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For February Conventional Equity Funds Attract Their Largest Net Inflows (+$22.5 Billion) in a Year, While Bond Funds Take in $30.9 Billion

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For February Conventional Equity Funds Attract Their Largest Net Inflows (+$22.5 Billion) in a Year, While Bond Funds Take in $30.9 Billion

- For the fourth consecutive month investors, injecting $52.1 billion into the conventional funds business for February, were net purchasers of fund assets. Investors injected a net $30.9 billion and $22.5 billion into bond funds and stock & mixed-equity funds, respectively, while redeeming just $1.3 billion from money market funds.
- For the tenth consecutive month investors were net redeemers of U.S. Diversified Equity Funds, withdrawing $2.1 billion. Large-cap funds (-$ 6.4 billion) experienced their sixteenth consecutive month of outflows.
- Exchange-traded funds (ETFs) post their third consecutive month of net inflows as investors allocate $9.1 billion in stock & mixed-equity ETFs and $3.3 billion in bond ETFs
- Bolstered by investor interest in gold and energy trackers, Sector Equity ETFs report net inflows of $6.9 billion—the macro-group's strongest monthly inflows since Feb '09.

Executive Summary

Equity funds rose fairly steadily during the month as investors shrugged off continued uncertainty surrounding Greece and a new round of saber rattling over Iran's nuclear intentions, with the subsequent rise in oil prices. Investors focused instead on better-than-expected earnings reports, with 63% of the 489 S&P 500 constituents that had reported Q4 earnings beating analyst expectations (according to the Thomson Reuters Proprietary Research team) and on improving unemployment reports and economic data. Many of the major indices broke through multi-year highs. The Dow Jones Industrial Average closed above 13,000 for the first time since May 2008 and posted its fifth month of plus-side returns in February, rising 2.53% for the month. Meanwhile, the broad-based S&P 500 was at its highest level since June 2008, rising to 1,372.18 on February 28. Despite the tug of war between better economic news and rising oil prices and global concerns, investors generally became slightly more risk seeking during the month, leading Treasuries prices lower. The benchmark ten-year Treasury yield finished the month at 1.98%—15 basis points (bps) higher than January's month-end value.

For the fourth consecutive month investors were net purchasers of fund assets, injecting $52.1 billion into the conventional funds business (excluding exchange-traded funds [ETFs]). Investors injected some $30.9 billion into bond funds (their largest monthly inflows since August 2010) and $22.5 billion into equity funds (their strongest inflows since February 2011), while redeeming just $1.3 billion from money market funds.

Table 1 Estimated Net Flows by Major Fund Types, February Versus January 2012 ($Bil)

	February	January
Stock & Mixed Equity Funds	22.5	16.8
Bond Funds	30.9	30.7
Money Market Funds	-1.3	-38.9
Total	52.1	8.6

Source: Lipper, a Thomson Reuters Company
Note: Columns may not sum because of rounding

Table 2 Estimated Net Flows of Major Equity Fund Types, February Versus January 2012 ($Bil)

	February	January
USDE Funds	-2.1	-1.8
Sector Equity Funds	1.5	2.4
World Equity Funds	4.3	2.2
Mixed Equity Funds	18.8	14.0
Total	22.5	16.8

Source: Lipper, a Thomson Reuters Company
Note: Columns may not sum because of rounding

Equity Funds

United States Diversified Equity (USDE) Funds

In February domestic equity funds suffered their tenth consecutive month of outflows, with investors redeeming $2.1 billion. Only six of Lipper's 4x3-matrix classifications took in net new money for the month, with Large-Cap Growth Funds (+$1.0 billion), Multi-Cap Core Funds (+$0.7 billion), and Multi-Cap Growth Funds (+$0.7 billion) drawing in the largest amounts. Large-cap funds suffered their sixteenth consecutive month of outflows. Once again Large-Cap Core Funds (-$6.3 billion) suffered the largest net redemptions of the macro-group, while Equity Income Funds (+$2.2 billion) attracted the largest share of investor assets. The non-4x3-matrix subgroup took in $3.3 billion net, with Extended U.S. Large-Cap Core Funds (-$0.3 billion) suffering the largest net outflows.

