Retirement Income
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Driven by VA de-risking, managed-vol funds grow

By Kerry Pechter *Thu, Nov 7, 2013*

Assets in funds in this category reached $200.1 billion by mid-2013 after rising to $153.9 billion at year-end 2012 from $30.9 billion at year-end 2006, an annualized growth rate of 31%. About 64% of the assets, or $127.9 billion as of mid-year 2013, were in variable annuity separate accounts and the rest in mutual funds.

There's nothing volatile about the flow of assets into funds that use managed volatility strategies, according to a report from Strategic Insight. The flow has been strong and steady—largely because of the ongoing flight from risk by issuers of variable annuities.

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Mutual funds held just $72.3 billion, or 36% of managed volatility assets, even though MV funds outnumbered variable annuity portfolios by 229 to 180. After the financial crisis and the huge equity price drop, VA issuers realized they had given contract owners too much ability to take risk under the lifetime income guarantee and sought to reduce their exposure.

THey did it by raising fees, limiting the investment options in new contracts, requiring clients who chose a lifetime income guarantee to put some or all of their money in managed volatility portfolios, requiring larger bond allocations, or some combination of those moves. Some companies stopped selling variable annuities entirely because the risks embedded in their existing VA books of business required so much capital.

Strategic Insight recognizes two categories of managed volatility strategies: "tail risk managed" and "low volatility," with 248 funds ($149.2 billion) and 161 funds ($51.0 billion), respectively. Tail-risk managed funds predominate in VAs—in both assets and number of funds. Low volatility funds are more likely to be mutual funds.

The growth of managed volatility in the retail fund space is also being shaped by the new "alternative" investment styles, along with managers who are new to the retail fund business. The number of managed volatility players has grown to 101 on August 31, 2013 from just 12 in 2006.

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

"The retail fund space has become a fertile market for new concepts and the proliferation of a wide variety of managed volatility designs," the release said.