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Pimco Fund Loses Its Allure

Inflows Plunge After Ill-Time Bets on Treasuries Put 2011 Return at Just 1.1%

By [MIN ZENG](#) And [MARY PILON](#)

[Bill Gross](#), manager of the world's biggest bond fund, is used to scooping up piles of investors' money with a forklift. This year, a spoon will suffice.

Through the third quarter of 2011, Mr. Gross's [Pimco Total Return Fund](#) had attracted inflows of \$183.5 million, according to data compiled by fund tracker Lipper at The Wall Street Journal's request. The fund lured \$17.6 billion in new money last year, \$57.7 billion in 2009 and \$20.4 billion in 2008.

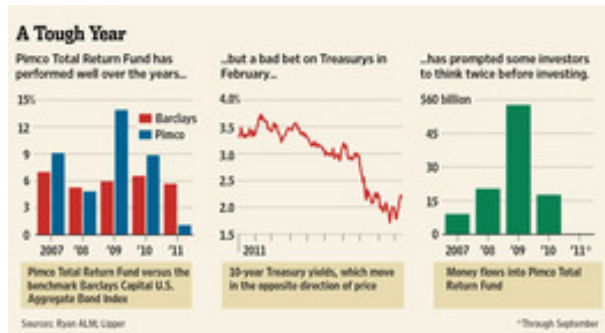
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Mark MacQueen, partner and portfolio manager, Sage Advisory Services

Mr. Gross's ill-timed bets on Treasury bonds this year have set his \$242.2 billion portfolio up for one of its poorest annual performances in a decade. It has returned just 1.1% through Wednesday, compared with 5.7% for the benchmark Barclays Capital U.S. Aggregate Bond Index, according to data from fund tracker Morningstar Inc. The fund has been beaten by more than 90% of comparable bond funds this year, according to Morningstar.

"For a fund with over \$240 billion in it, an inflow of \$180 million is close to zero," said Jeff Tjornehoj, who is senior research analyst for Lipper. "Being on the wrong side of the Treasury-bond market rally injured performance and reputation. When someone so visible makes a mistake, it has large consequences."

Overall, taxable and tax-exempt bond funds, excluding exchange-traded funds, have seen inflows of \$79.1 billion in 2011, down from \$221.6 billion last year, according to Lipper.



Mr. Gross, founder and co-chief investment officer at [Allianz](#) SE's Pacific Investment Management Co., declined to comment Thursday.

Some investors, like Keith Amburgey, chief investment officer at Rutherford Asset Planning in Naples, Fla., have pulled out. Mr. Amburgey said he had 8% of the \$125 million he manages in Pimco Total Return

Fund this year but has liquidated his positions and invested in a rival fund. "Pimco has gotten so large, we believe it limits their opportunities," he said.

Homrich Berg, an Atlanta-based family office, trimmed its Pimco Total Return Fund exposure to 3% of the firm's \$2 billion in client assets from 7% a year ago. Stephane Lang, a senior investment analyst with the firm, invested some of the money in other Pimco bond funds and other firms' funds.



Bloomberg News

Bill Gross, co-chief investment officer of Pimco

"We're long-term believers in Pimco," Ms. Lang said. "We just didn't share their view on the world when it came to interest rates."

To be sure, there is no sign that investors are fleeing. The fund hasn't posted annual outflows since Lipper began tracking the data in 2004.

Some money managers see Mr. Gross's 2011 performance as a mere blip. "The guy is very intelligent and he is brilliant, and he has been on the right side more often than the wrong side," said Mark MacQueen, partner and portfolio manager in Austin, Texas, at Sage Advisory Services Ltd., which oversees \$10 billion in assets.

Over the past 15 years, the fund has handed investors an annualized return of 7.2%, beating the Aggregate Bond index's 6.3% and outshining all of its comparable rivals.

Mr. Gross dumped the fund's Treasury holdings in February, when the 10-year Treasury yield hit this year's peak of 3.77%. Treasuries soon began a sharp rally, sending the 10-year yield, which moves inversely to its price, down as low as 1.67% last month. He told *The Wall Street Journal* in August that the

move was a "mistake."

In addition to his investing acumen, Mr. Gross is known for his colorful monthly letters to investors. In his October letter, he alluded to flabby abdominal muscles, laxatives and cellulite in a commentary on the global debt crisis. He likened sovereign balance sheets to a "midriff bulge."

Many investors are betting that Mr. Gross will return to form soon.

Ed Mosser, a salesman based in Valparaiso, Ind., began investing in the Total Return fund at the start of the year, when it became available in his workplace 401(k) retirement plan. He plans to stick it out.

"I'm in this for 10 years or more," Mr. Mosser said . "Bill Gross made a short-term misjudgment."

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