

Mega Funds | *Size Matters*

<1% of funds control 45% of worldwide fund assets.

September 2016

Highlights

- 1) US dominates mega fund universe:** 446 of the 634 worldwide mega funds are sold in the U.S. This represents 82.9% of global mega fund assets (\$8.5 out of \$10.2 trillion).
- 2) Europe is less concentrated relative to US:** 68.7% of total U.S. mutual fund assets are in mega funds – the U.S. has never been this hyper-concentrated. This concentration is in sharp contrast with European domiciled funds, which have 16.9% of assets concentrated in mega funds.
- 3) 'Passification' of global fund universe led by mega funds:** In 2007, 11.6% of mega fund assets were passively managed. As of Q2 2016, passive funds make up 25.8% of global mega fund assets (\$2.6 out of \$10.2 trillion). By contrast, passive funds make up only 15.1% (\$3.5 out of \$23.0 trillion) of the broader worldwide mutual fund universe.
- 4) Passive strategies own economics of scale, but barriers to entry are high:** The average passive mega fund has \$40.1 billion in assets while its active counterpart has \$13.4 billion – a third as large.
- 5) Identifying Auto-flow:** Auto-flow (defined as the simultaneous rapid rise in AuM volumes and decrease in AuM 'quality') is particularly prominent when looking at mega funds. Increasing the 'quality' of assets in investment products leads to increased longevity and stability of AuM.

Table of Contents

Areas of Focus	Pages
Introduction	4
Worldwide Mutual Fund Universe	5 – 6
Worldwide Mega Fund Universe	7 – 12
Geographical Trends: The US vs. Europe	13 – 16
Active vs. Passive	17 – 20
Auto Flow: The Rise and Fall of Mega Funds	21 – 26
About	27
Notes on Data	28

Introduction

Independent decision making is revered in the investment management industry, nonetheless asset concentration into a small group of exceptionally large products has never been higher.

Worldwide, 634 mutual funds control \$10.2 trillion, 45% of assets.

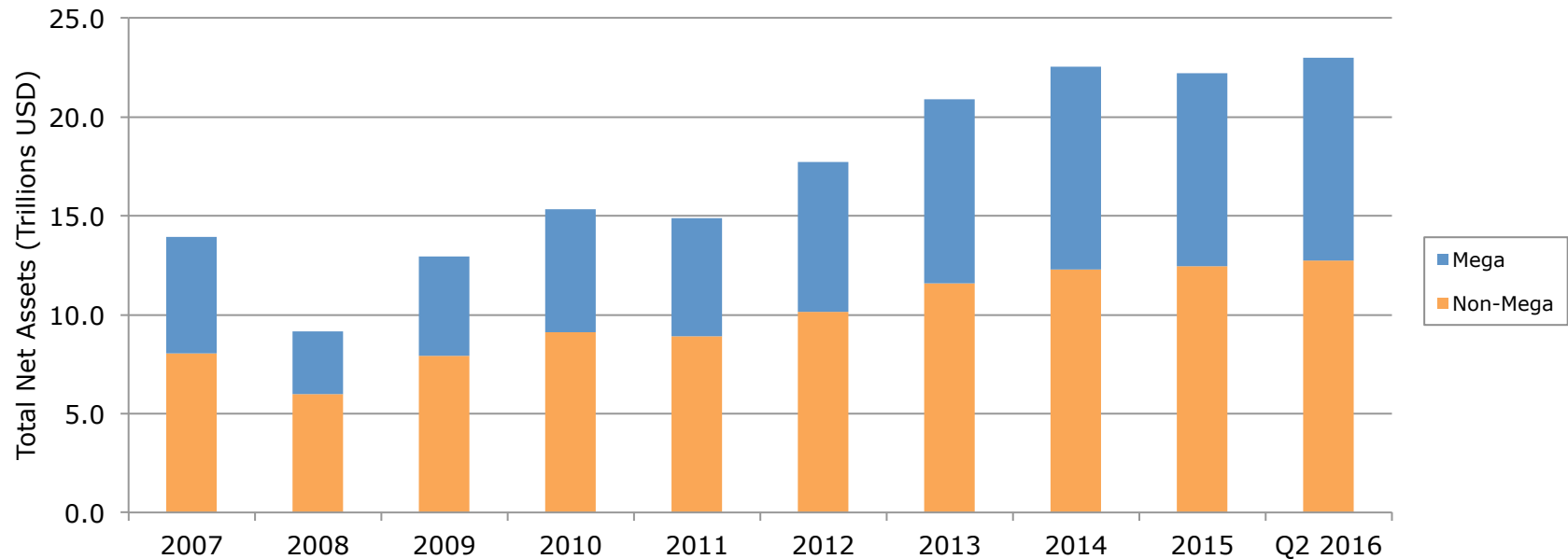
Propinquity labels funds with at least \$5 billion in AuM as *mega funds*. The characteristics of this microcosm of funds illustrate dynamic trends in the broader fund industry. For actively managed funds in particular, size and the nature of the flows in and out have big implications on long term success and sustainability. Passive funds do not suffer from the same challenges of asset bloat.

The existence of the condition called '*auto-flow*' (defined as the simultaneous rapid rise in AuM volumes and decrease in AuM 'quality') is particularly prominent when looking at mega funds. Auto-flow and its effects are too often neglected though directly manageable. Increasing the 'quality' of assets in investment products leads to increased longevity and stability of AuM.

This chart book illustrates the current environment for mega funds (their numbers, sizes, types and breadth of distribution) as well as a deeper look into auto-flow and recent prominent examples.

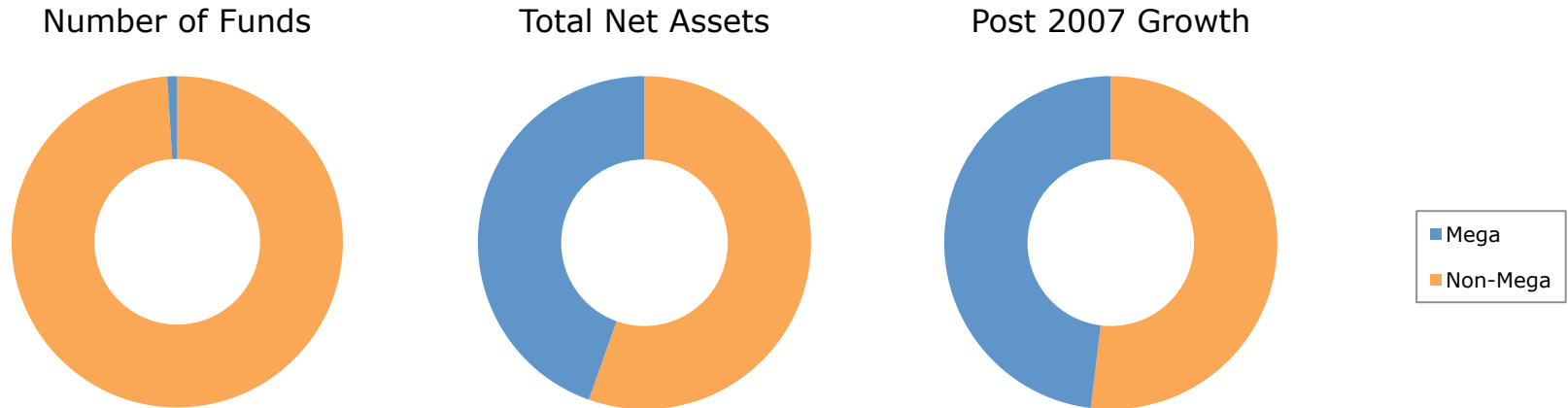
Worldwide Mutual Fund Universe

Total Net Assets: Mega Funds vs. Non-Mega Funds



- The mega fund universe¹ is a subset of the worldwide mutual fund universe. Mega Funds are defined as those funds with total net assets of \$5 billion or more.
- By the end of 2007, 42.3% of total global mutual fund AuM (\$5.9 of \$13.9 trillion) were concentrated in mega funds. As of Q2 2016, the share of industry assets controlled by mega funds has grown to 44.6%.
- **A total of 634 of ~65,000 funds available in all reporting jurisdictions worldwide (<1.0%) are mega funds. This small group of funds controls almost 45% of worldwide assets.**

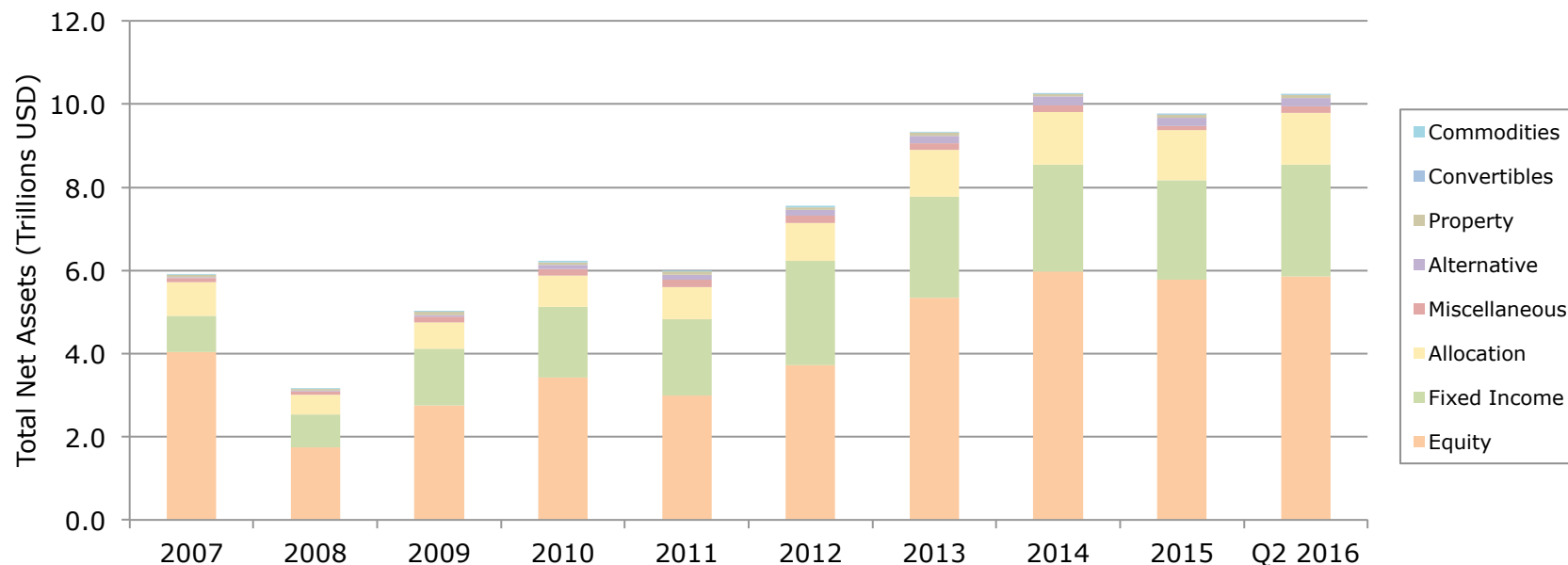
Worldwide Mutual Fund Universe



- **Number of Funds:** There are ~65,000 funds in the worldwide mutual fund universe. 634 of those are mega funds (<1.0%).
- **Total Net Assets:** Mega funds control \$10.2 of the \$23.0 trillion in the worldwide mutual fund universe. This amounts to 44.6% of the global assets.
- **Growth of Total Net Assets:** Since the end of 2007 mega funds added \$4.3 trillion in total net assets while the worldwide mutual fund universe as a whole added \$9.0 trillion. Thus 48.1% of industry growth came from mega funds.

