

## **Media Release**

**Association for Savings and Investment South Africa (ASISA)**

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### **Long-term diversification still not a priority for local investors**

After maintaining extreme caution for the first half of this year, South African investors ventured back into offshore investments during the third quarter, resulting in net inflows for the first time this year for foreign currency denominated funds registered with the Financial Services Board (FSB).

Ironically, comments Leon Campher, CEO of the Association for Savings and Investment South Africa (ASISA), these investors had waited to make their move offshore until after the rand had weakened by more than 10% against the US\$ for the year ended June 2008 – making it one of the worst performing currencies in the world.

Campher says a sound financial plan requires diversification, not only between the various asset classes, but also offshore. “Ideally, however, diversification should be part of the plan and not a last minute knee-jerk reaction to market events. This means a portion of investors’ money should be offshore during good times as well as bad, just as equity exposure should not be abandoned because of sudden market volatility.”

At the beginning of the year, the rand/dollar exchange rate was still R6.76. By the middle of September the rand had weakened to over R8 against the dollar. And by October, the rand was touching R11.43 to the dollar. This means, investors fleeing into foreign currencies during the third quarter this year were already paying a huge premium.

Statistics released by ASISA show that the 379 foreign currency denominated funds available in South Africa attracted record gross inflows of more than R10-billion in the third quarter ended 30 September 2008.

The strong inflows in the third quarter were, however, offset by outflows of close to R8.5-billion, leaving a modest net inflow of R1.9-billion. Local funds on the other hand attracted net inflows of R19.9-billion during the third quarter this year.

As at 30 September this year, total asset under management in locally registered foreign funds stood at R99-billion, down from the R111.5-billion in the second quarter of this year. Local funds, however, could brag with an impressive R647-billion under management by the end of September.

Commenting on the statistics, Campher says foreign currency denominated funds suffered net outflows during the first two quarters of this year as the first effects of the sub prime crisis started to manifest. Only by the third quarter this year did local investors consider hedging against the weakening rand – by far the largest net inflows (R818-million) were recorded by foreign currency denominated fixed interest funds. Next were the asset allocation funds (R605-million) and then equity funds (R512-million).

Campher says investors who decided to stick to local assets also preferred local fixed interest funds in the third quarter. These funds attracted net inflows of just over R19.8-billion in the third quarter alone. This made up the bulk of the total net inflows of R19.9-billion into local funds during the third quarter.

Unfortunately, says Campher, fear continues to rule the investment strategies of many local investors. “Yes, it’s a rollercoaster out there, but investors need to understand that investment portfolios may temporarily diminish in value because of market volatility, but that actual losses are only incurred once investment holdings are sold.”

Campher says investors continue to sell equities at the bottom of the cycle, working up enough courage to get back when equities near the top of the cycle.

Equities have proven over time that they will eventually always outperform all other asset classes. Therefore, the best investment strategy of them all, says Campher, is time in the market.

“We experienced the biggest bull market ever over the past five years, yet South African investors on average held only one quarter of their investments in pure local equity funds over this period. And fixed interest investments remain the preferred option, despite the huge buying opportunities that have become available.”

Campher says internationally investors seem to have a higher appetite for risk than South Africans – at the end of the second quarter of 2008, 42% of worldwide mutual fund assets were held in equities. The asset share of bond funds was 17% and the asset share of balanced/mixed funds was 10%. Money market funds represented 23% of the worldwide total.

## **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).