

Media Release
Association for Savings and Investment South Africa (ASISA)
3 August 2010

Investors continue to shun equity investments

The same short-term outlook preventing South Africans from saving is probably also keeping the majority of investors out of equity unit trust funds and in fixed interest collective investment schemes.

Leon Campher, the CEO of the Association for Savings and Investment South Africa (ASISA), says while local equity unit trust fund sectors significantly outperformed cash over both the one year and five year periods ending 30 June, investors continue to hold the bulk of their money in fixed interest investments.

Releasing the quarterly statistics for the local Collective Investment Schemes (CIS) industry this week, Campher says 48% of the R789-billion in assets under management as at the end of the second quarter this year was invested in fixed interest unit trust funds. Only 23% was invested directly in equity funds, with investors achieving an estimated additional equity exposure of around 13% through asset allocation funds.

Campher acknowledges that the stock market has continued to be volatile, but points out that despite this volatility the JSE All Share Index delivered a 22% return for the year ended 30 June 2010.

“Investors with a solid long-term strategy understand that it is time in the market that ultimately delivers inflation beating returns. Holding your money in fixed interest investments may provide the comfort of stable returns, but these returns will not protect your capital against inflation over the long-term.”

Campher says an added concern is that money not committed to long-term investments remains easily accessible and as a result is often used to finance consumption.

“A successful savings strategy requires discipline and a willingness to commit to investments like equity unit trust funds that are likely to provide real returns over the long term,” he says.

Cash - a safety net with giant holes

Campher points out that the average performance achieved by unit trust funds in the Domestic Equity General sector was 19% for the year ended 30 June 2010, compared to the 8% for Domestic Money Market funds. Inflation (CPI) averaged 4.2%.

“But while local general equity unit trust funds outperformed inflation by 15% over the 12 months ended 30 June, these funds suffered net outflows of R562-million for the second quarter of this year. Overall, however, Domestic Equity funds recorded net inflows of R855-million over the same period. Domestic Money Market funds, on the other hand, received net inflows of R7.7-billion over the same period.”

He adds that nine of the top 10 positions in the sector performance rankings for the one year ended 30 June were held by Domestic Equity sectors - returns ranged from 16% to 28%.

The five year sector performance rankings paint a similar picture. Eight of the top 10 positions were held by Domestic Equity sectors with performances ranging from 12% to 17%. Domestic Money Market funds delivered a return of 9% against inflation (CPI) of 7%. Campher comments that these returns were achieved despite the financial markets meltdown late in 2008.

Protecting your retirement capital

Campher says consumers continue to believe that stock market volatility is the biggest enemy of their retirement capital, while it is actually inflation they need to fear.

“As a result we see investors being so defensive in their investment strategies that they sacrifice future inflation beating growth for immediate stability and peace of mind.”

Campher says this is particularly true for retired investors.

“If as a pensioner you are supporting your current income by sacrificing the future growth potential on your capital, you are allowing inflation to whittle away the very capital that is meant to sustain your income for years to come.”

Campher says real long-term growth can only result from a well balanced investment portfolio, which includes equities. This, he says, is true for pensioners as well, given that many will spend almost as much time in retirement as they did building their careers.

“Investors who want to achieve inflation beating returns over the long-term must learn to maintain a steady equity exposure as part of a well diversified portfolio. Construct a solid, well diversified portfolio with a trusted financial adviser and then learn to sit out the bad times.”

Quick Stats

The South African CIS industry recorded net inflows of R83-billion in the year ended 30 June 2010, bringing assets under management to R789-billion.

The net inflows for the second quarter amounted to R24.2-billion. Domestic Asset Allocation funds attracted the bulk of these flows - investors placed a total of R8.7-billion into these funds. Domestic Money Market unit trust funds took R7.7-billion, while other Domestic Fixed Interest funds received R3.9-billion. Only R855-million was invested in Domestic Equities.

At the end of the second quarter this year the industry offered 919 funds.

Diversifying offshore

During the second quarter of this year investors took advantage of the stronger Rand and rushed some of their offshore allowances into locally registered foreign funds. As a result these funds recorded new inflows of R4.2-billion, the highest ever per quarter.

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, which was increased from R2-million to R4-million per individual last year.

As at 30 June 2010, total assets under management in locally registered foreign funds stood at R106.8-billion, slightly down from the R107.5-billion at the end of the first quarter.

Campher says the foreign CIS statistics for the second quarter of this year show that 44% of assets invested by South African individuals in foreign funds were allocated to equity funds. Only 6% of assets were invested in fixed interest funds.

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).