Media Release
Association for Savings and Investment South Africa (ASISA)
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Cautious investors take wait and see approach in interest bearing portfolios while equities reward resilience

The local Collective Investment Schemes (CIS) industry attracted healthy net inflows of R134.5 billion in 2017, ending the year with assets under management of R2.25 trillion.

The annual CIS industry statistics for 2017, released today by the Association for Savings and Investment South Africa (ASISA), show that the bulk of the net inflows went into interest bearing portfolios. South African (SA) Interest Bearing Short Term portfolios recorded net inflows of R40.2 billion in the 12 months to the end of December 2017, Money Market portfolios R26.8 billion, and SA Multi Asset Income portfolios R21.2 billion.

Sunette Mulder, senior policy adviser at ASISA, says judging from the 2017 flow statistics, already cautious investors seem to have retreated from low and medium equity portfolios to the perceived safety of interest bearing portfolios. More resilient investors, on the other hand, sought the potential of higher returns typically offered by equity portfolios. SA Multi Asset High Equity portfolios attracted net inflows in 2017 of R20.4 billion and SA Equity General portfolios R13.3 billion.

Mulder points out that portfolios with high equity exposure have on average consistently outperformed (net of fees) interest bearing portfolios over one year, five years, 10 years and 20 years to the end of December 2017.

	1 year to 31 Dec 2017	**5 yrs to 31 Dec 2017**	**10 yrs to 31 Dec 2017**	**20 yrs to 31 Dec 2017**
SA Equity General	12.2%	9.2%	8.4%	13.8%
SA Multi Asset High Equity	9.8%	9.3%	8.6%	14.1%
SA Interest Bearing Short Term	8.7%	7%	7.7%	9.6%
SA Money Market	7.8%	6.4%	7%	8.9%
Inflation	4.7%	5.5%	5.7%	5.7%

Source: Profile Media

Understanding net inflows

The net inflow figure is the difference between the total amount of money invested into CIS portfolios (sales – when units are created) over a specific period less repurchases (when units are sold).

The 2017 net inflows of R134.5 billion, were made up of new investments and income distributions reinvested by investors.

Where a CIS portfolio has earned income in the form of interest and/or dividends, this can be distributed to investors monthly, quarterly, biannually or annually. It is the investors choice to either have the income paid out or to buy more units with this money in which case the income distribution is reinvested.

Reinvesting the income distribution will increase the number of units that the investor owns. Long-term investors tend to reinvest income distributions with the aim of taking advantage of the compounding effect of returns thereby significantly boosting the potential of good long-term returns.

Where did the inflows come from

Mulder says 28% of the inflows into the CIS industry in the 12 months to the end of December 2017 came directly from investors – down by 3% from 2016. However, this does not mean that these investors acted without advice. “We believe that a number of direct investors pay for advice and then directly implement the choice of portfolio,” comments Mulder.

Intermediaries contributed 30% of new inflows, compared to 22% in 2016. Linked investment services providers (Lisps) generated 22% of sales (20% in 2016) and institutional investors like pension and provident funds contributed 20% (27% in 2016).

Global Trends

Mulder points out that in general South African investors appear to be far more risk averse than their international counterparts.

She says internationally, investors tend to opt predominantly for Equity portfolios (44% of all international CIS assets), followed by Bond portfolios (21%), Balanced portfolios – known as Multi Asset portfolios in SA (13%) and then Money Market portfolios (12%).

In South Africa, Multi Asset portfolios hold 49% of assets, Equity portfolios (including Real Estate) 25%, Money Market portfolios 16%, and other Interest Bearing portfolios (Bond portfolios internationally) 10%.

Worldwide, there are 113 661 collective investment scheme portfolios with total assets under management of $47.4 trillion as at the end of September 2017. (Figures provided by the International Investment Funds Association (IIFA), of which ASISA is a member, lag by one quarter due to the magnitude of statistics that have to be collated.)

At the end of December 2017, South African investors had a choice of 1 626 portfolios – an increase of 106 portfolios from the previous year.

Offshore focus

Locally registered foreign portfolios held assets under management of R442 billion at the end of December 2017. These foreign portfolios recorded net inflows of R5.9 billion over the 12 months to the end of 2017.

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 Services Board. 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 433 foreign currency denominated portfolios on sale in South Africa.

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.