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Ninety One

Investing for a world of change

Do not be lazy when dealing with your cash investments

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The fast view

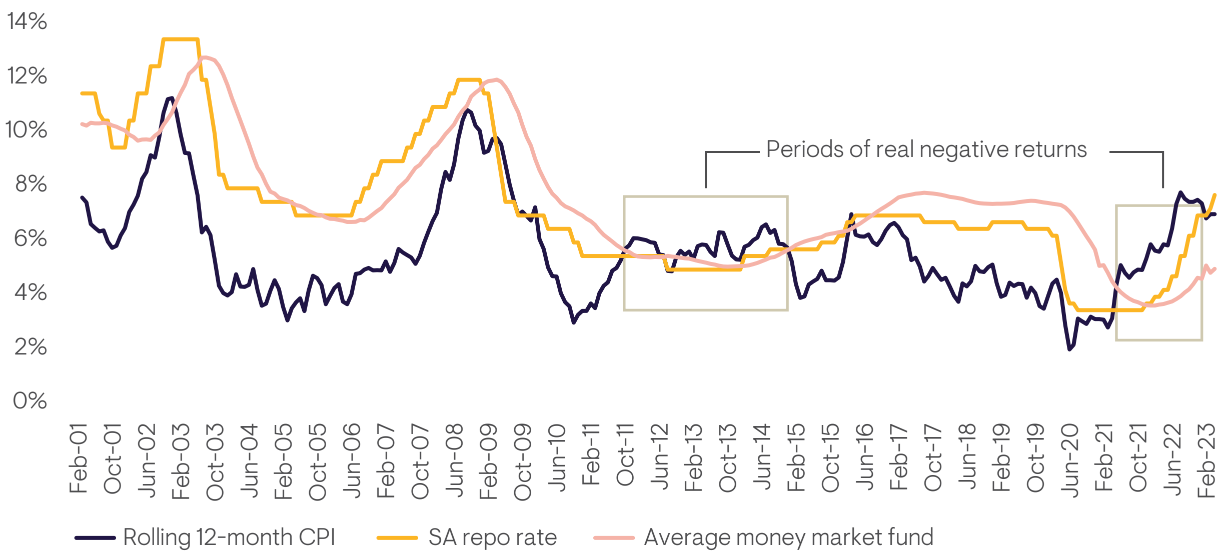
- South Africans are increasingly hoarding cash in retail bank accounts and money market unit trust funds.
- However, the average retail investor's holding period exceeds 12 months, with the result that they are not maximising the return potential of their conservative cash holdings.
- Conservative investors with a holding period of more than 12 months should consider a flexible fixed income fund, like the Ninety One Diversified Income Fund, as an alternative for at least a portion of their cash holdings.
- The Ninety One Diversified Income Fund has a proven long-term track record of generating real returns (participating) and managing downside risk (protecting).

There is a staggering amount of savings parked in retail bank accounts and money market unit trust funds. The South African Reserve Bank's BA900 economic returns' data shows that household bank deposits totalled R1.63 trillion at the end of December 2022 – which is significantly higher than the long-term average – and up more than R90 billion over the past year. At the same time, retail investor assets held in money market unit trust funds amounted to a further R190 billion, at 31 December 2022.

Data shows that household bank deposits totalled R1.63 trillion at the end of December 2022.

Interestingly, we then analysed the quarterly net flow statistics of the Association of Savings and Investment South Africa to establish the average retail investor's holding period. Over the last 5 years, it has exceeded 12 months, increasing to 16+ months last year. This suggests that many money market investors are not considering how best to maximise the return on their conservative investments. In an environment where money market investments have delivered negative real returns after tax and inflation for the last few years, this is a missed opportunity, as can be seen in Figure 1.

Figure 1: South African inflation, interest rates and money market returns



Source: Ninety One Benchmark Database.

Figure 1 shows how the rolling 12-month return of the average money market unit trust fund tracks the repo rate, peaking when the repo rate peaks and bottoming when the repo rate bottoms. Given that the Monetary Policy Committee of the South African Reserve Bank recently increased the repo rate by a further 50 basis points to 7.75%, we can therefore expect the rolling 12-month return for the average money market fund to trend towards 7.75%.

Importantly, however, over the long term, cash investments have delivered a pre-tax return of just 1% above inflation. Investors parking their conservative investments in the money market are effectively standing still over time.

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What to do, what to do?

Money market and bank deposit investors with a holding period greater than 12 months should consider conservative multi-asset income funds that target (and have a history of delivering) cash-plus returns at limited volatility, i.e. no negative returns over shorter periods – for example 3 months – through various interest rate cycles.

These flexible fixed income funds attempt to exploit a multitude of yield-enhancing instruments to diversify risk and enhance portfolio returns, investing in long- and short-dated bonds (both government and investment-grade corporate), inflation-linked bonds, debentures, fixed deposits, preference shares and listed property. For example, to diversify risk, the Ninety One Diversified Income Fund's exposure to banks (approximately 27%) is not limited to just one bank but spread across the big four.

