AllanGray

Fund manager: Mark Dunley-Owen. **Inception date:** 1 July 2001

Allan Gray Money Market Fund

30 November 2017

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 30 November 2017

Fund size	R14.9bn
Number of units	14 826 603 370
Price (net asset value per unit)	R1.00
Monthly yield at month end	0.62
Fund duration (days)	89.4
Fund weighted average maturity (days)	118.2
Class	A

Income distribution for the last 12 months

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

Dec 2016	Jan 2017	Feb 2017	Mar 2017
0.66	0.66	0.60	0.67
Apr 2017	**May 2017**	**Jun 2017**	**Jul 2017**
0.64	0.66	0.64	0.66
Aug 2017	**Sep 2017**	**Oct 2017**	**Nov 2017**
0.65	0.62	0.64	0.62

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (1 July 2001)	255.3	250.2	146.7
Annualised:			
Since inception (1 July 2001)	8.0	7.9	5.7
Latest 10 years	7.3	7.1	5.9
Latest 5 years	6.7	6.5	5.5
Latest 3 years	7.4	7.1	5.3
Latest 2 years	7.8	7.4	5.6
Latest 1 year	8.0	7.6	4.8
Year-to-date (not annualised)	7.3	6.9	4.5
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 30 November 2017.
2. This is based on the latest numbers published by IRESS as at 31 October 2017.
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.

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

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 one and three-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 1 and 3-year period ending 30 September 2017	1yr %	3yr %
Total expense ratio	**0.29**	**0.29**
Annual management fee	0.25	0.25
Other costs excluding transaction costs	0.00	0.00
VAT	0.04	0.04
Transaction costs (including VAT)	**0.00**	**0.00**
Total investment charge	**0.29**	**0.29**

Exposure by issuer on 30 November 2017

	% of portfolio
Government and parastatals	**8.6**
Republic of South Africa	8.0
Trans-Caledon Tunnel Authority	0.6
Corporates	**10.6**
Aspen	2.4
Sanlam	2.1
Clindeb (Netcare) Investments	2.0
Toyota Financial Services	1.7
AECI	1.3
Mercedes-Benz SA	1.1
Banks[4]	**80.9**
Nedbank	20.3
Absa Bank	18.5
FirstRand Bank	17.7
Standard Bank	13.1
Investec Bank	11.3
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.

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Fund manager quarterly commentary as at 30 September 2017

There were some encouraging signs for South African fixed income assets over the quarter. Consumer price inflation fell to below 5% per annum. Improving global growth supported emerging markets with R26.7bn of net foreign inflows into South African bonds over the quarter. The probability of political change increased, headlined by growing criticism of current ANC leadership and pressure on global firms such as KPMG and Bell Pottinger.

These improvements, while positive, do not materially improve South Africa's economic fundamentals. Thus we have not changed our fixed income investment view.

Low economic growth and poor tax collections suggest government revenue will fall short of expectations. Conversely, government expenditure is expected to grow in excess of inflation. The difference between the two, the fiscal deficit, is likely to be worse than forecast and add to already-high government debt.

Similarly, the financial position of state-owned enterprises (SOEs) continues to worsen. The recent South African Airways bailout caught the public's attention, but it is the much larger challenges at Eskom that should be monitored. Eskom's 2018/19 tariff application to the National Energy Regulator of South Africa (Nersa) referenced a Deloitte report, commissioned by them, which concluded that 19% per annum electricity tariff increases are required over the next five years for government debt to GDP to merely stabilise at current levels. We don't know how accurate Deloitte's findings are, but Eskom's financials support the conclusion that either the government must bail-in some of Eskom's debt, or South Africans must pay substantially more for electricity. These scenarios, and similar at other SOEs, are likely to be negative for fixed income investments.

We believe there are above-average risks of further sovereign ratings downgrades, a weaker currency and higher bond yields. The low risk nature of money market instruments makes them attractive in this context.

Fixed and floating rate money market instruments currently offer similar starting yields. Relative returns between the two thus depend on if, and when, the South African Reserve Bank (SARB) will cut interest rates again. Weak growth and low inflation argue for lower rates, but the risks outlined above argue for monetary discipline. Approximately half of the Fund is invested in floating rate notes. These should provide some protection against macroeconomic shocks, but also expose the Fund to lower returns should rates be cut. We believe this is an appropriate balance between limiting risk and delivering suitable returns within the Fund.

No new issuers were added to the Fund. Maturities were reinvested into longer duration money market instruments to take advantage of the upward sloping yield curve.

Commentary contributed by Mark Dunley-Owen

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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 11 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. Where annualised performance is mentioned, this refers to the average return per year over the period. 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 one and three-year periods. 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).

Important information for investors

Need more information?

You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website **www.allangray.co.za** or via our Client Service Centre on **0860 000 654**.