

# ALLAN GRAY

## ALLAN GRAY MONEY MARKET FUND

**Fund managers:** Andrew Lapping, Mark Dunley-Owen. **Inception date:** 1 July 2001

### Fund description and summary of investment policy

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 October 2015

|                                       |                |
|---------------------------------------|----------------|
| Fund size                             | R12.1bn        |
| Number of units                       | 11 887 728 729 |
| Price (net asset value per unit)      | R1.00          |
| Monthly yield at month end            | 0.54           |
| Fund duration (days)                  | 56.24          |
| Fund weighted average maturity (days) | 106.78         |
| Class                                 | A              |

### Income distribution for the last 12 months

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

| Nov 2014 | Dec 2014 | Jan 2015 | Feb 2015 |
|----------|----------|----------|----------|
| 0.52     | 0.53     | 0.54     | 0.49     |
| Mar 2015 | Apr 2015 | May 2015 | Jun 2015 |
| 0.54     | 0.53     | 0.54     | 0.53     |
| Jul 2015 | Aug 2015 | Sep 2015 | Oct 2015 |
| 0.54     | 0.55     | 0.53     | 0.54     |

### Performance net of all fees and expenses

| % Returns                              | Fund  | Benchmark <sup>1</sup> | CPI inflation <sup>2</sup> |
|--|-------|------------------------|----------------------------|
| <b>Unannualised:</b>                   |       |                        |                            |
| Since inception                        | 204.3 | 201.8                  | 120.7                      |
| <b>Annualised:</b>                     |       |                        |                            |
| Since inception                        | 8.1   | 8.0                    | 5.7                        |
| Latest 10 years                        | 7.4   | 7.3                    | 6.1                        |
| Latest 5 years                         | 5.8   | 5.7                    | 5.5                        |
| Latest 3 years                         | 5.9   | 5.8                    | 5.5                        |
| Latest 2 years                         | 6.2   | 6.1                    | 5.3                        |
| Latest 1 year                          | 6.6   | 6.4                    | 4.6                        |
| Year-to-date (unannualised)            | 5.5   | 5.3                    | 4.6                        |
| <b>Risk measures (since inception)</b> |       |                        |                            |
| Highest annual return <sup>3</sup>     | 12.8  | 13.3                   | n/a                        |
| Lowest annual return <sup>3</sup>      | 5.2   | 5.2                    | n/a                        |

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 October 2015.

2. This is based on the latest numbers published by INET BFA as at 30 September 2015.

3. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 31 July 2003 and the benchmark's occurred during the 12 months ended 31 July 2003. The Fund's lowest annual return occurred during the 12 months ended 30 September 2013 and the benchmark's occurred during the 12 months ended 31 October 2013. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

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### Meeting the Fund objective

The Fund has preserved capital, maintained liquidity and generated a sound level of income.

### Annual management fee

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

### Total expense ratio (TER)

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 4 for further information).

| TER breakdown for the year ending 30 September 2015 | %           |
|---|-------------|
| Annual management fee                               | 0.25        |
| Other costs including trading costs                 | 0.00        |
| VAT   | 0.04        |
| <b>Total expense ratio</b>                          | <b>0.29</b> |

### Exposure by issuer on 31 October 2015

|                                   | % of portfolio |
|-----------------------------------|----------------|
| <b>Government and parastatals</b> | <b>17.4</b>    |
| Republic of South Africa          | 16.2           |
| Transnet                          | 1.2            |
| <b>Corporates</b>                 | <b>6.8</b>     |
| Sanlam                            | 2.2            |
| Mercedes-Benz S.A.                | 1.9            |
| Remgro                            | 1.3            |
| Aspen Pharmacare                  | 1.2            |
| Toyota Financial Services         | 0.2            |
| <b>Banks<sup>4</sup></b>          | <b>76.1</b>    |
| Nedbank                           | 22.9           |
| Barclays Africa                   | 18.2           |
| FirstRand                         | 17.0           |
| Standard Bank                     | 13.8           |
| Investec Bank                     | 4.2            |
| <b>Total (%)</b>                  | <b>100.0</b>   |

4. 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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### Fund manager quarterly commentary as at 30 September 2015

The Monetary Policy Committee (MPC) of the South African Reserve Bank decided to keep interest rates unchanged at the September 23 meeting. When commenting on the decision, the MPC noted that it is concerned about the upside risks to inflation from the weaker rand and that its forecasts anticipate the inflation rate being uncomfortably close to the upper bound of the target range for the next two years. In the face of these inflation risks, the reason for keeping rates on hold was clearly the state of the economy.

