PERSONAL FINANCE

Source: Weekend Argus, July 22, 2006

King of investment managers

By Charlene Clayton

Oasis toppled Investec as the best investment scheme manager for the periods ended June 2006, the latest PlexCrown Ratings analysis shows. Oasis achieved an overall average PlexCrown rating of 4.416.

Coronation was placed second overall with 3.875 PlexCrowns, narrowly beating into third place Investec, which gained 3.7 PlexCrowns.

The PlexCrown Ratings award between one and five PlexCrowns to an investment company based on the performance of all its funds under management. The ratings provide an indication to investors of the quality of the investment team and the investment processes, strategies and risks assumed by an investment manager in managing its unit trust funds.

The ratings, which are published by Profile Media, are based on historical performances of the funds, and recognised quantitative measures are used to evaluate the performance of the funds. We report.

1 Oasis was appointed as an investment manager to its first portfolio in October 1997, and the assets under management have grown to R21 billion. Oasis launched its first fund in August 1998, thereafter establishing a collective investment scheme management company to facilitate the launch of further funds. The company has since launched 10 domestic collective investment schemes and three global collective investment schemes and is responsible for all aspects of the management and administration of these funds.

Oasis has established new global offices in Dublin, Ireland, after registering two open-ended investment companies with the Irish Financial Services Regulatory Authority. These companies administer the affairs of three global funds, which include a sharia-compliant global equity fund and a conventional global equity fund, both of which were launched in December 2000.

Nadeem Hoosen, a director of Oasis Crescent Management Company, says all the Oasis funds are driven by a low volatility investment philosophy which creates wealth for its clients on a consistent basis.

In a raging bull market, highly geared (significantly indebted), poor-quality companies tend to grow faster and outperform the market.

However, as soon as markets come under pressure, it is the better-quality companies, with competitive advantages and strong cash flows, that will outperform.

"Our focus on quality and value provides the necessary downside protection when markets are under pressure, which is a significant contributor to growing the wealth of our clients," Hoosen says.

Key drivers

Three of the Oasis funds were awarded the top PlexCrown rating of five crowns in the latest survey.

These funds are the Oasis Balanced fund (a domestic asset allocation prudential medium equity fund), the Oasis Property Equity fund (a domestic real estate general fund) and the Oasis Crescent Equity fund (a domestic equity general fund).

Hoosen says the key drivers of the consistent performance of these funds have been superior stock selection and sufficient diversification of assets.

The Oasis funds also have a very stable client base, which provides the manager with the necessary flexibility to commit to investments for the required time horizon, he says.

Global change

Up to now, strong global economic growth has been driven by cheap finance (that is, interest rates have been low) and the deflation due to global manufacturing capabilities shifting from high-cost producing countries to lower-cost producing countries, mainly China.

But the investment environment is changing because of tighter monetary policies worldwide (global trends suggest interest rates are on the rise) and the rapidly increasing oil price.

As cheap access to credit is removed from the system in South Africa (thus reducing liquidity), the country will experience slower economic growth and a tougher environment for markets.

Attractive valuation opportunities are starting to open up between asset classes, geographical areas and sectors, Hoosen says.

"This creates an opportunity to pick great companies with excellent fundamentals and cash flows and as active stockpickers we (Oasis) are entering a very exciting period," he says. Global assets remain the most attractive of the asset classes, he says.

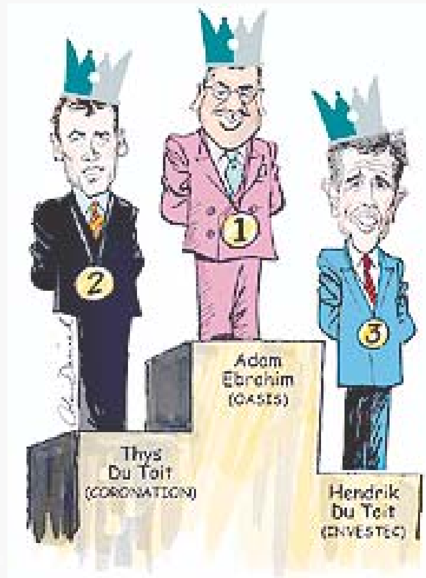
Conservative yet in tune with change

2 Coronation Fund Managers opened its doors in 1993 with not a single client to its name. Today it is one of the largest asset management companies in the country and manages assets worth about R90 billion .