Table 3 Estimated Net Flows of 4x3-Matrix USDE Funds, February Versus January 2012 ($Bil)

	Value	Core	Growth	February	January
Large-Cap	-1.1	-6.3	1.0	-6.4	-6.4
Multi-Cap	-0.5	0.7	0.7	0.9	0.4
Mid-Cap	0.0	0.3	-0.2	0.1	-1.0
Small-Cap	-0.4	0.1	0.3	0.1	-0.2
Total	-2.0	-5.3	1.8	-5.4	-7.1

Source: Lipper, a Thomson Reuters Company
Note: Columns and rows may not sum because of rounding

Table 4 Estimated Net Flows of Other USDE Classifications, February Versus January 2012 ($Bil)

	February	January
Equity Leverage Funds	-0.1	0.1
Dedicated Short Bias Funds	0.3	-0.1
Equity Income Funds	2.2	4.3
Extended U.S. Large-Cap Core	-0.3	-0.1
Equity Market Neutral Funds	0.1	0.5
Long/Short Equity Funds	0.2	0.2
Specialty Diversified Equity Funds	0.0	-0.2
S&P 500 Index Objective Funds	0.8	0.5
Total	3.3	5.3

Source: Lipper, a Thomson Reuters Company
Note: Columns may not sum because of rounding

World Equity Funds

For the second consecutive month World Equity Funds witnessed net inflows for February, drawing in $4.3 billion. As in recent months institutional funds (including underlying variable annuity funds) were the primary attractors of net new money for the month (+$5.8 billion), while no-load funds took in just $0.8 billion and loaded funds handed back $2.3 billion. For the tenth consecutive month Lipper's Global Diversified Equity Funds macro-group suffered net redemptions (-$1.7 billion), while its International Diversified Equity Funds cohort took in net new money (+$1.2 billion) for the first month in five. Once again Emerging Markets Funds drew the largest net inflows of the group, taking in $2.5 billion for February, while Global Large-Cap Core Funds handed back the group's largest sum (-$0.8 billion).

Table 5 Estimated Net Flows of Global Diversified Equity Funds, February Versus January 2012 ($Bil)

	Value	Core	Growth	February	January
Large-Cap	-0.3	-0.8	-0.2	-1.3	-1.3
Multi-Cap	-0.2	-0.1	0.0	-0.3	-0.5
Small-/Mid-Cap (No Style)	-0.1			-0.1	-0.1
Total (Large & Multi)	-0.5	-1.0	-0.3	-1.7	-2.0

Source: Lipper, a Thomson Reuters Company
Note: Columns and rows may not sum because of rounding

Table 6 Estimated Net Flows of International Diversified Equity Funds, February Versus January 2012 ($Bil)

	Value	Core	Growth	February	January
Large-Cap	0.1	-0.4	0.1	-0.2	-0.6
Multi-Cap	0.4	0.8	0.2	1.4	0.2
Small-/Mid-Cap	0.1	-0.1	0.1	0.1	-0.1
Total	0.6	0.3	0.4	1.2	-0.5

Source: Lipper, a Thomson Reuters Company

Note: Columns and rows may not sum because of rounding

Table 7 Estimated Net Flows of Remaining World Equity Fund Classifications, February Versus January 2012 ($Bil)

	February	January
China Region Funds	0.0	0.1
Emerging Markets Funds	2.5	2.7
European Region Funds	0.0	-0.1
Global Flexible Portfolio Funds	2.2	1.5
India Region Funds	0.0	0.0
Japanese Funds	0.0	-0.1
Latin American Funds	0.0	0.0
Pacific Region Funds	0.1	0.0
Pacific ex-Japan Funds	0.1	0.1
Total	5.0	4.2

Source: Lipper, a Thomson Reuters Company

Note: Columns may not sum because of rounding

Sector Equity Funds

Responding to a general strengthening in the equity markets during the month, investors were net purchasers of Sector Equity Funds, injecting a net $1.5 billion for February. With a sharp rise in oil prices during the month Utility Funds (-$0.8 billion) suffered the largest net redemptions. Commodities General Funds (+$1.2 billion) and Real Estate Funds (+$0.5 billion) drew in the largest net inflows for February. Of the 21 Lipper classifications in the Sector Equity macro-group only 4 witnessed net outflows for February.