Mega Funds Outpace Worldwide Industry Growth

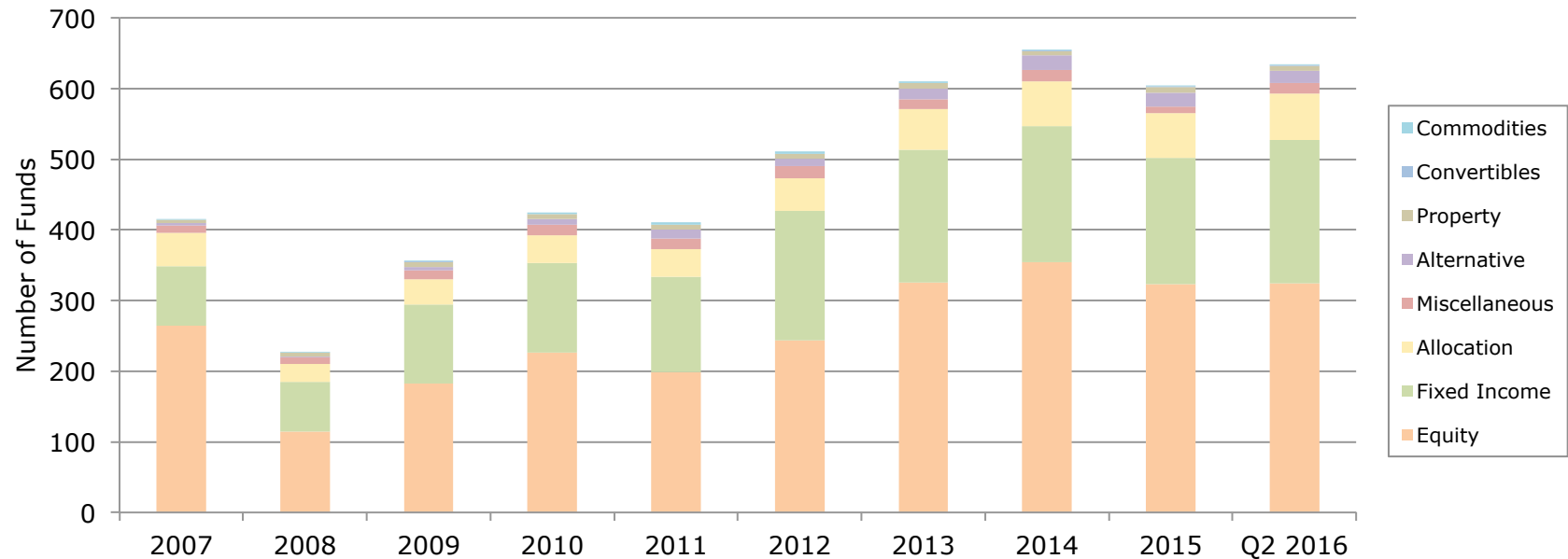
Mega Fund Assets by Global Broad Category Group



- Worldwide mega fund assets rose from \$5.9 to \$10.2 trillion (1.7x) between the end of 2007 and Q2 2016. Industry-wide mutual fund assets have grown at a marginally slower pace from \$13.9 to \$23.0 trillion over the same period (1.6x).
- 'Alternative' mega fund assets have grown faster than any other category over the period shown with \$34.7 billion in 2007 climbing to \$200.1 billion today (5.8x). 'Alternatives' still make up only 2.0% of the mega fund universe by assets – plenty of room for growth.
- 'Equity' mega fund assets have increased from \$4.0 to \$5.9 trillion since the end of 2007 to Q2 2016; the slowest increase in assets (1.5x) for any category listed above during the observed period except for 'Commodities'. **The overall share of the mega fund universe in 'Equity' has decreased from 68.5% to 57.3% over the same period.**

How many Funds are Mega?

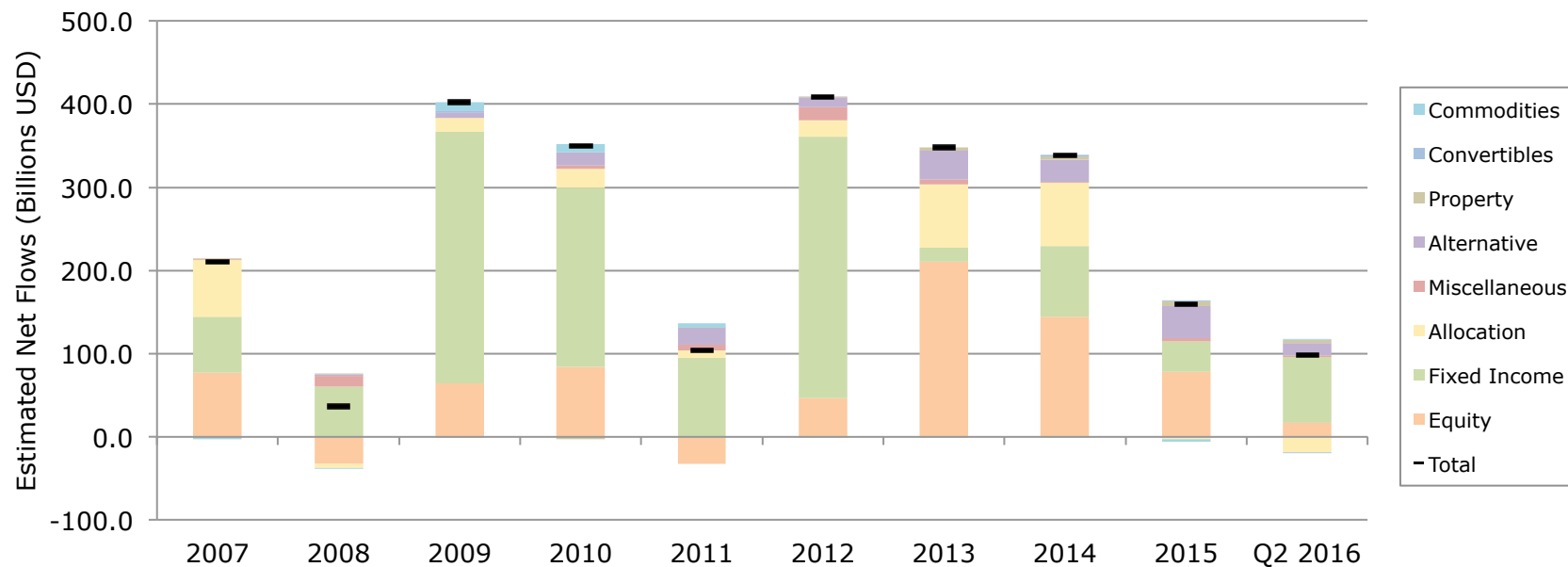
Number of Mega Funds by Global Broad Category Group



- While the AuM within the mega fund universe has increased in size by 73.6% since the end of 2007 the number of funds holding those assets has only grown 58.2% (415 in 2007 to 634 as of Q2 2016).
- Active 'Allocation' mega funds have the highest average size of any global broad category group at \$18.6 billion per fund (\$1.2 trillion in 65 funds). Active 'Equity' mega funds have the second highest average active mega fund size at \$13.7 billion (almost \$5 billion smaller than 'Allocation'). 'Alternative' follows in third at \$11.8 billion per active mega fund.
- **For active managers seeking scalability², multi-asset ('Allocation') is fertile ground due to fewer capacity constraints and less competition from passive products.**

Where is the Money going?

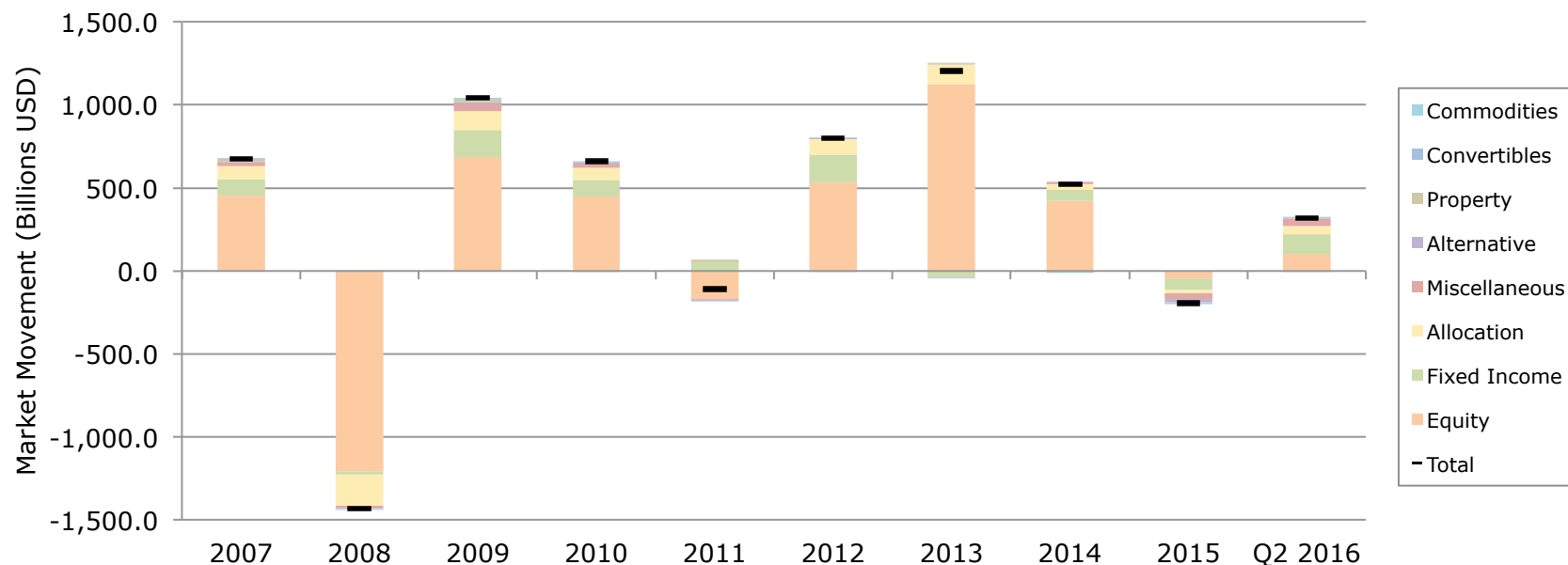
Mega Fund Estimated Net Flows by Global Broad Category Group



