Media Release
Association for Savings and Investment South Africa (ASISA)
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Unit trust industry races towards R1-trillion mark

The size of the local Collective Investment Schemes (CIS) industry is rapidly approaching the R1-trillion mark, with assets under management having grown to R949-billion by the end of March this year.

The local CIS statistics for the first quarter of this year, released by the Association for Savings and Investment South Africa (ASISA), show that the industry's assets under management grew by R338-billion over the past two years, from R611-billion at the end of March 2009. This is the period for which ASISA statistics with all double counting removed are available.

Peter Dempsey, deputy CEO of ASISA, points out that while the industry is growing rapidly, the number of funds on offer has started to contract for the first time in the industry's 46 year history.

"From its humble beginnings in 1965 when the first unit trust fund was launched in South Africa, our industry offered a record number of 943 funds at the end of last year. However, by the end of the first quarter this year, the number of funds had dropped to 934 after some funds were deregistered by asset managers rationalising their fund offerings."

Dempsey expects asset managers to further consolidate their fund offerings, given regulatory changes in South Africa and an international trend towards offering investors more focused fund solutions.

"The advent of Regulation 28, which requires compliance by pension funds as well as their members, could result in a reduction of specialist funds over time and we may see more focused Regulation 28 compliant funds take their place," he explains.

Fixed interest at the expense of equities

Dempsey says the industry attracted net inflows of R18-billion in the first quarter of this year and R107-billion in the 12 months ended 31 March.

"Of the R107-billion, R61-billion was invested in the domestic fixed interest sector, which consists of money market, bond, income and varied specialist funds. The domestic asset allocation sector attracted R37-billion and equities a mere R4-billion. The worldwide and foreign sectors attracted the remainder of the flows."

Dempsey says while investors have consistently preferred to park their money in fixed interest type investments, interest rates dropped from 15.5% in June 2008 to the current 9% and the JSE All Share Index (ALSI) recovered from its daily low of 18 121 in March 2009 and climbed back up to close at 32 204 on 31 March this year. Before the global financial crisis forced the ALSI down to its 2009 lows, it had reached an all time high of 32 959 in May 2008.

"This means that investors who remained in equities would have recovered their losses by now and investors who invested in equities during the 2009 lows would have made a handsome return. Fixed interest investors on the other hand would have seen their income return drop, taking into consideration the lower interest rates as well as inflation."

Dempsey cautions against an all or nothing approach when investing for the long-term.

"There is room for all asset classes in a well balanced and diversified portfolio, constructed taking into consideration the investor's risk profile and long-term goals. Unfortunately, however, the majority of investors are sacrificing long-term capital growth for the perceived safety of fixed interest funds. While equity investments carry a higher risk and are more volatile, they have consistently outperformed fixed interest and inflation over the long-term."

The average fund within the domestic general equity sector returned 26% for the one year ended 31 March 2011. Domestic money market funds returned 7%. Inflation (CPI) was 4%.

Over five years, in absolute terms, the average fund within the domestic general equity sector returned an average of 61% to the end of March this year, and money market funds 52%. Inflation came in at 38%.

The JSE All Share Index (ALSI) produced a 15% return in Rand terms over the one year ended 31 March 2011, compared to the 6% of the S&P 500 and the 4% of the FTSE 100. Over five years, the ALSI delivered 81%, while the S&P 500 managed 25% and the FTSE 100 produced 21%.

Dempsey says investors most likely to reach their financial goals are those who have a solid investment strategy and who then stick to this plan irrespective of short-term market movements.

"Investors must learn to trust the equity market to deliver over time," he adds.

Sourcing the flows

Dempsey says while the bulk of the investments into the CIS industry were channeled via financial intermediaries (36%) in the 12 months to the end of March this year, an increasing number of investors is placing money directly with unit trust companies (30%). He adds that 21% of inflows were generated by linked investment services providers (Lisps) and 13% of flows were received from institutional investors like pension and provident funds.

In 2005, financial intermediaries generated 41% of inflows, while direct investments amounted to only 15% of flows. The industry received 25% of flows from Lisps and 19% from institutional investors.

Offshore focus

The locally registered foreign funds had assets under management of R121.7-billion at the end of March this year, up from R107.2-billion at the end of the fourth quarter last year.

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.

Net inflows amounted to R7.9-billion for the quarter – R2.7-billion into retail investor funds and R5.2-million into institutional funds.

Dempsey comments that the foreign funds attracted higher net inflows in the first quarter of this year than for the whole of 2010. Last year's net inflows amounted to R7.3-billion.

The number of foreign currency denominated funds on sale in South Africa remains 336.

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).