

MEDIA RELEASE

ASSOCIATION FOR SAVINGS AND INVESTMENT SOUTH AFRICA (ASISA)

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## SOUTH AFRICANS CONTINUE TO INVEST DESPITE GLOBAL CRISIS FEARS

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The South African collective investment schemes (CIS) industry displayed unprecedented resilience amidst the worst ever global financial markets crisis last year, with assets under management peaking at a record R661-billion by the end of December 2008.

In addition, the net quarterly inflows of R26-billion for the fourth quarter last year were the second highest ever recorded by the CIS industry. The highest ever net quarterly inflows of R28-billion were attracted in the first quarter of 2007.

Leon Campher, CEO of the Association for Savings and Investment South Africa (ASISA), describes the rate at which the local CIS industry continued to grow last year as truly remarkable, considering that this growth was achieved while the world was suffering the worst financial markets crisis in history.

Net inflows for 2008 totaled R60-billion, only R9-billion behind the R69-billion achieved in 2007. In 2006, total net inflows were R58-billion, the same as in 2005. And five years ago in 2004, net inflows were R42-billion. At the end of last year, investors could choose from a record number of 884 funds, compared to only 204 ten years ago.

### South Africans remain risk averse

Campher says the willingness of South Africans, both retail and institutional, to continue investing their money with local financial institutions while big international companies have had to rely on government bail-out packages represents a huge vote of confidence in the South African financial system and local investment houses.

But the fact that money continues to flow into collective investments does not mean that investors have been taking risks. On the contrary, says Campher, who believes that many investors are erring on the side of caution.

By the end of last year, 51% of CIS assets were held in fixed interest funds. Only 22% of assets were invested in the equity market. Money market funds were by far the most popular funds last year, with this category of funds attracting close on 82% of all net inflows. Equity funds continued to suffer net outflows for the third year in a row.

Unfortunately, says Campher, the fixed interest funds barely managed to beat inflation post tax over the medium to longer term, with only equities having consistently outperformed inflation over every 10 year period of return in SA.

Although the domestic equity general sector, for example, delivered a return of minus 23% for 2008, the same sector provided investors with an average return of 18% every year for the past five years and with 17% a year for the past 10 years. Local money market funds delivered 11% for the year ended December 2008, 8% a year for the past five years and 10% for the past 10 years. At the same time, however, inflation

(CPIX) came in at 11.3% for the year ended December 2008, at 6.59% for the five years to the end of last year and 6.87% over 10 years.

### Time in the market

Campher says fear continues to rule the investment strategies of many local investors, who continue to sell equities at the bottom of the cycle, only working up enough courage to get back in once equities have regained their losses and added some growth.

“Investors still believe that they can time the market by switching between asset classes. The opportunity cost of this approach is huge over the longer term as investors consistently lose out on market surges.”

Campher points out that the top performing CIS sector for 2008 was the foreign fixed interest bond sector with a performance of 33%. However, only 0.10% of assets were invested in this sector at the end of 2008, which means by far the majority of investors did not benefit from this performance.

He says the only strategy likely to produce winning results over the long-term is one that includes the following approaches:

- Proper diversification across the asset classes: equities, bonds, property and cash.
- A mix of asset classes and funds in line with the long-term needs and risk profile of the investor.
- A long-term commitment to stick to the strategy.
- An understanding that it is time in the market that makes all the difference.

### Diversifying offshore

Ironically, says Campher, those local investors who were prepared to take their money offshore with the foreign currency denominated funds available in South Africa last year invested mainly in equities.

He says the foreign CIS statistics for 2008 show that 69% of assets invested by South Africans in foreign funds registered with the Financial Services Board (FSB) sits in equities. Only 16% of assets were invested in fixed interest funds last year.

As at 31 December last year, total assets under management in locally registered foreign funds stood at R114-billion, up from the R99-billion at the end of the third quarter.

The 382 foreign currency denominated funds on sale in South Africa attracted gross inflows of close to R15-billion in the fourth quarter last year. The strong inflows were, however, offset by outflows of R11.8-billion, leaving a net inflow of R3.1-billion.

Campher notes that this was the second highest net quarterly inflow ever recorded - in the third quarter of 2000 foreign funds attracted net inflows of R3.4-billion.

### 2009 - Mixed expectations

Campher says while South Africa has certainly shared in the pain of the worldwide market volatility triggered in 2007 by the toxic debt situation in the US, the country can also pat itself on the back for having weathered the global financial markets crisis far better than many developed economies.

He says tough regulation of South Africa's financial services sector combined with ongoing exchange controls has shielded South Africa from much of the pain. In addition, he says, the country's economic fundamentals remain intact and are supported by a robust financial services sector.

“We have not seen any evidence of undue stress in any of our financial services sectors and none of our companies have required bail out packages. This is something that we as a country can be proud of.”

Acknowledging the pain that many local investors have experienced over the past year with the JSE All Share Index losing 26% of its value and the Rand shedding 30% against the US dollar, Campher warns that there may be more bad news from global markets in coming months.

“The volatility is by no means over - we have yet to see the impact on company results. In addition, South Africa also has to grapple with more political uncertainty this year. But while it is impossible to predict when this will end, we also don’t expect a long drawn out recovery period.”

**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).