- Total flows into mega funds have been remarkably consistent over the period shown – in aggregate, no period has negative net outflows. Flows have accounted for \$2.5 trillion (45.2%) of the \$5.4 trillion increase in mega fund total net assets since the beginning of 2007.
- 'Fixed Income' has been the clear flow winner – 'Fixed Income' mega funds collected \$1.3 trillion (51.8% of total flows) since the beginning of 2007, while 'Equity' funds collected \$657.2 billion (26.8% of total flows) in the same period.
- 'Alternative' funds have also captured more flows than one would expect given their asset base. **Today 'Alternative' funds make up 2.0% of the mega fund universe by assets, but have captured 6.9% (\$170.5 billion) of the net flows since the beginning of 2007.**

The Importance of Market Growth

Mega Fund Market Movement by Global Broad Category Group

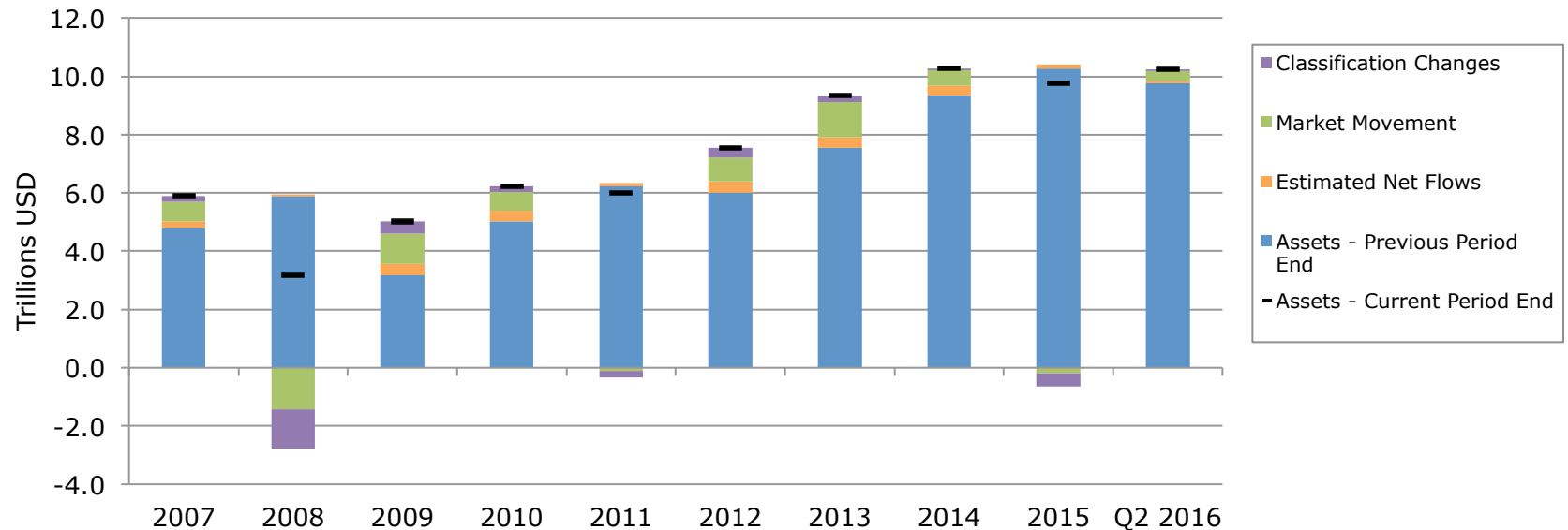


- Market movement³ has accounted for \$3.5 trillion (64.2%) of the \$5.4 trillion increase in mega fund total net assets since the beginning of 2007. However, since the beginning of 2009 market movement has accounted for 81.4% of the increase in mega fund assets. This sharp difference can be attributed to a loss of \$1.4 trillion from market movement in 2008.
- 'Equity' AuM levels are largely dependent on market movement. While 'Fixed Income' may be dominating flows, 'Equity' has driven market movement since 2009 lifting the size of the mega fund universe and the industry as a whole.
- Due to the sheer size of these funds, market driven movements in AuM have a larger affect on the next period's total net assets than estimated net flows. However, market movement is more volatile in terms of direction. Three periods above are net negative, while no period listed had negative net flows.

¹⁰ ³Market movement is defined as the change in total net assets not accounted for by estimated net flows. It acts as a proxy for assets gained/lost due to performance. See the Notes on Data slide for more on methodology.

What is Driving Annual Growth?

Mega Fund Yearly Growth - Market Movement vs. Net Flows

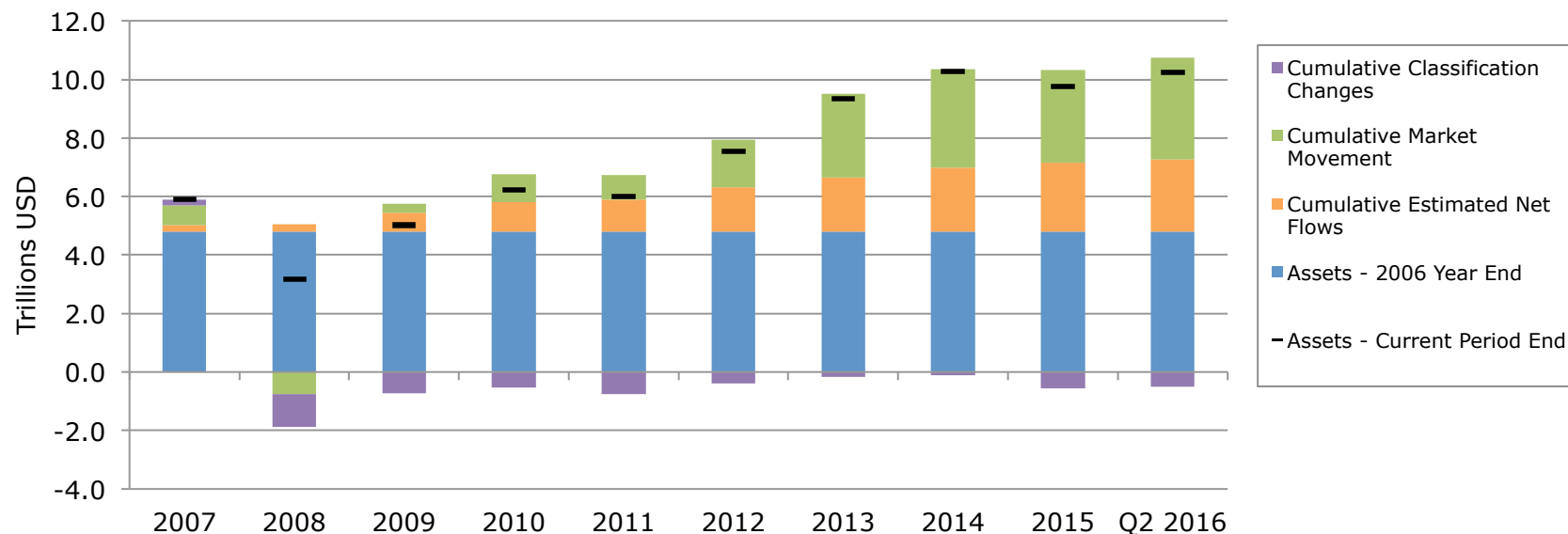


- The difference between the top of the blue column (starting assets) and the black line (ending assets) marks the movement in assets for the given year. This change is decomposed into market movement (green), estimated net flows (orange) and mega fund classification changes⁴ (purple).
- Net flows for the mega fund universe remained positive even in 2008 with inflows of \$36.7 billion while the rest of the industry (non-mega funds) experienced outflows of \$292.9 billion.
- At the end of 2007 there were 415 mega funds, but one year later only 227 could claim mega status. This caused the mega fund universe to shrink by \$1.3 trillion due to classification changes during 2008.

11 ⁴Each year the mega fund universe loses funds that have dropped below the \$5 billion mark and gains funds that surpass the \$5 billion threshold.

What is Driving Cumulative Growth?

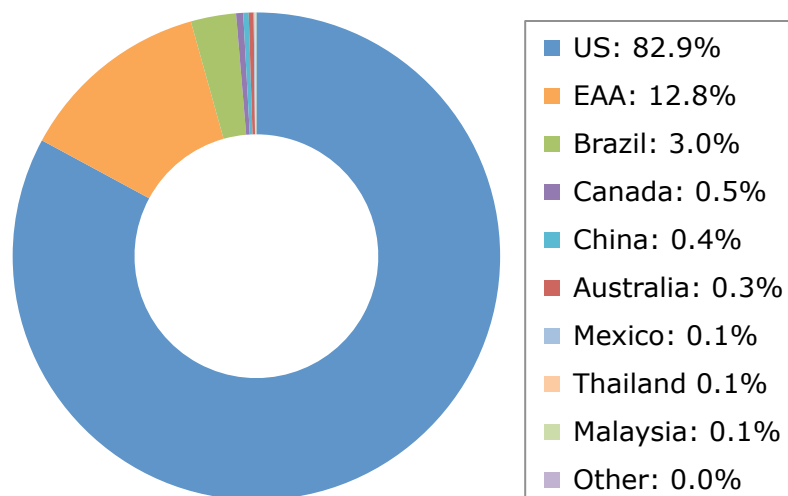
Mega Fund Cumulative Growth - Market Movement vs. Net Flows



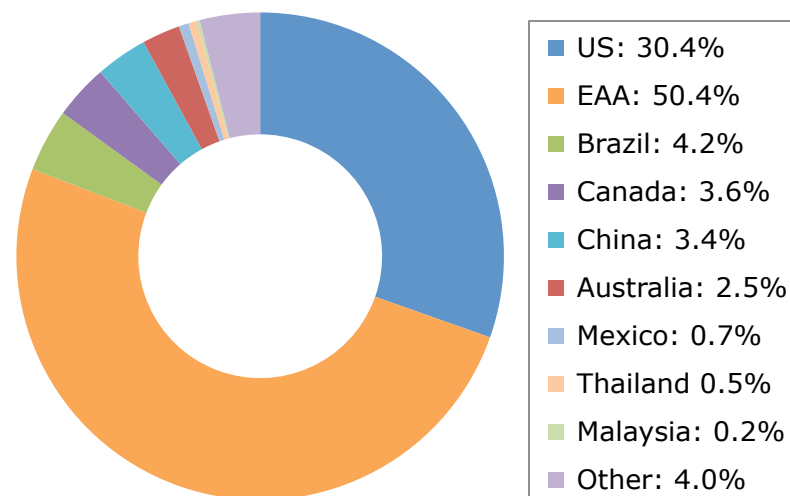
- The blue column indicates 2006 year-end assets. Cumulative growth since the end of 2006 in terms of market movement and net flows are shown in green and orange respectively. And again, losses or gains from mega fund classification changes are in purple.
- While cumulative flows within the mega fund universe remained positive through 2008, contribution from market movement didn't recover (to 2007 levels) until late 2009. Thus the mega fund universe regained losses from performance dips during the financial crisis in less than a year.
- The flows within the mega fund universe are more insulated from market dynamics than non-mega funds.