Of the 19 different unit trust funds on offer from Coronation, 17 are domestic funds and two are offshore funds.

Coronation is a full-service fund manager, offering unit trusts in all major market segments (domestic equity, fixed interest, listed real estate and foreign investments), as well as a range of managed funds investing in combinations of these asset classes.

It was awarded the ACI/Personal Finance Raging Bull Award as the country's best unit trust company for 2002, 2004 and last year based on the consistency of investment performance of all the funds under its management.



The investment manage achieves returns for investors in its funds through active asset allocation and through its expertise in picking performing stocks.

Conservative stance

Pieter Koekemoer, the head of retail business at Coronation, says the company did well in the latest PlexCrown survey because most of its products in the various areas produced competitive results.

Coronation's fixed-income portfolios have performed exceptionally well over one, three and five years to the end of June 2006.

He attributes the performance to a combination of a fairly conservative overall stance, together with correctly anticipating price movements in the bond market.

The managed portfolios benefited from the fixed-income performance, together with good longer-term equity performance and the timely introduction of offshore exposure before the recent significant decline in the value of the rand, he says.

Achieving better risk management results than many of the investment company's competitors added further value over the longer term, Koekemoer says.

The biggest detractor from performance over one year was Coronation's equity performance.

Over the past year, Coronation did not invest significantly in diversified resource shares, which has been the best-performing sector of the local equity market over the past six months.

OASIS

PERSONAL FINANCE

Source: Weekend Argus, July 22, 2006

However, its equity performance remained very competitive over the three- and five-year periods.

In the latest PlexCrown survey, Coronation received five PlexCrowns for three of its funds: the Coronation Resources fund (a domestic equity fund), the Coronation Financial fund (a domestic equity fund) and the Coronation Bond fund.

Long bond exposure
Koekemoer says Coronation decided to increase its exposure to long bonds in October and November last year, when sentiment was supported by large foreign investment inflows into South-Africa.

Bond exposure was reduced during the first quarter of this year, resulting in conservatively positioned portfolios when bonds performed poorly during May and June after the 0.5 percentage-point interest rate hike announced by the Reserve Bank.

The duration (term to maturity) of individual bonds in the portfolio is actively managed by Coronation in an attempt to optimise the total return available from the bond market.

The Coronation Resources fund and Financial fund benefited from the investment company's valuation-driven approach to investing in equities, Koekemoer says.

"We do company research with the objective of defining which companies provide the most attractive investment opportunities in the market, rather than staying close to the overall composition of the relevant equity index," he says.

While this approach may lead to shorter-term deviations from market performance, it has produced good results in the longer term, resulting in these funds' five-crown status, Koekemoer says.

Future outlook
Charles de Kock, investment strategist at Coronation Fund Managers, says the current market correction is a case of perceived, rather than fundamental, change in the value of the equity assets.

Financial markets around the world have experienced increased volatility since May 11 and South Africa has not escaped the effects of this global correction.

The sell-off began when investors' views on global inflation changed. Investors generally believed that an environment of high growth and low inflation - which is very positive for risky assets such as equities - would change to one of higher-than-expected inflation, says De Kock.

Inflationary fears
The global markets began to fear that central bankers could respond to inflationary concerns by increasing interest rates to levels that would stifle economic growth.

Data releases showing higher inflation, and a number of speeches by the incoming United States Federal Reserve chairman, Ben Bernanke, and other central bankers provided the supporting evidence that instilled fear and uncertainty among investors and precipitated the sell-off.

The change in sentiment of many speculators and hedge funds, particularly in the emerging markets, has contributed to the huge increase in market volatility around the world and also here in South Africa.

Distinguishing between actual changes in outlook and perceived changes is part of the nature of investing, De Kock says.

