Allan Gray Money Market Fund

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 31 May 2012

Fund size:	R8 183m
Fund price:	R1.00
Monthly yield at month end:	0.46%
Fund duration (days):	77[1]

Income distributions for the last 12 months

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

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

Performance net of all fees and expenses

% Returns	Fund	Benchmark[2]	CPI inflation[3]
Unannualised:			
Since inception	150.7	149.4	84.5
Annualised:			
Since inception	8.8	8.7	5.8
Latest 10 years	8.7	8.6	5.7
Latest 5 years	8.4	8.3	6.8
Latest 3 years	6.6	6.5	5.0
Latest 2 years	6.0	5.9	5.2
Latest 1 year	5.6	5.6	6.1
Year-to-date (unannualised)	2.3	2.3	2.7

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, performance as calculated by Allan Gray as at 31 May 2012.
3. This is based on the latest numbers published by I-Net Bridge as at 30 April 2012.

Total expense ratio (TER)

The TER for the year ending 31 March 2012 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 31 May 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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ALLAN GRAY

Fund manager quarterly commentary as at 31 March 2012

South African short-term interest rates have been stable since November 2010, a full 16 months and a new record. The reason for this stability is the relatively weak South African economy, lack of private sector credit growth and an inflation rate that has not strayed too far outside the Reserve Bank's target range.

The Monetary Policy Committee is unlikely to cut rates in response to the continued economic weakness, with inflation at 6.1%, above the 3-6% target. A further argument against a rate cut is that private sector credit extension has begun to pick up, rising 7% year on year after a period in 2011 when private credit was actually shrinking. Inflation will have to decline substantially from here to justify a cut considering the current negative real rates. We believe a sustained fall in the inflation rate is unlikely given the structural issues in the economy, including an inflexible labour market and above-inflation increases in administered prices.

A sharp decline in the oil price and international food prices could bring inflation down, but unfortunately this will very likely be accompanied by a weaker rand. The reason is that it is unlikely that only certain commodities will fall in price while others remain firm. As a commodity exporter South Africa will feel the downdraft of weaker commodity prices.

We have a cautious outlook on inflation but do not expect the Monetary Policy Committee to increase rates in the next few months. This leads us to favour the four to six-month area of the yield curve, where there is a small interest rate pick up for relatively little duration risk.

Exposure by issuer on 31 May 2012

RSA	22.8
Denel	3.9
Trans Caledon Tunnel	1.3
Eskom	0.9
Government and parastatals	**28.9**
Toyota	3.0
Sanlam	2.3
Bidvest	2.0
Vodacom	1.1
MTN	1.1
Corporates	**9.5**
Nedbank	17.7
ABSA	15.9
FirstRand Bank	14.4
Standard Bank	9.5
Investec	3.3
JP Morgan	0.9
Deutsche Bank	0.2
Banks[4]	**61.9**
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.