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Vanguard, Nuveen, Goldman Win the Fight for Cash Flooding Muni Funds.

- **Five firms get about 80% of the inflows into muni mutual funds**
- **'It's the Amazon effect,' municipal bond analyst Tom Doe says**

A handful of the biggest firms on Wall Street are landing the vast majority of cash pouring into the municipal-bond market.

Vanguard Group Inc.'s mutual funds focused on tax-exempt debt have received about $12.7 billion this year, or nearly a third of the $39.1 billion that's been added to such funds, according to data compiled by Bloomberg. TIAA's Nuveen, Goldman Sachs Group Inc., BlackRock Inc. and MacKay Shields LLC received another $18.2 billion, leaving those five companies with about 80% of the new cash.

The figures show that the biggest Wall Street firms are benefiting the most from the rush this year into municipal bonds, illustrating the difficulty that smaller companies may have in keeping up with industry behemoths that have widespread brand recognition and the ability to charge lower fees.

"It's the Amazon effect in the municipal market," said Tom Doe, president of Municipal Market Analytics, an advisory firm. "If you're the number one performer that doesn't necessarily correlate with an increase in assets. It's not a performance vehicle, it's branding and costs."

Higher-income Americans have poured cash into municipal mutual funds this year as the federal limit on state and local tax deductions leaves some looking for new ways to drive down what they owe. Such funds have attracted new investments every week since early January, leaving them on pace for a potentially record-setting year.

That's coming just as the business is showing signs of becoming increasingly concentrated. In October, Pacific Investment Management Co. agreed to buy Gurtin Municipal Bond Management, a specialist overseeing about $12 billion of the securities for high-net-worth investors. That same month, Invesco Ltd. announced the acquisition of OppenheimerFunds Inc. , given the combined firm a major share of the municipal junk-bond market.

Doe said that the industry's concentration could make a retreat from the municipal market more problematic if it forced the major firms to sell at the same time in order to meet investor redemptions.

"In any market if everyone is investing in a similar way, if you don't have a diversity of participants, you are vulnerable to disruption and less liquidity," he said.

While it makes sense that some of the biggest firms are pulling in the most cash, their share of this year's inflows is bigger than their overall share of the industry's assets, indicating expanding leads over rivals. For example, Vanguard, which accounts for about 23% of municipal mutual fund assets, received about 32% of the year's new investments. Nuveen pulled in 16%, double its market share.

“I think you’ve got very established muni teams and which have been gathering assets and managing them successfully for quite sometime,” said Beth Foos, an analyst with Morningstar Inc. “Folks may have a little bit more confidence in those large teams that could do that bottom up research to find some dislocation in the muni market when spreads are this tight.”

J.R. Rieger, author of trade newsletter the Rieger Report, said the concentration is part of a broader trend across other investment classes, including Treasuries and corporate bonds.

“You see a migration to lower cost funds at bigger firms versus the higher manager fees for active managed portfolios,” he said.

Bloomberg Markets

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July 23, 2019, 10:30 AM PDT

— With assistance by William Spada