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Bond Mutual Funds Set Record \$425B Inflows in 2009

Strategic Insight: Massive Flows into Bond Funds to Continue in 2010

NEW YORK, NY – January 14, 2010 – Led by robust demand for income as cash yields remain near zero, US investors’ use of bond mutual funds reached record levels in 2009. Strategic Insight, a business intelligence provider to the fund industry, announced that full-year 2009 inflows to bond funds (including traditional mutual funds and ETFs) hit an **all-time record of \$396 billion** – an impressive number considering bond and stock fund flows have never before topped \$300 billion in one year. If funds underlying variable annuities are included, bond fund inflows hit \$425 billion in 2009.

Altogether, long-term mutual funds (stock and bond funds and ETFs) saw total net inflows of \$478 billion in 2009.

As the chart below makes clear, these flows were led by taxable bond funds (net inflows of \$324 billion) and international equity funds (net inflows of \$75 billion). A limited appetite for risk restrained demand for US equity funds in 2009, resulting in net inflows of just \$6 billion.

Stock and bond mutual funds (including ETFs but excluding variable annuity funds) ended the year with \$7.8 trillion in assets.

US Long-Term Fund & ETF Results					
Fund Type	2007	2008	2009	Dec'09	Dec. 2009
	Net New Flows \$ Billion	Net New Flows \$ Billion	Net New Flows \$ Billion	Net New Flows \$ Billion	Total Assets \$ Billion
Domestic Equity	55.0	-4.7	6.3	14.9	3,999.8
International Equity	223.0	-39.9	75.3	8.1	1,580.5
Total Equity	278.0	-44.6	81.7	23.0	5,580.3
Taxable Bond	104.8	38.5	323.5	24.2	1,668.0
Tax-Free Bond	9.8	6.3	72.7	4.7	553.0
Total Bond	114.6	44.8	396.2	28.9	2,221.0
Total Stock & Bond	392.6	0.2	477.9	51.9	7,801.3

Source: Strategic Insight Simfund MF; Data exclude mutual funds underlying variable annuities

Observations on 2009:

Bond vs. stocks: Bond fund inflows neared \$430 billion in 2009. Stock fund flows, when excluding Emerging Markets, were only around \$30 billion. While spiking stock prices worldwide are signaling economic recovery, investors in stock mutual funds remain cautious and ambivalent about the recovery.

Emerging Markets vs. Developed Markets: Emerging markets funds (diversified or single country) captured about \$55 billion during 2009. Will interest in Emerging Markets be sustained in 2010?

ETFs vs. traditional index funds: ETFs (including ETNs) saw net inflows of \$114 billion in 2009, down from \$176 billion in 2008. Traditional index fund flows were less than half, at \$54 billion, although up from \$50 billion in 2008. See more on ETFs below.

Fund performance: The average investor in stock funds earned a 33.6% return in 2009, while the average bond fund investor earned 16.9%. These figures are asset-weighted, thus reflecting the experience of the average investor, not the “average fund.”

Active fund managers with remarkable growth: SI looked at active fund managers that saw large growth in terms of 2009 net inflows as a percentage of total assets at the start of 2009 (“organic growth”). We included management firms that started 2009 with \$1 billion+ in assets, to exclude tiny players. We found 15 firms that had organic growth of 50% or more in 2009:

Fastest-Growing Active Fund Managers 2009			
Manager	2009 Net New Flows \$ Billion	2009 Inflows As % of Assets*	Dec. 2009 Total Assets \$ Billion
Van Eck	1.3	119%	3.3
Manning & Napier Advisors	4.2	91%	11.0
Matthews Asian Funds	3.3	83%	10.4
Robert W Baird & Co	1.4	72%	3.6
Hussman Econometrics	2.7	68%	6.8
Saturna Capital	0.9	67%	2.7
Credit Suisse	1.2	66%	3.6
Bessemer Trust	2.2	65%	6.7
Lazard Asset Management	3.6	65%	13.4
Sentinel Asset Management	2.4	63%	7.2
Westchester Capital	0.8	61%	2.3
TCW Management	2.9	57%	9.6
Northern Trust	6.3	54%	20.6
Kornitzer Capital Management	0.9	51%	3.6
JPMorgan Funds	26.2	51%	89.0

**Inflow rate = net flows as percentage of assets at start of 2009 (with \$1B+ assets)*

Source: Strategic Insight Simfund MF

This list included many smaller fund firms, such as Van Eck, which saw success with its Global Hard Assets fund, Manning & Napier, which enjoyed big flows into its World Opportunities Fund, and Asian-investing specialist Matthews. “The large number of smaller fund firms on this list attest to the strength of boutiques, whose focus and strong sense of conviction for their strategies/philosophies often prove attractive to investors in times of uncertainty,” said Avi Nachmany, director of research at Strategic Insight.