Table 8 Estimated Net Flows of Sector Equity Funds, February Versus January 2012 ($Bil)

	February	January
Precious Metals Funds	0.0	0.1
Basic Materials Funds	0.2	0.1
Consumer Goods Funds	0.0	0.1
Commodities General Funds	1.2	0.0
Commodities Specialty Funds	0.0	0.0
Consumer Services Funds	0.0	0.0
Financial Services Funds	0.1	0.1
Global Financial Services Funds	0.0	0.0
Global Health/Biotechnology Funds	-0.1	0.1
Global Natural Resources Funds	0.0	-0.1
Global Real Estate Funds	0.3	0.0
Subtotal	1.7	0.3

Source: Lipper, a Thomson Reuters Company

Note: Columns may not sum because of rounding

	February	January
Global Science/Technology Funds	0.0	-0.1
Health/Biotechnology Funds	0.1	0.6
Industrials Funds	0.0	0.0
International Real Estate Funds	-0.1	0.0
Natural Resources Funds	-0.3	0.3
Real Estate Funds	0.5	1.2
Specialty/Miscellaneous Funds	0.1	0.1
Science &Technology Funds	0.2	-0.1
Telecommunication Funds	0.0	0.0
Utility Funds	-0.8	0.1
Subtotal	-0.3	2.1

Source: Lipper, a Thomson Reuters Company

Note: Columns may not sum because of rounding

Mixed-Equity Funds

For the third consecutive month Mixed-Equity Funds witnessed net inflows for February, taking in $18.8 billion (the largest net inflows of the four Lipper macro-groups in the equity universe–for the third month in a row– and its largest monthly net inflows in at least five years). Flexible Portfolio Funds took in a net $2.7 billion, while investors withdrew $342.7 million and $68.7 million from Absolute Return Funds and Convertible Securities Funds, respectively. The mixed-asset target date funds group attracted about $5.4 billion, while the primarily broker-recommended mixed-asset target allocation funds group took in a net $11.2 billion. None of the classifications in this subgroup suffered net redemptions for the month. Mixed-Asset Target Allocation Conservative Funds (+$3.8 billion) and Mixed-Asset Target Allocation Growth Funds (+$5.7 billion) had the biggest draws for the month.

Table 9 Estimated Net Flows of Lifecycle and Lifestage Funds, February Versus January 2012 ($Bil)

	February	January
Mixed Asset Target 2010 Funds	0.0	-0.1
Mixed Asset Target 2015 Funds	0.4	0.2
Mixed Asset Target 2020 Funds	1.0	1.0
Mixed Asset Target 2025 Funds	0.7	0.5
Mixed Asset Target 2030 Funds	1.0	1.0
Mixed Asset Target 2035 Funds	0.6	0.3
Mixed Asset Target 2040 Funds	0.8	0.6
Mixed Asset Target 2045 Funds	0.4	0.2
Mixed Asset Target 2050+ Funds	0.4	0.4
Mixed Asset Target Alloc Conserv Funds	3.8	2.1
Mixed Asset Target Alloc Growth Funds	5.7	2.3
Mixed Asset Target Alloc Moderate Funds	1.6	2.6
Retirement Income	0.0	0.0
Grand Total	16.5	10.9

Source: Lipper, a Thomson Reuters Company
Note: Columns may not sum because of rounding

Fixed Income Funds

Despite fairly good economic news during the month, some investors continued their search for yield and the preceived safety of bond funds. For the sixth consecutive month investors were net purchasers of bond funds (+$30.9 billion for February). On the taxable bond (nonmoney market) funds side (+$24.9 billion) 19 of Lipper's 25 classifications witnessed net inflows, while on the tax-exempt side (+$6.0 billion)–for the second consecutive month–all of the 28 classifications in the municipal bond funds universe saw net inflows for February. For the first month in three Intermediate Investment-Grade Debt Funds attracted the largest draw of investor assets during the month (+$7.1 billion), followed again by High Current Yield Funds (+$5.6 billion) and U.S. Mortgage Funds (+$2.7 billion). For the third month in a row Corporate Debt BBB-Rated Funds suffered the worst net redemptions (-$3.1 billion) of the taxable group. On the municipal bond funds side–for the sixth month in a row– Intermediate Municipal Debt Funds (+$1.6 billion) received the largest net inflows, while for the second month in a row Colorado Municipal Debt Funds (+$5.5 million) witnessed the smallest net inflows.

