Collective Investment Schemes

By Francis Marais, Head of Glacier Research

2020 has certainly forced us to pause and reflect on how far we've come, and where we're heading to.

Where did we start?

If we look back to the year 2000, we see that the JSE stood at a level of 7 570, one USD = R6.77, inflation was at 5.1%, interest rates were 14.50% for prime and 11.75% for the repo rate and the average life annuity rate was 12.52%. In terms of where interest rates and inflation were at, at that point in time, investors saw some really good real returns from their investments.

If we cast our gaze forward by five years to the year 2005, we see the JSE up by 87% to a level of 14 155, the rand appreciating to R6.65 to the USD, inflation at 3.4%, interest rates at 10.50% (prime) and 7% (repo) and the average life annuity rate at 11.13%.

In 2010, the JSE had risen by yet another 86% to 26 259, the rand depreciated to R7.67 to the USD, inflation was at 3.7% and interest rates at 10% for prime and 6.5% for the repo. The average life annuity rate was at 9.20%.

Fast forward yet another five years to 2015, and we see the JSE had risen by 97% to 51 807, one USD now cost R12.17, inflation had ticked up to 5%, and prime and repo rates had dropped to 9.25% and 5.75% respectively. The average life annuity rate was 8.88%.

In 2020, we see the JSE has barely moved over the past five years, up 5% to 54 362. The rand has depreciated considerably to R17.35 to the dollar, inflation is at 3.2% and prime and repo rates at 7.25% and 3.75% respectively. In addition to the poor market performance, in 2020 the world has had to deal with COVID-19 and its aftermath.

After that whirlwind tour of the last twenty years, where do we find ourselves currently?

- Over the period, the JSE is up 618%.
- The rand has lost 60% of its value.
- An investor who invested twenty years ago would have seen significant growth in equities, as

well as in their offshore investments, and fixed income too.
- Interest rates have come down.
- Inflation has mostly been under control since 2010.

The Collective Investment Scheme (CIS) landscape

The CIS industry has increased by 42% over the last five years and has more than doubled over the last decade – increasing by 207% since 2010. The CIS industry now has assets of R2.5 trillion as at end-June 2020.

As a comparison GDP has increased by 2.81% over the last five years and by 57% since 2010.

We've seen a significant shift in retail assets from 36% to 62% in the ten years since 2010. Institutional assets have also increased from 38% to 64% over the same time period.

The average size of a fund has almost doubled from roughly R896m to around R1.6bn. More significantly, the number of CIS funds has increased from 919 in 2010 to 1 629 today. At the same time, the number of listings on the JSE has declined by 13% since 2015. And since 2000, the number of listings has decreased by 43%. Global funds have doubled their share of the CIS landscape and have seen a six-fold increase or a 580% growth in their total assets under management over the period.

In terms of local funds, we see that multi asset funds still dominate, and this is not unexpected. Investors are moving away from equity funds due to their poor performances over the last five years. Money market funds have been the biggest losers, but along with interest-bearing funds, they've seen increased allocations over the last five years.

As mentioned previously, global funds have seen a strong increase in their market share. Global funds' AUM has increased by 818% over the last ten years.

Within SA Multi Asset funds, high equity funds continue to be the largest category. Multi Asset Income is now larger than the MA Low Equity space.

In terms of SA Interest Bearing, we've seen that exposure to shorter-term funds has increased, but in general this category as a whole has grown its share of the market.

The trend

We see from the above that there's clearly a trend away from equity to income-type assets and this is no surprise given the outperformance of cash over equities during this period. Cash has outperformed equities on a rolling five-year basis since October 2018 and has continued to do so for almost two years.

Although markets are cyclical, the overall trend over the period has been downward. But we need to be cognisant that this trend will reverse and that clients who are sitting in interest-bearing investments may miss out on wealth creation opportunities. At the same time, foreigners have been persistent sellers of local equities during the time under review. This has also contributed to the poor performance of local equities.

