This strategy has been used very effectively by pension funds and other large investors for several years, but in February 2019, Absa launched 3 NewFunds Managed Volatility ETFs that are accessible by retail investors.

How have they performed in the most recent Crisis?

At the turn of the decade, the Defensive Fund was split 50/50 between equities and cash, with both the Moderate and High Growth Funds fully invested in equity. However the end of January 2020, the Defensive Fund started selling its equity holdings and by the end of February was fully allocated to cash. With its higher Target Volatility, the Moderate Fund was slower to respond, but was very aggressive when it did – from an allocation of 100% equity on 25 February 2020, the portfolio held no equity by 12 March.

The aggressive selling of equities by these portfolios means that investors have not incurred any of the losses experienced by the equity market since 25 February and 12 March respectively.

The High Growth Fund remained fully invested in equities until 12 March, when it too started to sell its equity holdings. It sold its last share on 17 March and was fully allocated to cash until mid-May when it started to enter back in as is currently around 20% in equity,

Performance of the Moderate and High Growth ETFs over various time periods up to 16 March:

The columns that reference " -1", time periods are for periods that start 3-months or 1 year ago from 16 March, but exclude the latest month. These figures demonstrate that in addition to protecting investors in times of elevated risk, investors participate substantially in equity market returns when equity returns are positive.

Anticipated Behaviour

While equities remain volatile, the funds will continue to invest in cash and earn cash-like returns. The funds will begin to invest in equities when volatility subsides and systemic risk is in decline. They are unlikely to begin purchasing shares when equities 'bottom-out', just as they did not sell equities at their peak – Target Volatility is unlikely to catch the inflection points. However, we believe that the risk management that Target Volatility introduces to these portfolios is where the majority of the benefit lies.

	1 Month	3 month	3 Month - 1	1 year	1 Year - 1
Moderate TV	(15%)	(16%)	(1%)	(8%)	8.15%
High Growth TV	(27.7%)	(27%)	0%	(14.5%)	18.25%
Top40	(33%)	(32%)	4.5%	(31%)	4%

Source: Absa, May 2020

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