

**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.

This class of the Fund is only available in the Allan Gray Umbrella Retirement Fund.

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**

- Are highly risk-averse but seek returns higher than bank deposits
- Need a short-term investment account

**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 0.20% p.a. excl. VAT

**Total expense ratio (TER) and Transaction costs**

This class of the Fund has been in existence for less than one year. Therefore, the TER and Transaction costs cannot be calculated accurately.

**Fund information on 31 December 2020**

Fund size	R26.3bn
Number of units	139 622 936
Price (net asset value per unit)	R1.00
Monthly yield at month end	0.36
Fund weighted average coupon (days)	77.53
Fund weighted average maturity (days)	92.50
Class	U

1. Prior to the inception of this class of the Fund (2 July 2020) the performance and risk measures are calculated using the A class performance of the Fund.
2. 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 2020.
3. This is based on the latest numbers published by IRESS as at 30 November 2020.
4. 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

Jan 2020	Feb 2020	Mar 2020	Apr 2020
<b>0.62</b>	<b>0.57</b>	<b>0.60</b>	<b>0.56</b>
May 2020	Jun 2020	Jul 2020	Aug 2020
<b>0.54</b>	<b>0.47</b>	<b>0.45</b>	<b>0.42</b>
Sep 2020	Oct 2020	Nov 2020	Dec 2020
<b>0.39</b>	<b>0.38</b>	<b>0.35</b>	<b>0.36</b>

**Performance net of all fees and expenses**

% Returns	Fund	Benchmark <sup>2</sup>	CPI inflation <sup>3</sup>
<b>Cumulative:</b>			
Since inception (1 July 2001)	339.8	327.2	177.5
<b>Annualised:</b>			
Since inception (1 July 2001)	7.9	7.7	5.4
Latest 10 years	6.6	6.3	5.1
Latest 5 years	7.4	7.0	4.6
Latest 3 years	7.1	6.6	4.0
Latest 2 years	6.8	6.3	3.4
Latest 1 year	5.9	5.4	3.2
Year-to-date (not annualised)	5.9	5.4	3.2
<b>Risk measures (since inception)</b>			
Highest annual return <sup>4</sup>	12.8	13.3	n/a
Lowest annual return <sup>4</sup>	5.2	5.2	n/a

## Fund manager quarterly commentary as at 31 December 2020

A phenomenon that continues to play out in the South African debt markets can be described as “a tale of two borrowings”. On the one side of the coin, the annual growth in corporate and household debt has deteriorated to just 3% – the lowest level in the last decade. With bleak post-COVID-19 business prospects, the private sector is reticent to borrow. On the flip side of the “borrowings coin”, South Africa’s public sector debt, or government stockpile, has been increasing at an alarming annual rate of 20%.

All debt is not a sin. Our faster-growing emerging market peer countries, for example, continue to enjoy double-digit increases in lending to the private sector. Ideally, where such funding goes towards business innovation, an economy can flourish. Through 2020, central banks and state stimulus packages played a dominant role in remedying COVID-19 economic devastation. In South Africa, when public funding is put to work on bailouts for insolvent state-owned entities like South African Airways, critics will say that the allocation of capital is wasteful. In the United States, the Federal Reserve is similarly criticised for borrowing beyond its means and inefficiently allocating capital to so-called “zombie businesses”. Bond-buying programmes are blamed for partly directing cash to companies whose scant earnings do not even cover their own interest payments on debt.

2020 saw the South African government devour the borrowing opportunities in the primary market debt arena. Short-term government treasury bill rates have subsequently risen above those of traditional bank deposits due to oversupply. At a 4.6% interest rate, a 9-month South African Government Treasury bill now yields +0.7% higher than the equivalent-maturity local bank deposit. This presents an opportunity for money market funds to earn a modest pick-up in yield, but absolute and inflation-adjusted returns remain meagre versus history. Importantly, the repo rate has been slashed from 6.5% to 3.5% over the course of the year.

Annual money market benchmark returns fell from 7% in 2019 to 5% in 2020 – underperforming the South African equity and bond market by 2% to 4%. We continue to echo the epithet that higher risk usually translates into higher returns. Investors in the Fund must continually re-evaluate their asset allocation decisions and ability to take on more risk if it is appropriate to their situation. This is most pertinent now when rates are at historical lows. The South African Reserve Bank’s Quarterly Projection model pencils in a potential move in the repo rate from the current 3.5% to only 4.9% by the end of 2022.

In the last quarter, we increased the weight of RSA Government Treasury bills to 25% of the Fund. These bills offered elevated yields relative to bank paper, despite representing the highest creditworthiness of any borrower on a national scale.

Commentary contributed by Thalia Petousis

## Exposure by issuer on 31 December 2020

	% of portfolio
<b>Corporates</b>	<b>14.3</b>
Pick 'n Pay	2.6
Sanlam	2.5
Shoprite	2.5
MTN	2.5
Mercedes-Benz	2.1
Life Healthcare	1.0
Toyota Financial Services	1.0
<b>Banks<sup>4</sup></b>	<b>61.0</b>
Nedbank	14.6
Investec Bank	12.2
Standard Bank	12.0
Absa Bank	12.0
FirstRand Bank	9.5
Capitec Bank	0.6
<b>Government and parastatals</b>	<b>24.7</b>
Republic of South Africa	24.7
<b>Total (%)</b>	<b>100.0</b>

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.

## 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](http://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](http://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](http://www.allangray.co.za) or via our Client Service Centre on **0860 000 654**