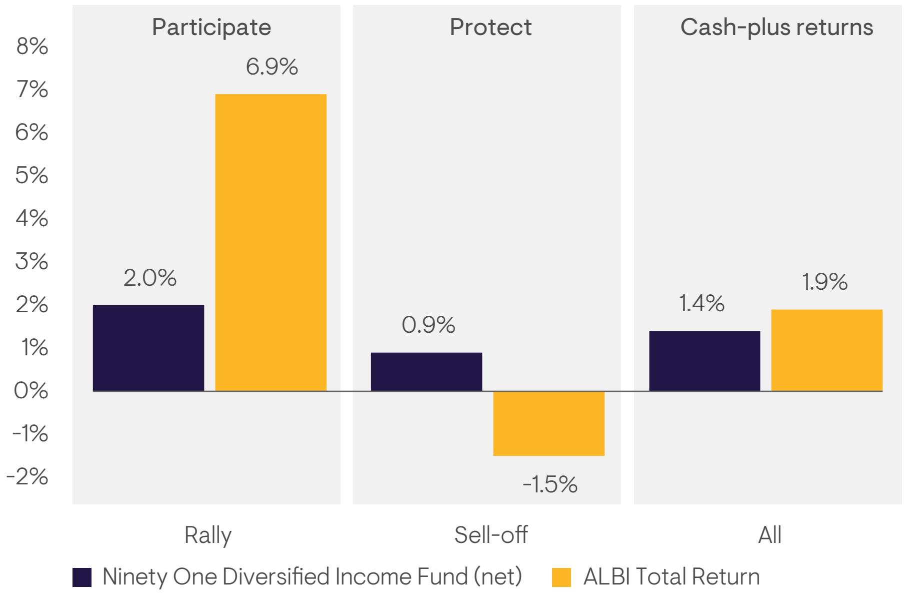
Ninety One Diversified Income Fund: designed to participate and protect

Within this peer group of flexible fixed income funds, the Ninety One Diversified Income Fund is a comprehensive and differentiated conservative investment solution. At its core, the Fund seeks to both generate real returns (participate) and manage downside risk (protect). To date the Fund has:

- Provided a consistent total return above cash/inflation over time, with some correlation to the bond market when the bond market outperforms cash and little to negative correlation to the bond market when it underperforms
- Avoided quarterly capital drawdowns and eliminated 6-monthly drawdowns completely

The benefit of the Fund's differentiated, flexible mandate is not just evident during rate-hiking cycles, but importantly through the cycle. Figure 2 illustrates the Fund's ability to make use of the myriad investment opportunities to diversify risk and enhance return. This flexibility has proven attractive and beneficial to investors.

Figure 2: Participating and protecting: average rolling 12-month excess returns over cash



Source: Ninety One and Bloomberg. Returns are based on a lump sum investment, NAV based, inclusive of all annual management fees but excluding any initial charges, gross income reinvested, A class. Fees are not applicable to market indices. Where funds have an international allocation, this is subject to a dividend withholding tax, in South African rand. Data from 31 March 2011 to 31 March 2023. For more information, please visit the Ninety One Diversified Income Fund page on our website.

Figure 2 compares the return of the Ninety One Diversified Income Fund against that of the FTSE/JSE All Bond Index (ALBI) for the 12 years since March 2011, during periods when the ALBI outperformed cash and when the ALBI underperformed cash.

Observations

When the ALBI outperforms cash, which it does on average by 6.9% p.a., the Fund participates in these rallies, capturing almost a third of this outperformance.

When cash outperforms the ALBI, the Fund protects the downside, delivering a positive 0.9% p.a. above cash.

As a result, over the full period, the Fund provided an attractive return of 1.4% p.a. above cash.

Impressively, the Fund has also outperformed both the average money market unit trust fund and its benchmark, the STeFI Composite (which is a proxy for bank deposits) every calendar year over the last 10 years. This demonstrates the experience and skill that Ninety One has built in managing income investments.

In summary, the Ninety One Diversified Income Fund has delivered upside exposure with downside protection, in line with its dual ‘participate and protect’ objective. Given market valuations and the compelling income on offer, we anticipate that the Fund will continue to deliver attractive returns relative to cash and fixed deposits.

And finally, we recently announced a 1-year 11% fee reduction for the platform fee class of the Ninety One Diversified Income Fund. We have reduced the H-class annual management fee from 0.45% (ex VAT) to 0.40% (ex VAT), effective from 1 April 2023 to 31 March 2024. This is to further encourage investors sitting in cash to switch to a fund that is well placed to assist them in achieving more meaningful cash-plus returns over time.

Important information

All information provided is product related and is not intended to address the circumstances of any particular individual or entity. We are not acting and do not purport to act in any way as an advisor or in a fiduciary capacity. No one should act upon such information without appropriate professional advice after a thorough examination of a particular situation. This is not a recommendation to buy, sell or hold any particular security. Collective investment scheme funds are generally medium to long term investments and the manager, Ninety One Fund Managers SA (RF) (Pty) Ltd, gives no guarantee with respect to the capital or the return of the fund. Past performance is not necessarily a guide to future performance. The value of participatory interests (units) may go down as well as up. Funds are traded at ruling prices and can engage in borrowing and scrip lending. The fund may borrow up to 10% of its market value to bridge insufficient liquidity. A schedule of charges, fees and advisor fees is available on request from the manager which is registered under the Collective Investment Schemes Control Act. Additional advisor fees may be paid and if so, are subject to the relevant FAIS disclosure requirements. Performance shown is that of the fund and individual investor performance may differ as a result of initial fees, actual investment date, date of any subsequent reinvestment and any dividend withholding tax. There are different fee classes of units on the fund and the information presented is for the most expensive class. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Where the fund invests in the units of foreign collective investment schemes, these may levy additional charges which are included in the relevant Total Expense Ratio (TER). A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The ratio does not include transaction costs. The current TER cannot be regarded as an indication of the future TERs. Additional information on the funds may be obtained, free of charge, at www.ninetyone.com. The Manager, PO Box 1655, Cape Town, 8000, Tel: 0860 500 100. The scheme trustee is FirstRand Bank Limited, RMB, 3 Merchant Place, Ground Floor, Cnr. Fredman and Gwen Streets, Sandton, 2196, tel. (011) 301 6335. Ninety One SA (Pty) Ltd is an authorised financial services provider and a member of the Association for Savings and Investment SA (ASISA).

Contact information

Please visit our website at www.ninetyone.com for more information on our range of funds and portfolio products.

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