution and "an example of a larger firm branding their model solutions as a distinct entity," said Jeff Tjornehoj, director of fund insights at Broadridge.

Model portfolios are "creating a tidal wave of interest by financial planners and advisors who are able to spend more time with their clients, more time building their business and less time having to be product researchers," he said.



Source: Morningstar Direct. Data includes actively managed, open-end mutual funds. ETFs and money market funds are excluded. Data only includes fund complexes with at least $15 billion in actively managed domestic equity stock funds. Asset figures are as of June 30.

Neuberger Berman's U.S. stock funds organically grew 12% during the six-month period, the second-highest rate among the companies examined. The products collected $2.7 billion in flows, putting their assets at $29.6 billion as of June 30, the data shows.

The shop benefited from some of the rotation out of growth funds into value strategies during the beginning of the year, said Scott Kilgallen, the firm's head of North American intermediary client coverage.

One fund accounted for most of those sales: the New York-based firm's $6.1 billion Large Cap Value Fund, which attracted $3.4 billion in flows from Jan. 1 through June 30, according to Morningstar.

Overall, value-oriented mutual funds sold better than growth funds during the period examined, but they still bled $9 billion. Large value funds accounted for about two-thirds of the outflows. Growth funds, meanwhile, lost $61.3 billion.

“Very little of the asset growth has come from model allocation, at least so far this year, which is exciting because there's been a tremendous breadth of the investor base,” Kilgallen said.

“We’ve seen a few model allocations coming from some of the larger [registered investment advisors],” he added. “But for the most part, it’s really been [financial advisor] driven.”

Many financial advisors continue to create client portfolios on their own and keep active strategies on their radars, said Brendan Powers, associate director in Cerulli’s product development practice.

Roughly 80% of financial advisors surveyed by the researcher use index funds to keep overall portfolio costs low for clients, according to a fall 2020 survey published by the researcher. However, most FAs “still look to active where they feel it can beat a benchmark or achieve an outcome or an objective that they're looking to solve for a client,” he said

Parnassus’ U.S. equity funds organically grew the third-most: 10%. The four strategies gained a collective $2.8 billion and had $42.5 billion in assets as of June 30. The shop’s $28.4 billion Core Equity and $4.9 billion Endeavor funds led the way, pulling in $1.7 billion and $793.8 million, respectively. Morningstar classifies both funds as sustainable.

Across asset classes, active funds categorized as sustainable garnered $4 billion during the start of the year, while those without the classification lost $105.2 billion. Just 2% of U.S. equity assets, or $115.4 billion, was in sustainable funds as of June 30, the data shows.

“There’s just more comfort and interest in [environmental, social and governance] investing these days,” said Joe Sinha, chief marketing officer at Parnassus, the ESG-focused shop that AMG plans to scoop up. “We’ve been doing it since 1984. There’s a lot of people who want that tradition and who want that sincere and genuine approach, and they’ve invested with us.”

Meanwhile, MassMutual, SEI, Jackson National, Harbor Funds and New York Life Investment Management were at the other end of the spectrum, with U.S. stock fund suites that organically shrank the must during the six-month period. The complexes recorded collective redemptions of $19.4 billion.

MassMutual's $22.4 billion domestic equity portfolio shriveled the most: 12%. Stock funds at the Springfield, Mass.-based shop bled $2.4 billion between Jan. 1 and June 30. The outflows accounted for 80% of the $3 billion that investors pulled from its $32.1 billion active mutual fund line during the period.

The "higher-than-usual outflows" at MassMutual were in part attributed to the $9.7 billion Mid Cap Growth Fund, which is "a closed strategy that has underperformed its peer group on a relative basis," a company spokesperson said.