Where in the World

Q2 2016 Mega Fund Assets

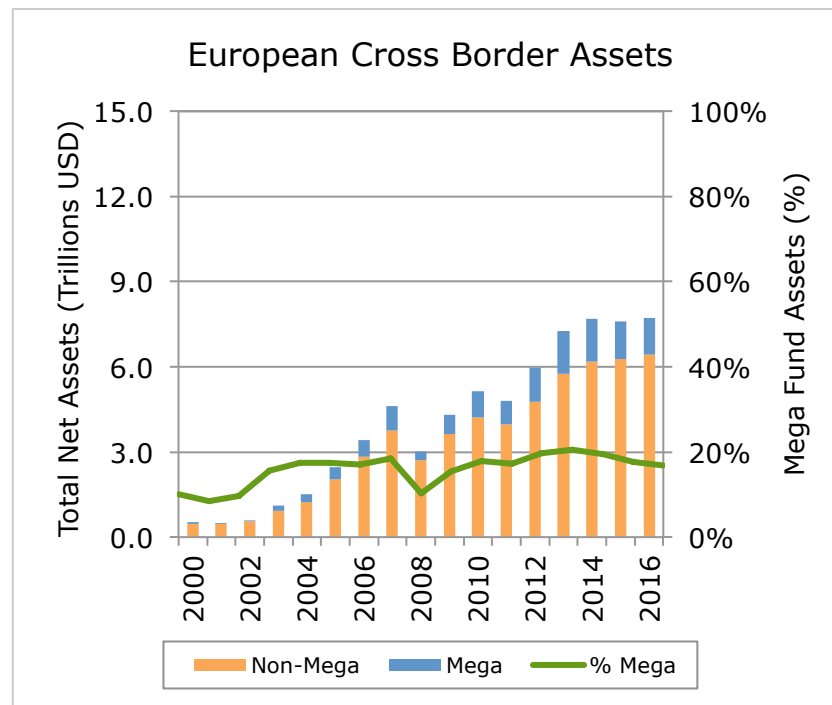
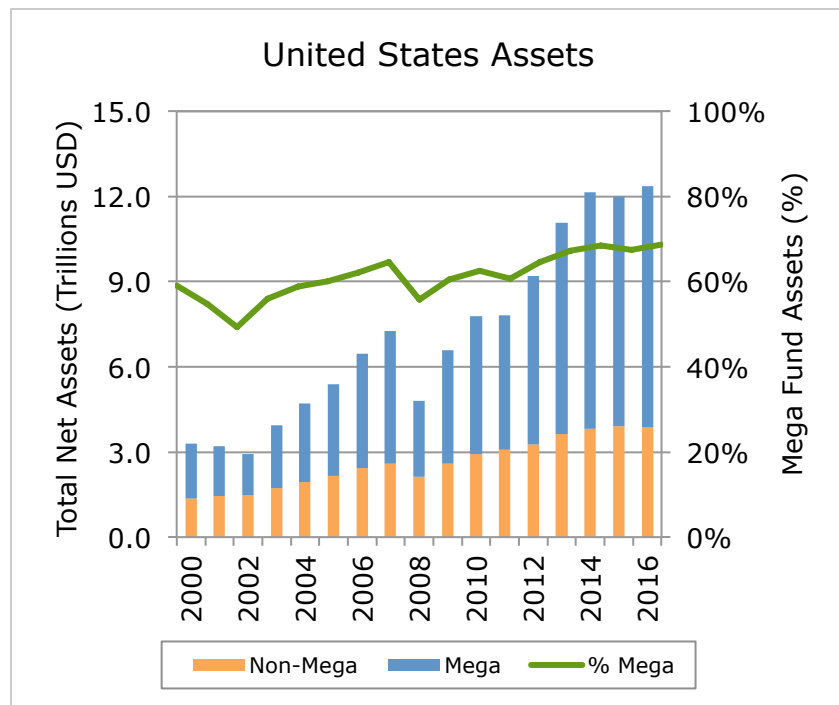


Q2 2016 Non-Mega Fund Assets



- The United States houses 446 of the 634 funds in the Q2 2016 mega fund universe (70.3%). **The US share of worldwide mega fund assets is 82.9% (\$8.5 out of \$10.2 trillion).**
- European cross border funds sold in Europe, Asia and Africa ('EAA') account for 142 (22.4%) of the funds in the mega fund universe but only 12.8% of the assets (\$1.3 trillion).
- The story changes dramatically when looking at non-mega fund assets. European cross border funds account for \$6.4 out of \$12.7 trillion (50.4%) of non-mega fund assets, while the United States only accounts for \$3.9 trillion (30.4%) of non-mega fund assets.

Mega Funds in the US and Europe



- The percentage of US assets held in mega funds has grown steadily excluding the dot-com bubble and the 2008-2009 financial crisis. Since 2000, US mega fund assets have grown from \$1.9 to \$8.5 trillion (4.4x) while US non-mega fund assets have grown at a slower rate from \$1.3 to \$3.9 trillion (2.9x).
- **The US has never been as hyper-concentrated as it is today with 68.7% of total assets in mega funds. The European cross border market illustrates a different story. In comparison, only 16.9% of the European market is concentrated in mega funds, down from a peak of 20.5% in 2013.**
- The average size of a mega fund available in the United States is \$19.0 billion, while the average size of a mega fund available in European cross border jurisdictions is \$9.2 billion (nearly \$10 billion smaller).

The Largest US Mega Funds

Name	Fund Size (Millions USD)	Index Fund	Global Category	Total Return % Rank Category			Estimated Net Flows (Millions USD)		
				1 Yr	3 Yr	5 Yr	1 Yr	3 Yr	5 Yr
Vanguard Total Stock Mkt Idx Inv	438,984.2	Yes	US Equity Large Cap Blend	36	27	24	26,504.1	92,776.5	126,816.9
Vanguard 500 Index Inv	239,550.1	Yes	US Equity Large Cap Blend	17	12	11	22,019.4	64,567.4	61,741.3
Vanguard Total Intl Stock Index Inv	207,505.9	Yes	Global Equity Large Cap	36	47	68	55,684.6	120,115.6	149,112.8
Vanguard Institutional Index I	203,600.3	Yes	US Equity Large Cap Blend	15	9	9	672.8	12,452.5	23,074.3
Vanguard Total Bond Market Index Inv	168,405.8	Yes	US Fixed Income	10	34	54	15,901.3	52,552.3	66,184.0
American Funds Growth Fund of Amer A	140,616.3	No	US Equity Large Cap Growth	21	42	26	-6,366.8	-21,763.9	-80,460.0
American Funds Europacific Growth A	119,768.9	No	Global Equity Large Cap	67	39	55	1,380.1	3,299.3	-4,773.5
Fidelity® Contrafund®	105,524.7	No	US Equity Large Cap Growth	28	37	20	-6,273.3	-22,182.7	-25,033.2
Vanguard Total Bond Market II Idx Inv	101,746.7	Yes	US Fixed Income	11	33	53	4,585.3	29,305.4	46,005.0
American Funds Capital Income Bldr A	101,434.3	No	Allocation	4	4	3	399.5	2,567.0	-4,684.3
American Funds Income Fund of Amer A	99,556.6	No	Aggressive Allocation	5	12	8	-1,497.3	-320.9	-2,745.2
Fidelity® 500 Index Investor	97,356.5	Yes	US Equity Large Cap Blend	16	10	10	4,165.4	15,148.1	18,340.0
American Funds American Balanced A	94,198.6	No	Moderate Allocation	3	3	2	7,276.4	13,096.1	12,188.1
Vanguard Wellington™ Inv	90,328.9	No	Moderate Allocation	5	7	5	-2,459.8	-659.3	2,036.1
PIMCO Total Return Instl	86,395.7	No	US Fixed Income	65	61	49	-19,417.7	-196,546.5	-187,117.2
American Funds Capital World Gr&Inc A	80,976.5	No	Global Equity	39	41	34	-4,304.5	-8,096.3	-22,582.0
American Funds Washington Mutual A	80,399.4	No	US Equity Large Cap Value	13	11	11	-610.8	-1,892.9	-6,493.4
Metropolitan West Total Return Bond M	78,597.7	No	US Fixed Income	60	33	7	9,356.9	49,275.6	58,312.3
Franklin Income A	77,860.4	No	Cautious Allocation	83	66	27	-9,649.1	-4,073.1	3,422.4
American Funds Invmt Co of Amer A	76,215.9	No	US Equity Large Cap Blend	11	8	26	-2,236.4	-6,976.9	-19,280.7

- The largest 20 mega funds sold in the US control 31.7% (\$2.7 out of \$8.5 trillion) of all US mega fund assets. The additional 426 US mega funds hold the remaining \$5.8 trillion.
- Seven of the 20 mega funds above are passive (including the top five). Passive assets account for 54.2% (\$1.5 out of \$2.7 trillion) of the assets for the funds listed above. When expanding to all 446 US mega funds, the percentage of assets that are passively managed drops to 28.5% (\$2.4 out of \$8.5 trillion).
- The 11 largest US mega funds are also the world's largest 11 mega funds. The US dominates the mega fund ranks claiming 49 of the largest 50 mega funds by assets as of Q2 2016.

