SEI New ways. New answers.®

This Time Was Different: Managed Volatility in the COVID Crisis

SEPTEMBER 2020

Since the inception of the SIMT U.S. Managed Volatility Fund there have been 10 significant drawdowns[1] in U.S. equity markets. The causes for the first nine of these drawdowns were varied. They included but were not limited to the Global Financial crisis, European debt crisis, U.S. fiscal cliff, U.S. debt downgrade, and oil price shocks. The one thing all of these drawdowns had in common though was that they were crisises or shocks directly to capital markets.

Exhibit 1: Drawdowns of 5% or more in the Russell 3000

Drawdown		Russell 3000 Index	SIMT U.S. Managed Volatility Fund (Net)	Downside capture
From	To			
5/31/07	7/31/07	-5.2%	-4.7%	90%
10/31/07	2/28/09	-51.2%	-42.3%	83%
4/30/11	9/30/11	-17.7%	-10.1%	57%
3/31/12	5/31/12	-6.8%	-2.1%	31%
5/31/15	9/30/15	-8.8%	-4.9%	56%
11/30/15	2/29/16	-7.6%	-0.9%	12%
1/31/18	3/31/18	-5.6%	-4.6%	82%
9/30/18	12/31/18	-14.3%	-8.5%	59%
4/30/19	5/31/19	-6.5%	-3.7%	58%
12/31/19	3/31/20	-20.9%	-23.2%	111%
Average		**-14.5%**	**-10.5%**	**64%**

Based on monthly data. SIMT US Managed Volatility Fund, class F, total return, since November 2004 (first full month after inception, 10/28/2004) through June 30, 2020. Source: SEI Data Portal.

Annualized Performance as of 06/30/2020	YTD	1-year	2-year	3-year	5-year	7-year	10-year	Since Inception
SIMT U.S. Managed Volatility Fund (Net)	-13.31%	-6.28%	2.25%	4.05%	5.91%	8.51%	11.41%	8.03%
Russell 3000 Index	-3.84%	6.53%	7.74%	10.03%	10.02%	11.67%	13.71%	8.92%
Excess	-9.84%	-12.81%	-5.49%	-5.98%	-4.11%	-3.16%	-2.30%	-0.89%

SVOAX expense before waivers: 1.23%. SVOAX expenses after waivers: 0.90%. Fee waivers are voluntary and may be discontinued at any time. **The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost, and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please call 1-800-DIAL-SEI.**

---

[1] Defined as a decline of at least 5% using monthly return data for the Russell 3000 Index.

During these drawdowns, equity markets reacted in a somewhat predictable way. That is defensive sectors such as consumer staples, utilities and telecommunications often performed better than economically sensitive sectors like energy, financials or consumer discrentionary. Those defensive sectors generally offer lower volatility. We seek to optimize our managed volatility funds in an effort to provide the best potential risk-adjusted returns, we tend to overweight defensive sectors. This strategy creates an evironment where our managed volatility fund is likely to outperform its broad market benchmark during market drawdowns.

This year we experienced something different, a global pandemic caused by the novel coronavirus and its COVID-19 disease. As countries rushed to shut down their economies in an effort to combat the virus, it became an economic crisis, but the root cause was still an exogenous shock to global capital markets. How equity markets reacted was also different. There was not as much differentiation between sectors as in the past, and smaller companies were hit particularly hard. Because we seek to optimize between returns and risk, we have exposure to smaller companies as well as other factors (such as value, which has underperformed growth in recent years). In our view, this made for a rare, but extremely challenging environment for managed volatility.

This time, the proverbial “baby” really was thrown out with the bath water. Even assets such as U.S. Treasury bonds, which are often thought of as “safe havens” by many investors, suffered significant declines in March 2020. Clearly, the COVID-19 crisis was not like other crisises of the recent past. If the next crisis is triggered by an exogenous event, perhaps managed volatility will again fail to live up to the expectations that it will mitigate losses. We however, believe in our research. While no investment strategy works exactly as expected all of the time, our managed volatility strategy has typically worked as exepected, and we belive it will provide some measure of loss mitigation during the next siginifcant equity drawdown.

Important Information

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice.

Index returns are for illustrative purposes only and do not represent actual fund performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

To determine if the Fund is an appropriate investment for you, carefully consider the investment objectives, risk factors and charges, and expenses before investing. This and other information can be found in the Fund’s full or summary prospectus, which can be obtained by calling 1-800-DIAL-SEI. Read the prospectus carefully before investing.

There are risks involved with investing including loss of principal. There is no assurance that the objectives of the fund will be achieved or will be successful. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from social, economic or political instability in other nations. Investments in smaller companies typically exhibit higher volatility.

SEI Investments Management Corporation (SIMC) is the adviser to the SEI Funds, which are distributed by SEI Investments Distribution Co. (SIDCO).SIMC and SIDCO are wholly owned subsidiaries of SEI Investments Company (SEI).

For those SEI products which employ a multi-manager structure, SIMC is responsible for overseeing the sub-advisers and recommending their hiring, termination, and replacement.

The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

200800.01 IMU (09/20)