Allan Gray Money Market Fund

ALLANGRAY

Fund manager:	Andrew Lapping
Inception date:	1 July 2001
Class:	A

Fund description

The Fund invests in South African money market instruments with a term shorter than one year. These instruments can be issued by government, parastatals, corporates and banks. The Fund is managed to comply with regulations governing retirement funds.

While capital losses are unlikely, they can occur if, for example, one of the issuers of an instrument in the Fund defaults. In this event losses will be borne by the Fund and its investors.

ASISA unit trust category: Domestic - Fixed Interest - Money Market

Fund objective and benchmark

The Fund aims to preserve capital, maintain liquidity and generate a sound level of income. The Fund's benchmark is the Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index.

How we aim to achieve the Fund's objective

The Fund invests in selected money market instruments providing an income yield and a high degree of capital stability. We formulate an interest rate outlook, which is influenced by our inflation outlook and expectations of the resulting Reserve Bank policy response. Based on this analysis, we select investments for the Fund. These assets are typically held to maturity. We take a conservative approach to credit risk.

Suitable for those investors who

- Require monthly income distributions
- Are highly risk-averse but seek returns higher than bank deposits
- Need a short-term investment account

Minimum investment amounts

Minimum lump sum per investor account:	R20 000
Additional lump sum:	R500
Minimum debit order*:	R500

*Only available to South African residents.

Annual management fee

Fixed fee of 0.25% (excl. VAT) per annum

Fund information on 29 February 2012

Fund size:	R8 279m
Fund price:	R1.00
Monthly yield at month end:	0.43%
Fund duration (days):	88[1]

Income distributions for the last 12 months

Actual payout (cents per unit), the Fund distributes monthly

Mar 2011	Apr 2011	May 2011	Jun 2011
0.49	0.46	0.47	0.45
Jul 2011	**Aug 2011**	**Sept 2011**	**Oct 2011**
0.46	0.46	0.45	0.46
Nov 2011	**Dec 2011**	**Jan 2012**	**Feb 2012**
0.44	0.46	0.46	0.43

Performance net of all fees and expenses

% Returns	Fund	Benchmark[2]	CPI inflation[3]
Unannualised:			
Since inception	147.3	146.0	80.8
Annualised:			
Since inception	8.9	8.8	5.8
Latest 10 years	8.8	8.7	5.8
Latest 5 years	8.6	8.4	6.8
Latest 3 years	7.0	6.8	5.4
Latest 2 years	6.2	6.1	5.0
Latest 1 year	5.6	5.5	6.2
Year-to-date (unannualised)	0.9	0.9	0.6

1. Effective 1 January 2012 we use the final maturity date to calculate the duration of the Money Market Fund, rather than the effective duration. This is to comply with revised regulations.
2. The current benchmark is the Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index. Since inception to 31 March 2003, the benchmark was the Alexander Forbes 3-Month Deposit Index. From 1 April 2003 to 31 October 2011 the benchmark was the Domestic Fixed Interest Money Market Collective Investment Scheme sector excluding the Allan Gray Money Market Fund.
3. This is based on the latest numbers published by I-Net Bridge as at 31 January 2012.

Total expense ratio (TER)

The TER for the year ending 31 December 2011 is 0.30% and included in this is a performance fee of 0% and trading costs of 0%. The annual management fee rate for the three months ending 29 February 2012 was 0.29% (annualised). These figures are inclusive of VAT, where applicable. Fund returns are quoted after deduction of costs incurred within the Fund so the TER should not be deducted from Fund returns (refer to page 2 for further information).

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Fund manager quarterly commentary as at 31 December 2011

Despite market expectations for interest rate stability, interest rates are usually stable for only short periods of time. 2011 was unusual in this regard, in that the repo rate was unchanged at 5.5% for the full year. Rates have been stable for similar periods only twice before over the past 11 years. However, term interest rates moved through the year as investor expectations changed, for example the 12-month NCD rate fell to 5.75% at one stage as investors discounted rate cuts because of the weak economy and stable rand. These cuts did not materialise as the rand weakened during the second half of the year, putting pressure on the inflation rate and offsetting the case for rate cuts, causing the 12-month rate to rise to the current 6.10%.