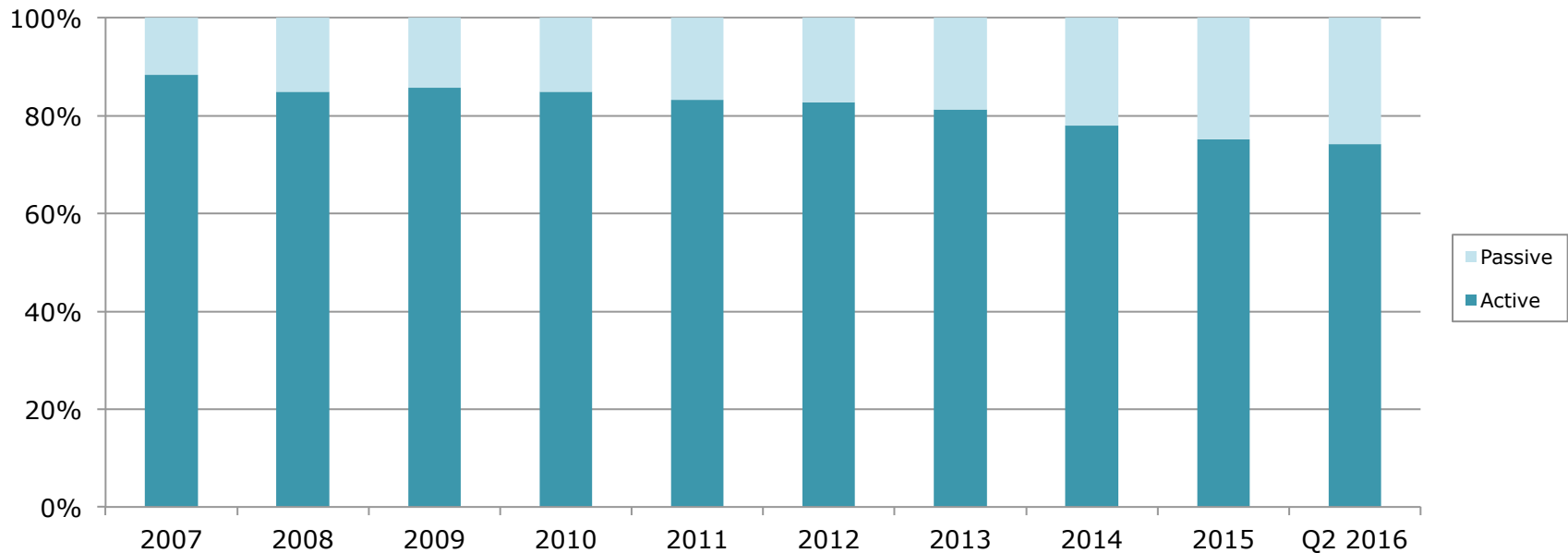
The Largest European Cross Border Mega Funds

Name	Fund Size (Millions USD)	Index Fund	Global Category	Total Return % Rank Category			Estimated Net Flows (Millions USD)		
				1 Yr	3 Yr	5 Yr	1 Yr	3 Yr	5 Yr
Vanguard Total Stock Mkt Idx	98,869.4	Yes	US Equity Large Cap Blend	33	12	8	-21,072.1	-24,999.6	-15,373.1
SLI Global Absolute Ret Strat Inst Acc	35,029.8	No	Multialternative	n/a	n/a	n/a	2,316.7	10,497.9	23,697.1
AP7 Aktiefond	30,627.8	No	Global Equity Large Cap	44	4	5	1,050.5	3,368.3	5,477.0
Carmignac Patrimoine A EUR Acc	26,523.0	No	Moderate Allocation	65	45	42	-2,526.9	-10,789.8	-7,565.0
Templeton Global Bond A Mdis USD	22,003.3	No	Global Fixed Income	96	84	67	-7,144.6	-18,856.1	-14,656.8
Templeton Global Total Ret A Acc USD	21,117.7	No	Global Fixed Income	95	85	33	-7,195.8	-13,497.5	4,455.7
BGF Global Allocation A2	20,012.7	No	Moderate Allocation	77	55	47	-2,273.6	6,641.7	6,101.0
M&G Optimal Income GBP A Acc	19,855.0	No	Cautious Allocation	68	69	20	-11,096.3	2,014.6	17,245.4
DWS Top Dividende LD	18,431.7	No	Global Equity Large Cap	7	15	19	2,450.2	4,445.6	8,628.7
AB FCP I Global High Yield A	18,288.1	No	High Yield Fixed Income	26	37	47	-2,565.4	-4,317.2	-909.0
JPM Global Income A (div) EUR	17,125.6	No	Moderate Allocation	20	56	33	1,981.0	15,612.5	19,401.6
Nordea-1 Stable Return BP EUR	16,321.5	No	Moderate Allocation	2	9	7	7,895.0	15,495.9	16,049.8
SLI Global Absol Ret Strat A Acc	16,130.3	No	Multialternative	n/a	n/a	n/a	2,723.9	11,868.4	17,158.6
Deka-ImmobilienEuropa	15,373.1	No	Property-Direct	35	40	40	523.5	829.7	1,456.1
PIMCO GIS Income Adm Inc SGD H	15,137.0	No	Other Fixed Income	n/a	n/a	n/a	6,142.5	13,093.1	17,434.5
IP High Income Inc	15,115.5	No	UK Equity Large Cap	30	28	15	-1,751.8	-8,483.6	-9,319.6
PIMCO GIS Glbl Inv Grd Crdt Inst Inc USD	14,878.9	No	Global Fixed Income	25	23	12	2,342.3	-3,903.8	8,076.1
Vanguard Wellesley Income	13,739.7	No	Moderate Allocation	1	1	1	137.5	-1,187.1	-791.5
Newton Real Return GBP	12,912.7	No	Multialternative	n/a	n/a	n/a	-1,019.2	889.2	6,523.5
UniImmo: Europa	12,676.2	No	Property-Direct	26	34	39	1,357.9	3,466.3	5,313.1

- The largest 20 European cross border mega funds control 35.2% (\$460.2 out of \$1,309.0 billion) of all European mega fund assets. The additional 122 European mega funds hold the remaining \$848.8 billion).
- Only the largest of the 20 mega funds listed above is passive. Passive accounts for 21.5% (\$98.9 out of \$460.2 billion) of the assets. When expanding to all 142 European cross border mega funds the percentage of assets that are passive decreases to 16.3% (\$213.5 out of \$1,309.0 billion)
- The active-passive divide in the US has evolved more quickly than that of Europe. The adoption of passive funds in the US is one of the reasons US mega fund assets have grown faster and larger than European mega fund assets.

The Shift from Active to Passive in Mega Funds

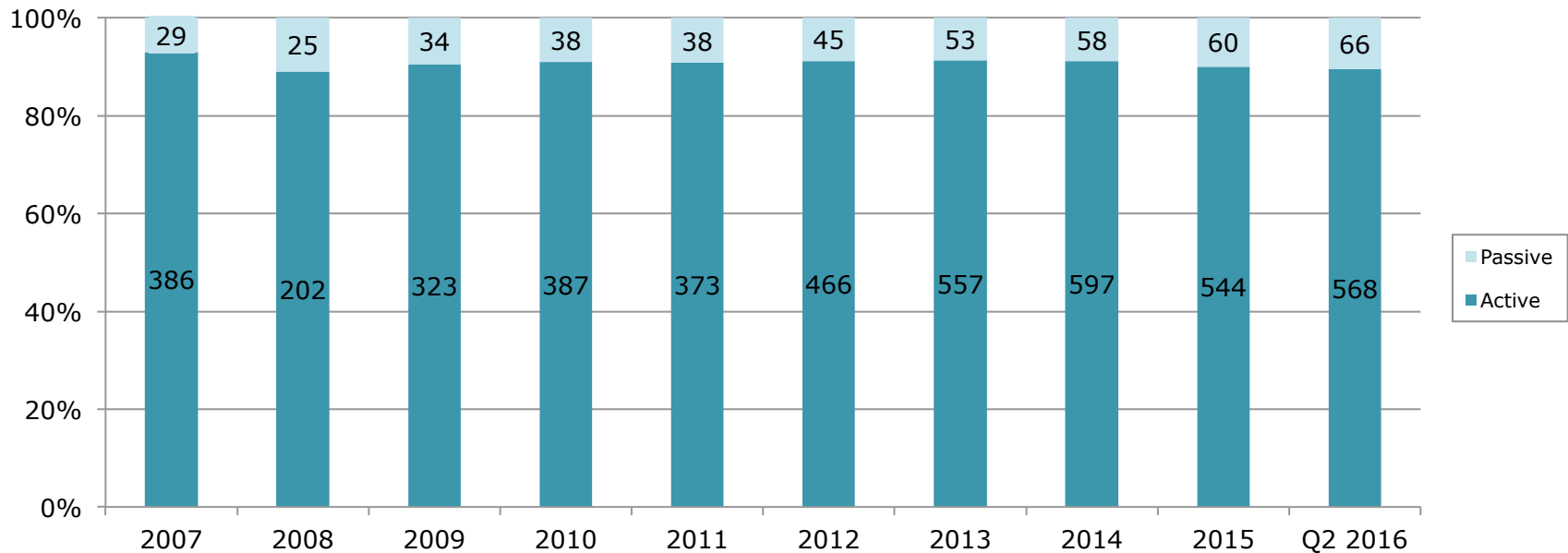
Mega Funds Assets: Active vs. Passive



- In 2007, 11.6% (\$0.7 out of \$5.9 trillion) of mega fund assets were passively managed. As of Q2 2016, passive products made up 25.8% of assets (\$2.6 out of \$10.2 trillion). The movement towards passive has been led by mega funds.**
- 7.9% (\$1.1 out of \$13.9) of worldwide mutual fund assets were passively managed in 2007; as of Q2 2016 passive funds are 15.1% of worldwide mutual fund assets (\$3.5 out of \$23.0 trillion).
- Passive mega assets have increased from \$0.7 to \$2.6 trillion (3.9x) over the period above. In comparison, Active mega fund assets have increased from \$5.2 trillion to \$7.6 trillion (1.5x) over the same period.