Table 10 Estimated Net Flows of Major Fixed Income Fund Types, February Versus January 2012 ($Bil)

	Taxable	Municipal	February	January
Long-Term Bond	13.4	2.4	15.8	17.2
Short & Intermediate	11.5	3.6	15.1	13.5
Money Market	0.7	-2.0	-1.3	-38.9
Total	25.6	4.0	29.6	-8.2

Source: Lipper, a Thomson Reuters Company
Note: Columns and rows may not sum because of rounding

Money Market Funds

For February investors redeemed a net $1.3 billion from money market funds, with 14 of the 16 Lipper classifications experiencing net redemptions. On the taxable side (+$0.7 billion net) the Institutional Money Market Funds classification (+$26.6 billion) witnessed the only net inflows, while Institutional U.S. Government Money Market Funds (-$11.0 billion) and Institutional U.S. Treasury Money Market Funds (-$8.3 billion) suffered the largest net redemptions. On the tax-exempt side (-$2.0 billion net) nine of the ten classifications handed back money, with New Jersey Tax-Exempt Money Market Funds (+$22.8 million) witnessing the only draw of net new money. Institutional Tax-Exempt Money Market Funds (-$864 million) suffered the largest net redemptions.

With the Bulls in the Driver's Seat, ETF Investors Continue to Allocate Cash Toward Risk

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ETF Executive Summary

U.S. markets continued to shrug off international concerns as domestic indices pushed toward heights not seen since prerecession periods. The Dow Jones Industrial Average closed above the coveted 13,000 mark for the first time since May 2008, while the NASDAQ Composite and S&P 500 set their sights on 3,000 and 1,400, respectively. This was a surprising but welcome feat as volumes remained low, Europe moved toward recession, and Greek bond restructuring was yet to be finalized. In any case, retail and institutional investors continued to be net purchasers of exchange-traded products (ETFs) for the third month in a row.

With such heavy buying in the previous period it was hard to expect similar numbers for February. During the month investors allocated some $12.4 billion to the ETF space, with stock and mixed-equity products accounting for $9.1 billion of the net new money—bringing their YTD inflows to almost $30 billion. Bond ETFs also continued to draw assets—for the fourteenth consecutive month—with $3.3 billion of net new flows as investors focused the majority of their attention toward high-yield paper.

Table 1 Estimated Net Flows by Major ETF Types, February 2012 Versus January 2012 ($Bil)

	February	January
Stock & Mixed Equity ETFs	9.1	20.8
Bond ETFs	3.3	7.4
Total	12.4	28.2

Source: Lipper, a Thomson Reuters Company
Note: Columns may not sum because of rounding

Table 2 Estimated Net Flows of Major Equity ETF Types, February 2012 Versus January 2012 ($Bil)

	February	January
USDE ETFs	-3.0	8.7
Sector Equity ETFs	6.9	6.3
World Equity ETFs	5.1	5.9
Mixed Equity ETFs	0.1	0.0
Total	9.1	20.8

Source: Lipper, a Thomson Reuters Company
Note: Columns may not sum because of rounding

Equity ETFs

United States Diversified Equity (USDE) ETFs

Lipper's USDE ETFs macro-classification was one of the few areas that struggled for the month as the group posted net outflows of roughly $3.0 billion—the first month in three that the group posted net redemptions. The broad 4x3-matrix group was able to keep investor interest, attracting $1.1 billion in estimated net sales. Although core products had been the previous group of choice, Growth ETFs (+$1.0 billion) accounted for the majority of the increase for February. Outside the 4x3 table Equity Income ETFs, with net inflows of $631 million, continued to lead all others as investors continued to search for yield. The group that suffered most was S&P 500 Index-Objective ETFs which reported net redemptions of $4.5 billion and pulled the overall group into the red. Once again, the majority of this movement was attributed to **SPDR S&P 500 ETF (SPY)**, which is most often used by institutional traders and has seen a high level of flows volatility over the last year.

