

**Media Release**  
**Association for Savings and Investment South Africa (ASISA)**  
**2 February 2011**

### **Investors continue to avoid equities, but pour billions into fixed interest**

Propelled by record net inflows of R109-billion last year, the local collective investment schemes industry grew its assets under management to R927-billion during 2010 from R750-billion at the end of 2009. The bulk of the net inflows came in the fourth quarter of last year, when the industry attracted a record breaking R36-billion.

Releasing the 2010 Domestic and Foreign CIS statistics at a media conference in Johannesburg today, Leon Campher, CEO of the Association for Savings and Investment South Africa (ASISA), says solid returns delivered by the equity market also played a role in growing the industry's assets by R177-billion over the 12 months ended 31 December 2010.

The JSE All Share Index (ALSI) produced a 19% return in Rand terms in 2010, compared to the 3% of the S&P 500 and the negative 2% of the FTSE 100. Over five years, the ALSI delivered a whopping 103% return, while the S&P 500 managed 17% and the FTSE 100 produced 20%.

“Looking at these figures, it pains me that the majority of our investors did not share in this growth,” comments Campher.

At the end of last year, 47% of the industry's domestic assets under management was invested in the domestic fixed interest sector, which consists of money market, bond, income and varied specialist funds. The same sector also attracted most of the money last year - 55% of net inflows went into the domestic fixed interest sector. Domestic asset allocation attracted 34.2% of net flows during 2010. The domestic equity sector received a mere 4.4% of the net inflows during 2010.

“This means that in 2010 investors continued the trend of sacrificing long-term capital growth for the perceived safety of fixed interest funds. Yes, equity investments carry a higher risk and are more volatile, but over the longer-term equities have consistently outperformed fixed interest and inflation. Only time in the market will enable investors to benefit from the growth potential of equities, not timing the market.”

While the average fund within the domestic general equity sector returned 18% for the one year ended 31 December 2010, domestic money market funds returned 7%. Inflation (CPI) was 3%. The five year performance figures paint a similar picture. The average fund within the domestic general equity sector returned an average of 13 % a year for the five year to the end of December last year, and money market funds 9%. Inflation came in at 7%.

### **Back to basics**

Campher says collective investment schemes like unit trusts were created to enable consumers to collectively expose their money to the equity market to benefit from the potential of long-term capital growth. He adds that over time, the industry designed options that enabled investors to park and then phase their money into the equity market and also to provide some diversification. “Unfortunately, the majority of South African investors have taken to using these additional options for the long-term parking of their money. And money parked does not participate in growth opportunities.”

Campher says during the course of this year ASISA will be unpacking the investment flows into the various CIS sectors with the aim of gaining a better understanding of the movement of individual investor money,



corporate money and institutional money. “We know that a big portion of the money sitting in money market funds belongs to investment houses and pension funds. What we do not have are exact percentages.”

Despite the large portion of assets parked in fixed interest funds, the CIS industry through its equity portfolios holds approximately 5% of the JSE’s R6-trillion market capitalisation, which equals around R300-billion. At the end of 2010 the industry offered 943 funds.

### **Best of both worlds for investors**

Campher says another innovation of the CIS industry was the asset allocation fund.

Domestic asset allocation funds invest across the equity, bond, money and property markets, with the asset manager deciding how much money to invest in each asset class. These funds have become popular with investors and advisers alike since they provide diversification across asset classes within one fund, with an expert fund manager deciding on the appropriate mix. Funds ranging from low equity to high equity exposure are available within the asset allocation class.

At the end of last year, the domestic asset allocation sector held 26% of industry assets.

“Investors who cannot stomach the volatility of a general equity fund, but who want capital growth could consider investing in an asset allocation fund that matches their profile. But investors who want to achieve inflation beating returns over the long-term must learn to maintain a steady equity exposure, even if it is through an asset allocation fund, as part of a well diversified portfolio.”

Campher says the only way to maximize returns is by constructing a solid, well diversified portfolio with a trusted financial adviser and then sitting out the bad times.

### **Offshore versus domestic**

Campher says in 2010 a number of investors felt compelled to invest offshore simply because the Rand was strong, not taking into consideration that most of the offshore markets continued to take exceptional strain.

“Taking bets against the future performance of a currency carries the same risks as gambling. If you invest offshore, you need to do it for the right reasons, not only because the Rand is strong. You need to make sure that it is part of your long-term diversification strategy and that you are likely to benefit from this investment even if the currency does not weaken.”

But Campher believes that for the majority of South African investors, the domestic market offers plenty of opportunities.

“For most investors going offshore has not made sense for the past five years. This has not changed. South Africa continues to offers investors a stable and well regulated investment environment with plenty of opportunity for good capital returns over the long-term.”

Campher says when picking a destination for your money, you should consider a well regulated market that is drawing interest from beyond its own borders. This is true for South Africa, adds Campher.

“In 2010 South Africa attracted the biggest share of foreign investments via portfolio flows after Brazil. In addition we have a sophisticated financial market and our stock exchange is rated as one of the best in

the world. As a new member of BRICSA and with an upgraded BBB+ Fitch as well as Standard & Poor's rating, South Africa is firmly on the horizon of international investors."

However, for those requiring offshore exposure, foreign currency unit trust funds are available in South Africa. These funds attracted net inflows of R7.3-billion last year, down from the R9.9-billion recorded in 2009. As at 31 December 2010, total assets under management in locally registered foreign funds stood at R107-billion, compared to R108-billion in 2009 and R114-billion at the end of 2008.

Foreign currency 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 FSB. Local investors wanting to invest in these funds must comply with Reserve Bank regulations and will be using their foreign capital allowance.

The number of foreign currency denominated funds on sale in South Africa dropped from 372 funds at the end of 2009 to 336 at the end of 2010.

**Ends**

**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).