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This New Bond Leader Doesn't Have a King

Actively managed bond funds at Capital Group, a huge but intentionally faceless manager, have attracted $100 billion over five years, twice the total of peers.

By Michael Thrasher

When investors think about fixed-income managers, the first names that usually come to mind are Pimco — once synonymous with "Bond King" Bill Gross — BlackRock, Vanguard, or DoubleLine, with its star CEO and CIO Jeffrey Gundlach.

But one intentionally faceless asset manager — which rejects the idea of star portfolio managers and even gives analysts parts of portfolios to run — has heavily invested in its bond business, delivered good returns, and significantly outgrown its peers.

Over the past five years, Capital Group's actively managed fixed-income strategies have pulled in a net $107 billion, twice as much as any peer. The five asset managers with the largest net flows — including Capital Group's American Funds, Vanguard, Baird, J.P. Morgan Asset Management, and PGIM — gathered a total of $284.4 billion during the same time period. Capital Group accounted for more than a third of the total.

Stephen Welch, a senior research analyst who focuses on asset managers at Morningstar, called Capital Group's success attracting new money "crazy."

But Capital Group said that it's been laying the ground work for years. The firm may not be a big brand name in bonds, but it has a very large team.

"A lot of work, in so many places, really came together. And you're seeing that result [in the] flows," said Ryan Murphy, fixed-income asset class lead at Capital Group.

Jonathan Bell Lovelace founded Los Angeles-based Capital Group in 1931, and the firm became best known for its actively managed stock portfolios. Today, the company says that it's still known for its equity funds, but fixed income represents almost $450 billion of its $2.2 trillion in assets. Since 2015, fixed-income assets have nearly doubled.

Capital Group lags its peers in total bond fund inflows, primarily because the competitors offer passive investment strategies. A short list of firms, including Vanguard, BlackRock, and Fidelity, dominate that market. But Capital Group has been a significant leader when it comes to actively managed funds.

ILLUSTRATION BY II

Murphy, who joined Capital in 2021 after working for 14 years at Pimco, said that Capital Group began to significantly invest in its fixed-income business 10 years ago.

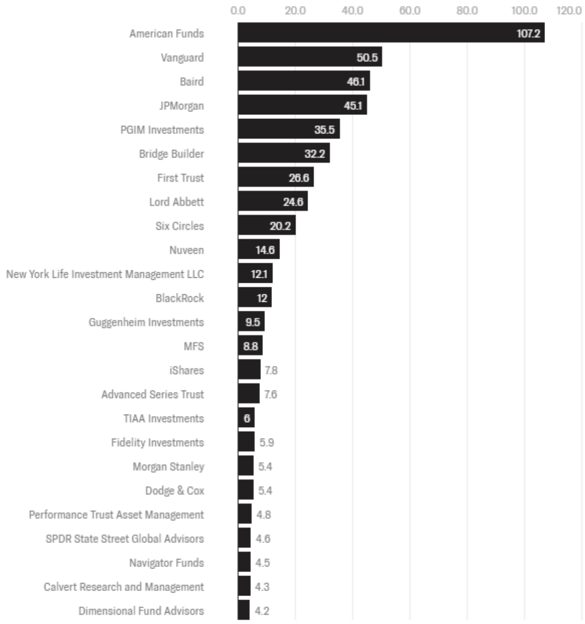
In 2015, it hired Michael Gitlin, the head of fixed income at T. Rowe Price, to lead the same group, and has since lured many managers and analysts from competitors. Today, the firm has 238 investment professionals in fixed income, with the same team-based structure it uses for all assets.

Capital Group doesn't have star portfolio managers and few singular decision-makers. A team of managers, with one principal portfolio manager, oversees all investment strategies. Analysts also get their own sleeve of a portfolio to manage, a structure fairly uncommon in the industry. The multi-manager structure has resulted in better collaboration and investing, and it incentivizes analysts who often deliver the best ideas out of their research, Murphy said.

