

Trends, opportunities and perennial advice for investors

The investment industry has grown by 61% in the last six years and by 247% between 2010 and 31 March 2021. The value of the retail investment industry in South Africa currently is R2.8 trillion. Speaking at a Glacier webinar earlier this year, Patrick Mathabeni, Research and Investment Analyst at Glacier, examined this phenomenal growth in the context of an annualised GDP growth rate of less than 3% over the last decade, while also elaborating on where industry flows are being directed to; and what this all means for investors.

Shift to institutional funds

Patrick observed that the growth experienced over the last decade has been mainly through contractual investments – people saving in funds such as retirement annuities, pension, provident and preservation funds. Over time, there has been a decrease in discretionary investments into retail funds, which essentially means that the average investor is saving less through discretionary products. Interestingly, there has been an increase in retail investing within the institutional space.

What's also interesting is that while the number of funds has grown over time (from 919 collective investment scheme funds in 2010 to nearly 1700 in 2021), the size of the funds has also increased. In 2010, the average size of assets under management (AUM) in a fund was R896 million. In 2021, that number has doubled to R2 billion.

The challenge for investors

While the investment universe has expanded (as reflected in the increased number of funds) and offers investors choice and scope, the challenge it raises is how to navigate these funds and how to choose them as part of a diversified portfolio.

And what investment choices are they making? Most investors' money is sitting in multi-asset funds with high equity funds enjoying the lion's share. There has been a marked decrease over the last decade in investments in money market funds but a slight increase in the last six years. However, short-term interest-bearing funds have seen an increase in the last six years as investors moved away from equity funds, pointing to their unwillingness to proceed up the risk curve.

While we've seen growth in the number and size of funds, the number of shares listed on the JSE has been decreasing over the last five years – by an astounding 13%. Concentration is also elevated in that the top five stocks account for roughly 40% of the JSE. From a listed equity point of view, money is chasing a limited number of assets.

Why managers go global

Patrick noted that in the context of limited opportunities in the local market, he sees an increase in offshore investing. The global investment universe is appealing to managers, given the considerably larger opportunity set than in South Africa. The number and size of the global funds is pitted against the concentrated nature of our local market and the muted returns seen in the last decade. Consequently, there has been a seven-fold (730%) increase in the local market AUM in global funds since 2010. And the bulk is being invested in global equity funds (nearly 70% in 2021). Global equity funds have increased 10-fold in the last decade.

Unhappy returns

The trend for asset managers is that they have been reducing allocation to cash, while investors are opting to invest in the opposite direction. And this has meant that investors may be moving in the opposite direction to where returns have been coming from, at least in the short-term. Ironically, most of the outflows experienced in the last nine months were from areas of the market that performed very well, particularly the SA equity and multi-asset high-equity category which returned 35% and 19%, respectively.

Given this complex backdrop, Patrick reiterated the message to investors that he and all of the analysts at Glacier Research have been communicating all along, especially during the past year:

1. Stick to your investment plan.
2. Stay invested.
3. Don't move into cash as a knee-jerk reaction to market volatility.
4. Consult an appropriately authorised financial adviser to help make informed investment decisions.

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