Passive Funds are Gaining Ground

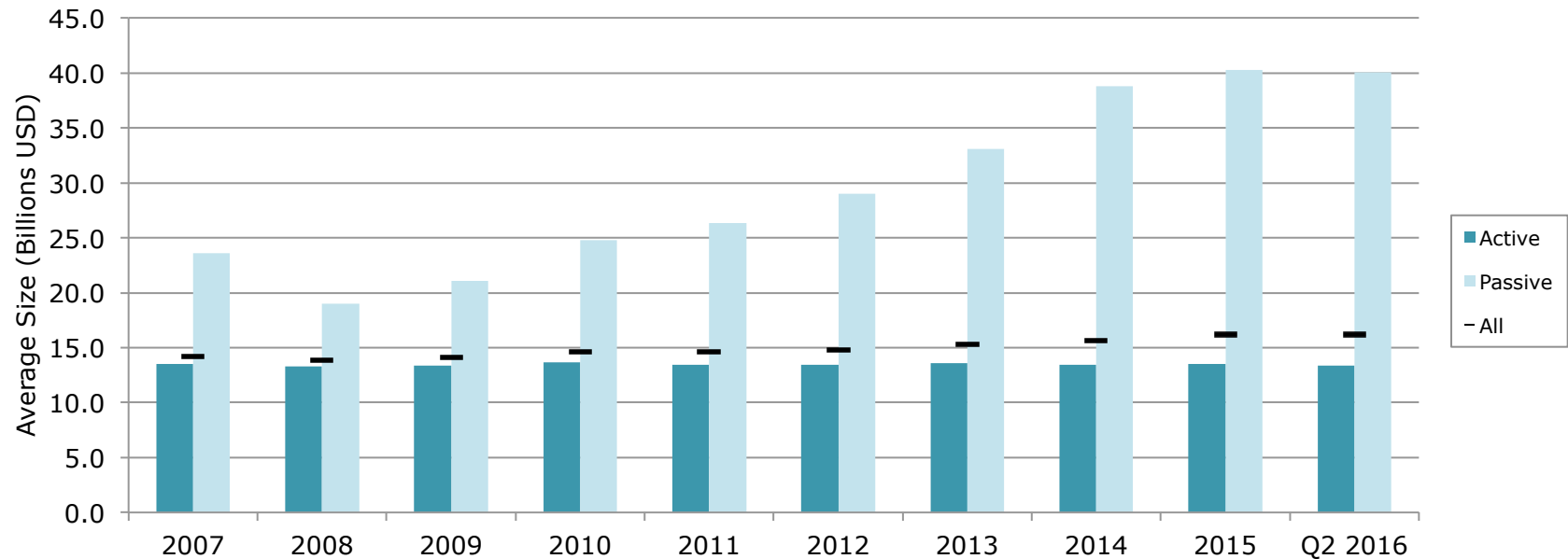
Number of Mega Funds: Active vs. Passive



- The number of passive mega funds has grown from 29 to 66 (2.3x) since the end of 2007; a significantly slower rate than passively managed mega fund assets have grown over the same period (\$0.7 to \$2.6 trillion, 3.9x).
- The number of actively managed mega funds has grown at a similar rate as its asset base (both 1.5x) during the same time period (albeit from a far larger base of 386 funds with \$5.2 trillion in assets)
- Even though passive mega funds are growing assets faster than their actively managed counterparts, the divide in the number of funds is largely unchanged. **Incumbents in passive strategies have created robust competitive moats and will prove difficult to dislodge.**

Why are Passive Funds so much larger than Active Funds?

Average Mega Fund Size

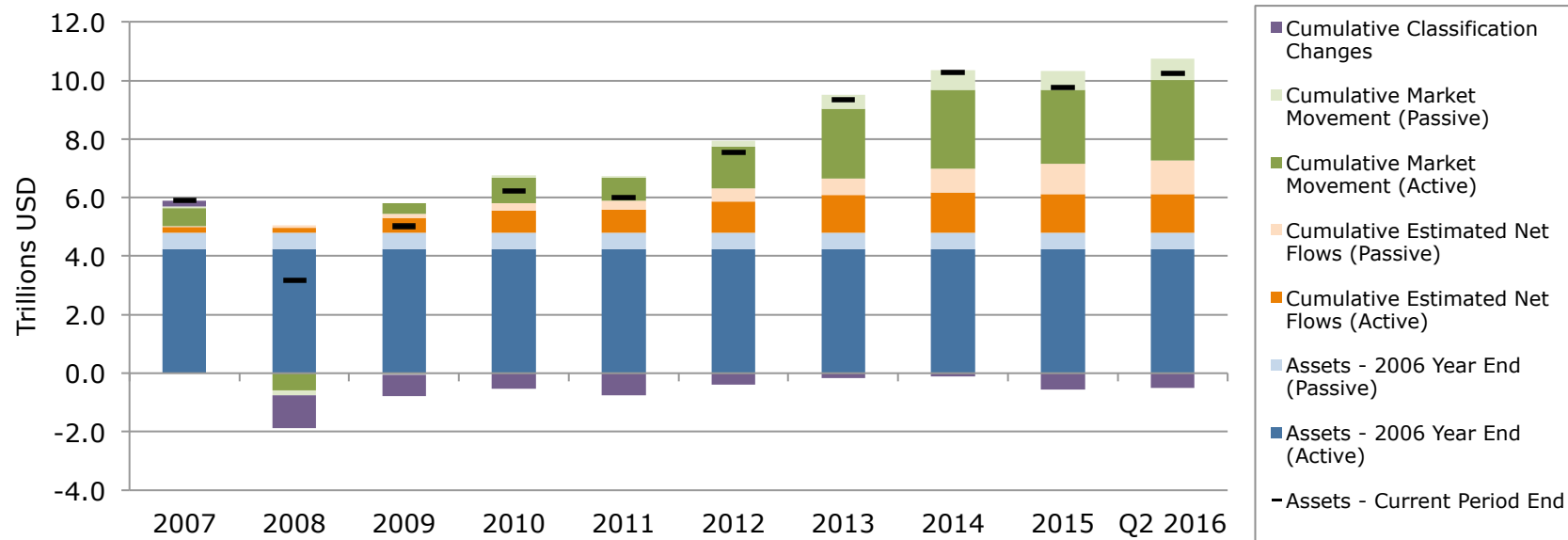


- As of Q2 2016, the average passive mega fund had \$40.1 billion in assets while its active counterpart had \$13.4 billion – a third as large. In 2007 the average passive mega fund was only 1.7x the size of the average active mega fund.
- **The greatest economics of scale are found in passive strategies, while fees are slim, barriers to entry are high. As the mega fund universe is infiltrated by more passively managed products, the level of hyper-concentration heightens. Active managers need to confront the ‘passification’ of investment products⁵.**
- The average active mega fund today (\$13.4 billion) is smaller than it was in 2007 (\$13.5 billion). Despite the stagnate size of active mega funds, the size of the average mega fund has grown from \$14.2 to \$16.2 billion over the same period due to the rapid expansion in size of passive funds.

19 ⁵For more on what active managers can do to resist ‘Passification’ read “Confronting Passification” <http://propinquityadvisors.com/confronting-passification/>

Active vs. Passive Routes to Growth

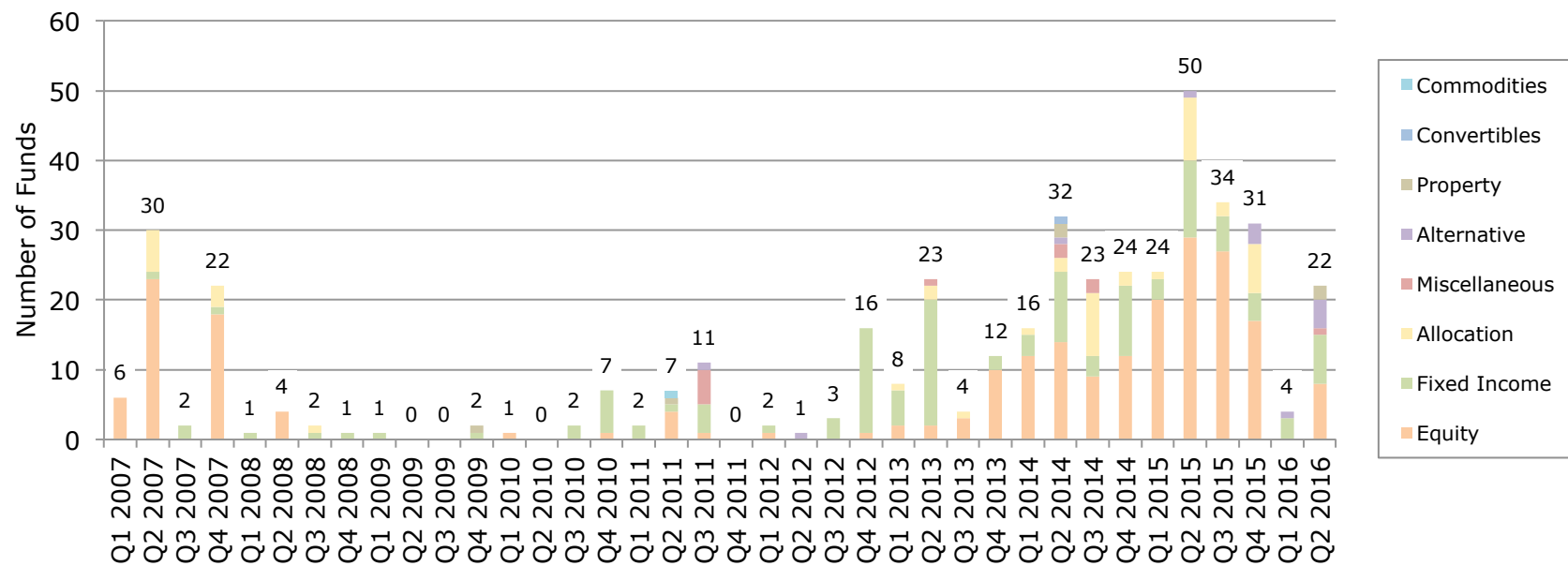
Mega Fund Cumulative Growth - Market Movement vs. Net Flows



- Since the beginning of 2007 passive mega funds have accounted for 46.9% (\$1.2 out of \$2.5 trillion) of the total cumulative flows even though they only account for 25.8% of the asset base today. Passive funds have accounted for 22.8% (\$0.8 out of \$3.5 trillion) of the total cumulative market movement.
- **Passive funds have taken a higher percentage of flows than active funds relative to their respective asset bases, on the other hand, they have taken a lower percentage of the market movement than their active counterparts. Flows are going passive, but active managers are holding onto performance.**

Peak or Just Recent Highs?