The market is discounting more of the same for rates in 2012, i.e. no changes. This is an unlikely outcome. The question is, in which direction will rates surprise the market and when? Regular readers of our factsheets will know we have concerns about the structure of the South African labour market and the rising administered prices. These factors put upward pressure on the inflation rate. Offsetting this are currently high commodity prices, which could fall, for example oil at US$110/barrel; the possibility of rand stability after the recent 20% decline against the dollar and the dire economic situation in Europe rubbing off on the Reserve Bank's Monetary Policy Committee. Consensus expectations are for the inflation rate to increase further in the short term before stabilising and falling back below 6% in the second half of the year.

We agree that inflation will continue to rise, but are sceptical about whether it will fall below 6% as soon as expected. This must be put in the context of a repo rate of 5.5%, below the latest inflation reading of 6.1%. With the repo rate already below the inflation rate, an unusual situation in an inflation targeting regime, we believe the interest rate surprise will more likely come in the form of a rate hike rather than a cut, and have positioned the Fund accordingly.

Exposure by issuer on 29 February 2012

RSA	27.3
Denel	3.8
Eskom	1.8
Trans Caledon Tunnel	1.2
Government and parastatals	**34.1**
Sanlam	3.4
Bidvest	2.3
Toyota	1.2
Vodacom	1.1
MTN	0.1
Corporates	**8.1**
ABSA	15.0
Standard Bank	13.9
Nedbank	12.5
FirstRand Bank	8.7
Investec	6.6
JP Morgan	0.9
Deutsche Bank	0.2
Banks[4]	**57.8**
Total	**100.0**

Note: There may be slight discrepancies in the totals due to rounding.

4. Banks include negotiable certificates of deposit (NCDs), fixed deposits and call deposits.

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Unit price

Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the portfolio including any income accruals and less any permissible deductions from the portfolio divided by the number of units in issue. Forward pricing is used and Fund valuations take place at approximately 16:00 each business day. Purchase and redemption requests must be received by the manager by 14:00 each business day to receive that day's price.

The Fund aims to maintain a constant price of 100 cents per unit. The total return to the investor is primarily made up of interest received but may also include any gain or loss made on any particular instrument held. In most cases this will have the effect of increasing or decreasing the daily yield, but in some cases, for example in the event of a default on the part of an issuer of any instrument held by the fund, it can have the effect of a capital loss. Such losses will be borne by the Fund and its investors and in order to maintain a constant price of 100 cents per unit, investors' unit holdings will be reduced to the extent of such losses.

Compliance with Regulation 28

The Fund is managed to comply with Regulation 28 of the Pension Funds Act. Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g market value fluctuations, in which case they will be corrected within a reasonable time period. Allan Gray Unit Trust Management (RF) Proprietary Limited does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28).

Fees

A schedule of fees, charges and maximum commissions is available on request from the manager. Commission and incentives may be paid and if so, would be included in the overall costs.

TER

*TERs are shown for class A units only

The Total Expense Ratio (TER) is the percentage of the fund's average assets under management that has been used to pay the fund's operating expenses over the past year. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged), trading costs (including brokerage, STT, STRATE and insider trading levy), VAT and other expenses. Since unit trust expenses vary, the current TER cannot be used as an indication of future TERs. All Allan Gray performance figures are quoted after the deduction of costs incurred within the Fund so the TER is not a new cost. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. Instead, when investing, the investment objective of the Fund should be aligned with the investor's objective and compared against the performance of the Fund. TERs should then be used to evaluate whether the Fund performance offers value for money.

Performance

Collective Investment Schemes in Securities (unit trusts) are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to the future. Performance figures are from Allan Gray Proprietary Limited and are for lump sum investments with income distributions reinvested.