

## Media Release

Association for Savings and Investment South Africa (ASISA)

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### Confident investors commit billions to asset allocation funds

The local Collective Investment Schemes (CIS) industry recorded strong net inflows of R15-billion in the third quarter of this year. This is only slightly lower than the R18-billion in net inflows attracted in the first quarter of this year, but a big improvement on the second quarter when net inflows came to R4-billion.

Leon Campher, CEO of the Association for Savings and Investment South Africa (ASISA), says in total the CIS industry attracted net inflows of R36-billion in the nine months ending September 2011, bringing total assets under management to R960-billion. At the end of the third quarter the industry offered 953 funds.

#### Improved confidence

According to Campher investor confidence improved significantly from the second quarter to the third quarter of this year. “It is encouraging that R9-billion of the R15-billion in net inflows was new money, while around R6-billion consisted of distributions reinvested,” he adds.

Campher points out that the net inflows in the third quarter were strong despite heavy outflows from money market funds due to corporate investors further repositioning their cash holdings. As a result, money market funds experienced net outflows for the second consecutive quarter this year. The Domestic Fixed Interest Money Market category recorded net outflows of R10.6-billion during the third quarter and R9.9-billion during the second.

He points out that this movement of money should not cause panic among investors since it is common for corporates to ringfence their cash in money market funds for later funding of development projects or other investment opportunities.

#### Asset allocation versus fixed interest

Campher comments that the Domestic Asset Allocation category is threatening to topple the Domestic Fixed Interest Money Market category from its number one position as the industry’s biggest category.

At the end of September 2011, the Domestic Asset Allocation category held assets under management of R256-billion, or 27% of industry assets. Money market funds held assets of R264-billion, or 28% of industry assets.

The shift in investor focus from money market funds to asset allocation funds is a positive development, says Campher.

“As an industry we have consistently pointed out to investors that they are unlikely to achieve inflation-beating returns over the long term by holding their cash in interest bearing investments like money market funds. Capital growth can only be achieved by investing in equities over the long-term. We have, however, also acknowledged that pure equity investments are not for the faint hearted and that the average consumer is unlikely to remain committed to an investment that is subject to extreme volatility.”

Campher explains that proper diversification across the asset classes is required if the goal is inflation beating long-term capital growth without stomach churning volatility.

Asset allocation funds were developed to provide investors with the option of diversifying across asset classes within one fund, managed by an expert fund manager. Asset allocation funds invest across the

equity, bond, money and property markets, with the asset manager deciding how much money is invested in each asset class.

The latest CIS statistics show that investors are increasingly opting for domestic asset allocation funds, with Domestic Asset Allocation Prudential Variable Equity funds proving the most popular. Funds in this sector attracted net inflows of R6-billion in the third quarter - the highest of any of the sectors.

The second highest net inflows went into the Domestic Equity General sector, which attracted R5.6-billion.

Campher says both these sectors have delivered solid long-term performances. Over 10 years to the end of September 2011, Domestic Asset Allocation Prudential Variable Equity funds delivered an average annual return of 15%, beating inflation by 9%. Domestic General Equity funds returned 17%, outperforming inflation by 11%. Domestic Money Market funds returned an annual 9% for the 10-year period.

“These statistics show that investors are opting for funds that have the potential to outperform cash, but at acceptable levels of volatility. Asset allocation and general equity funds are generally far less volatile than the specialist equity funds, while still offering good capital growth.”

#### **Sources of sales**

The bulk of the investments into the CIS industry came via intermediaries (34.4%) in the 12 months to the end of September this year. Direct investments from consumers contributed 24.5% towards inflows over this period. Linked investment services providers (Lisps) generated 19.9% of sales and 21.1% of sales was received from institutional investors like pension and provident funds.

Five years ago, for the 12 months to end September 2006, intermediaries generated 40.5% of sales, while direct investments amounted to only 16.1% of sales. The industry received 26.6% of sales from Lisps and 16.7% from institutional investors.

#### **Offshore focus**

Locally registered foreign funds had assets under management of R124.1-billion at the end of September this year, slightly up from the R122.6-billion from the end of June.

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 net outflows of R1.4-billion during the third quarter this year.

There are currently 346 foreign currency denominated funds on sale in South Africa.

#### **Ends**

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##### **Issued on behalf of:**

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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).