AllianceBernstein Adds "Volatility Management" To Target-Date Funds

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In early April 2010, AllianceBernstein will add a "Volatility Management" component to its Retirement Strategies target-date mutual funds. The new component is designed to reduce the market risk of the funds during periods of extreme volatility.

"This enhancement is the result of a multi-year firm-wide research effort, which created new tools we believe can be applied to 'smooth the ride' and improve retirement outcomes for defined contribution plan participants," said Seth J. Masters, chief investment officer of blend strategies and defined contribution at AllianceBernstein.

AllianceBernstein said it would allocate up to 20% of its existing Retirement Strategies target-date funds into the new Volatility Management component, with the allocation varying by "vintage."

The component will invest in a mix of equities and REITs in normal markets but will have the ability "to dynamically de-risk into bonds and cash when it's appropriate" to reduce overall portfolio risk.

The Volatility Management component will replace a portion of the equities and REITs so the long-term strategic allocation does not change following the introduction of this component into the Retirement Strategies funds.

An institutional implementation of Volatility Management will be available in the second quarter of 2010 for use in customized target-date portfolios, including AllianceBernstein's Customized Retirement Strategies service for large-market defined contribution plans.

The new approach "differs from traditional tactical asset allocation which focuses primarily on predicting asset-class returns and attempting to time the market to take advantage of short-term opportunities to enhance returns," the company said in a release.

"Target-date funds naturally reduce the volatility in a portfolio by reducing the exposure to equities over time as an investor approaches and moves through retirement. With Volatility Management, we can now more explicitly manage risk in target-date portfolios," says Thomas J. Fontaine, head of Defined Contribution at AllianceBernstein.

"We believe our new risk management tools will allow us to adjust portfolios during extreme market cycles such as the recent credit crunch, moderating short-term negative performance-but importantly, without sacrificing long-term return potential."