

## **Consultation**

# **ABI Fund Sectors: creation of an ABI Volatility Managed Sector**

### **1. Background**

The ABI Fund Sectors are a set of defined fund categories designed to group together unit-linked life and pension funds that are similar, so that they can be compared on a like-for-like basis. The sectors are not designed to reflect the relative risk of funds. The ABI sectors are similar but not identical to the sectors used by the Investment Association (IA) for classification of Collective Investment Schemes.

To ensure that the ABI Fund Sectors remain up to date and relevant, the ABI convenes a committee of ABI members (the ABI Sectors Panel) at least twice a year to review the Sectors and their definitions and make updates as relevant.

As part of its remit, the ABI Sectors Panel is consulting on a proposal to create an ABI Volatility Managed fund sector as a new and additional sector within the ABI Fund Sectors.

### **2. Proposal for consultation**

The ABI Sectors Panel is proposing to create a new ABI Volatility Managed Sector. This would be a new sector and in addition to existing sectors. It is in response to the growing number of funds with the aim of delivering outcomes based around volatility and risk that currently have no distinct home, and therefore tend to be categorised within either the ABI Specialist, Unclassified or Mixed Investment Sectors.

The ABI intends that the new ABI Volatility Managed Sector provides an appropriate home for these funds (there are approximately 133 IA funds that are now available as unit-linked wrapped or mirror funds within the ABI Sectors) and that the definition is aligned as closely as possible to the [definition of the IA Volatility Managed Sector](#).

### **3. Questions for response**

1. Do you agree that consumers and financial advisers would benefit from the creation of an ABI Volatility Managed Sector? If not, why not?
2. Do you agree that it is beneficial to align the ABI and IA Sectors where appropriate and specifically in this instance in creating an ABI Volatility Managed Sector?
3. Do you have any comments on the proposed sector name or definition?
4. Do you have any other ideas or suggestions on how to achieve the same outcome?
5. Are there any other concerns you want to raise on this proposal?

### **4. How to respond**



The consultation runs from 15 April to 15 June. We welcome views from all stakeholders, including financial advisers, consumers, consumer representatives, fund providers and data vendors. Please email your response to [lucy.ashton@abi.org.uk](mailto:lucy.ashton@abi.org.uk) by cob 15 June.

We will consider your responses and publish our next steps by 15 July.

## 5. **Proposed definition for ABI Volatility Managed Sector**

### Volatility Managed

Funds whose objective is to manage their returns within specified volatility\* parameters. Outcomes are not guaranteed. Timeframes and methodologies for management of volatility may vary from fund to fund.

**\*definition of volatility:** volatility is one type of risk. It is a measure of the ups and downs of performance of a fund. The higher the volatility, the more uncertainty there is in the returns.

**Specific sector notes:** The sector includes a wide range of funds managing their returns within specified volatility parameters. A fund may form part of a suite of other funds which operate across a risk spectrum set out in terms of volatility. Asset selection is at the discretion of the manager. Funds will employ diverse investment strategies designed to deliver a variety of outcomes and will often use derivatives within the investment process. Amongst other things funds may manage to different timeframes and present different risk characteristics. For these reasons, performance comparisons across the whole sector are invalid and it is recommended that these should not be made.

1. Investors should satisfy themselves that they understand what any given fund is doing – and take advice if they are not sure.
2. Funds in this sector are expected to disclose that the fund is managed with the intention to deliver a volatility/risk outcome.