Most Popular Active Mutual Funds

The most popular actively managed mutual funds of 2009 displayed a wide range of investment styles, including emerging-markets funds and the largest mutual fund, PIMCO's Total Return.

Domestic Equity Funds: Biggest Net Inflows 2009	
<i>Fund</i>	<i>Net Inflows 2009, \$B</i>
1 PIMCO Commdty Real Return	6.7
2 Eaton Vance Large Cap Value	3.3
3 GMO Quality	2.8

Source: Strategic Insight Simfund MF

Internat'l Equity Funds: Biggest Net Inflows 2009	
<i>Fund</i>	<i>Net Inflows 2009, \$B</i>
1 Ivy Asset Strategy	6.5
2 BlackRock Global Allocation	6.3
3 Lazard Emerging Markets Equity	3.7

Source: Strategic Insight Simfund MF

Taxable Bond Funds: Biggest Net Inflows 2009	
<i>Fund</i>	<i>Net Inflows 2009, \$B</i>
1 PIMCO Total Return	49.7
2 Vanguard Short Investmt Grade	12.1
3 Templeton Global Bond	11.9

Source: Strategic Insight Simfund MF

Tax-Free Bond Funds: Biggest Net Inflows 2009	
<i>Fund</i>	<i>Net Inflows 2009, \$B</i>
1 Wells Fargo Adv. Ultra Short Muni	6.0
2 Vanguard Intermediate Tax Exempt	5.4
3 Vanguard Short Tax Exempt	5.3

Source: Strategic Insight Simfund MF

Exchange-Traded Funds

In 2009, ETFs (including ETNs) drew \$114.4 billion in net inflows. The year ended with a bang, as ETFs took in \$27.4 billion in December 2009, the largest monthly inflow to ETFs since the products drew \$42.9 billion in December 2008. It was the third year in a row that ETF inflows have topped \$100 billion, including \$149 billion in net inflows in 2007 and a record \$176 billion in net inflows in 2008.

Net flows into ETFs were led by flows into emerging markets equity ETFs, followed by gold ETFs, government bond ETFs, commodities ETFs and natural-resources companies ETFs.

U.S. ETFs ended the year with a record \$785.3 billion in assets, invested in 893 different ETFs. That marked a dramatic rise from \$613.2 billion in ETF assets at the end of 2007 and \$535.2 billion in assets at the end of 2008.

US ETF Flows and Assets			
2007	2008	2009	Dec. 2009
Net New Flows \$ Billion	Net New Flows \$ Billion	Net New Flows \$ Billion	Total Assets \$ Billion
149.3	175.8	114.4	785.3

Source: Strategic Insight

Strategic Insight expects US ETF assets to hit the \$900 billion mark in 2010, and hit the \$1 trillion mark in 2011. "ETF growth is attracting more big-name players, such as PIMCO and Schwab, which in turn helps accelerate the growth of the ETF market," said Loren Fox, senior research analyst at Strategic Insight.

2010 Outlook

With some \$10 trillion+ of cash sitting on the sidelines – in bank accounts and money-market mutual funds – and earning near-zero yields, investors will continue to migrate into higher-yielding investments in 2010. The massive inflows into bond funds could continue, and SI believes they could again exceed \$300 billion in total net inflows in 2010. However, if the economic recovery is stalled, bond fund inflows could possibly top their 2009 records.

Equity fund net inflows should slowly increase in 2010, with the 1-year anniversary of the market bottom in March serving as a trigger point. “Despite the dramatic gains in equity markets in 2009, investors are waiting for surer signs of economic and employment recovery before moving significantly back into stock mutual funds,” said SI’s Nachmany. Meanwhile, we expect continued higher allocations to international stock funds, as investor portfolios persistently grow more globally diversified – a trend supported that will be supported in the next few years by a weakening dollar.

Teleconference: Please join us for a teleconference for the media to discuss 2009 results and our expectations for fund industry for 2010. The live call will include SI Research Director Avi Nachmany and SI Senior Research Analyst Loren Fox taking questions from reporters.

When: January 14, 2:00 pm – 2:30 pm EST

Dial-in Number: 1-650-429-3300

Attendee Access Code: 85611011

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