In the SA Multi Asset High Equity space - or the traditional balanced funds - we see institutional managers moving away from cash into bonds and equity – unlike retail investors.

The largest funds – looking back over the past five years (2015 – 2020)

Most of the current top five SA equity funds have seen outflows over the period. Allan Gray Equity and Coronation Top 20 still remain the largest funds in this category. Allan Gray saw R13bn outflows during the last five years, but despite this, still remains the largest fund in this category. The Fairtree Equity Prescient Fund saw inflows over the period, due to its good performance.

The SA equity space has become less concentrated over the last five years. Flows continue to go from larger managers to the smaller boutique managers.

In the SA High Equity space, the Allan Gray Balanced Fund continues to dominate this category – having grown over the past five years. The performance of the Ninety One Opportunity Fund has also been strong, and a clear driver of flows into this fund. Foord's performance in this category has been quite competitive versus the rest of the category. Many of the funds in this category have seen decreases in AUM over the period.

In the SA Low Equity space, again most funds have been seen a decrease in AUM although Allan Gray Stable saw an increase and continues to be the largest fund in this category. The Ninety One Cautious Fund also saw an increase in AUM.

In contrast, funds in the SA Multi Asset Income space have increased their flows, with the entire top five seeing a doubling in their AUMs. The Prescient Income Provider Fund has seen a significant increase in flows, but Coronation continues to be the largest fund in this category.

In terms of funds on the Glacier platform, the Coronation Strategic Income Fund is currently the largest. Previously this position oscillated between the Allan Gray Balanced and SIM Inflation Plus funds.

Take-outs from the above fund discussion (2015 – 2020)

- From an industry perspective, Allan Gray continues to dominate in many categories.
- However, we see this changing as most sectors have become less concentrated and the big five in each category has seen decreases in their overall AUM, with the exception of the Multi Asset Income category.
- This has been a very tough period for Coronation and Foord, despite Foord's strong

performance in the Multi Asset space.
- It’s been a good period for Ninety One.
- Boutique managers and passive funds are gaining ground.
- Offshore equity is becoming more popular.
- We’ve seen an overall de-risking with the Income and Fixed Interest funds seeing the largest share of growth. This could, however, have long-term wealth creation consequences.

Looking forward

The world is becoming more technical and complex, and we’re seeing this in all industries and all aspects of those industries. An example is portfolio construction – we started with the building block approach (equities, bonds, property and cash) and then moved to Multi Asset funds. Thereafter we progressed to a blended approach, followed by an equity weighted portfolio. We now combine active and passive funds, as well as hedge funds and life policies too.

We’re now also able to be more granular and look at portfolio construction in terms of alpha and beta factors, low volatility etc. And finally, we’re seeing an overlap between traditional, Artificial Intelligence and sustainable investing.

Drivers of change & mega trends – is your book future fit?

- Demographics – There will be even more female investors in future. Is your practice equipped to deal with this?
- Technology – will impact the entire business, not just the back-end processes.
- Environment – investors continue to be more environmentally conscious and aware of how their investments affect the world we live in.
- Social values, behaviour and ethics – investors are increasingly looking to invest according to their values.

In summary

- The investment landscape will continue to become more complex, with many different strategies and methods to construct portfolios.
- It will be difficult to be a specialist in all of these different strategies and methodologies.
- Choosing the right knowledge partners to assist and help you make sense of this ever-changing, complex environment will be key.
- There’ll be a specialisation focus, but increasingly also a generalist knowledge requirement.
- How future-fit your book is will determine the success of your business going forward.
- Centralisation and pooling of resources might be the only way forward.

No matter how capable machines become, human interactions and trusted personalised relationships will remain key, especially in upper wealth bands.

In the future, wealth managers will be selling outcomes, not traditional investment products.

Clients will demand more transparency and control.

Sources: Glacier Research, ASISA, Morningstar, IRESS, Alexander Forbes, BCG, Accenture, Deloitte, KPMG.

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