

MANAGED VOLATILITY

Tracking the Growth of an Investment Trend

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CONTENTS

- I. Executive Summary
- II. Understanding Managed Volatility
- III. Growth of an Investment Trend
- IV. Appendix: Resources
- V. Supplement: Tail Risk Fund Tables
- VI. Supplement: Low Volatility Fund Tables

I. EXECUTIVE SUMMARY

MANAGED VOLATILITY FUND GROWTH CONTINUES APACE

As asset managers and investors realize the usefulness of managed volatility strategies, assets continue to rise. Strategic Insight reports a rise in assets from \$30.9 billion at the end of 2006 to \$153.9 billion at the end of 2012, an annualized growth rate of 31%. Assets reached \$200.1 billion by mid-2013.

With \$127.9 billion in Q2' 13, VA assets constituted 64% of managed volatility. Mutual funds amounted to \$72.3 billion, or 36%. By contrast, there are many more mutual funds, a total of 229, compared with 180 VA funds among a grand total of 409. The widespread use of managed volatility funds in association with VA guarantees accounts for the faster accumulation of assets and generally larger portfolios.

Strategic Insight splits managed volatility into two categories: tail risk managed and low volatility. The former includes a population of 248 funds and \$149.2 billion in assets and the latter has 161 funds and \$51.0 billion in assets. Generally speaking, tail risk managed funds are more strongly represented among VAs—in both assets and number of funds. On the other hand, mutual funds have a great presence with low volatility funds. However, there is no sharp demarcation line between the two categories.

A second important dynamic shaping the growth of managed volatility is the new emergence of “alternative” investment styles into the retail fund space, bringing with them managers that are new to the retail arm of the industry. Overall, the diversity of managed volatility players has grown from 12 in 2006 to 101 at the end of August, 2013.

The alternatives market includes many hedge fund type strategies that fall within our definition of managed volatility. For example, risk parity is a low volatility strategy and many individual portfolios include volatility management mechanisms.

Add to that innovations in investment strategies and the retail fund space has become a fertile market for new concepts and the proliferation of a wide variety of managed volatility designs.