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MEDIA RELEASE: COLLECTIVE INVESTMENT SCHEMES ATTRACT NET FLOWS OF R79-BILLION OVER 12 MONTHS

For the information of members we circulate a media release issued today.

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1 HA Nelson, F Robertson, J van Zyl (Ch), W van Zyl Association incorporated under Section 21 COMPANY REGISTRATION NO. 2008/017776/08

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MEDIA RELEASE

ASSOCIATION FOR SAVINGS AND INVESTMENT SOUTH AFRICA (ASISA)

7 MAY 2009

COLLECTIVE INVESTMENT SCHEMES ATTRACT NET FLOWS OF R79-BILLION OVER 12 MONTHS

Quarterly statistics released by the Association for Savings and Investment South Africa (ASISA) for the local collective investment schemes (CIS) industry this week show that while investors remained active during the first quarter this year, net inflows had tapered off slightly compared to the last quarter of 2008.

The CIS industry attracted net quarterly inflows of R23-billion in the first quarter of this year, down by about R3-billion from the R26-billion in the last quarter of 2008.

Commenting on the statistics, Leon Campher, CEO of ASISA, says although net inflows had slowed marginally during the first quarter of this year, net inflows for the 12 month period to the end of March this year totaled a whopping R79-billion, the highest net inflow ever recorded in this period.

“Seen against the backdrop of one of the toughest 12 months ever experienced by financial markets around the world, we are pleased by the resilience displayed by our own industry and its investors.”

Campher says as expected assets under management had decreased slightly, from a record R661-billion at the end of December last year to R658-billion at the end of the first quarter 2009. The FTSE/JSE All Share Index fell by 4.2% over this period.

By the end of March the industry had introduced seven additional funds, bringing to 891 the number of funds available.

Investor favourites

South African investors remained wary of the stock market during the first quarter of this year, preferring cash investments like money market funds and other fixed interest funds to equities.

Money market funds attracted net inflows of R14.4-billion during the first quarter this year, and the remaining domestic fixed interest funds R3.4-billion.

Campher points out that these two fund categories alone currently hold 53% of assets under management in the industry's Rand denominated funds.

Asset allocation funds attracted R4.7-billion in net inflows in the first three months of this year and equity funds only R104-million.

Safety at a price

Campher says the popularity of money market funds is not surprising since they provide investors with a sense of stability.



“With money market funds investors know more or less what returns they can expect. Attractive to most is the peace of mind that comes with knowing that the money market fund of choice will not suddenly return minus 26% for the year, as was the case with equities.”

However, says Campher, money market funds will also never surprise on the upside.

“Money market funds are ideal parking bays for savings that need to be readily accessible, like money set aside to pay for school fees or the provisional tax due to the Receiver of Revenue. But long-term investments require equity exposure if inflation beating returns are to be achieved.”

Money market funds have unfortunately barely managed to beat inflation post tax over the medium to longer term. He adds that equities are the only asset class to have consistently outperformed inflation over the long-term.

Campher says investors are easily scared into money market funds by volatile short-term movements in the equity market. “Unfortunately, once in a money market fund, few investors are brave enough to venture back into the equity market in time. Most miss the market upturn and lose out on that growth.”

Campher says investors who have held R1-million in money market funds for the past five years to the end of March this year would have seen an annual pre-tax return of 8.56%, meaning their lump sum would have grown to R1.5-million. However, investors with a R1-million lump sum invested in general equities over the same period would have received an annual return of 15.46%, and their investment would have grown to R2.1-million. The end values in these examples include interest and dividends.

Looking at the 10 year period to the end of March this year, a similar picture emerges. A R1-million lump sum invested in a money market fund 10 years ago would have grown by 10.02% a year pre-tax to the end of March this year. This would leave the investor with R2.7-million. Had this money been invested in the general equity sector, it would have grown by 14.27% to R4-million. Again, the end values in the above examples include interest and dividends.

Art of diversification

Campher says common sense dictates that for the best results and peace of mind, investors should hold a well diversified portfolio.

“By no means am I saying that investors should move all their money into equities. But a level of equity exposure, combined with exposure to the other asset classes, is required to provide a portfolio with inflation beating returns. The exact ratio should be determined with the help of a trusted financial adviser and should be based on the individual investor’s risk profile and investment needs.”

Campher says once the portfolio has been constructed, a long-term commitment to the strategy is required together with an understanding that it is time in the market that makes all the difference.

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).