

Media Release**Association for Savings and Investment South Africa (ASISA)
28 July 2011****Lower flows for SA unit trust industry as investors reposition**

The anticipated change in the tax treatment of Dividend Income Funds and corporate investors repositioning their cash holdings resulted in a difficult second quarter for the local Collective Investment Schemes (CIS) industry.

Leon Campher, CEO of the Association for Savings and Investment South Africa (ASISA), says while the industry attracted net inflows of R4-billion in the second quarter of this year, the bulk of these flows consisted of income reinvested. Without this money, the industry would have seen a net outflow of R5-billion. The second quarter net inflows are the lowest since the end of March 2008 when net inflows were also at the R4-billion level.

However, says Campher, the R4-billion must be seen against the total net inflow for the 12 months to the end of June 2011, which shows net inflows of R66-billion.

Campher says the recently released 2011 Draft Taxation Laws Amendment Bills indicated that the tax loophole would soon close for Dividend Income Funds, causing investors to exit these funds. As a result the Domestic Fixed Interest Varied Specialist fund category, which houses these funds, suffered net outflows of R1.3-billion in the second quarter of this year.

In addition, domestic Money Market funds posted the biggest net outflows for the quarter of R9.9-billion.

However, Campher is not too concerned. "A closer look at industry statistics has shown that the withdrawals were made by a few corporate investors, mainly from Corporate Money Market Funds. This is not necessarily a bad thing since these corporates may well have ringfenced this money for development projects or other investment opportunities."

At the end of June 2011, the industry's total assets under management stood at R956-billion, compared to the R949-billion at the end of March this year.

Following a decline in the number of funds on offer to 934 in the first quarter of this year, a number of new fund registrations brought the number back up to 943 by the end of June.

Winning categories

Most popular with investors were three of the Domestic Asset Allocation fund categories (Prudential Variable, Flexible, and Targeted Absolute and Real Return), as well as the Domestic Fixed Interest Income fund category. Together these four categories attracted net inflows of R9.6-billion.

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.

Campher says these funds are growing in popularity 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 category.

At the end of the second quarter, the domestic asset allocation category held 28% of industry assets.

Campher says for investors who cannot stomach the volatility of the equity market, but who want to achieve inflation-beating returns over the long-term, asset allocation funds are a good option to consider.

“The ongoing debt crisis in Europe and in the US is fuelling renewed fears of another recession and increased market volatility. This causes investors to panic and switch to money market funds, sacrificing the capital growth that can only be achieved by investing in equities over the long-term.”

Instead of opting out of equity exposure completely, Campher urges investors to consult their financial advisers and to consider asset allocation funds as an alternative.

Campher says despite markets having been plagued by some of the worst volatility in living history in recent years, equities have continued to deliver. The table below shows that even for the five years ended June 2011, equities delivered a double-digit return. This period reflects the market crash of 2008 as well as a period of high interest rates.

Period to 30 June 2011	Domestic Equity General	Domestic Asset Allocation Prudential Variable Equity	Domestic Fixed Interest Money Market	Inflation (CPI)
1 year	21%	13%	6%	5%
5 years	10%	9%	9%	7%
10 years	17%	14%	9%	6%
20 years	15%	No data	No data	7%

Performance figures for 5, 10 and 20 years have been annualised.

Source: Profile Media

Sources of sales

Campher says while the bulk of the investments into the CIS industry came via financial intermediaries (37.4%) in the 12 months to the end of June this year, a significant percentage of investors are increasingly placing money directly with unit trust companies (26.7%). Linked investment services providers (Lisps) generated 19.6% of sales and 16.2% of sales was received from institutional investors like pension and provident funds.

Five years ago, financial intermediaries generated 40.9% of sales, while direct investments amounted to only 15.8% of sales. The industry received 26% of sales from Lisps and 17.3% from institutional investors.

Offshore focus

Locally registered foreign funds had assets under management of R112-billion at the end of June this year, down from the R122-billion at the end of March this year. This was largely due to the deregistration of a very large fund in the second 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.

Net inflows amounted to R3.4-billion for the quarter - R1.3-billion from retail investors and R2.1-billion from institutional investors.

There are currently 351 foreign currency denominated funds on sale in South Africa.

Ends

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Association for Savings and Investment South Africa (ASISA)

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).