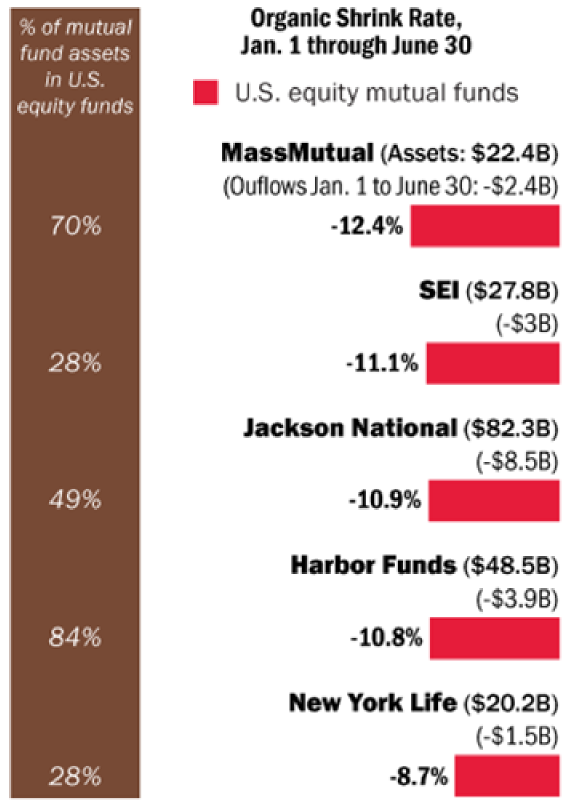
When the growth fund was closed to new investors in August 2018, it had $8.2 billion in assets, or 19% more than it did at the end of June, according to Morningstar's database. It leaked $1 billion during the first six months of 2021, compared to $1.4 billion during all of 2020, the data shows.

"Performance has improved in recent months, and we expect flows to normalize," the spokesperson said.

Institutional shares of the Mid Cap Growth Fund returned 9.98% during the first six months of 2021, and 18.34% for the five-year period starting June 2016.

Challenged Complexes

Investors pulled $19.4 billion from the five fastest-shrinking U.S. equity mutual fund suites, Morningstar data shows.



Source: Morningstar Direct. Data includes actively managed, open-end mutual funds. ETFs and money market funds are excluded. Data only includes fund complexes with at least $15 billion in actively managed domestic equity stock funds. Asset figures are as of June 30.

SEI's U.S. equity funds, meanwhile, organically shrank 11%, the second-most. The $3 billion that investors yanked from the firm's U.S. equity funds represented 96% of its overall net outflows for the period. Such SEI funds held $27.8 billion in assets as of June 30.

The company did not respond to requests for comment.

The $2.1 billion U.S. Managed Volatility Fund gushed $1.2 billion between Jan. 1 and June 30, when including net flows for the firm's Institutional Managed and Institutional Investments trusts. The latter holds the large value strategy's Class A shares.

"The biggest loser for the first half to the year is large-cap funds, excluding ETFs," said Tom Roseen, head of research services at Refinitiv Lipper. "It's really hard for large-cap managers to differentiate on [factors] other than expense."

Altogether, large-cap mutual funds bled about $62.9 billion during the first six months of 2021, according to separate data from Refinitiv.

Some of the money leaving mutual funds, however, has moved to other products in the same complex, including separately managed accounts and collective investment trusts, Roseen said. However, those figures are difficult to ascertain.

The different wrappers are an "opportunity for fund managers to keep the money in-house and lower their expenses because they don't really have to report anything," he added.

The outflows from U.S. equity products might also be driven by investors, especially baby boomers, who are highly concentrated in stock portfolios and looking to reallocate into fixed-income products, he said.

Taxable bond funds pulled in about $216.2 billion during the first six months of 2021, according to Refinitiv data, and municipal bond funds attracted $49 billion.

New York Life, for example, garnered $2.9 billion in net inflows to its muni bond funds between January and June, Morningstar data shows. The gains more than offset the $1.5 billion that investors pulled from the shop's domestic equity funds. Altogether, its stock funds organically shrank 9%, the fifth-most among the shops examined. The funds had $20.2 billion in assets as of June 30.

The company did not respond to requests for comment.