Table 3 Estimated Net Flows of USDE 4x3-Matrix ETFs, February 2012 Versus January 2012 ($Mil)

	Value	Core	Growth	February	January
Large-Cap	-93.5	-259.5	630.0	277.0	4,558.0
Multi-Cap	186.6	-603.1	11.9	-404.6	739.1
Mid-Cap	203.7	-22.4	251.3	432.6	1,231.6
Small-Cap	344.6	289.9	156.2	790.7	993.7
Total	641.4	-595.1	1,049.4	1,095.7	7,522.4

Source: Lipper, a Thomson Reuters Company
Note: Columns and rows may not sum because of rounding

Table 4 Estimated Net Flows of Other USDE Classifications, February 2012 Versus January 2012 ($Mil)

	February	January
Equity Leverage ETFs	-820.0	-1,672.9
Dedicated Short Bias ETFs	549.5	1,047.5
Equity Income ETFs	631.0	1,540.7
Extended U.S. Large-Cap Core ETFs	-6.2	-6.0
Equity Market Neutral ETFs	0.1	-7.8
Long/Short Equity ETFs	2.5	11.7
S&P 500 Index Objective ETFs	-4,495.3	227.5
Total	-4,138.4	1,140.7

Source: Lipper, a Thomson Reuters company
Note: Columns may not sum because of rounding

World Equity ETFs

The World Equity ETFs macro-group maintined its momentum as investors injected $5.1 billion of net new inflows for the month. Once again the focal point of the sales was Emerging Markets ETFs, which accounted for roughly 97% of all inflows at $5.0 billion. European Region ETFs also gained momentum, with net inflows of $748 million as investors seemed to find more comfort in the Greek debt swap process. The global diversified equity group ended the month with net outflows of $99 million, while international diversified equity ETFs lost $496 million. Investors shifted their interest away from the core offerings in the diversified group, while Latin American ETFs (-$215 million) posted the largest outflows in the country-/region-specific group.

Table 5 Estimated Net Flows of Global Diversified Equity ETFs, February 2012 Versus January 2012 ($Mil)

	Value	Core	Growth	February	January
Large-Cap	-0.1	-140.7	0	-140.8	46.8
Multi-Cap	28.9	0	12.6	41.5	27.5
Small/Mid-Cap(No Style)		0		0.0	0.0
Total(Large & Multi)	28.8	-140.7	12.6	-99.3	74.3

Source: Lipper, a Thomson Reuters Company
Note: Columns and rows may not sum because of rounding

Table 6 Estimated Net Flows of International Diversified Equity ETFs, February 2012 Versus January 2012 ($Mil)

	Value	Core	Growth	February	January
Large-Cap	60.1	-744.8	-76.5	-761.2	536.1
Multi-Cap	0	200.8	12.6	213.4	115.0
Small/Mid-Cap	-0.1	54.3	-2.6	51.6	6.2
Total	60.0	-489.7	-66.5	-496.2	657.3

Source: Lipper, a Thomson Reuters Company
Note: Columns and rows may not sum because of rounding

Table 7 Estimated Net Flows of Remaining World Equity ETF Classifications, February 2012 Versus January 2012 ($Mil)

	February	January
China Region ETFs	-48.1	580.5
Emerging Markets ETFs	5,007.0	4,655.6
European Region ETFs	747.9	371.1
Global Flexible Portfolio ETFs	1.6	-13.0
India Region ETFs	120.9	94.6
Japanese ETFs	-34.0	-631.8
Latin American ETFs	-214.5	29.7
Pacific Region ETFs	4.2	0.5
Pacific ex-Japan ETFs	153.2	45.6
Total	5,738.2	5,132.8

Source: Lipper, a Thomson Reuters Company
Note: Columns may not sum because of rounding

