ALLANGRAY

Allan Gray Money Market Fund

31 December 2019

Fund manager: Mark Dunley-Owen, Thalia Petousis **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 December 2019

Fund size	R22.3bn
Number of units	22 113 643 112
Price (net asset value per unit)	R1.00
Monthly yield at month end	0.62
Fund duration (days)	84.16
Fund weighted average maturity (days)	112.71
Class	A

Income distribution for the last 12 months

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

Jan 2019	Feb 2019	Mar 2019	Apr 2019
0.65	0.59	0.65	0.63
May 2019	Jun 2019	Jul 2019	Aug 2019
0.65	0.63	0.64	0.64
Sep 2019	Oct 2019	Nov 2019	Dec 2019
0.60	0.62	0.60	0.62

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (1 July 2001)	315.3	305.4	169.0
Annualised:			
Since inception (1 July 2001)	8.0	7.9	5.5
Latest 10 years	6.7	6.5	5.1
Latest 5 years	7.6	7.2	4.9
Latest 3 years	7.8	7.4	4.5
Latest 2 years	7.8	7.3	4.4
Latest 1 year	7.8	7.3	3.6
Year-to-date (not annualised)	7.8	7.3	3.6
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 December 2019.
2. This is based on the latest numbers published by IRESS as at 30 November 2019.
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) 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 31 December 2019	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 31 December 2019

	% of portfolio
Government and parastatals	**18.5**
Republic of South Africa	18.5
Corporates	**10.9**
Shoprite	2.5
Sanlam	2.4
The Thekwini Warehousing Conduit	1.8
MTN	1.6
Toyota Financial Services	1.1
Mercedes-Benz	0.9
Life Healthcare Group	0.6
Banks[4]	**70.7**
Standard Bank	16.3
Absa Bank	15.9
Nedbank	14.9
Investec Bank	14.0
FirstRand Bank	9.6
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 31 December 2019

In the third quarter of 2019 we spoke about South Africa's elevated fiscal risks. Since then, Finance Minister Tito Mboweni delivered his Medium-Term Budget Policy Statement (MTBPS) on 30 October. His speech was certainly too honest for the market's liking, as he chose not to sugar-coat the stark reality that South Africa "stands at the end of winter and the food cupboards are almost bare". He emphasised that our national debt is increasing at an unsustainable pace, and that government spending should outstrip revenue by R306bn in the 2019/20 fiscal year.

The budget is being cannibalised by interest payments on debt, government wage increases, and bailouts for state-owned entities like Eskom and SAA. Previously promised government wage bill cuts and spending reductions did not bear fruit, with investors frustrated by the perceived lack of effort to rein in our spiralling debt metrics. In this regard, the average wage increase across government was 6.8% in 2018/19, or 2.2% above inflation over that period.

The South African Reserve Bank is in a challenging position when it comes to setting monetary policy. This was evident in its contentious fourth quarter Monetary Policy Committee vote, in which three members favoured rates being kept on hold against two voting for a rate cut. While SA's headline inflation printed at 3.6% year-on-year in November, its lowest rate since 2011, the committee is concerned about government's rising borrowing costs and the pass-through effect that this may have on the economy.

What does this mean for money market returns?

In the panicked aftermath of the MTBPS, opportunities presented themselves for us to reinvest cash into one-year bank paper at slightly elevated yields of 7.70% - 7.80%. Additionally, given expectations of increasing government debt issuance, treasury bill yields rose substantially towards the end of the year. This situation is surely being compounded by a national household savings rate of circa 0% – translating into a stagnant pool of investable assets (or limited "spare cash") with which to fund the current government revenue shortfall.

Given six-month government bill yields of 7.70% versus six-month bank yields of 7.25% (a 0.45% pick-up), the Fund strategically almost tripled its SA government exposure (from 6.6% of the Fund on 30 September, to 18.5% of the Fund by the end of 2019).

Commentary contributed by Thalia Petousis

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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 Sector Conduct Authority ('FSCA'). 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 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 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 ('TIC').

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**