Allan Gray Money Market Fund

30 September 2020

ALLANGRAY

Fund manager: 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 30 September 2020

Fund size	R26.8bn
Number of units	26 592 981 342
Price (net asset value per unit)	R1.00
Monthly yield at month end	0.39
Fund weighted average coupon (days)	73.50
Fund weighted average maturity (days)	107.46
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 30 September 2020.
2. This is based on the latest available numbers published by IRESS as at 31 August 2020.
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.

Income distribution for the last 12 months

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

Oct 2019	Nov 2019	Dec 2019	Jan 2020
0.62	0.60	0.62	0.62
Feb 2020	Mar 2020	Apr 2020	May 2020
0.57	0.60	0.56	0.54
Jun 2020	Jul 2020	Aug 2020	Sep 2020
0.47	0.45	0.42	0.39

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (1 July 2001)	334.9	323.1	176.3
Annualised:			
Since inception (1 July 2001)	7.9	7.8	5.4
Latest 10 years	6.7	6.4	5.1
Latest 5 years	7.5	7.1	4.6
Latest 3 years	7.4	6.9	4.1
Latest 2 years	7.2	6.8	3.7
Latest 1 year	6.7	6.2	3.1
Year-to-date (not annualised)	4.7	4.4	2.7
Risk measures (since inception)			
Highest annual return[3]	12.8	13.3	n/a
Lowest annual return[3]	5.2	5.2	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 2020	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 September 2020

	% of portfolio
Corporates	**12.1**
Sanlam	2.5
Shoprite	2.5
MTN	2.4
Pick 'n Pay Stores	2.4
Life Healthcare	1.0
Toyota Financial Services	0.8
Mercedes-Benz	0.5
Banks[4]	**68.3**
Nedbank	16.3
Standard Bank	15.1
Absa Bank	13.6
Investec Bank	12.0
FirstRand Bank	10.7
Capitec Bank	0.6
Government and parastatals	**19.5**
Republic of South Africa	19.5
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 2020

We have undoubtedly entered a difficult period for money market funds. The overnight repo rate of 3.5% is the lowest in South Africa's history, and offers only a marginal uplift relative to inflation of 3.1% year on year for August 2020. In fact, the South African Reserve Bank (SARB) Governor Lesetja Kganyago has been quoted as saying that the "real repo rate" (adjusted for inflation) is already negative, given that the bank utilises a forward-looking view when determining their inflation target.

Other market forces are also at work in keeping money market returns low. Our "Big 5" South African banks have historically offered an attractive rate for 12-month fixed deposits. On average over the last decade, this rate has been 1% higher than the overnight repo rate. That said, during certain periods of market stress when local banks have sought to attract additional funding, this gap has risen to as high as 2%. In 2015, after the infamous "Nenegate" incident of the Zuma administration, our local banks offered a rate of 8.35% for a 12-month deposit versus an overnight repo rate of 6.25%. The current gap is at a historical low – a feeble 0.05% yield pick-up – with banks now offering a 12-month rate of 3.55%.

The reason for this dynamic is multifold. Local banks have benefited from cash injections during the COVID-19 pandemic as the SARB sought to assist a market crippled by illiquidity and panic. Additionally, banks have reportedly tightened their lending criteria as they forecast the heightened probability of local business failures in the near term. Local businesses are reticent to invest in new ventures given a bleak growth outlook. Banks must lend in order for them to require deposit funding, and this lack of lending has given rise to pools of excess cash which has limited their appetite to take on further deposits.

Where to from here, and will these anemic rates persist? At their September Monetary Policy Committee meeting, a divided SARB narrowly voted to keep the repo rate unchanged. Their quarterly projection model was also used to illustrate that at least two rate hikes could be anticipated before the end of 2021. While the exact timing, quantum and path of rate hikes is uncertain, the tides will eventually turn as the economy slowly normalises.

During the quarter, the Fund increased exposure to RSA Government Treasury Bills and select highly rated corporates at attractive yields relative to bank deposit rates.

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**