Allan Gray Money Market Fund

28 February 2025

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 – SA 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) 3-month 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

Fund information on 28 February 2025

Fund size	R28.5bn
Number of units	25 463 277 496
Price (net asset value per unit)	R1.00
Monthly yield at month end	0.61
Fund weighted average coupon (days)	88.28
Fund weighted average maturity (days)	117.94
Class	A

1. The current benchmark is the Alexander Forbes Short Term Fixed Interest (STeFI) 3-month Index. From 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. From 1 November 2011 to 19 August 2024, the benchmark was the Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index. Performance as calculated by Allan Gray as at 28 February 2025. Source: Bloomberg.
2. CPI inflation has been calculated based on the most recent rebased values from Stats SA, reflecting the data as at 31 January 2025 (source: IRESS).
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

Mar 2024	Apr 2024	May 2024	Jun 2024
0.74	0.72	0.74	0.72
Jul 2024	Aug 2024	Sep 2024	Oct 2024
0.74	0.73	0.71	0.72
Nov 2024	Dec 2024	Jan 2025	Feb 2025
0.68	0.68	0.68	0.61

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (1 July 2001)	479.9	453.0	242.3
Annualised:			
Since inception (1 July 2001)	7.7	7.5	5.4
Latest 10 years	7.1	6.7	5.0
Latest 5 years	6.7	6.2	4.8
Latest 3 years	7.9	7.4	5.1
Latest 2 years	8.8	8.3	4.3
Latest 1 year	8.8	8.2	3.2
Year-to-date (not annualised)	1.3	1.2	0.4
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 December 2024	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 28 February 2025

	% of portfolio
Governments	**35.0**
Republic of South Africa	35.0
Banks[6]	**58.8**
Nedbank	18.3
Investec	15.0
Standard Bank	14.0
FirstRand Bank	10.4
Absa	1.1
Corporates	**6.2**
Sanlam	2.7
Shoprite	2.6
Daimler Truck	0.9
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.

Fund manager quarterly commentary as at 31 December 2024

While 2024 began with US markets forecasting 1.75% of rate cuts for the year, in reality only 1.00% worth of rate cuts materialised – taking the US federal funds rate from an upper bound of 5.5% to 4.5% by year end. While this in itself reflects a missed prediction for 2024, what has rattled markets even more are the comments made by US Federal Reserve (Fed) Chair Jerome Powell at the final Fed meeting of 2024, where he stated that their year-end inflation projection has "kind of fallen apart". At the December meeting, Powell acknowledged that inflation has not abated by as much as the Fed had expected, and that "people are still feeling high prices". Indeed, after bumper years for inflation in 2022 and 2023, the US still recorded 3.3% core inflation in November (i.e. excluding food and fuel) off a high base in prices. Another grand market prediction that failed to materialise during the year was the forecast for a US recession. The outcome has been far from it. The US continues to outperform other economies with close to 3.0% real GDP growth and an unemployment rate of just 4.2%.

As we wrote early in 2024, the market must awaken to the reality of a strong US labour market, low US unemployment and sticky inflation in US services. Such stickiness in US prices makes it incredibly difficult to cut interest rates excessively without lighting the flame of another round of inflation. The drivers of US services inflation cover quite a range of items, like costlier prices for elder care and domestic work, hospital and veterinarian services, financial services, and even admission to sporting events. When an economy experiences an energy, food and fuel price shock, as seen in 2022, then it is natural to expect that a second-round shock via services-led inflation could follow. When prices have been high, workers demand higher pay. This is particularly true for an economy like the US with a shortage of low-skilled labour. When in short supply, lower-cost labourers have a lot of bargaining power.

US wage growth is unsurprisingly still running at an elevated 4.8% year-on-year with job openings of 7.7 million people versus only 7.1 million unemployed workers as at end November 2024. The narrative of a coming recession against such an economic backdrop was only ever that – a narrative – and certainly not one that was grounded in the actual economic data being observed.

South Africa, by contrast to the US, only experienced two interest rate cuts this year – taking the overnight repo rate from 8.25% to 7.75%. What is unusual about current SA inflation is how close it is to that seen in developed markets, running at only 0.15% higher than the US inflation rate. If one looks at inflation data over the 20 years to 2020, SA inflation ran at 3.47% higher than US inflation on average. Much of the current malaise in SA inflation can be attributed to weak local consumer health and low demand, in addition to a well-behaved rand exchange rate in 2024. Another interesting data component is that the price of vehicles is also coming down locally as cheaper Chinese cars begin to flood the market. That said, the South African Reserve Bank remains cautious as ever on inflation, citing higher local water and electricity tariffs anticipated for the new year. The market forecasts that the US and SA overnight rates may be cut by just 0.50% each over the course of 2025, with the final rates at 4.00% and 7.25%. These are still well above their pre-COVID levels and, if they are accurate predictions, provide a healthy return in excess of inflation for money market savers.

Over the quarter, the Fund reinvested maturities at slightly lower rates given the rate-cutting cycle and its impact on the pricing of money market instruments. As such, and on a gross-of-fees basis, the Fund's weighted average annual yield and weighted average effective yield ended the year at 8.4% and 8.7% respectively, versus an SA inflation rate for November 2024 of 2.9%.

Commentary contributed by Thalia Petousis

Important information for investors

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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).

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