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Multi-Sector Bond Funds

A bright spot amid fixed-income funds, multi-sector bond funds hit a rough patch in August.

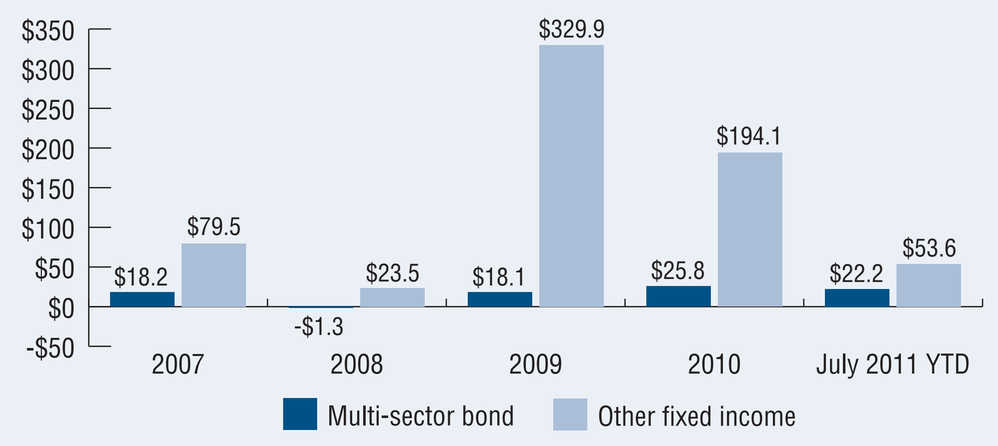
Multi-sector bond funds have avoided the doldrums that have been afflicting many fixed-income categories for some time. A staple of some managers' product lines for over a decade, this cohort of diversified bond funds (sometimes dubbed strategic income funds) currently ranks first in Morningstar category flows—multi-sector bond fund flows totaled $37.7 billion for 12-months ended July 2011.

Fixed-income funds have not enjoyed asset growth across the board, and select categories, including bank-loan funds, emerging market bond funds, and multi-sector bond funds, have stolen the spotlight from corporate bond and other income funds, although bank loan and multi-sector bond slipped into outflows this summer. Notably, fixed income funds' share of the overall mutual fund asset mix grew from 19.3% in 2007 to 27.6% in 2008 (taking share from equity funds), but has held steady since 2009, accounting for 29.3% of overall mutual fund AUM as of 2Q 2011.

Flows into fixed-income funds jumped dramatically from 2008 to 2009, but tapered off in 2010 following a very bad year for the bond market in 2009, and declined again year-to-date (YTD) 2011. Interest rate, inflation, and credit and default risk concerns top a long list of issues that have been stinging the bond market.

The percentage of advisors using fixed-income funds increased from 80.6% in 2010 to 84.4% in 2011, but the types of bond funds they are selecting for portfolio construction are changing. Bond laddering is difficult amid scarce yield, and advisors do not appear to be employing more individual fixed-income securities for their clients' portfolios; they allocated 9.3% to individual bonds in 2010, but only 8.5% in 2011. At the same time, fund-company-led education has boosted advisors' aware-

Multi-Sector Bond Fund Flows vs. All Other Fixed-Income Flows, 2007–July 2011 YTD ($ billions)
Multi-sector bond fund flows have accelerated against a backdrop of declining fixed-income flows.



Source: Strategic Insight/SIMFUND