

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 March 2022

| | |
|---------------------------------------|----------------|
| Fund size | R23.5bn |
| Number of units | 22 197 562 552 |
| Price (net asset value per unit) | R1.00 |
| Monthly yield at month end | 0.40 |
| Fund weighted average coupon (days) | 87.37 |
| Fund weighted average maturity (days) | 118.17 |
| Class | A |

- 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 March 2022.
- This is based on the latest available numbers published by IRESS as at 28 February 2022.
- 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

| Apr 2021 | May 2021 | June 2021 | July 2021 |
|----------|-----------|-----------|-----------|
| 0.34 | 0.35 | 0.34 | 0.35 |
| Aug 2021 | Sept 2021 | Oct 2021 | Nov 2021 |
| 0.36 | 0.35 | 0.36 | 0.36 |
| Dec 2021 | Jan 2022 | Feb 2022 | Mar 2022 |
| 0.38 | 0.38 | 0.36 | 0.40 |

Performance net of all fees and expenses

| % Returns | Fund | Benchmark ¹ | CPI inflation ² |
|--|-------|------------------------|----------------------------|
| Cumulative: | | | |
| Since inception (1 July 2001) | 363.9 | 348.1 | 196.5 |
| Annualised: | | | |
| Since inception (1 July 2001) | 7.7 | 7.5 | 5.4 |
| Latest 10 years | 6.4 | 6.1 | 5.0 |
| Latest 5 years | 6.6 | 6.1 | 4.2 |
| Latest 3 years | 5.7 | 5.2 | 4.4 |
| Latest 2 years | 4.8 | 4.3 | 4.2 |
| Latest 1 year | 4.4 | 3.9 | 5.7 |
| Year-to-date (not annualised) | 1.2 | 1.0 | 1.4 |
| 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 |

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 March 2022 | 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 March 2022

| | % of portfolio |
|--------------------------|----------------|
| Corporates | 10.8 |
| Pick 'n Pay | 2.9 |
| Shoprite | 2.8 |
| Sanlam | 2.5 |
| AVI | 1.7 |
| MTN | 0.5 |
| Mercedes-Benz | 0.4 |
| Banks⁴ | 62.4 |
| Standard Bank | 19.9 |
| Nedbank | 16.0 |
| Absa Bank | 12.0 |
| Investec Bank | 11.4 |
| FirstRand Bank | 3.1 |
| Government | 26.8 |
| Republic of South Africa | 26.8 |
| 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.

In my December 2021 Money Market Fund commentary, I wrote that global inflation was *on fire*. Given the tremendous moves that we have witnessed in international commodity and energy markets subsequently, I must concede that either this phrase was regrettably hyperbolic, or I must refer to current global inflation as having ventured into an inferno. In the first quarter of this year, the prices of oil, gas and wheat had each risen at their respective peaks by close to 70%. The Russia-Ukraine war not only took a giant of the exporting industry out of the market but also further disrupted global supply chains in a range of commodities like fertiliser, maize, grains, palm oil, palladium, oil and gas. Uncertainty about the duration and severity of the war has sparked debates around food security, famine and rioting, particularly in vulnerable economies. In many markets, the cost of a tank of fuel is rising many multiples faster than the pace of wages.

During prior periods of high inflation, money market investments have only offered good value if central banks have raised rates by the necessary quantum to offer real, positive, inflation-adjusted returns. During the 1980s, when the chairman of the US Federal Reserve (the Fed) at the time, Paul Volcker, raised US interest rates to a peak of 20% to combat inflation of 14.8%, one could say that money market investments offered real returns. Volcker stamped out inflation and defended the dollar by taking the US economy into severe austerity. This was not simply boldness on Volcker's part but also the fact that US debt to GDP sat at around 40% – rates could be raised without bankrupting the system.

Where does the world find itself now? US interest rates are projected to rise to circa 2.3% by the end of the year. If one contrasts this against current US consumer inflation of 7.9%, the real inflation-adjusted return is negative 5.6%.

The Fed and various developed market central banks have fallen so far behind the inflationary curve that whether they move by 25 or 50 basis points at each of the next few meetings may be of little consequence if the terminal interest rates they arrive at are too low. Despite Fed chairman Jerome Powell attesting to the fact that he will do *whatever it takes* to contain inflation, we must face the uncomfortable truth that with US debt to GDP sitting north of 130%, to pull a "Volcker" might mean bankrupting the system, making it far less likely that such boldness is favoured.

While locally the SA repo rate has risen to 4.25%, the Fund's weighted-average yield is north of 5%. This is not a terrible proposition for savers with a low risk tolerance when contrasted against South Africa's February inflation of 5.7% year-on-year – especially if one considers the deeply negative real interest rates on offer offshore. That said, investors with a higher risk appetite should consider a diversified multi-asset fund investment with at least some equity exposure and inflation protection.

This quarter, the Fund raised its weighted-average yield to above 5%. The SA money market curve, as measured by the difference between the overnight repo rate and one-year deposits, is the steepest on record since 1998. The market has priced in a very quick and aggressive rate hiking cycle. As such, current one-year bank deposit rates at 6.35% are close to the terminal repo rate the South African Reserve Bank's quarterly projection model aims to arrive at in 2024. Given these dynamics, the Fund has begun to reinvest maturing deposits and treasury bills into one-year bank paper above 6.30%.

Commentary contributed by Thalia Petousis

**Fund manager quarterly
commentary as at
31 March 2022**

© 2022 Allan Gray Proprietary Limited

All rights reserved. The content and information may not be reproduced or distributed without the prior written consent of Allan Gray Proprietary Limited ("Allan Gray").

Information and content

The information in and content of this publication are provided by Allan Gray as general information about the company and its products and services. Allan Gray does not guarantee the suitability or potential value of any information or particular investment source. The information provided is not intended to, nor does it constitute financial, tax, legal, investment or other advice. Before making any decision or taking any action regarding your finances, you should consult a qualified financial adviser. Nothing contained in this publication constitutes a solicitation, recommendation, endorsement or offer by Allan Gray; it is merely an invitation to do business.

Allan Gray has taken and will continue to take care that all information provided, in so far as this is under its control, is true and correct. However, Allan Gray shall not be responsible for and therefore disclaims any liability for any loss, liability, damage (whether direct or consequential) or expense of any nature whatsoever which may be suffered as a result of or which may be attributable, directly or indirectly, to the use of or reliance on any information provided.

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)11 301 6335 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**