

Media Release

Association for Savings and Investment South Africa (ASISA)
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Equity funds attract net inflows for three consecutive quarters

Domestic equity funds experienced net inflows of R10-billion for the 12 months to the end of June this year, the highest annual flow for this sector in over 10 years.

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 three consecutive quarters of net inflows into equity funds helped push the annual statistic into record territory. In the second quarter alone domestic equity funds attracted R4.8-billion of net inflows.

Leon Campher, CEO of ASISA, explains that this coincided with a steady recovery in the performance of the FTSE/JSE All Share Index (Alsi) from its lows in early March this year. The Alsi recorded a solid 21.7% from its lowest point in early March to the end of June. In the second quarter alone the Alsi gained 8.3%. And by the middle of this month, the Alsi was up a massive 30.1% from its March lows.

However, notes Campher, very few retail investors benefited from this strong recovery. Statistics show that the high inflows into domestic equity funds during the second quarter came mainly from institutional investors. Individual investors continued to place their money mainly with money market funds. These funds attracted net inflows of R14.8-billion last quarter and a whopping R59.2-billion for the 12 months to the end of June this year.

"Money market funds are not the place to be for investors who want to achieve inflation beating returns," says Campher. "Professional investment managers know this and therefore it does not come as a surprise that it's the institutional investor moving back into equities."

The time to consider equities is while investment professionals are still cautiously talking about "green shoots", says Campher. "Once the shoots have developed into branches, it's too late to benefit from the upturn."

The state of the industry

Campher says by the end of the second quarter this year, the local CIS industry had assets under management of R703-billion on the back of the stock market gains of 8.3% in the second quarter and the net inflows of R34.5-billion for the quarter. Total gross sales for the quarter amounted to R148-billion.

Campher comments that net inflow figures for the first and second quarter of this year were higher than anticipated as a result of the unbundling late last year of Remgro and Richemont's investments in British American Tobacco (BAT). This resulted in an extraordinarily large income and dividend distribution to unit holders within funds that held these shares. The portion of this distribution that was reinvested by unit holders pushed up the net inflow figure.

"But even if we strip out what we estimate the distributions directly linked to the BAT transaction to have been for the first and second quarter this year, the net inflows remain substantially higher than at the same time last year," says Campher.

In the first quarter last year the industry attracted net inflows of only R4-billion (R23-billion this year) and in the second quarter last year R10-billion (R34.5-billion this year). "Despite world financial markets having been thrown into turmoil in the second half of last year, net inflows kept rising," says Campher.

By the end of June the industry offered 899 funds.



Sectors attracting inflows

Campher says while the majority of unit trust sectors experienced net inflows during the second quarter, the most popular funds were domestic fixed interest money market (R14.8-billion) and varied specialist (R5.6-billion) funds. Domestic general equity funds were third in line with net inflows of R2.7-billion and then the domestic asset allocation prudential variable equity sector with net inflows of R2-billion.

The biggest net outflows were experienced by the domestic equity small cap and growth sectors.

Retail investors continue to fear equities

Campher says the bulk of investors' money remains exposed to fixed interest investments.

"This has been the case for several years and continued during the bull market that raged for five years coming to an end during the middle of last year.

"While the Alsi delivered an annual compound return of 33% on the back of this bull market from the end of June 2003 to the end of June last year, domestic equity funds experienced net outflows of R5-billion over this five year period. At the same time, however, investors poured more than R103.4-billion into money market funds."

Campher says a look at the five year pre-tax performance statistics to the end of June this year show that the domestic general equity sector returned 18% a year, double the 9% returned by money market funds.

But investors cannot blame intermediaries for the cash bias in their portfolios. ASISA statistics shows that in the second quarter this year 42.3% of inflows into money market funds were made by consumers directly, without intermediary intervention. Intermediaries were responsible for only 15.8% of inflows into money market funds.

According to Campher, a well diversified portfolio is the only way to achieve inflation beating investment returns. The exact level of exposure to the various asset classes 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.

"Once the portfolio has been constructed, a long-term commitment is required together with an understanding that it is time in the market that makes all the difference."

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To set up interviews please contact:

Lucienne Fild
Independent Communications Consultant
082 567 1533
lucienne@mweb.co.za

Issued on behalf of:

Leon Campher
Chief Executive Officer
Association for Savings and Investment South Africa (ASISA)
(021) 673 1620

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).