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 is now fully allocated to cash.

It's important to emphasize that these funds track indices and are passively managed. The manager has no discretion to second-guess the allocation and is mandated to weight the portfolio according to the Target Volatility process on a daily basis.

The impact on the performance of the funds has been significant when compared to the Top40. Due to the fact that the Defensive Fund is usually highly invested in cash, the Top40 index is not a fair benchmark, however we have plotted the performance of the ETFs over various time periods up to 23 March:

	1 Year	3 month	9 prior months (March '19 – December '19)
Defensive TV (8%)	(6%)	(6%)	0%
Moderate TV (15%)	(5%)	(16%)	12%
High Growth TV (20%)	(13%)	(28%)	21%
Top40	(3%)	(33%)	4%

Source: Absa, March 2020

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

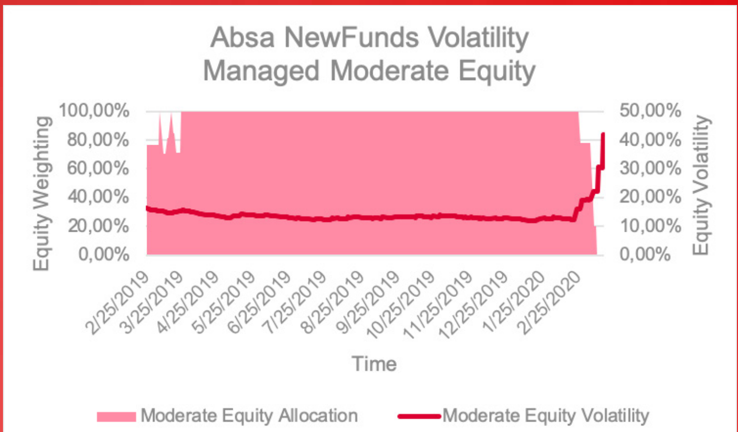
For several months post their listing in February 2019, the funds assumed a relatively static asset allocations as equity markets experienced a low volatility period.

While equities have shown a positive performance over the last few days, they remain extremely volatile (close to 50%) and the funds will continue to invest only 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.

For now we are very satisfied the Absa NewFunds Managed Volatility ETFs have behaved as advertised and have provided investors with an invaluable risk management strategy in these challenging times.

The below diagram illustrates the dramatic sell-off in equities from the Absa NewFunds Volatility Managed Moderate Equity ETF (NFEMOD):



Footnote:

1. In addition to the Target Volatility process, the funds also employ a maximum loss strategy in downward trending markets. This is done to ensure that the maximum loss that a portfolio can incur is capped even if volatility doesn't spike. It is additional risk management strategy
2. The funds will only trade for changes in asset allocation of greater than 10%. This is done to reduce the impact of incurring trading costs for no tangible benefit

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