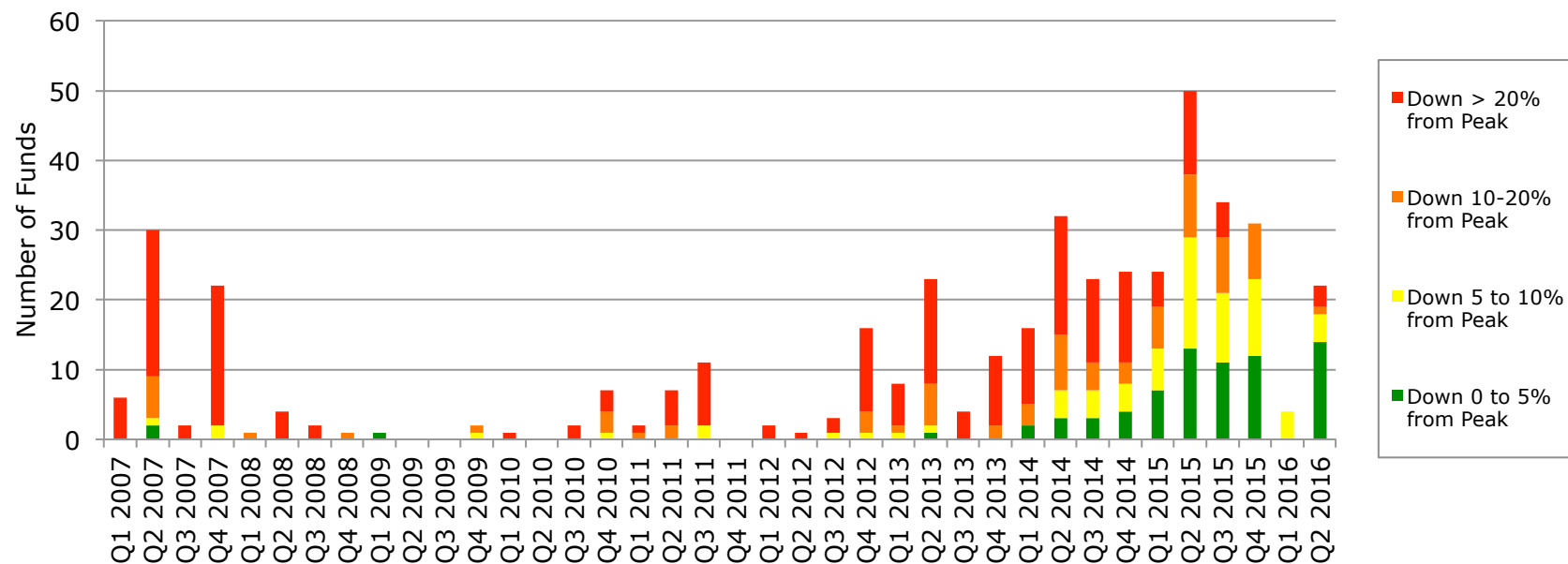
Highs by Global Broad Category Group



- Each of the 634 mega funds has either 'peaked' or reached a recent high during the period of analysis. Using preliminary data for 31 July 2016 one finds that 204 (32.2%) mega funds are currently at an all-time high.
- The remaining 430 mega funds are below their peak level of assets. For example, the PIMCO Total Return Fund hit its peak in April of 2013 at \$292 billion. This fund accounts for 1 of the 23 mega funds that peaked in Q2 2013.
- Once funds peak it is often hard to recover to previous highs. **The fall of mega funds often provides huge opportunities for competitively positioned strategies to capture dislodged assets.**

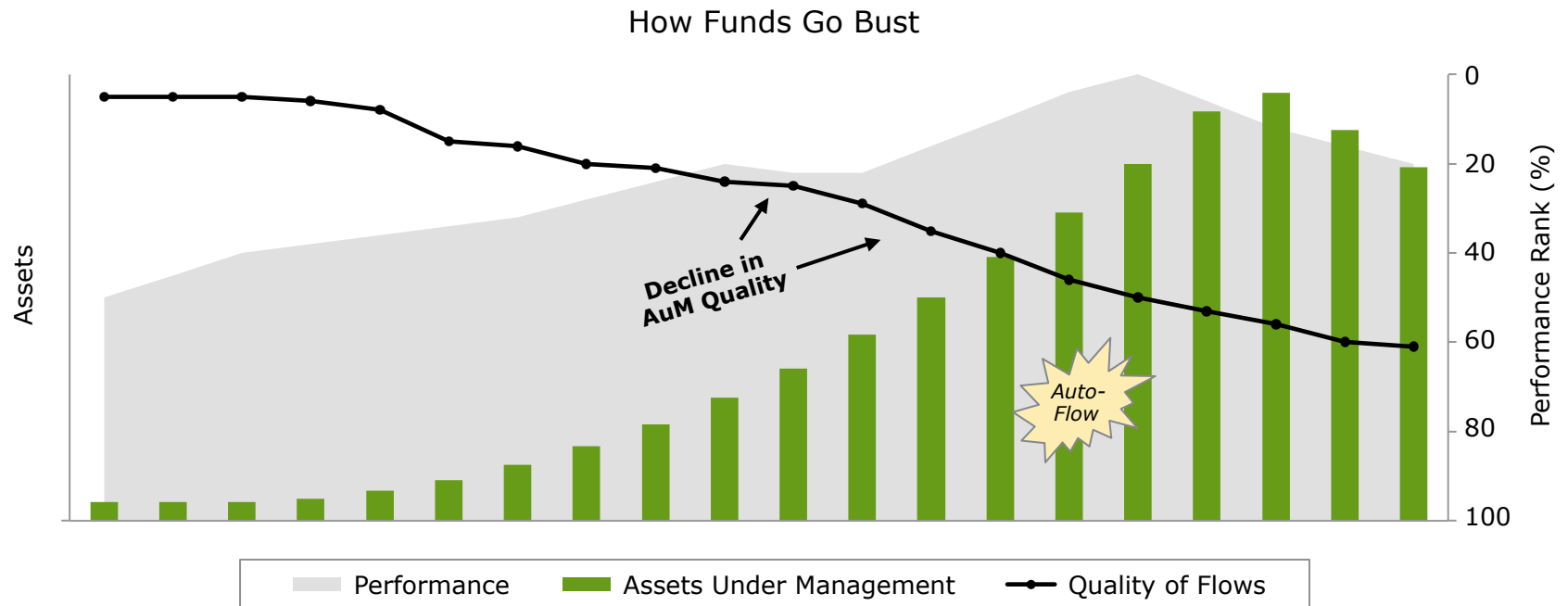
Which Mega Funds Already Peaked?

Levels of AuM Decline since Peak



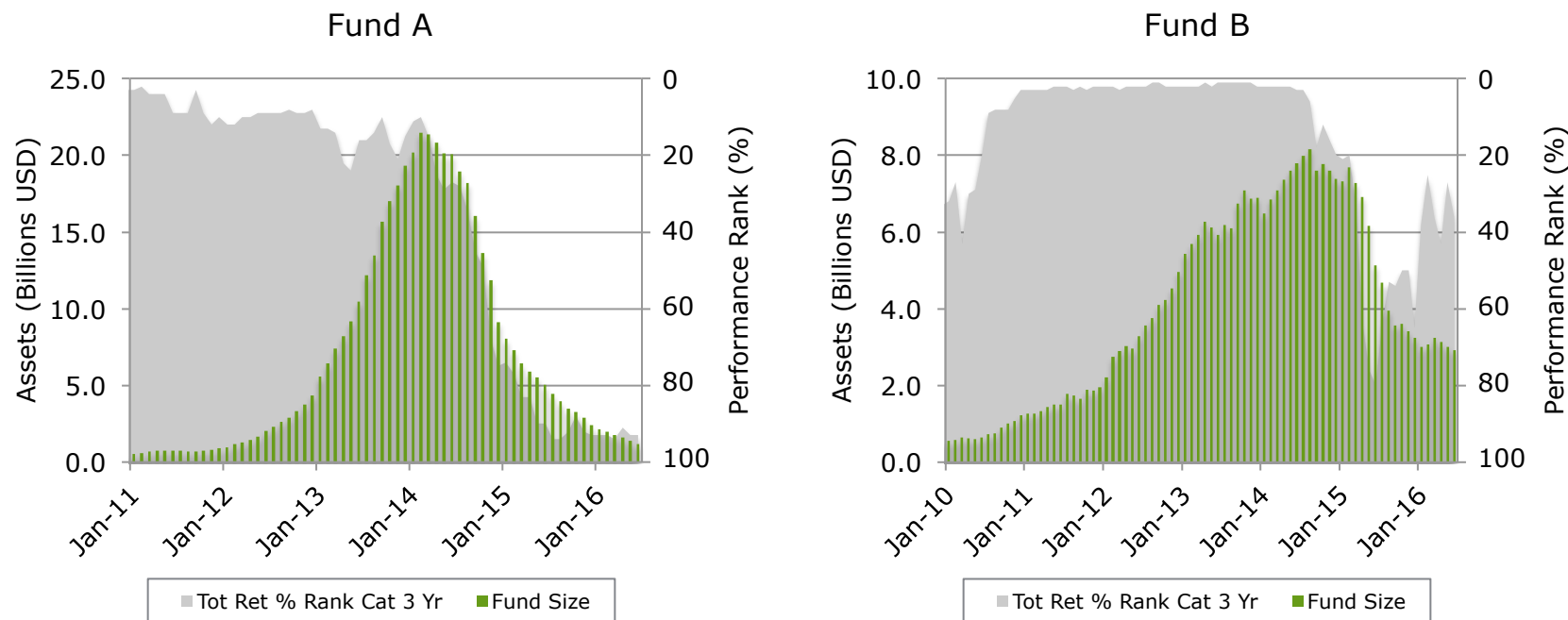
- 22 mega funds reached an all-time high (peak) during Q2 2016. 14 of those funds are down between 0-5% as of 31 July 2016. Another three funds that peaked in Q2 2016 have entered a critical period after dropping more than 20% in AuM from their peaks.
- The probability that a fund will recover declines drastically as time progresses. 15 of the 23 funds that peaked in Q2 2013 are still more than 20% below their peak asset levels.
- 206 of the 634 mega funds (32.5%) are down more than 20% from their respective peaks.

