ALLANGRAY

Fund manager: Thalia Petousis **Inception date:** 1 July 2001

Allan Gray Money Market Fund

31 May 2023

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 May 2023

Fund size	R26.6bn
Number of units	24 488 223 444
Price (net asset value per unit)	R1.00
Monthly yield at month end	0.68
Fund weighted average coupon (days)	88.46
Fund weighted average maturity (days)	109.06
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 May 2023.
2. This is based on the latest available numbers published by IRESS as at 30 April 2023.
3. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
4. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
5. 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

Jun 2022	July 2022	Aug 2022	Sep 2022
0.43	0.46	0.49	0.49
Oct 2022	**Nov 2022**	**Dec 2022**	**Jan 2023**
0.53	0.53	0.58	0.60
Feb 2023	**Mar 2023**	**Apr 2023**	**May 2023**
0.56	0.64	0.64	0.68

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (1 July 2001)	399.7	380.7	221.8
Annualised:			
Since inception (1 July 2001)	7.6	7.4	5.5
Latest 10 years	6.6	6.2	5.1
Latest 5 years	6.3	5.8	4.9
Latest 3 years	5.3	4.9	5.7
Latest 2 years	5.7	5.3	6.4
Latest 1 year	6.8	6.5	6.8
Year-to-date (not annualised)	3.1	3.0	2.4
Risk measures (since inception)			
Percentage positive months[3]	100.0	100.0	n/a
Annualised monthly volatility[4]	0.6	0.6	n/a
Highest annual return[5]	12.8	13.3	n/a
Lowest annual return[5]	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 (updated quarterly)

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 2023	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 May 2023

	% of portfolio
Corporates	**8.7**
Shoprite	2.5
Pick 'n Pay	2.1
Sanlam	2.1
AVI	1.5
Mercedes-Benz Group AG	0.6
Banks[6]	**90.6**
Investec Bank	21.5
Standard Bank	21.3
Nedbank	19.6
Absa Bank	14.4
FirstRand Bank	13.9
Governments	**0.7**
Republic of South Africa	0.7
Total (%)	**100.0**

6. Banks include negotiable certificates of deposit (NCDs), floating rate notes, 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 March 2023

The South African money market is fast becoming a saver's haven. The overnight repo rate of 7.75% as at end-March is in fact its highest level in almost 14 years. Per the South African Reserve Bank (SARB), the extent to which it will keep adjusting the repo rate higher will depend on how confident it is that SA inflation is getting closer to its target of 4.5% year-on-year, with the latest inflation data print for February at a still-elevated level of 7.0%. As the impact of loadshedding bleeds into an elevated cost of production and wreaks havoc on food retailers' business operations, food inflation is also garnering more attention. The SARB has remarked on several occasions that SA food price inflation is rising at a much faster pace than its models suggested, most recently at 14.0% year-on-year in February.

Key in the SARB's decision to keep raising rates has been the dismal state of our trade balance, which measures the value of our exports less our imports. This has swung sharply into deficit as platinum group metal prices suffer and export production volumes are hampered by electricity and rail failures. A trade deficit or current account deficit implies that more currency is being spent via imports than those that are being brought into the country via exports, and it requires foreign financing to plug the gap. This, in turn, requires the SARB to be sensitised to the factors that drive foreign capital flows into the country – perhaps the most important of which is the attractiveness of SA interest rates as an investment destination. Against the interest rates of Mexico and Brazil at 11.25% and 13.75%, respectively, it implies that the SARB has had some wood to chop to get SA in the running. On a real (inflation-adjusted) basis, SA's overnight rate of 0.75% is also meek versus those of Mexico (4.40%) and Brazil (8.15%).

The SARB is quick to acknowledge that SA is experiencing the lowest growth period in our modern history, marked most recently by the widespread failure of basic infrastructure such as electricity, roads, rail and water. That being said, even if the SARB did have a "growth mandate", SA's problems arise from structural constraints to growth and are not issues that the blunt instrument of monetary policy can address. The SARB has an inflation-targeting mandate and must act to protect the rand and inflation so that the incomes of our neediest are not eroded.

By contrast, the US Federal Reserve (the Fed) is playing with a very different set of variables. A popular market mantra over the last year has been, "The Fed will keep hiking interest rates until something breaks." In the last quarter, something did indeed break, and that something was several US banks.

Even though idiosyncratic factors, like these banks' poor risk management frameworks, are partly to blame, the market concluded that the impact of rising interest rates on these banks' Treasury holdings was simply too much to bear. Interest rate markets repriced to reflect the belief that not only is the US rate hiking cycle finished, but that interest rate cuts are imminent. As a result, the yield on US two-year government bonds fell from a peak of 5.07% to as low as 3.76% this quarter. Offshore markets were pricing for the risk that US regional banks may tighten their consumer lending appetite to such a significant degree that it causes an economic slowdown and assists in reining in inflation.

Is this plausible and is the US consumer in a precarious enough position for a deep recession to occur? On this point, the data leads us in different directions. The US consumer is not particularly indebted versus history – in fact, US household debt to GDP is roughly 30% lower than it was in 2008. On the other hand, US personal savings as a percentage of disposable income has fallen to 4.6%, implying that Americans are saving less than 5% of their monthly salary, below the 20-year average. It is likely that elevated food and fuel prices are eating more so into their income than in the past, although there is also data to suggest that consumers are spending record amounts on travel and leisure in a post-pandemic world and *choosing* to save less. Regardless, a contraction in their spending would slow economic activity, but perhaps not to the degree that it stimulates a full-blown recession. The Fed is in a challenging position given that it had previously stated that it will finish hiking interest rates when US inflation is in reach of their target of 2.0%, whereas in February it was still stubbornly high at 6.0% year-on-year. The Fed has also stated its intention to reduce the size of its bloated balance sheet that stimulated financial markets and stoked inflation for so long, and yet they in fact expanded it by roughly US$400bn in March to support weak banks – undoing the prior six months of balance sheet tightening.

As a result of the SARB's interest rate hikes, the Fund's yield is already higher than its pre-pandemic rate of interest. During the quarter, the Fund found opportunities to invest in one-year deposits at 9.1%. As such, the weighted average effective yield of the Fund (gross of fees) reached 8.1% at the end of the quarter, surpassing the level of current SA inflation.

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)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 (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 the prescribed regulatory 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**