

## Media Release

Association for Savings and Investment South Africa (ASISA)

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### Money market unit trust category no longer king in terms of size

The local Collective Investment Schemes (CIS) industry grew its total assets under management by R69-billion to R996-billion in 2011, narrowly missing the R1-trillion mark.

Releasing the 2011 Domestic and Foreign CIS statistics at a media conference in Johannesburg today, Leon Campher, CEO of the Association for Savings and Investment South Africa (ASISA), says while the industry had hoped to cross the R1-trillion assets under management mark in 2011, the growth in assets was pleasing considering that this was achieved in a climate of extreme volatility and economic uncertainty.

“The volatility sparked by the ongoing crisis in the eurozone coupled with tough economic conditions in South Africa, impacted negatively on investor sentiment. In addition, money market funds experienced heavy outflows during 2011 due to corporate investors repositioning their cash holdings.”

As a result the CIS industry attracted net inflows of only R48-billion in 2011, the lowest in seven years.

Campher says net inflows were low throughout 2011, with the second and fourth quarters particularly poor. The Domestic Fixed Interest Money Market category experienced net outflows during three quarters in 2011, leading to a total net outflow of R21-billion.

At the end of 2011 the industry offered 947 funds, just four more than at the end of 2010.

Campher says the number of funds on offer contracted for the first time in the industry’s history during the first quarter of 2011. “While new funds were registered during the year, a number of funds were also deregistered by asset managers rationalising their fund offerings.

“ASISA is not surprised that fund offerings are being rationalised given regulatory changes in South Africa and an international trend towards offering investors more focused fund solutions,” says Campher.

One such focused solution is presented by the industry’s asset allocation funds.

### Asset allocation in vogue

In the fourth quarter of last year, the Domestic Asset Allocation category topped the Domestic Fixed Interest Money Market category from its number one position as the industry’s biggest category.

At the end of December 2011, the Domestic Asset Allocation category held assets under management of R277-billion, or 28% of industry assets. Money market funds held assets of R252-billion, or 25% of industry assets.

Domestic Asset Allocation funds attracted the bulk of investor money in 2011, leading to record breaking net inflows of R43-billion for this fund category. The Domestic Fixed Interest category (excluding money market funds) attracted net inflows of only R14-billion in 2011, and the Domestic Equity funds recorded net inflows of R10-billion.

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.

## Positioning for capital growth

Campher says despite a strong shift to asset allocation funds in recent years, investors still hold the bulk of their money in domestic fixed interest funds (money market, bond, income and varied specialist funds).

At the end of last year, more than 50% of domestic assets under management was invested in fixed interest funds.

“Investors can be forgiven for wanting to escape the relentless volatility of equity markets. Unfortunately, however, these investors are usually still stuck in fixed interest funds when the markets start to run. So while fixed interest seemed like a good idea when the JSE All Share Index (ALSI) delivered a paltry 2.6% return last year, over the longer-term equities have consistently outperformed fixed interest and inflation.”

Campher says the table below shows investors with a relatively short investment horizon of five-years or less would have been better off in a money market fund. However, equity funds rewarded with double-digit returns over the longer term of 10 years or more.

“The table also highlights very nicely why asset allocation funds have become so immensely popular with investors. Over the one-and five-year periods the average Domestic Asset Allocation Prudential Variable Equity fund matched the performance of the money markets funds, but then also managed to deliver double digit returns for the 10-year period, trailing the equity fund performance only slightly.”

Period to 31 December 2011	Domestic Equity General	Domestic Asset Allocation Prudential Variable Equity	Domestic Fixed Interest Money Market	Inflation (CPI)
1 year	3%	6%	6%	6%
5 years	7%	7%	9%	7%
10 years	16%	14%	9%	6%
20 years	14%	No data	No data	7%

*Performance figures for 5, 10 and 20 years have been annualised.*

*Source: Profile Media*

## Sources of sales

The bulk of the investments into the CIS industry came via intermediaries (34%) in the 12 months to the end of December last year. Direct investments from consumers contributed 22% towards inflows over this period. Linked investment services providers (Lisps) generated 21% of sales and 23% of sales was received from institutional investors like pension and provident funds.

In 2010, 37% of investment came via intermediaries, while direct investments contributed 29%. Lisps generated 21% of sales and institutional investors 13%.

## Offshore focus

Locally registered foreign funds had assets under management of R134.6-billion at the end of December last year, compared to R107.2-billion at the end of 2010.

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 Financial Services Board. Local investors wanting to invest

in these funds must comply with Reserve Bank regulations and will be using their foreign capital allowance.

Foreign currency denominated funds recorded the highest ever net inflows of R15.4-billion in 2011. This can be partly attributed to the further relaxation in the individual foreign investment allowance in October last year enabling each South African taxpayer to effectively invest up to R4-million a year abroad.

There are currently 342 foreign currency denominated funds on sale in South Africa.

**Ends**

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**Issued on behalf of:**

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Association for Savings and Investment South Africa (ASISA)

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. These members hold assets under management of more than R4-trillion.