# MANAGED VOLATILITY

## Shifts in a Growing Market

*September 2014*

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## I. EXECUTIVE SUMMARY

### MANAGED VOLATILITY FUND GROWTH CONTINUES APACE

Managed volatility strategies continue to grow in both size and number. Strategic Insight reports a rise in assets from $35.3 billion at the end of 2006 to $305.8 billion at the end of 2013, an annualized growth rate of 36.1%. Assets reached $360.9 billion by Q2’14.

Variable annuity (VA) funds alone comprised 72% of managed volatility assets, with $260.8 billion in Q2’14. Mutual funds totaled $100.1 billion, or 28%. At the same time, the number of mutual funds continues to rise, with a total of 293, compared with 200 VA funds among a grand total of 493. 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 258 funds and $265.4 billion in assets and the latter has 235 funds and $95.5 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.

We continue to see the rise of “alternative” investment styles into the retail fund space have a strong effect on managed volatility. Since many of these funds also fall within the managed volatility category, they attract managers that are new to the retail arm of the industry. Overall, the diversity of managed volatility players has grown from 16 at the end of 2006 to 117 at the end of Q2’14.

Smart beta has emerged as an important category and a driving force among low volatility funds. We regard this as a quant-only risk parity strategy but, because of their importance, segregate them in our analysis. With many of these strategies being index funds or index-based ETFs, we see the potential for significant asset growth among these portfolios.