



Media Release
Association for Savings and Investment South Africa (ASISA)
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Investors fail to time the markets, again!

After having been shunned as an asset class by local investors for three years in a row, domestic equity funds completed 2009 firmly in the positive, having attracted net inflows of R10.8-billion for the year. In 2006, 2007 and 2008, domestic equity funds recorded net outflows, with money market funds, asset allocation and fixed interest funds the firm favourites.

Leon Campher, CEO of the Association for Savings and Investment South Africa (ASISA), says since the majority of investors were not exposed to equities for the greater part of the past five years most investors would have missed out on the solid five year performance delivered by equity funds. General equity funds returned an average of 16.2% a year for the five years ended December 31, 2009. The average five year return for money market funds was 8.8% a year.

Campher says investors who ventured back into equity funds early last year would have benefited from average returns of between 20% and 35% for 2009 depending on the funds chosen. Money market funds, in comparison, delivered an average return of 9.5% for the year. The JSE All Share Index (ALSI) returned 32% in 2009, outperforming the FTSE 100 and the S&P 500 in Rand terms.

“Yes, we have seen spectacular volatility in the local stock market over the past five years, but the general trend has been up. Despite the volatility, the JSE ALSI has grown by 119% over the past five years, an annualized return of 17% to the end of December 2009. The only approach that would have enabled investors to benefit from this growth is time in the market, not timing the market.”

Persistent growth

Assets under management in the South African collective investment schemes (CIS) industry had grown to R786-billion by the end of 2009. This represents an increase of R125-billion in assets under management from the R661-billion at the end of December 2008. At the end of 2009 the industry offered 904 funds.

Campher announced that as from the end of the first quarter this year, ASISA would for the first time be in a position to compare CIS statistics that completely exclude double counting.

“ASISA recently implemented a sophisticated new system aimed at stripping out any incidents of double counting when measuring flows and assets under management in the CIS industry. A degree of double counting has been present in the CIS statistics in the past, mainly caused by hybrid funds, since these funds invest in both shares and other unit trust funds. The previous system was only able to remove double counting from funds of funds.”

With all double counting removed, assets under management in the CIS industry stood at R750-billion at the end of December 2009 - a difference of R36-billion or 5% of total assets under management.

Campher says the industry will start using the new statistics for quarter on quarter comparison purposes as from the end of the first quarter this year.

Record Net Inflows

In 2009 the CIS industry attracted record net inflows of R96-billion. The net quarterly inflows of R24-billion for the fourth quarter last year were the fourth highest ever recorded by the CIS industry. The highest ever net quarterly inflows of R35-billion were attracted in the second quarter last year.

Campher says the bulk of the money was attracted by domestic asset allocation funds, followed by money market funds, fixed interest funds and then domestic equity funds.

In 2008, 82% all net annual inflows were attracted by money market funds. In 2009 the inflows were more evenly distributed between the largest fund categories (asset allocation funds, money market funds, fixed interest funds and equity funds), but with domestic asset allocation funds a clear favourite. These funds attracted 31% of the net annual flows last year, followed by money market funds (26%), fixed interest funds (23%) and equity funds (30%).

Domestic asset allocation funds invest across the equity, bond, money and property markets, with the asset manager deciding how much money to invest in each asset class. These funds have become popular with investors and advisers alike since they provide diversification across asset classes within one fund, with an expert fund manager deciding on the appropriate mix. Funds ranging from low equity to high equity exposure are available within the asset allocation class.

Diversifying offshore

Campher says while most local investors were still cautiously returning to domestic equity funds, investors who included offshore diversification in their portfolios last year by making use of the foreign currency denominated funds available in South Africa, continued investing mainly in equities.

Foreign currency unit trust funds are denominated in currencies such as the dollar, pound, euro and yen and are offered by foreign unit trust companies. These funds can only be actively marketed to South African investors if they are registered with the FSB. Local investors wanting to invest in these funds must comply with Reserve Bank regulations and will be using their foreign capital allowance, which was increased from R2-million to R4-million per individual last year.

Campher says the foreign CIS statistics for 2009 show that 69% of assets invested by South Africans in foreign funds were allocated to equity funds. Only 18% of assets were invested in fixed interest funds last year.

As at 31 December 2009, total assets under management in locally registered foreign funds stood at R108-billion, slightly down from the R114-billion at the end of 2008. However, fuelled by a strong Rand foreign funds attracted a record net inflow of R10-billion last year, the highest annual net inflow ever recorded by these funds.

While net inflows for foreign unit trust funds picked up significantly last year, flows into foreign unit trust funds remain low compared to net investments of R96-billion into domestic unit trust funds.

The number of foreign currency denominated funds on sale in South Africa dropped from 382 at the end of 2008 to 372 at the end of 2009.

Ends



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ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers, and life insurance companies. ASISA was formed in 2008 by members of the Association of Collective Investments (ACI), the Investment Management Association of South Africa (IMASA), the Linked Investment Service Providers Association (LISPA) and the Life Offices' Association (LOA).