ALLANGRAY

Fund manager: Thalia Petousis Inception date: 1 July 2001

Allan Gray Money Market Fund

31 October 2021

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*

Initial lump sum per investor account	R50 000
Additional lump sum	R1 000
Debit order**	R1 000

*Lower minimum investment amounts apply for investments in the name of an investor younger than 18. Please refer to our website for more information.

**Only available to investors with a South African bank account.

Fund information on 31 October 2021

Fund size	R23.8bn
Number of units	23 078 739 007
Price (net asset value per unit)	R1.00
Monthly yield at month end	0.36
Fund weighted average coupon (days)	89.32
Fund weighted average maturity (days)	114.59
Class	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 2021.
2. This is based on the latest available numbers published by IRESS as at 30 September 2021.
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 31 October 2021 and the benchmark's occurred during the 12 months ended 31 October 2021. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

Income distribution for the last 12 months

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

Nov 2020	Dec 2020	Jan 2021	Feb 2021
0.35	0.36	0.36	0.32
Mar 2021	Apr 2021	May 2021	June 2021
0.35	0.34	0.35	0.34
July 2021	Aug 2021	Sept 2021	Oct 2021
0.35	0.36	0.35	0.36

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (1 July 2001)	355.2	340.6	190.5
Annualised:			
Since inception (1 July 2001)	7.7	7.6	5.4
Latest 10 years	6.5	6.2	5.0
Latest 5 years	6.8	6.4	4.4
Latest 3 years	6.2	5.7	4.0
Latest 2 years	5.3	4.9	4.0
Latest 1 year	4.3	3.8	5.0
Year-to-date (not annualised)	3.5	3.1	4.7
Risk measures (since inception)			
Percentage positive months	100.0	100.0	n/a
Annualised monthly volatility	0.6	0.6	n/a
Highest annual return[3]	12.8	13.3	n/a
Lowest annual return[3]	4.3	3.8	n/a

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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 30 September 2021	1yr %	3yr %
Total expense ratio	**0.29**	**0.29**
Fee for benchmark performance	0.25	0.25
Performance fees	0.00	0.00
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 October 2021

	% of portfolio
Corporates	**12.0**
Pick 'n Pay	2.8
Shoprite	2.8
Sanlam	2.7
AVI	1.7
Toyota Financial Services	1.1
MTN	0.5
Mercedes-Benz	0.4
Banks[4]	**49.7**
Nedbank	15.5
Standard Bank	15.2
Absa Bank	11.9
Investec Bank	6.0
FirstRand Bank	1.2
Government	**38.3**
Republic of South Africa	38.3
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 2021

Interest rates in South Africa may be at a crossroads. While the Monetary Policy Committee (MPC) continue to express agreement via their unanimous vote count to keep rates on hold, they convey divergence in both their rhetoric and their forward guidance for rates.

The South African Reserve Bank (SARB) Governor, Lesetja Kganyago, has indicated his preference for targeting the lower end of the inflation band (i.e., 3% - 4.5%). He bemoans that "higher inflation begets higher interest rates", and vice versa. He would like to adopt structurally lower national interest rates going forward. If one targets an inflation level of 3% and sets interest rates accordingly, this filters into the real-world economy via various mechanisms. Rental agreement escalations will bake in the targeted inflation number. Employers will set their wage agreements to escalate at 3%, which will inform the additional spending of consumers each year. This will feed into demand, which in turn will influence prices. The mindset of the economy shifts to *expect* lower inflation and, as with many things in life, it is those expectations that can become self-fulfilling.

Other members of the MPC continue to anchor around higher guidance – asserting that inflation at 4.5% with a 2% real uplift (which is enjoyed by savers) implies interest rates at 6.5%. Perhaps they consider the many inflationary factors outside of the MPC's control, such as ambitious US spending packages, the rising cost of global labour, and a developed world transition to decarbonisation utilising more expensive green energy.

The MPC's quarterly projection model is programmed to align with such thinking. To arrive at South Africa's neutral level of interest rates, it suggests a rate hike in November 2021 and at each meeting in 2022 and 2023, lifting the repo rate to roughly 6.5%. What is telling is that the model is no longer charitably referred to by the Governor as a trusted additional member of the committee – he now maintains that he will not outsource the role of the SARB to a mere forecasting tool.

Ultimately, it is the minister of finance who sets the inflation target pending a macroeconomic review and advice from various parties at the SARB and National Treasury. Our insufficient national energy supply is perhaps too great a structural impediment to South Africa realising permanently lower inflation and rates. The future is uncertain, but rates will need to rise from current levels soon. In terms of how high, we shall have to wait and see.

In the last quarter, the Fund reinvested maturities at higher yields up the Government Treasury Bill curve, lifting the weighted average yield of the Fund to 4.5% at end-September.

Commentary contributed by Thalia Petousis

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Allan Gray is an authorised financial services provider.

Management Company

Allan Gray Unit Trust Management (RF) (Pty) Ltd (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 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 (Pty) Ltd (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.

Fund mandate

Funds may be closed to new investments at any time in order to be managed according to their mandates. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The funds may borrow up to 10% of their market value to bridge insufficient liquidity.

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 applicable 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 11:00 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, 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, Share Transactions Totally Electronic (STRATE) and FSCA Investor Protection Levy and VAT thereon) are shown separately. Transaction costs are necessary costs 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 24 of 1956. 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**

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