Sam Kulahan, a senior analyst focused on fixed-income managers at Morningstar, says that the structure creates career development opportunities that might be less common or even nonexistent at other asset managers. Capital Group's Murphy has already seen those benefits since he joined the firm.

5-Year Estimated Net Flows to U.S. Active Fixed Income-Funds

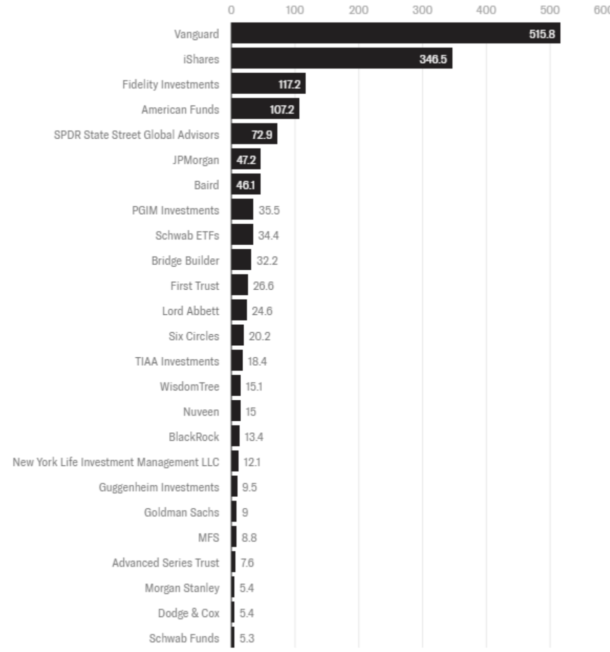
Capital Group's American Funds had twice the net flows as the next closest competitor.



Source: Morningstar

5-Year Estimated Net Flows to Active and Passive U.S. Fixed-Income Funds

Vanguard, BlackRock's iShares and Fidelity Investments dominate passive fixed-income.



Source: Morningstar

"Collaborative views — independent views — and having people vote with their feet in the investment process is how you elicit better bottom-up implementation and investing. It's an acknowledgement that you don't want one voice dominating the room and you don't want to run into the perils of groupthink," Murphy said.

"There's no one identifiable person that we put forward as part of either our investment process or our business," he added. "That's built into the structure of how we manage money and how we operate. More views and more voices lead to better results."

That might be one reason why employees stick around. According to Kulahan, the low turnover at Capital Group over the past five years is notable. "Very few folks choose to leave Capital Group's fixed-income team. They are very good at retaining analysts and PMs," he said.

Those teams are also delivering good returns, which Murphy said makes everything easier. "To our investment team's credit, they navigated a really varied environment" in recent years, which included the worst bond market in history, the Covid-19 pandemic, and rapid interest rate hikes.

In 2022, the fund lost 12.68 percent compared to the Bloomberg U.S. Aggregate Index's 13.01 percent loss, while in 2021, the fund lost 0.95 percent compared to the index's loss of 1.54 percent. Several other Capital Group bond funds also have five- or four-star Morningstar ratings.

The asset manager has been leveraging existing relationships with its equity and multi-asset business to grow its bond business, make new inroads with pension plans and other institutional investors, and grow its liability-driven investing business. It has also invested in its infrastructure and refined its sales process.

Murphy said that he understands that most people think of Capital Group as an equity manager. "Why should folks think of us in the fixed-income space?" he asked. But he added that this makes the manager particularly skilled at understanding the big picture.

"We're acutely aware of the role of fixed income in larger portfolios and asset allocations," he said. "Even over the last year, fixed income is [suddenly] a much more compelling solution for a lot of these defined benefit plans. A year and a half ago, you're getting sub 1 percent for a 10-year Treasury. Today you're getting significantly more."

Murphy stressed that there is still room for the growth to continue. Even at $73 billion, American Funds' Bond Fund of America, one of Morningstar's top-rated bond funds, is not in danger of running into capacity constraints. Its core bond fund invests in investment-grade U.S. debt. It typically holds less than 5 percent of below-investment-grade bonds.

