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: South African - Interest Bearing - 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 28 February 2013

Fund size:	R7 467m
Fund price:	R1.00
Monthly yield at month end:	0.38%
Fund duration (days):	49.1
Fund weighted average maturity (days):	119.6

Income distributions for the last 12 months

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

Mar 2012	Apr 2012	May 2012	Jun 2012
0.46	0.45	0.46	0.45
Jul 2012	Aug 2012	Sept 2012	Oct 2012
0.46	0.45	0.43	0.43
Nov 2012	Dec 2012	Jan 2013	Feb 2013
0.41	0.42	0.42	0.38

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Unannualised:			
Since inception	160.6	159.4	90.7
Annualised:			
Since inception	8.6	8.5	5.7
Latest 10 years	8.2	8.0	5.2
Latest 5 years	7.7	7.6	5.9
Latest 3 years	5.9	5.9	5.1
Latest 2 years	5.5	5.5	5.8
Latest 1 year	5.4	5.4	5.4
Year-to-date (unannualised)	0.8	0.8	0.3

1. 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 28 February 2013.
2. This is based on the latest numbers published by I-Net Bridge as at 31 January 2013.

Total expense ratio (TER)

The TER for the year ending 31 December 2012 is 0.30% and included in this is a performance fee of 0.0% and trading costs of 0.0%. The annual management fee rate for the three months ending 28 February 2013 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 2012

The period of remarkably stable interest rates continues. The only interest rate change of the past two years was the 50 basis point cut in July 2012. Our view is unchanged in that we think the medium-term risk to interest rates is to the upside. This does not rule out rate cuts in the near term.

In the short term a slowdown in domestic consumption could lead the Monetary Policy Committee (MPC) to cut rates. A domestic slowdown could be precipitated by a reduction in unsecured credit growth. The micro loan sector is not interest rate sensitive, but the volume of new advances looks to be getting out of hand, with unsecured advances growing R61 billion over the past year. Total household consumption expenditure was R1 743 billion in 2011, so the growth in unsecured lending is not immaterial in this context. A slowdown in consumption expenditure would reduce the current account deficit, the size of which poses a threat to the stability of the rand and inflation. In this situation the MPC could argue for rate cuts, however lower interest rates could undermine the rand, which is supported by investors who wish to benefit from relatively high South African interest rates.

Foreigners invested R86 billion in the South African bond market in 2012. This went some way to financing the current account deficit, which was R144bn for the first nine months of the year. Bonds have been a great asset class for investors; this historical performance has encouraged record flows into global bond funds and more specifically emerging market bonds with higher yields. These flows have helped stabilise the rand. Our concern is that if the bond flows slow down the rand may weaken leading to increased inflation and possibly higher interest rates.

The Fund is positioned to benefit from a flat or rising rate environment through its investment in floating rate notes.

Exposure by issuer on 28 February 2013

RSA	14.7
Denel	0.8
Government and parastatals	**15.5**
Sanlam	3.0
Mercedes	2.7
Bidvest	1.3
MTN	1.2
Scania Finance	1.0
Vodacom	0.9
Barlow World	0.8
Growthpoint	0.7
Netcare	0.7
Toyota	0.6
Corporates	**12.9**
Standard Bank	15.9
Nedbank	15.6
ABSA	14.3
FirstRand Bank	13.2
Investec	10.4
Standard Chartered	2.0
Deutsche Bank	0.3
Banks[3]	**71.7**
Total	**100.0**

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

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

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