Allan Gray Interest Fund

28 February 2025

Fund managers: Sean Munsie, Thalia Petousis **Inception date:** 1 May 2024

Fund description and summary of investment policy

The Fund invests in a mix of South African interest-bearing securities. These securities can be issued by government, parastatals, corporates and banks. The Fund's weighted average modified duration is limited to a maximum of two. Returns are likely to be less volatile than those of traditional income and bond funds, but more volatile than those of money market funds. The Fund is managed to comply with the investment limits governing retirement funds.

ASISA unit trust category: South African – Interest Bearing – Short Term

Fund objective and benchmark

The Fund aims to generate returns higher than bank deposits and traditional money market funds, while maintaining capital stability and low volatility. 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 select South African interest-bearing securities 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 securities for the Fund. These will primarily be floating-rate notes, money market instruments and fixed interest paper with a low duration. We take a conservative approach to credit risk, liquidity risk and duration risk.

Suitable for those investors who

- Are risk-averse but seek returns higher than bank deposits and traditional money market funds
- Need a short-term investment account
- Seek a domestic-only interest-bearing 'building block'
- Require monthly income distributions

Fund information on 28 February 2025

Fund size	R1.4bn
Number of units	39 699 411
Price (net asset value per unit)	R10.20
Modified duration	0.6
Gross yield (i.e. before fees)	9.0
Net yield (i.e. after fees)	8.2
Fund weighted average maturity (years)	5.0
Class	A

1. The Fund's benchmark is 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. Maximum percentage decline over any period. The maximum drawdown occurred from 7 October 2024 to 8 October 2024. Drawdown is calculated on the total return of the Fund (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.

Income distributions

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

May 2024	Jun 2024	Jul 2024	Aug 2024
6.59	6.57	8.11	7.40
Sep 2024	**Oct 2024**	**Nov 2024**	**Dec 2024**
7.76	7.58	7.09	7.68
Jan 2025	**Feb 2025**		
7.32	6.56		

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (1 May 2024)	8.8	6.9	1.2
Annualised:			
Year-to-date (not annualised)	1.4	1.2	0.4
Risk measures (since inception)			
Maximum drawdown[3]	-1.2	n/a	n/a
Percentage positive months[4]	100.0	100.0	n/a

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Annual management fee

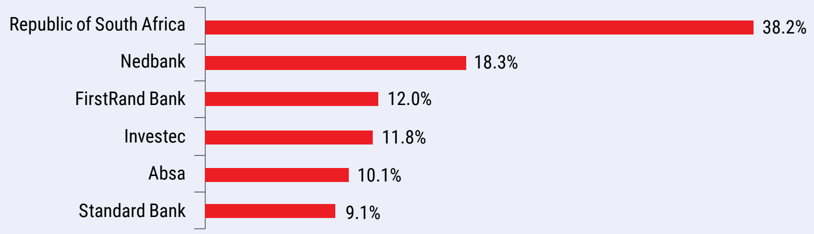
A fixed fee of 0.65% p.a. excl. VAT

Total expense ratio (TER) and transaction costs (updated quarterly)

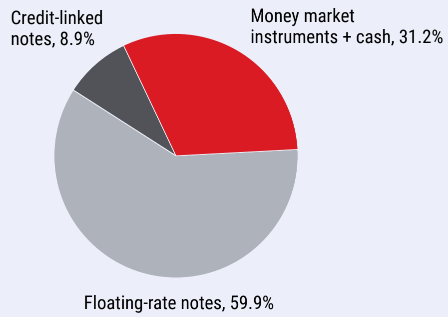
The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one- and three-year period (annualised). Transaction costs are disclosed separately. Complete and accurate data is only available after 12 months. The TER and transaction costs are therefore based on actual data, where available, and best estimates.

