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Bloomberg: Some New Bond Funds Take in Big Bucks.

While bond funds overall saw investor withdrawals in 2013, popular launches included world-bond portfolios and nontraditional approaches.

A year of turmoil in the bond market didn't stop some fund companies from rolling out a host of new bond vehicles—and some attracted a lot of cash.

The most popular, as measured by net cash inflows, was Vanguard Total International Bond Index, for which traditional mutual-fund and exchange-traded shares are available. From its May launch through year-end, it took in $19.5 billion, according to Morningstar Inc.

More than $14 billion of those assets come from the behemoth fund company's target-retirement funds and target-retirement trusts, according to a Vanguard Group spokeswoman. Before last year, Vanguard's target-date retirement funds didn't hold an international bond fund.

But analysts say the timeliness of the fund's strategy as well as the Vanguard name also help explain its popularity. The fund buys a broad mix of investment-grade government and corporate bonds outside the U.S.

Looking outside the U.S. for higher yield was a theme in 2013 bond-fund launches, says Todd Rosenbluth, director of ETF and mutual-fund research at S&P Capital IQ. "International bonds offer higher yields and provide the benefits of economic growth in other countries," he says.

Of roughly 160 bond funds and ETFs launched last year, 15 invest in world bonds and 22 focus specifically on emerging-markets bonds, according to Morningstar. World bond funds as a category saw inflows of $23.6 billion, Morningstar says. According to TrimTabs Investment Research, meanwhile, investors withdrew a net $86 billion from U.S. bond mutual funds and exchange-traded funds overall.

Another new bond fund last year benefited from large inflows in the same way that much of the flow into Vanguard's fund came from other Vanguard funds: Bridge Builder Bond attracted $5.9 billion in net new cash in 2013 following its late-October launch. The fund is a proprietary bond fund sponsored by the St. Louis-based securities firm Edward Jones and designed specifically for clients invested in the firm's fee-based accounts. Most of the flows into the fund were reallocated client assets already invested in various fixed-income funds in the company's advisory solutions program, according to Steve Seifert, investment advisory principal at Edward Jones.

There were some surprises among the most popular new bond funds launched last year, including Nuveen Short Duration High Yield Municipal Bond. The fund, which launched in February 2013, took in more than $700 million, even though "last year was not a good year to be a muni bond fund, between headline risk of Detroit and Puerto Rico," says Mr. Rosenbluth.

But as income-oriented investors continue to scramble for decent returns, some are opting to accept more default risk instead of going with longer maturities and risking price drops whenever rates do

eventually rise.

John Miller, the Nuveen fund's portfolio manager, says he dealt with investor concerns about credit risk in municipal bonds on a daily basis by pointing to the fund's limit on duration of 4.5 years. For a fund with a duration of 4.5, a one-percentage-point rise in rates would lower the price by 4.5%. A one-point decline would boost the price by 4.5%.

Daniele Donahoe, president and chief investment officer of Rinehart Wealth Management in Charlotte, N.C., says her firm bought into the Nuveen fund last fall precisely because of this limited duration. After the summer selloff in the muni market, her firm, which manages about $300 million in client assets, saw a buying opportunity in short-duration, high-yield munis, she says. "We wanted to move into higher-risk bonds with lower duration," she says. "We didn't have that in our portfolio."

In the 12 months through February, the Nuveen fund returned 1.0%, compared with an average 2.8% loss for Morningstar's high-yield muni category.

Bank-loan funds are another category that saw very strong flows of cash from investors last year. The funds invest in loans with floating rates and are seen as a relatively safe choice in a time of rising rates, even though the loans are made mostly to companies with low credit ratings.

Among the most popular launches in this category in 2013 was the SPDR Blackstone/GSO Senior Loan ETF, which opened for business in April and attracted more than $500 million.

One trade-off for investors in this type of fund is that the higher credit risk means bank-loan funds will behave more like stocks in a volatile market, notes Sarah Bush, a fund analyst with Morningstar. "Investors who are switching out of core bond funds into these funds aren't going to get the same diversification if equity markets were to underperform."

Strictly by the number of new bond funds and ETFs, the most popular category in 2013 was nontraditional bond funds, a category that includes funds that try to protect investors from rising bond yields, such as unconstrained bond funds and so-called absolute-return bond funds. Some 32 nontraditional bond funds and ETFs were launched in 2013, according to Morningstar. Among the new launches were John Hancock Global Conservative Absolute Return, which took in $100 million in 2013, and First Trust High Yield Long/Short ETF, which took in $91 million.

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