

Media Release
 Association for Savings and Investment South Africa (ASISA)
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Money market unit trust funds the biggest losers in third quarter

Investors started abandoning money market unit trust funds during the third quarter of this year in favour of other unit trusts providing some equity exposure. As a result local money market unit trusts experienced net outflows of R5.8-billion for the quarter, the highest in five years. In the five year period ended this September there were only three other quarters during which money market unit trusts posted net outflows.

Quarterly statistics released this week by the Association for Savings and Investment South Africa (ASISA) for the local collective investment schemes (CIS) industry, show that investors are finally ready to trade the perceived safety of cash for the potentially higher returns of equities.

But unfortunately, says Leon Campher, CEO of ASISA, most individual investors missed out on much of the strong recovery experienced by equities in recent months. While institutional investors were moving back into equities during the second quarter of this year already, individual investors were still placing the bulk of their money with money market unit trust funds.

Campher says as a result most individual investors did not participate in the 37.5% growth achieved by the FTSE/JSE All Share Index (ALSI) from its lows in early March this year to the end of September. In Rand terms, compared to the SP500 and the FTSE100, the ALSI was the best performing index for the past 12 months ended September this year, with a return of 4.51%.

Taking stock

Campher says the local CIS industry attracted net flows of R99-billion over the 12 months to the end of September this year, bringing total assets under management to R747-billion. This is the second highest annual net flow ever achieved by the industry over any 12 month period - the highest was from the end of June last year to this year June with R103-billion.

"Never before has the unit trust industry managed assets of this magnitude. Considering the difficult economic climate and the unsettling market turmoil experienced over the past year, I think both investors as well as the industry deserve a pat on the back for their resilience."

Total gross sales for the quarter amounted to R158.6-billion, against outflows (redemptions) of R143-billion. This brought the net inflow figure for the third quarter to R15.6-billion. By the end of September the industry offered 903 funds.

Winners and losers

Campher says asset allocation funds were the clear winner during the third quarter this year with net inflows of R10.2-billion. Within this sector, domestic asset allocation prudential variable equity funds and domestic asset allocation prudential low equity funds were the most popular, contributing a total net inflow of R6.9-billion to the R10.2-billion.

Campher explains that asset allocation funds have increased in popularity over the years, because they invest across the equity, bond, money and property markets. This provides investors with the peace of



mind that diversification across asset classes is achieved within one fund. Funds ranging from low equity to high equity exposure are available within the asset allocation class.

Fixed interest funds (excluding money market unit trusts) attracted net inflows of R4.9-billion. Here domestic fixed interest varied specialist funds were favoured by investors with net inflows of R4.1-billion

Equity funds attracted net inflows of R3.6-billion, with domestic equity general funds contributing R2.5-billion in net flows to this sector.

Domestic money market unit trust funds, on the other hand, suffered a spectacular fall from most popular fund class in the second quarter to least popular fund class in the third quarter.

From crisis to normal

In the second quarter of this year the ALSI gained 8.28%. And during the third quarter the index grew by another 12.98%.

“While this recovery is nothing to be scoffed at, the market, as measured by the All Share Index, is still below the trend line and substantially below previous peaks. The jury is still out on whether a recovery in the economy and the markets, both globally and locally, is here to stay or whether the current upturn is just another bubble.”

Therefore, says Campher, 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. “If you move into the equity market now, make sure you do this with at least a five year time horizon,” cautions Campher.

“Investors trying to skip in and out of the market in time for every trough and every peak will see their portfolios eroded by inflation and badly timed choices. 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.”

Investors who were prepared to do just that would have shared in the five year pre-tax return of 18.1% achieved by the domestic general equity sector to the end of September this year, which was more than double the 8.8% returned by money market unit trust funds for the same period.

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).