

Media Release

Association for Savings and Investment South Africa (ASISA)

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Uncertainty drives CIS investors to sacrifice returns for “safety”

The local Collective Investment Schemes (CIS) industry reported assets under management of R3.64 trillion at the end of the second quarter of 2024, a growth of 2% from the end of the first quarter of 2024 when assets stood at R3.57 trillion. Over the 12 months to 30 June 2024, assets grew by 8.3%, driven primarily by stock market performance.

The CIS industry statistics for the quarter and year ended June 2024, released by the Association for Savings and Investment South Africa (ASISA), show that despite delivering consistent and steady growth in assets under management, the local CIS industry recorded net outflows of R30 billion (excluding reinvestments) in the second quarter of this year.

Reinvestments of R24 billion made by existing investors who chose to reinvest income declarations (dividends and interest) reduced net outflows to R6 billion for the three months to the end of June 2024.

Sunette Mulder, senior policy advisor at ASISA, says that while portfolio restructuring by asset managers contributed to the outflows, possibly in preparation for implementing the two-pot retirement system, the overall investment climate was not favourable for investor confidence.

“The respite in load-shedding only came at the end of the first quarter of 2024, and investors would have continued to take a wait-and-see approach before trusting that the remedial action was sustainable. In addition, we had a nail-biting lead-up to the general elections on 29 May 2024. The stakes were so high that many investors would have decided to exit the stock market.”

She says the peaceful transition to a Government of National Unity at the end of the second quarter, combined with a quarter of no load-shedding, has already resulted in cautious optimism in South Africa. The RMB/BER Business Confidence Index showed a reading of 38 points out of 100 at the beginning of September 2024, the highest business confidence reading since the end of 2022.

“The third quarter CIS industry statistics expected in early November will show whether investor confidence buoyed as well,” says Mulder.

At the end of June 2024, 18% of assets under management were held in SA Equity portfolios, while SA Interest Bearing portfolios held 31% of assets. Half of all assets (50%) remain in SA Multi Asset portfolios, with the rest in SA Real Estate portfolios (1%).

South African investors had a choice of 1 852 local CIS portfolios at the end of June 2024.

Investor trends

Mulder explains that it takes a committed investor with a well-diversified investment portfolio and a solid long-term plan to brave negative market sentiment and volatile investment markets—those who do tend to be rewarded for their staying power.

For example, investors who took a long-term view on local equities participated in a 20-year average annual performance of 12.8% delivered by portfolios in the SA Equity General category to the end of June 2024. Portfolios in the SA Multi Asset High Equity category achieved annual average returns of 11.7% over the same 20-year period.

Yet, according to Mulder, both categories posted net outflows in the second quarter of this year.

“Even though portfolios in these categories also delivered double-digit returns on average over the 12 months to the end of June 2024, which is considered a short investment term, jittery investors were not prepared to risk exposing their money to potential market volatility if the elections had not turned out the way they did and if load-shedding had returned shortly afterwards.”

According to Mulder, there will always be local and international events that will result in market volatility. “Some are more severe than others, causing greater uncertainty and panic. However, historically, stock markets have always recovered and bounced back stronger, rewarding those who stayed the course.”

She says investors with trusted and qualified financial advisers tend to cope better during stressful times because good financial advisers remove emotions from investing and look only at cold, hard facts.

“We have just entered a more positive phase in South Africa, but the upcoming United States presidential election will likely inject uncertainty into global markets. In addition, the global economic outlook continues to be heavily impacted by ongoing geopolitical tensions. Since all markets are interlinked, this could spill over into our local market at any time, causing short-term volatility. Instead of adjusting their investment portfolios from event to event, investors should construct a well-diversified investment portfolio with the help of a qualified financial adviser that will deliver over the long term.”

Mulder says investors should be guided by the investment adage that solid returns are driven by time in the market, not by timing the market.

Offshore focus

Locally registered foreign portfolios held assets under management of R899 billion at the end of June 2024, compared to R928 billion at the end of March 2024. These portfolios recorded net outflows of R2.4 billion for the quarter ended June 2024, bringing total net outflows for the year to R13.8 billion.

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 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 698 foreign currency-denominated portfolios on sale in South Africa.

Hedge Fund Statistics

The South African hedge fund industry ended the second quarter of 2024 with assets under management of R187 billion. This represents a healthy 11.3% growth in assets over the six months from the end of December 2023, when assets stood at R168 billion.

Mulder reports that the hedge fund industry attracted net inflows of R2.4 billion in the first six months of 2024.

The number of hedge funds remained at 212 at the end of June 2024.

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.