Gauging the changes
The key is to determine whether the fundamentals for a specific asset class have actually changed, or whether the market's current perception of a change is correct.

"In our view, what we have witnessed since mid-May is more a case of perceived change rather than a fundamental change in the value of the equity assets in which we invest," De Kock says.

In some of the other asset classes like bonds, fundamentals have deteriorated but prices have already declined to reflect the worsening outlook.

"Our asset allocation continues to favour equities, and over the past weeks we have maximised the opportunities presented by the large relative price changes.

"On a one-year forward price-earnings ratio (p:e) many local equities are trading at attractive valuation levels, with many stocks offering dividend yields of above four percent.

"At these levels, we believe long-term investors will achieve returns significantly above expected inflation," he says.

A forward p:e is the price of a share divided by the anticipated profit of the company.

Domestic bonds
Coronation had deliberately opted for domestic bonds with a short duration (term to maturity) because longer-dated bonds offered little to no value.

Now that bond yields have kicked up by more than one percent, Coronation has started to add bonds with longer durations across its fixed-interest portfolios. It has picked up some longer-dated bonds at yields above eight percent. Longer-dated bonds are more sensitive to interest rate changes.

Staying steady in all market cycles

3 Investec Asset Management was the third-best management company in the latest PlexCrown survey.

Now in its 15th year of operation, Investec currently manages R350 billion worth of assets. It offers a suite of 46 funds, of which 23 are domestic funds and 23 are offshore funds.

John McNab, the chief investment officer at Investec Asset Management, says while the last three years were characterised by a strong local market and a stable currency, the situation has now reversed given, the rate hike and depreciation in the rand as well as significant financial market volatility.

In the latest PlexCrown survey, Investec achieved a five-crown rating for its Value fund and four crowns for the performance of many of its other funds, including: the Investec Managed fund, the Investec Opportunity fund, the Investec Equity fund, the Investec Commodity fund, the Investec Gilt fund and the Investec Worldwide Equity Feeder fund.

John Biccard, the portfolio manger of the Investec Value fund, says the good risk-adjusted performance of the Value fund is due to the ability to spot value and hold these positions throughout the market cycles. Not overpaying for assets has been another driver of performance, he adds.

Gail Daniel, the portfolio manager of the Investec Equity and Managed funds, switched between sectors timeously, and this led the funds to outperform in all market conditions.

South Africa's small economy does not function in isolation and is greatly influenced by the global economy. Therefore, she draws on good fundamental stock research but says her view of the economy also has to be right for the fund to perform.

The Equity fund is "style agnostic": it has neither a growth nor a value bias, but can combine the strengths of both growth and value styles while avoiding the risks of being tied to one or the other, she says.

Clyde Roussouw, the portfolio manager of the Investec Opportunity fund, says this fund has continued to find good investment opportunities with limited downside risk (risk of investment loss) within the equity market .

Malcolm Charles, the portfolio manager of the Investec Gilt fund, says the fund benefits from the support of a well-resourced team whose capabilities allow Investec to create additional opportunities beyond simple duration bets (choosing bonds based on their term to maturity).

Investec's global tie-up with its London-based fixed-income team also provides it with a global view on fixed-income securities.

James Hand, the co-ordinating portfolio manager of the Worldwide Equity Feeder fund, says the fund follows a pure bottom-up stock selection philosophy and a rigorous proprietary investment process which allows it to hold those stocks that demonstrate strong, improved and improving business returns and positive revisions to company profits.

McNab says significant further weakness in the domestic equity market over the medium term is unlikely. Rand weakness and firm oil and food prices are likely to push local inflation towards the upper end of the Reserve Bank's inflation target range of three to six percent.

But, given the generally constructive global growth backdrop, Investec does not believe the expected one to two percentage-point hike in interest rates will derail South Africa's positive domestic growth trajectory.

While local-oriented stocks have dropped substantially in value over the past two months, the market has overcompensated for somewhat more difficult macro economic conditions going forward, McNab says. Given current projections, the company still sees value in domestic equities.