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Fidelity loses ground to index trackers

By Stephen Foley in New York and David Oakley in London

The world's largest active fund managers, Fidelity and Capital Group, are losing market share to index trackers and niche rivals, as changing investor demands reshape the $30tn global mutual fund industry.

Figures compiled for the Financial Times by Morningstar show that investors withdrew a net $3.5bn from Fidelity's US funds in the six months to the end of June, while Capital Group's American Funds managed inflows of less than $600m.

That compared to $64bn flowing into Vanguard, the pioneer of low-cost index funds, whose US stock market tracker last year became the world's largest mutual fund with over $340bn in assets.

The group now manages more than $2tn in mutual funds, 60 per cent more than its nearest rival, Fidelity, which popularised the use of mutual funds by retail investors in the seventies and eighties.

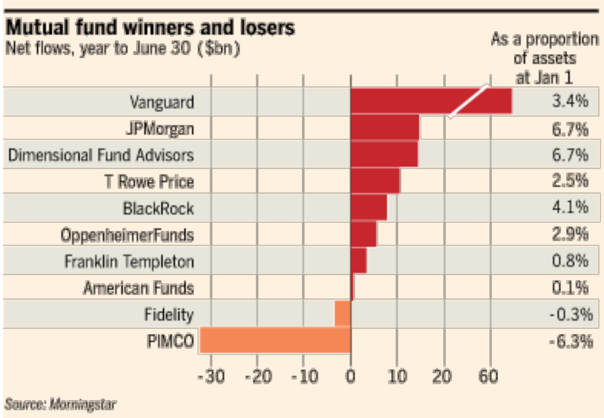
Fidelity and Capital Group are "losing the battle from both ends", said Russel Kinnel, director of manager research at Morningstar. Investors are splitting their money between cheap index funds and smaller active managers whose more nimble size means they can place a smaller number of concentrated bets.

"Both Fidelity and American Funds have delivered good performance but the problem is that their performance is coming in plain vanilla equity funds, and people are tuning them out," Mr Kinnel said.

In Europe, there was a similar trend in the first half of the year as money flowed into large US groups which use low-cost index funds, with BlackRock seeing €12bn of inflows and Vanguard €3bn.

Inflows for the period at L&G Investment Management, another big user of index-linked tracker funds in Europe, were €227m, equivalent to 33 per cent of its assets at the start of the year.

In the US, Fidelity's $110bn Contrafund, which invests in market staples such as Google and Warren Buffett's Berkshire Hathaway, has suffered net redemptions of $6.2bn so far this year. William Danoff, the veteran stockpicker who runs the fund, has fallen modestly behind the market but maintains a strong three- and five-year record.



A spokesman for Boston-based Fidelity said that its US mutual funds would have had positive net flows but several large institutional clients had moved money into alternative vehicles that the firm also manages.

Vanguard's net inflows in the first half of the year in the US amounted to 3.4 per cent of its mutual fund assets on January 1.

Another passive investor, Dimensional Fund Advisors, which has Nobel Prize winning economist Gene Fama on its board and uses algorithmic investing and trading strategies in its mutual funds, gained 6.7 per cent.

"DFA is the thinking person's Vanguard," said Mike Lipper, an investment consultant who has monitored the industry for 40 years.

Morningstar's figures for the top 10 US mutual fund providers also highlight turmoil in the bond market, where Bill Gross's Pimco suffered $32.3bn in outflows in the first half, largely from his Total Return fund. US bond funds with more flexibility to make bets across the fixed income market attracted money, helping JPMorgan and BlackRock to post inflows equivalent to 6.7 per cent and 4.1 per cent of assets, respectively.

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