Auto-Flow



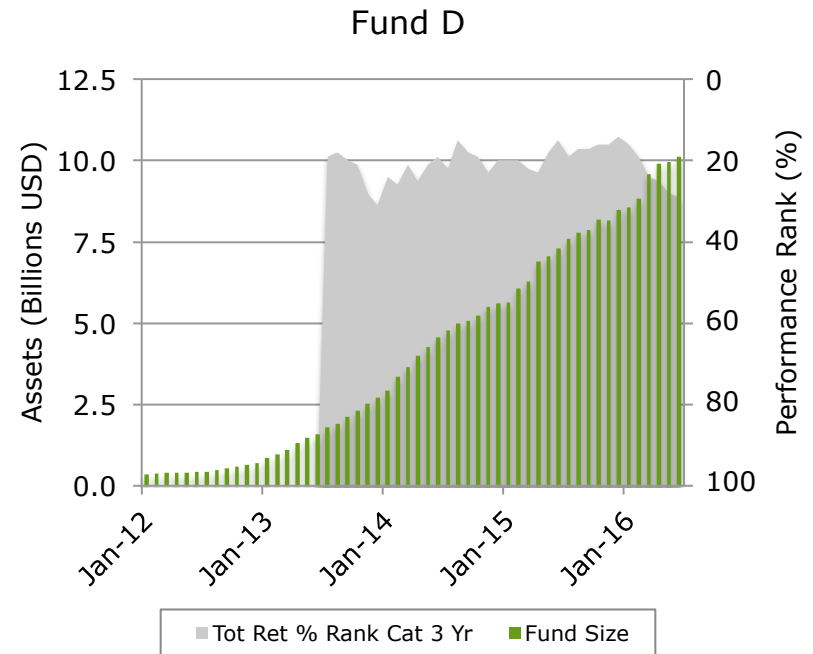
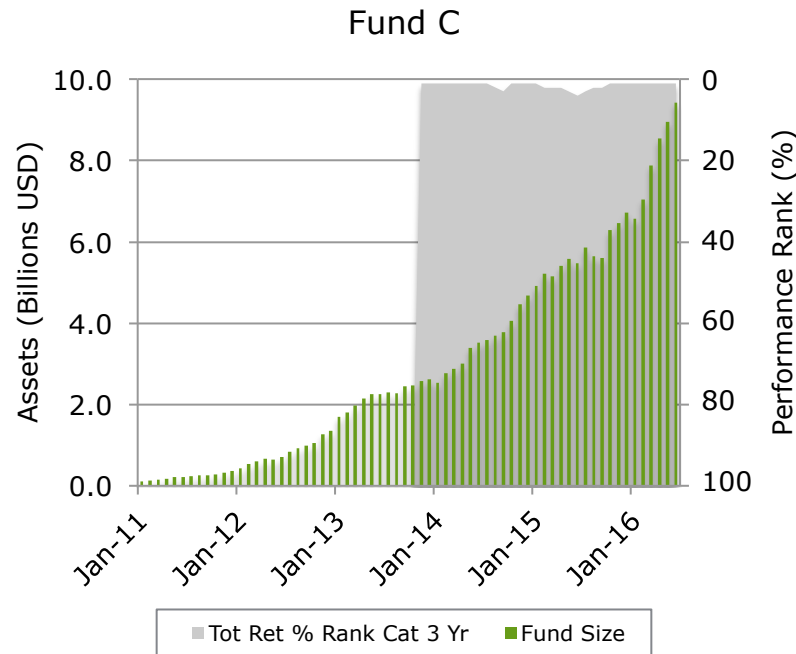
- Auto-flow is the stage at which the money into an investment product decreases in terms of quality while its volume increases. A fund in auto-flow often has become the 'default' for a specific asset class. Once auto-flow is disrupted, the imbalance causes cascading outflows.
- The quality could be decreasing because investor expectations are misaligned with likely future outcomes, new constraints and demands on client servicing as the number of investors rapidly increases and/or capacity constraints on the fund.
- Rapid volume increases can occur due to the fund being in a 'hot' category, becoming the 'default' option for a specific asset class and/or having exhibited exceptionally strong performance in recent common evaluation periods (12- & 36-months).

Once Auto-Flow is Disrupted...recent examples



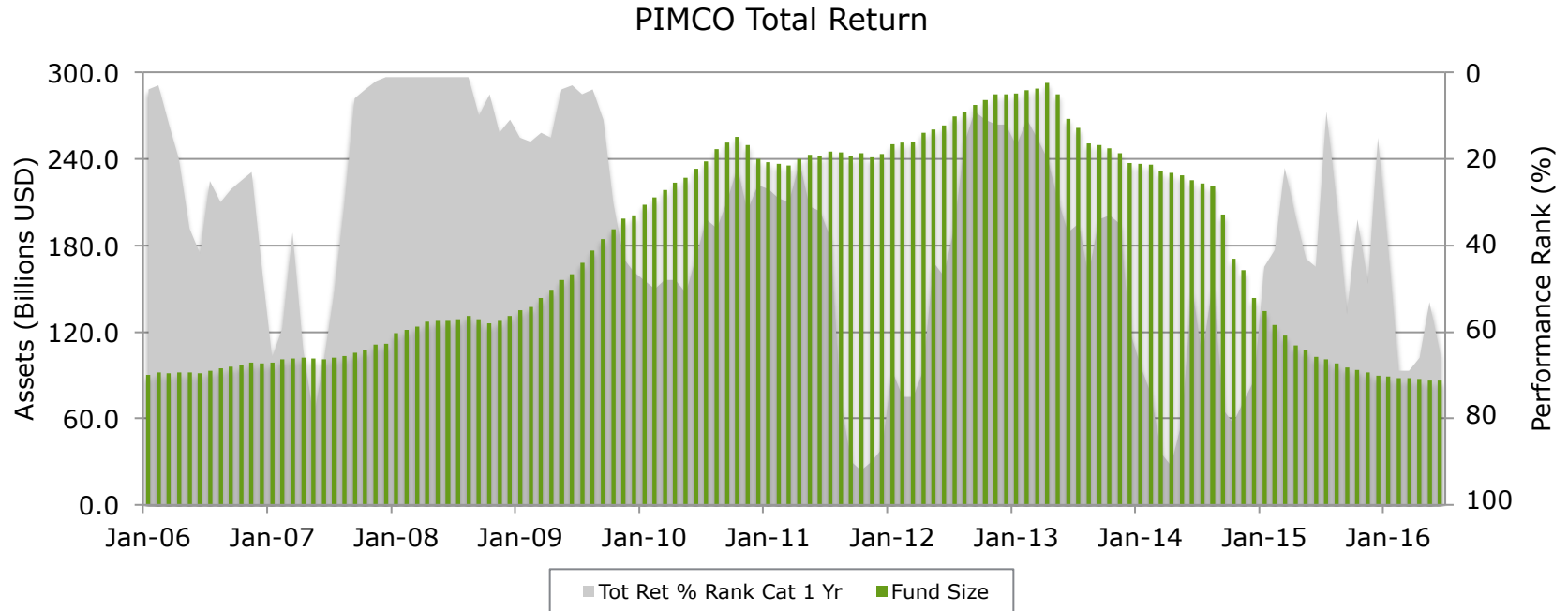
- Fund A (left) is a US long/short equity fund that reached a peak of \$20.1 billion in May 2014, up from just \$763.8 million three years earlier in May 2011. A 26-fold increase in assets over a 36-month period puts immense pressure on a client-servicing team and drives limitations for the manager. This scenario fits perfectly into the notion of auto-flow. A drop in performance dislodged assets like an avalanche as the fund lost 94% of those assets in just 2 years.
- Fund B (right) is an Asia-Pacific ex-Japan equity fund that rose quickly, more than 10-fold over the four years from August 2010 (\$747.4 million) to a peak in August 2014 (\$8.2 billion). The accompanying fall took 64% of the assets as of June 2016. Relative to the US L/S fund (Fund A) the Asia-Pacific ex-Japan fund had more time to increase the quality of its asset base before the falloff in performance. All funds will exhibit performance hiccups at some point and understanding auto-flow and asset quality is key to discovering how large of a performance trough a fund can withstand.

Quality Decreases while Volume Increases...future examples?



- Fund C (left) is a global large cap fund that increased from \$221.2 million in June 2011 to \$9.4 billion today (42.7x). The performance rank for this fund has consistently been in the top 5% of funds in its category. If this fund is in auto-flow and unless the proper steps are taken to increase asset quality a small bump in performance could cause cascading outflows.
- Fund D (right) is a EUR cautious allocation fund that has also seen huge successes in terms of performance and flows. Over the four year period from June 2012 to June 2016 the total net assets have increased from \$416.2 million to \$10.1 billion (24.3x). This is another fund that is exhibiting the symptoms of auto-flow.

A Bridge too far...



- Rapid increases in assets do not always imply auto-flow. For example, the PIMCO total return fund hit a local peak in October 2010 at \$255.2 billion after a period of rapid inflows and solid performance through 2008. However, performance started falling in mid-2009 and fell off almost completely in late 2011. This did not trigger outflows, in part, because the fund maintained high asset quality through strong client servicing and investors' strong regard for the manager.
- By maintaining this high asset quality the PIMCO total return fund effectively bridged the gap over a period of underperformance and avoided outflows until performance strengthen in late 2012.
- The notable slippage and eventual departure of Bill Gross in 2014 was the catalyst for cascading outflows.

About

Propinquity provides strategic research and advice to investment management companies seeking to measure, optimize and thoughtfully grow their businesses. In support of our clients' objectives, Propinquity conducts original research into the evolving themes driving the direction of the investment management industry. Propinquity assists its clients in understanding the drivers of these themes and positioning their capabilities and products in the global distribution markets.

We work with investment management companies:

- Assessing their investment capabilities and distilling what they do exceptionally well.
- Articulating their offering to meet the demands of sophisticated investors.
- Differentiating from competition.
- Positioning to take advantage of evolving industry trends.

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Notes on Data

- Data
 - Unless otherwise noted all data was exported from Morningstar Direct between 15 July and 23 August 2016 with an effective end date of 30 June 2016.
 - Funds were included in the worldwide mutual fund universe if they met all of the following search criteria as defined by Morningstar: (1) 'Investment Type' = 'Open-End Fund', (2) 'Oldest Share Class' = 'Yes', (3) 'Feeder Fund' = 'No', (4) 'Fund of Funds' = 'No' and (5) 'Global Broad Category Group' ≠ 'Money Market' or blank..
 - The mega fund universe is a subset of the worldwide mutual fund universe defined above with the additional condition that (6) 'Fund Size – comprehensive (Monthly)' ≥ \$5 billion USD.
 - For the purposes of this report all funds labeled 'Tax Preferred' in Morningstar's category system have been included under 'Fixed Income'.
 - Where shown, all fund names used are name of the oldest share class as defined by Morningstar.
 - Funds referred to 'European' or 'European cross border' in this piece are categorized as 'EAA' (Europe/Asia/South Africa) by Morningstar.
- Universe Alterations
 - The previous Q2 2015 report included 'Feeder' and 'Fund of Funds'. Those funds have been eliminated from the study for Q2 2016 due to the double counting of assets this can cause.
 - Unless otherwise stated this report reclassifies the mega fund universe at the end of each period shown as opposed to holding the mega fund class constant. Thus 2014 mega fund assets are the aggregate assets of all funds meeting the \$5 billion threshold on 31 December 2014, instead of the assets of the current class (Q2 2016) of mega funds in 2014.
- Market Movement
 - 'Total Net Assets' and 'Estimated Net Flows' were taken directly from Morningstar. Market Movement is calculated by taking the change in 'Total Net Assets' not accounted for by the 'Estimated Net Flows.'
 - $(\text{'Total Net Assets'})_{\text{period 1}} + (\text{'Estimated Net Flows'})_{\text{period 2}} + (\text{Market Movement})_{\text{period 2}} = (\text{'Total Net Assets'})_{\text{period 2}}$