

Foreign funds crowd the top

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Page: 78

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NO SURPRISINGLY,

foreign income and bond unit trust funds still dominate the top of Morningstar's rankings for the year to end-February. It's largely a rand exchange rate story: any fund invested in a foreign currency looks good on South Africa's performance tables when converted back to rand.

The one-year returns are good, headed by the Absa US Dollar Income Fund at 32,4%. It's also a reflection of the strong performance of SA bonds over second half 2008 and the slide in equities that domestic

bond and income funds claim many of the places in the top 25 best performers for the year, headed in this category by the Investec Opportunity Income funds, with a return of 14,7%.

However, put in context that's not giving unit trust investors much of a real return (above inflation). But that's the state of investment markets and the best you'll currently get out of an SA fund over one year.

One-month performance figures mean little, except to give an indication of which funds are starting to come through and possible new trends in unit trust performance. And over one month all the foreign income and bond funds fall away. But SA's money market funds hog most of the top 25 places, giving investors returns ranging from 0,88% to 0,83% for the month of February.

But the one-month ranking is headed by a unit trust partly invested in equities, the domestic asset allocation Flagship Domestic Flexible Fund. It made 1,79% over the month, a much better return than cash. It's far too early to say, but this might just be a sign of equities starting to make a comeback, at least when skilfully

combined with other asset classes, as has been done in the Flagship fund.

Nervous investors are probably still parking in money market funds. It's the safe place to be for people avoiding risk and better than a cash deposit in a single bank (a slightly better return and, though highly unlikely, safer just in case one of our banks pulls a Northern Rock on us).

However, over any longer period, equities — historically at least — prove to be the best performing asset. That might be hard to believe when last year not one single general domestic equity fund could stump up a positive return. But that will pass, even though investing in equities might

prove to be a very different game in the future.

Looking at the one-year table, one fund that has equities in its portfolio comes in at ninth place — the Allan Gray Optimal fund, with a creditable 16% return. What's interesting about this Allan Gray fund is that it's as close to a unit trust hedge fund as you can get. It's being used by the Alternative Investment Managers' Association as an example of how SA's hedge funds could possibly fall under unit trust regulations.

And while no general equity unit trusts could provide a positive return for calendar 2008, the average return of hedge funds included in the Symmetry Multi-Manager hedge fund survey came in at 0,6%. That's an average: individual hedge fund returns for the year vary widely, from more than 30% to a negative 25%.

SA hedge funds are still too market directional, a symptom of most managers having a background in running long only funds. But they proved themselves in last year's difficult market and may well outperform equity only unit trust funds again this year.

