

Media Release
Association for Savings and Investment South Africa (ASISA)
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Stronger Rand encourages investors to seek foreign diversification

South African investors seeking diversification through foreign exposure took advantage of the stronger Rand in the second quarter of this year by moving some of their assets into foreign currency unit trust funds.

While inflows into foreign currency funds registered with the Financial Services Board (FSB) remain low compared to inflows attracted by local unit trust funds, net inflows recorded for the second quarter of this year were higher than for the whole of 2007 or 2008.

Leon Campher, CEO of the Association for Savings and Investment South Africa (ASISA), says the foreign collective investment scheme (CIS) statistics for the second quarter of this year show net inflows of just over R2.7-billion. In 2007 net inflows amounted to R1.48-billion and in 2008 to R2.69-billion.

Last year, foreign unit trust funds had suffered net outflows of R2.4-billion during the first half. This year they attracted net inflows of R3.3-billion for the first half of the year.

Foreign currency funds held assets under management of R96-billion at the end of the second quarter this year, with 383 funds being available to local investors wanting to diversify their investments using their foreign exchange allowance.

In comparison, the local CIS industry had assets under management of R703-billion by the end of the second quarter this year, with net inflows of R34.5-billion for the quarter. By the end of June the local industry offered 899 funds.

Campher comments that while investors using rand-denominated funds prefer money market funds, investors who are placing their money in foreign funds prefer equities by far.

“Investors definitely prefer to diversify into foreign equity markets when using their foreign exchange allowance to invest - 68% of assets invested by local investors in foreign funds were held in equity funds at the end of the second quarter this year. Domestic equity funds only held 20% of investors’ assets at the end of the second quarter this year, with the bulk of the money remaining in fixed interest funds.”

Campher says only 14% of assets were held in foreign fixed interest funds and only 18% in foreign asset allocation funds.

“We believe that investors keen on foreign exposure also understand the long-term benefit of equity exposure and are therefore more likely to opt for equity funds with their foreign allowance.”

Looking at the bigger picture, says Campher, the domestic and foreign statistics show that South African investors prefer the perceived safety of cash, avoiding exposure to equities and foreign markets.

However, says Campher, a well diversified portfolio is the only way to achieve inflation beating investment returns over the long-term. The exact level of exposure to the various asset classes and markets 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.

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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).