Allan Gray Money Market Fund

ALLANGRAY

Fund managers: Andrew Lapping, Mark Dunley-Owen
Inception date: 1 July 2001
Class: A

Fund description

The Fund invests in South African money market instruments with a term shorter than 13 months. 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 held by 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 investors with a South African bank account.

Fund information on 31 March 2015

Fund size:	R8.7bn
Fund price:	R1.00
Monthly yield at month end:	0.54
Fund duration (days):	70.6
Fund weighted average maturity (days):	107.6

Income distributions for the last 12 months

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

Apr 2014	May 2014	Jun 2014	Jul 2014
0.47	0.50	0.49	0.51
Aug 2014	Sep 2014	Oct 2014	Nov 2014
0.52	0.51	0.53	0.52
Dec 2014	Jan 2015	Feb 2015	Mar 2015
0.53	0.54	0.49	0.54

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Unannualised: Since Inception	193.1	190.9	112.0
Annualised: Since Inception	8.1	8.1	5.7
Latest 10 Years	7.5	7.3	6.0
Latest 5 Years	5.9	5.7	5.1
Latest 3 Years	5.7	5.6	5.2
Latest 2 Years	5.8	5.7	4.9
Latest 1 Year	6.3	6.1	3.9
Year-to-date (unannualised)	1.6	1.5	0.5

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 31 March 2015.
2. This is based on the latest numbers published by INET BFA as at 28 February 2015.

Annual management fee and total expense ratio (TER)

A fixed fee of 0.25% p.a. excl. VAT

The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a 12 month period. Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 2 for further information).

TER breakdown for the year ending 31 March 2015	%
Annual management fee	0.25
Other costs including trading costs	0.01
VAT	0.04
Total expense ratio	**0.30**

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Fund manager quarterly commentary as at 31 March 2015

South Africa's underlying inflation rate, i.e. the structural cost increases that businesses and consumers experience, is about 6% p.a. This number is surprisingly stable compared to the swings of the headline Consumer Price Index (CPI) number, which includes volatile components like the fuel price. The underlying inflation rate can be seen in the services components of the CPI basket, which includes price items relating to hotels, education and medical care. It also reconciles with the Reserve Bank's estimates of wage increases of 7.7% p.a., offset to some extent by productivity gains, to give a unit labour cost increase of 6.2% p.a.

Reading the statement of the Monetary Policy Committee (MPC), it is clear that the Committee thinks the repo rate of 5.75% p.a. is too low. It would like to increase rates, but it is difficult in the face of our weak economy. The stubbornly high underlying inflation is not because of excess demand, but rather due to structural issues in the economy. Higher interest rates will not address these structural issues. The MPC will probably increase rates later this year as it moves towards 'normalisation'.

The money market yield curve is steep, with the six-month negotiable certificate of deposit (NCD) at 6.75% p.a. compared to cash at 5.5% p.a. We think the yield on the six-month NCD more than compensates investors for the potential interest rate increases over the period. For this reason, we are still buying six-month NCDs and 12-month floating rate notes. These assets, together with the cash holding, provide a good yield while keeping the Fund's interest rate risk low and liquidity high.

Commentary contributed by Andrew Lapping

Exposure by issuer on 31 March 2015

	% of portfolio
Government and parastatals	**1.0**
Republic of South Africa	1.0
Corporates	**7.7**
Sanlam	3.8
Aspen Pharmacare	2.8
Toyota Financial Services	1.1
Banks[3]	**91.5**
Nedbank	19.9
Barclays Africa	19.9
FirstRand Bank	19.9
Standard Bank	19.8
Investec Bank	10.0
Standard Chartered	1.0
Deutsche Bank	1.0
Total	**100.0**

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

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

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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
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.