

Media Release

Association for Savings and Investment South Africa (ASISA)

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Investors commit R23 billion to local CIS portfolios in the first quarter, but avoid equities

The local Collective Investment Schemes (CIS) industry reported net inflows of R23 billion in the first three months of this year after having experienced net outflows of R3 billion in the fourth quarter of 2019.

According to the CIS industry statistics for the quarter and year ended March 2020, released today by the Association for Savings and Investment South Africa (ASISA), this brings to R93 billion the total net inflows for the 12 months to 31 March 2020.

Sunette Mulder, senior policy advisor at ASISA, says despite the net inflows in the first quarter of this year, the Covid-19 induced market turmoil caused assets under management to decline by R0.22 billion to R2.26 trillion at the end of March 2020.

Just under half of these assets were held in South African (SA) Multi Asset portfolios (49%), with the rest in SA Interest Bearing portfolios (34%), SA Equity portfolios (15%) and SA Real Estate portfolios (2%).

Mulder notes that over the past five years there has been a significant shift of assets from equity portfolios to interest bearing portfolios:

Type of Portfolio	Portfolio Allocation	
	31 March 2015	31 March 2020
Interest Bearing	24%	34%
Equity	23%	15%
Real Estate	4%	2%
SA Multi Asset	49%	49%

Mulder comments that the local CIS industry has been able to withstand the shocks delivered by Covid-19 induced panic and the effects of the lockdown and remains robust.

“We are engaging on an ongoing basis with our regulator, the Financial Sector Conduct Authority, in an effort to anticipate potential problem areas and to put in place measures that will allow our industry to react quickly should the need arise. The FSCA must be commended for being responsive and willing to engage with our industry on areas of concern, often under challenging circumstances.”

Investor trends

Mulder says after suffering net outflows of R15.9 billion in the fourth quarter of last year, SA Interest Bearing Money Market portfolios attracted R22.2 billion in net inflows in the first quarter of this year. SA Interest Bearing Variable and Short-term portfolios attracted R9.9 billion and SA Multi Asset Income portfolios R3.2 billion. Net outflows were recorded by most portfolios with equity exposure over the first quarter.

She says sector performance tables show that SA Interest Bearing Short-term and Money Market portfolios on average outperformed equity portfolios (net of fees) over the one year and five year periods to the end of March 2020. The SA Interest Bearing Short-term sector also achieved the best performance over the 10-year period to the end of March 2020, which is a rare occurrence.

Sector performance comparison

	1 year to 31 March 2020	5 yrs to 31 March 2020	10 yrs to 31 March 2020	20 yrs to 31 March 2020
SA Interest Bearing Short-term	7.6%	8%	7.1%	8.7%
SA Money Market	7.4%	7.3%	6.4%	8%
SA Equity General	-21.7%	-2.8%	5.5%	11.8%
SA Multi Asset High Equity	-10.5%	1.1%	7%	11.6%
SA Multi Asset Low Equity	-3.7%	3.5%	6.9%	8.7%
SA Multi Asset Income	3.7%	6.7%	6.9%	9.4%
Inflation	4.1%	5%	5.1%	5.5%

Source: Profile Media

Time in the market

Mulder says given the extreme market volatility experienced by global financial markets in the first quarter of this year, it is not surprising that investors were nervous of equities (shares), instead preferring the perceived safety of interest-bearing portfolios.

She points out that in reaction to the global market turmoil that followed the financial crisis late in 2008, individual investors also switched out of unit trust portfolios with high exposure to equities and parked the bulk of their money in money market portfolios.

“Historically, however, financial markets tend to not only recover their losses after a crash, but they also reach new highs.”

According to Mulder, the FTSE/JSE All Share Index (ALSI) dropped to its lowest level this year on 19 March 2020, closing at 37 963.01. By the end of March the index had recovered to 44 490.31 points and by the end of April it closed at 50 336.72 points – a change of 13.14% for April alone.

“At the close of trading on Monday, 25 May, the ALSI had recovered almost 32% from its lowest point in March. This means that investors who panicked and switched out of their

equity portfolios into interest bearing funds not only locked in their losses, but also missed out on the recovery."

"It is important to remember that volatility is part and parcel of investing in unit trust portfolios that hold shares. The higher the percentage of equity exposure the greater the rollercoaster ride will be. I therefore urge investors to consult with their financial advisers to determine an equity exposure that suits both their investment needs as well as their individual risk profiles."

Mulder says a successful investment strategy requires a long-term commitment together with an understanding that it is time in the market that makes all the difference."

Where did the inflows come from

Mulder says 27% of the inflows into the CIS industry in the 12 months to the end of March 2020 came directly from investors. "This does not mean that these investors acted without advice. A number of direct investors pay for advice and then implement the investment decisions themselves."

Intermediaries contributed 35% of new inflows. Linked investment services providers (Lisps) generated 21% of sales and institutional investors like pension and provident funds contributed 17%.

Offshore focus

Locally registered foreign portfolios held assets under management of R483 billion at the end of March 2020. These foreign portfolios recorded net outflows of R29.6 billion for the quarter ended March 2020.

Foreign currency unit trust portfolios are denominated in currencies such as the dollar, pound, euro and yen and are offered by foreign unit trust companies. These portfolios can only be actively marketed to South African investors if they are registered with the Financial Sector Conduct Authority (FSCA). Local investors wanting to invest in these portfolios must comply with Reserve Bank regulations and will be using their foreign capital allowance.

There are currently 504 foreign currency denominated portfolios 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.