ALLAN GRAY

ALLAN GRAY MONEY MARKET FUND

Fund managers: Andrew Lapping, Gary Elston. **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 January 2016

Fund size	**R12.6bn**
Number of units	**12 561 307 945**
Price (net asset value per unit)	**R1.00**
Monthly yield at month end	**0.57**
Fund duration (days)	**77.8**
Fund weighted average maturity (days)	**118.5**
Class	**A**

Income distribution for the last 12 months

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

Feb 2015	Mar 2015	Apr 2015	May 2015
0.49	0.54	0.53	0.54
Jun 2015	**Jul 2015**	**Aug 2015**	**Sep 2015**
0.53	0.54	0.55	0.53
Oct 2015	**Nov 2015**	**Dec 2015**	**Jan 2016**
0.54	0.53	0.56	0.57

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Unannualised:			
Since inception	209.3	206.7	122.1
Annualised:			
Since inception	8.1	8.0	5.7
Latest 10 years	7.4	7.3	6.2
Latest 5 years	5.8	5.7	5.5
Latest 3 years	6.0	5.9	5.3
Latest 2 years	6.4	6.2	5.3
Latest 1 year	6.6	6.5	5.2
Year-to-date (unannualised)	0.6	0.6	5.2
Risk measures (since inception)			
Highest annual return[3]	12.8	13.3	n/a
Lowest annual return[3]	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 January 2016.
2. This is based on the latest numbers published by INET BFA as at 31 December 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.

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) and Transaction costs

The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a 3-year period (annualised). 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). Transaction costs are disclosed separately.

TER and Transaction costs breakdown for the 3-year period ending 31 December 2015	%
Total expense ratio	**0.30**
Annual management fee	0.25
Other costs excluding transaction costs	0.01
VAT	0.04
Transaction costs (including VAT)	**0.00**
Total investment charge	**0.30**

Exposure by issuer on 31 January 2016

	% of portfolio
Government and parastatals	**18.3**
Republic of South Africa	18.3
Corporates	**4.8**
Sanlam	2.4
Mercedes-Benz S.A.	1.8
Aspen Pharmacare	0.4
Toyota Financial Services	0.2
Banks[4]	**77.0**
Barclays Africa	20.2
Nedbank	19.8
FirstRand	17.7
Standard Bank	13.6
Investec Bank	5.7
Total (%)	**100.0**

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.

ALLAN GRAY MONEY MARKET FUND

Fund manager quarterly commentary as at 31 December 2015

The past year has been quite eventful in the fixed income space, culminating in December when the interest rate markets were negatively impacted by a sovereign rating downgrade, the shock dismissal of the finance minister, and the US Federal Reserve raising interest rates for the first time since before the global financial crisis. This has increased volatility and added to uncertainty.

Overall sentiment towards emerging markets remains negative and South Africa is no exception. Foreigners have sold over R6bn of bonds in December alone, leaving the year-to-date net inflows as only slightly positive - while the rand is currently at its weakest levels ever against the US dollar. Over the past year, the benchmark R186 government bond sold off by over 180 basis points and the 12-month JIBAR rate increased by more than 100 basis points.

The latest Consumer Price Index (CPI) inflation rate came in at a manageable 4.8% year-on-year in November. However, there is concern that inflation will breach the upper-end of the inflation target band of 6% as early as Q1 2016, with the main drivers being drought, increasing electricity prices and the weak rand. The biggest mitigating factor to the current inflationary pressures is the low oil price, as South Africa is an importer of crude oil. This is evidenced by the CPI excluding-petrol number of 5.4% year-on-year.

The above factors have left the Monetary Policy Committee (MPC) of the Reserve Bank in a challenging position. The MPC's mandate is to stabilise inflation through monetary policy, however it is difficult to raise interest rates to combat inflation without hurting growth, and South Africa's growth forecasts are continuously being revised downwards. Inflationary pressures have forced the MPC to gradually raise rates by 25 basis points in both July and November. The MPC commentary indicates that it is still concerned about inflation risks caused by the weaker rand and that South Africa is still in an interest rate hiking cycle.

Interest rates are expected to rise over the next year and this is being aggressively priced into the current curve. In addition, South African banks continue to offer higher rates for longer dated assets in order to meet their Basel III regulatory requirements. Both of these factors have contributed to a very steep money market yield curve.

We feel that inflation and interest rate risk remains skewed to the upside and have continued with our strategy of taking advantage of the steepness of the curve, while also maintaining our floating rate exposure in order to benefit from the hiking cycle. Treasury Bills have also started to look attractive again after they sold off aggressively and we have increased our exposure to approximately 15% from not holding any in July. This strategy should ensure that the Fund maintains liquidity and offers an attractive yield while taking on limited duration risk.

Commentary contributed by Gary Elston

Tel 0860 000 654 or +27 (0)21 415 2301 | **Fax** 0860 000 655 or +27 (0)21 415 2492 | **info@allangray.co.za** | **www.allangray.co.za**

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

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

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) and Transaction costs

The total expense ratio (TER) is the annualised percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past three years. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged), VAT and other expenses like audit and trustee fees. Transaction costs (including brokerage, Securities Transfer Tax [STT], STRATE and FSB Investor Protection Levy and VAT thereon) are shown separately. Transaction costs are a necessary cost in administering the Fund and impact Fund returns. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. Since Fund returns are quoted after the deduction of these expenses, the TER and Transaction costs should not be deducted again 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. The sum of the TER and Transaction costs is shown as the Total investment charge.

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).