South Africa is quite unusual in the global context: price levels are falling in most places, but going up at home. The main reasons for rising prices in South Africa are wages rising steadily at about 7% per year, increasing utility prices and the weaker rand. Increasing interest rates may have a marginal effect on the rand but is unlikely to solve these problems. The underlying cause of the weak rand is the current account deficit. This deficit could be ascribed to excess demand, but consumer demand is already weak. The issue is a lack of domestic supply, weak commodity prices and lower mining production. The rand weakness over the past year seems to be encouraging import substitution to some extent, which will begin to solve the trade account problem. But these structural issues are unlikely to disappear in the near term, so the South African inflation rate is likely to be quite sticky at around 6% per year.

Persistently high inflation will probably lead the MPC to increase interest rates to a level where short rates at least match the inflation rate. But it will probably increase rates slowly so as not to cause a further deterioration in the economy.

We continue to take advantage of the steeply sloping yield curve by investing in six- and seven-month deposits, which yield 6.8% per year. Floating rate notes are also good value and have a similar yield to the six-month notes, but will benefit from any interest rate increases. We took advantage of a sell-off in Treasury bills to increase our South African government exposure to 15% of the Fund.

*Commentary contributed by Andrew Lapping*

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### Notes for consideration

#### Management Company

Allan Gray Unit Trust Management (RF) Proprietary Limited (the 'Management Company') is registered as a management company under the Collective Investment Schemes Control Act 45 of 2002, in terms of which it operates 10 unit trust portfolios under the Allan Gray Unit Trust Scheme, and is supervised by the Financial Services Board ('FSB'). The Management Company is incorporated under the laws of South Africa and has been approved by the regulatory authority of Botswana to market its unit trusts in Botswana, however it is not supervised or licensed in Botswana. Allan Gray Proprietary Limited (the 'Investment Manager'), an authorised financial services provider, is the appointed Investment Manager of the Management Company and is a member of the Association for Savings & Investment South Africa (ASISA). The trustee/custodian of the Allan Gray Unit Trust Scheme is Rand Merchant Bank, a division of FirstRand Bank Limited. The trustee/custodian can be contacted at RMB Custody and Trustee Services: Tel: +27 (0)87 736 1732 or [www.rmb.co.za](http://www.rmb.co.za)

#### Performance

Collective Investment Schemes in Securities (unit trusts or funds) 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 future performance. The Management Company does not provide any guarantee regarding the capital or the performance of the Fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Actual investor performance may differ as a result of the investment date, the date of reinvestment and applicable taxes.

#### The Allan Gray Money Market Fund is not a bank deposit account

The Fund aims to maintain a constant price of 100 cents per unit. The total return an investor receives is made up of interest received and any gain or loss made on instruments held by the Fund. While capital losses are unlikely, they can occur if, for example, one of the issuers of an instrument defaults. In this event investors may lose some of their capital. To maintain a constant price of 100 cents per unit, investors' unit holdings will be reduced to the extent of such losses. The yield is calculated according to ASISA standards. Excessive withdrawals from the Fund may place it under liquidity pressure; if this happens withdrawals may be ring-fenced and managed over a period of time. Purchase and redemption requests must be received by the Management Company by 14:00 each business day to receive that day's price. Unit trust prices are available daily on [www.allangray.co.za](http://www.allangray.co.za)

#### Fees

Permissible deductions may include management fees, brokerage, Securities Transfer Tax (STT), auditor's fees, bank charges and trustee fees. A schedule of fees, charges and maximum commissions is available on request from Allan Gray.

#### Total expense ratio (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 actual 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, Securities Transfer Tax [STT], STRATE and FSB Investor Protection Levy), VAT and other expenses. Since Fund returns are quoted after the deduction of these expenses, the TER should not be deducted from published returns. As unit trust expenses vary, the current TER cannot be used as an indication of future TERs. 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. The TER and other funds' TERs should then be used to evaluate whether the Fund performance offers value for money.

#### 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. The Management Company does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28).