TER and transaction costs breakdown for the 1- and 3-year period ending 31 December 2024	1yr %	3yr %
Total expense ratio	**0.76**	**0.76**
Fee for benchmark performance	0.65	0.65
Performance fees	0.00	0.00
Other costs excluding transaction costs	0.01	0.01
VAT	0.10	0.10
Transaction costs (including VAT)	**0.00**	**0.00**
Total investment charge	**0.76**	**0.76**

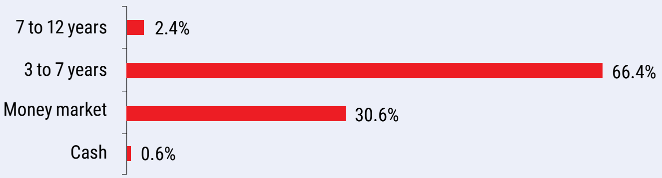
Top credit exposures on 28 February 2025



Asset allocation on 28 February 2025



Maturity profile on 28 February 2025



Note: There may be slight discrepancies in the totals due to rounding.

Fund manager commentary as at 31 December 2024

The US Federal Reserve's (Fed) December 2024 meeting delivered a 25 basis point cut to the benchmark rate that was expected, but it was Fed Chair Jerome Powell's comment at the post-meeting press conference that their year-end inflation projection has "kind of fallen apart" that spooked the market. This was the Fed's third consecutive rate cut in a cycle that began with the larger-than-anticipated 50 basis points in September. At that time, he spoke to concerns of building weakness in the labour market but subsequent data points, both in employment numbers and the strength of the US economy, have mostly allayed those fears. Rather, it is inflation, the other side of the Fed's dual mandate, that remains stubbornly above its 2% target. Their favoured inflation measure, the core personal consumption expenditures which strips out the more volatile food and energy prices, rose at 2.8% annually in November.

US policymakers have now raised their inflation projections and forecast only 50 basis points worth of interest rate cuts in 2025, below the market's expectation. In addressing the cooling on further rate cuts, Powell alluded to the potential inflationary impact of President Trump's economic policies. Market participants fear that his proposals to hike tariffs, deport immigrants and slash taxes could trigger a fresh bout of inflation.

An argument exists that lingering inflationary pressures in the global economy predate the election of Trump. We have written previously about the structural forces driving inflation and, therefore, interest rates higher. These forces are termed the five Ds: Demographics, Decarbonisation, Deglobalisation, Debt and Defence. Declining workforces and accompanying wage pressures, fragmentation of supply chains and the partial reversal of globalisation gains, the push to transition to clean energy, and higher government debt burdens create an inflation bias that aligns with some of Trump's policies but are much longer-term in nature. As such, it limits the scope to cut rates further by a substantial amount. US long bond yields have acted as the canary in the coalmine – forewarning the market that inflation was still a risk long before the Fed adjusted their guidance. As such, for one of the first times in US history, US long bond yields in fact *rose* following the beginning of the rate-cutting cycle.

Closer to home, the South African Reserve Bank (SARB) enacted only two interest rate cuts in 2024 – 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 SARB remains cautious as ever on inflation, citing higher local water and electricity tariffs anticipated for 2025. The market forecasts that SA overnight rates may be cut by just 0.25% to 0.50% over the course of 2025, with the final repo rate between 7.25% and 7.50%. This is still well above its pre-COVID level and, if it is an accurate prediction, provides a healthy return in excess of inflation.

The Fund increased exposure to money market instruments as hawkish comments from both the SARB and the Fed caused long-dated money market yields to rerate higher on expectations of a shallow rate-cutting cycle, thus making the cash versus term paper relative look more attractive. In the last quarter, the Fund's weighted average yield (gross of fees) dropped by 30 basis points to 9.2% as interest rate cuts occurred.

Commentary contributed by Sean Munsie and Thalia Petousis

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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.

Unit price

Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the Fund, including any income accruals and less any permissible deductions from the Fund, divided by the number of units in issue. Forward pricing is used and fund valuations take place at approximately 16:00 each business day. 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.

Yield

The Fund's gross yield is the estimated weighted average yield-to-maturity of all underlying interest-bearing instruments as at the last day of the month. The one-year TER is deducted from the gross yield to derive a yield net of fund expenses. Actual returns may differ based on changes in market values, interest rates and market factors during the investment period.

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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