Vanguard maintains blistering pace of asset growth

After setting inflow record for 2012, mutual fund firm beats rivals with $53B take in Q1

By **Jason Kephart** Apr 15, 2013

It's Jack Bogle's world. The rest of the asset management business is just living in it.

Fresh off setting a record for most net inflows in a single year, The **Vanguard Group** Inc., which Mr. Bogle founded in 1975, took in $53.6 billion in the first quarter, a single-quarter record for the Malvern, Pa.-based firm. It's also $15 billion more than was taken in by Pacific Investment Management Co. LLC, the second-best-selling mutual fund company in the first quarter, according to Lipper Inc.

Last year, Vanguard pulled in more than $138 billion, topping **JPMorgan Chase & Co.**'s record of $129 billion in net inflows for a single year in 2008.

“There're two things going on,” said Mike Rawson, analyst at **Morningstar Inc.**“The primary driver has been the shift to low-cost passive investing. Vanguard has some of the lowest options available, so they've benefited from that. They also have a lot of good bonds funds, and investors have been clamoring for bonds.”

Vanguard has been pounding home the message “low costs lead to better long-term results” for almost 40 years, so it's no surprise to see them benefiting from a higher demand for passive investments.

But it isn't their cheerleading that's turned the tide, said Dan Wiener, editor of The Independent Adviser for Vanguard Investors.

“Interest in active management is fading because the press is fading on it,” he said.

Can you blame the media when only one in four large-cap equity funds have beaten the S&P 500 over the 10-year period through 2012?

Passive investing and the bond fund bonanza are both largely out of Vanguard's control, Mr. Rawson said. When it comes to things Vanguard does control, however, officials have positioned the firm for the windfall of flows.

“What they can control is their costs and the way they run their business,” he said. “It's not a very aggressive sales culture. They've tried to be conservative, and in the long run, that's helped the brand. Vanguard's built up a lot of trust with the retail investor.”

That's why, when the retail investor came back into the market at the start of the year, Vanguard was one of the biggest beneficiaries. One sign of proof is that assets in retail money market funds have declined by $39 billion since the beginning of the year, according to the **Investment Company Institute**.

In the first three months of the year, more than $33 billion flowed into Vanguard's mutual funds and $19 billion into its exchange-traded funds, according to Morningstar.

Most impressively, Vanguard's ETF flows made up 57% of all ETF flows in the first quarter, despite the company ranking third by size among providers of ETFs behind **BlackRock Inc.**'s iShares and **State Street Global Advisors**.

Vanguard's share of the ETF market has grown to 19%, from 13% three years ago.

“That's a pretty big rise in market share,” Mr. Rawson said.

Its overall share of the mutual fund and ETF market has grown to 18%, from 15% in 2010, according to Lipper.


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