Sector Equity ETFs

The Sector Equity ETFs macro-group led all of the others. Its net inflows of $6.9 billion were the macro-group's strongest monthly inflows since Feb '09. Of Lipper's 25 Sector Equity ETF classifications 19 had positive flows, with investors moving back toward gold and energy plays. Commodities Precious Metals ETFs (+$2.0 billion) fared best, with most of the new money going to **SPDR Gold Trust (GLD)**—$1.3 billion. Specialty/Miscellaneous ETFs (+1.5 billion) benefited from bets on short-term market volatility as investors added exposure to VIX trackers. Natural Resources ETFs (+1.2 billion) also fared well as elevated oil and gas prices increased interest in energy exposure, especially through MLP index trackers. At the bottom of the group Utility ETFs reported net outflows of $632 million, and investors also shifted some focus away from Financial Services ETFs (-$462 million).

Table 8 Estimated Net Flows of Sector Equity ETFs, February 2012 Versus January 2012 ($Mil)

	February	January
Precious Metals ETFs	-235.0	-12.0
Basic Materials ETFs	345.7	325.5
Consumer Goods ETFs	130.0	-1,036.5
Commodities Agriculture ETFs	-4.7	-21.1
Commodities Energy ETFs	693.4	160.7
Commodities General ETFs	120.9	294.7
Commodities Base Metals ETFs	82.8	2.2
Commodities Precious Metals ETFs	1,997.3	1,178.1
Commodities Specialty ETFs	176.6	-36.2
Consumer Services ETFs	264.3	307.0
Financial Services ETFs	-462.4	1,173.7
Global Financial Services ETFs	19.6	-37.1
Global Health/Biotechnology ETFs	-11.3	-2.0
Subtotal	3,117.2	2,297.0

Source: Lipper, a Thomson Reuters company
Note: Columns may not sum because of rounding

	February	January
Global Natural Resources ETFs	54.6	52.7
Global Real Estate ETFs	24.5	31.1
Global Science/Technology ETFs	84.5	0.9
Health/Biotechnology ETFs	-138.9	1,058.7
Industrials ETFs	237.9	988.3
International Real Estate ETFs	246.2	70.8
Natural Resources ETFs	1,210.4	1,264.6
Real Estate ETFs	854.8	803.0
Specialty/Miscellaneous ETFs	1,467.5	703.8
Science &Technology ETFs	300.0	-467.1
Telecommunication ETFs	70.7	15.8
Utility ETFs	-631.9	-555.4
Subtotal	3,780.3	3,967.2

Source: Lipper, a Thomson Reuters company
Note: Columns may not sum because of rounding

Fixed Income ETFs

Bond ETFs (+$3.3 billion) continued to garner new assets but at a slower pace than in the previous month. On the taxable bond ETFs side 13 of the 23 Lipper classifications attracted net new money for the month, while the tax-exempt offerings reported net inflows to 6 of the 8 classifications. High Current Yield ETFs (+$2.1 billion net) continued to outshine all other bond ETF products as investors continued to disregard risk for yield; **iShares iBoxx $HY Corp ETF (HYG)** and **SPDR Barclays HY Bond ETF (JNK)** reported net inflows of $747 million and $1.1 billion respectively. Intermediate Investment-Grade Debt ETFs (+$1.0 billion) and Corporate Debt BBB-Rated ETFs (+$885 million) rounded out the top three spots. Outflows on the taxable side were mostly attributed to moves out of U.S. Treasury-based products, with General U.S. Treasury ETFs reporting redemptions of $975 million and Short U.S. Treasury ETFs pushing out $718 million. For the tax-exempt side General Municipal Debt ETFs (+$207 million) once again led all of the other classifications, while High Yield Municipal Debt ETFs (+$11 million) and Intermediate Municipal Debt ETFs (+$11 million) rounded out the three top spots.

Table 9 Estimated Net Flows of Major Fixed Income ETF Types, February 2012 Versus January 2012 ($Mil)

	Taxable	Municipal	February	January
Long-Term Bond	2,770.6	224.8	2,995.4	5,849.8
Short & Intermediate	298.6	0.8	299.4	1,570.3
Total	3,069.2	225.6	3,294.8	7,420.1

Source: Lipper, a Thomson Reuters company

Note: Columns and rows may not sum because of rounding

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