
Goldman Wins Record Deposits Into Bond Fund Defying Higher Rates: SF Chronicle.

Dec. 17 (Bloomberg) — Goldman Sachs Group Inc. is drawing record deposits into a bond mutual fund that's making money even as interest rates rise, giving the bank a boost in one of the few Wall Street businesses it hasn't dominated.

The Goldman Sachs Strategic Income Fund attracted $9.8 billion in the first 11 months of 2013, more than three times the net new cash taken in by the New York-based company's previous best-selling mutual fund in a calendar year, according to Morningstar Inc. data going back to 1993. The $12.5 billion fund returned 5.3 percent in 2013 through Dec. 13, beating 96 percent of rivals, according to data compiled by Bloomberg. The fund has quintupled in size this year.

Strategic Income is raising the bank's profile in the $14.6 trillion U.S. mutual-fund industry by standing out among a breed of bond products whose managers can invest across the fixed- income spectrum, including bets that pay off when interest rates rise. The unconstrained funds have caught on as investors flee conventional fixed-income funds in anticipation of rates climbing further and spurring losses in bonds when the Federal Reserve scales back its asset-buying program.

"This portfolio has a shot at making money in any rate environment," co-manager Michael Swell said in a telephone interview from New York. "You will see money flowing out of traditional fixed income into products like this one."

Slowing stimulus may lead to higher interest rates, which reduces the value of interest-paying securities with fixed rates.

Shifting Deposits

Non-traditional bond funds pulled in a record $51.5 billion this year through last month, according to Chicago-based Morningstar, while intermediate-term bond funds, the core fixed- income product for many investors, had $73.2 billion in redemptions.

The $28 billion Pimco Unconstrained Bond Fund won $9.6 billion, while Bill Gross's $244 billion Pimco Total Return Fund had $36.9 billion in withdrawals, Morningstar estimates. Pimco Total Return, which lost its title as the world's largest mutual fund in October, fell 1.5 percent through Dec. 13, compared with a decline of 1.8 percent for the Barclays U.S. Aggregate Index.

Gross, 69, took over Pimco's unconstrained fund Dec. 5 when manager Chris Dialynas went on sabbatical at Newport Beach, California-based Pacific Investment Management Co.

Investors may not appreciate that the flexible funds, whose assets grew 20-fold after the 2008 financial crisis to $119 billion, carry their own risks even with limited exposure to rising interest rates, said Eric Jacobson, Morningstar's director of fixed-income research.

High Yield

Many of the funds, including Goldman Sachs's, own high- yield and emerging-market bonds, which can lose value if economies falter or stock markets slump, Jacobson said. Goldman Sachs Strategic Income fell 2.5 percent in 2011, trailing 95 percent of its peers, as large positions in mortgages not guaranteed by the U.S. government declined amid a selloff of riskier assets, Swell said.

For Goldman Sachs, the popularity of its go-anywhere fund has given the bank success in an area where it has historically trailed better-known competitors. Previously, the bank's top- selling mutual fund in a full calendar year was the Goldman Sachs High Quality Floating Rate Fund, which took in $2.8 billion in 2002, according to Morningstar.

"They've never been much of a player in mutual funds," Geoff Bobroff, a fund industry consultant based in East Greenwich, Rhode Island, said in a telephone interview.

'Uphill Climb'

Goldman Sachs had $81 billion in U.S. long-term mutual fund assets as of Nov. 30, ranking 23rd with less than 1 percent market share, Morningstar data show. The totals don't include money-market funds. In the past five years, the bank's U.S. bond funds outperformed 57 percent of their peers and its stock funds beat 49 percent, according to Denver-based Lipper.

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