"Our process is [to not rely] on those higher-octane, less liquid parts of the markets, but [to go after] opportunities in higher-quality sectors. It's something we always talk about and make sure we test — test internally — but [we're] not bumping into those limits at this point," Murphy said.

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Figures shown are past results for Class A shares and are not predictive of results in future periods. Returns for Class A shares at maximum offering price (MOP) reflect deduction of a sales charge of 3.75%. Returns at net asset value (NAV) do not reflect a sales charge. If a sales charge had been deducted, the results would have been lower. Current and future results may be lower or higher than those shown. Prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. For current information and month-end results, visit capitalgroup.com.

Below are results as of March 31, 2023.

Average Annual Total Returns

		1-year (%)	5-year (%)	10-year (%)	30-day SEC Yield (%) (3/31/23)	Gross Expense Ratio (%) (2/28/23)
The Bond Fund of America®						
(fund inception date: 5/28/74)	**MOP**	–8.58	0.73	1.18	3.60	0.59
	NAV	–5.03	1.50	1.56	3.60	0.59
Bloomberg U.S. Aggregate Index						
		–4.78	0.91	1.36		

Source: Capital Group.

Morningstar Rating™

Overall Morningstar Rating™ ★★★★☆
(414 funds rated)

3-yr. Morningstar Rating™ ★★★★☆
(414 funds rated)

5-yr. Morningstar Rating™ ★★★★★
(378 funds rated)

10-yr. Morningstar Rating™ ★★★★☆
(282 funds rated)

Morningstar Category: Intermediate Core Bond. Ratings are based on risk-adjusted returns as of 3/31/2023 (updated monthly). Morningstar rankings do not reflect the effect of sales charges, account fees or taxes. Past results are no guarantee of results in future periods.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing.

Net flows data as of 2/28/23. Capital Group AUM data and fixed income professionals as of 12/31/22. The Bond Fund of America AUM data as of 2/28/23. Returns reflect The Bond Fund of America, Class A.

If used after 6/30/23, this must be accompanied by the most recent American Funds quarterly statistical update.

The fund may hold up to 10% in below-investment-grade debt securities rated Ba1/BB+ or below.

Bond ratings, which typically range from AAA/Aaa (highest) to D (lowest), are assigned by credit rating agencies such as Standard & Poor's, Moody's and/or Fitch, as an indication of an issuer's creditworthiness. For most funds, unless otherwise noted below, if agency ratings differ, a security will be considered to have received the highest of those ratings, consistent with applicable investment policies. Securities in the Unrated category have not been rated by a rating agency; however, the investment adviser performs its own credit analysis and assigns comparable ratings that are used for compliance with applicable investment policies.

Investment results assume all distributions are reinvested and reflect applicable fees and expenses. Expense ratios are as of each fund's prospectus available at the time of publication. When applicable, results reflect fee waivers and/or expense reimbursements, without which they would have been lower. Please visit capitalgroup.com for more information.

The return of principal for bond funds and for funds with significant underlying bond holdings is not guaranteed. Fund shares are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings.

Higher yielding, higher risk bonds can fluctuate in price more than investment-grade bonds, so investors should maintain a long-term perspective.

Investing outside the United States involves risks, such as currency fluctuations, periods of illiquidity and price volatility, as more fully described in the prospectus. These risks may be heightened in connection with investments in developing countries.

Portfolios are managed, so holdings will change. Certain fixed income and/or cash and equivalents holdings may be held through mutual funds managed by the investment adviser or its affiliates that are not offered to the public.

The market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index. There have been periods when the fund has lagged the index.

The Bloomberg U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market.

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The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Past results are not guarantee of results in future periods. The Morningstar Ratings are based on the share classes of each underlying fund held by the series; other underlying fund share classes may have different performance characteristics.

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