

**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 31 October 2024**

Fund size	R1.0bn
Number of units	27 123 705
Price (net asset value per unit)	R10.19
Modified duration	0.6
Gross yield (i.e. before fees)	9.5
Net yield (i.e. after fees)	8.6
Fund weighted average maturity (years)	5.3
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 31 October 2024. Source: Bloomberg.
2. This is based on the latest available numbers published by IRESS as at 30 September 2024.
3. 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		
7.76	7.58		

**Performance net of all fees and expenses**

% Returns	Fund	Benchmark <sup>1</sup>	CPI inflation <sup>2</sup>
<b>Cumulative:</b>			
Since inception (1 May 2024)	5.7	4.2	0.9
<b>Risk measures (since inception)</b>			
Percentage positive months <sup>3</sup>	100.0	100.0	n/a

**Annual management fee**

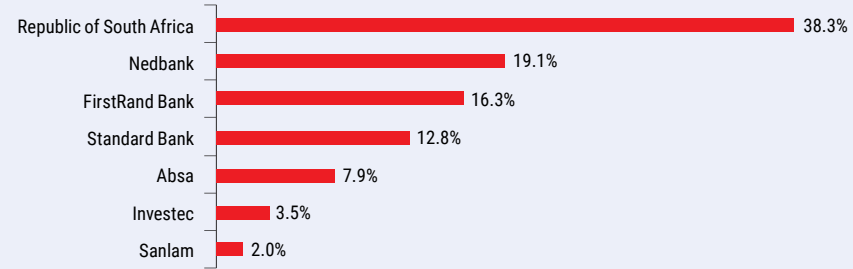
A fixed fee of 0.65% p.a. excl. VAT

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

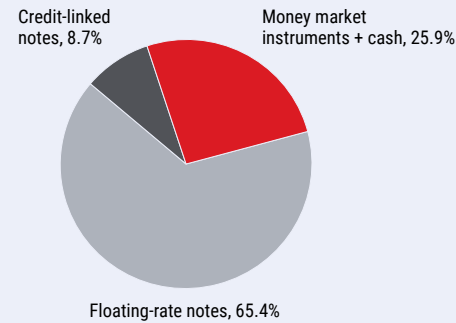
The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one- and three-year period (annualised). Transaction costs are disclosed separately. Complete and accurate data is only available after 12 months. The TER and transaction costs are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

TER and transaction costs breakdown for the 1- and 3-year period ending 30 September 2024	1yr %	3yr %
<b>Total expense ratio</b>	<b>0.76</b>	<b>0.76</b>
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
<b>Transaction costs (including VAT)</b>	<b>0.00</b>	<b>0.00</b>
<b>Total investment charge</b>	<b>0.76</b>	<b>0.76</b>

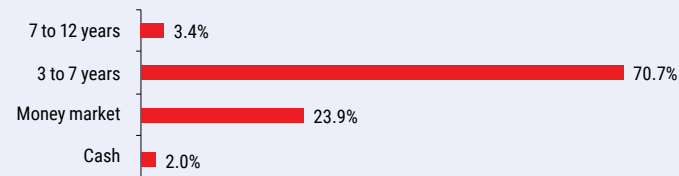
**Top credit exposures on 31 October 2024**



**Asset allocation on 31 October 2024**



**Maturity profile on 31 October 2024**



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

One of the most frequently asked questions we get about our new interest-bearing funds is how they will perform through a rate-cutting cycle. On the day before South Africa's September 2024 rate cut, the Fund's weighted average yield gross of fees was 9.66%. It subsequently declined by 15 basis points (bps) following the 25 bps rate cut to reach a yield of 9.51%. This was marginally lower than the FTSE/JSE All Bond Index (ALBI) yield of 9.77% on the same day, despite the index carrying significantly higher modified duration risk. What is important to keep in mind when performing point-in-time yield comparisons is that a low duration and predominantly floating-rate or "cash-plus" fund will naturally offer lower yields as rates decline, whereas one can expect a long-dated fixed-rate bond (such as that found in the ALBI) to already price for rate cuts via the forward curve. The good news for savers is that the current expected terminal repo rate at the end of the cutting cycle is still projected to be higher than its pre-COVID level. Thus, if an investor felt it was attractive to be in an income fund product back then, the environment going forward should at *least* be as attractive as it was, and likely slightly more.

In September, the South African Reserve Bank (SARB) cut interest rates for the first time in four years – lowering the overnight rate of interest from 8.25% to 8.00% in a unanimous vote. The SARB outlined the case for caution when lowering rates and cited risks to inflation via potential offshore trade tariffs which raise the price of imported goods. In this regard, the outcome of the US election in November has the potential to rock the trade tariff boat with Republican presidential candidate Donald Trump proposing a blanket increase in import tariffs to 10%, and a more punitive 60% applied to Chinese goods, if he were to be elected.

Much of the disinflationary trend of the decade preceding the COVID-19 pandemic was undoubtedly aided by the flood of cheap Chinese goods into international markets, with many countries now complaining that Chinese overproduction and dumping practices make it tough for local industry to compete in a wide range of sectors, including car and steel production. As a general observation, the US invents, China builds and the EU regulates. For example, China's bloated industrial base, fuelled by ultracheap government financing and subsidies, produces more solar panels than the world can absorb. Such production continues to take place even when goods are ultimately dumped into international markets at loss-making sale prices that require these producers to later be bailed out by the Chinese state.

The SARB also touched on global risks to inflation via renewed supply chain disruptions that could result from escalating geopolitical tension and war, as we are seeing in the Middle East at present. When debating local risks to the inflation outlook, the SARB lamented that the stronger rand, lower oil prices and well-behaved South African food price inflation might be partially offset by higher local administered, municipal and electricity prices. Earlier in the year, a leaked document showed that Eskom planned to apply to increase the electricity tariffs it charges municipalities by up to 44% in 2025. Rising electricity and water tariffs naturally bleed into the cost of production and raise the prices of local goods and services.

Despite all these risks, South Africa's current inflation prints have been coming down, with a stronger rand allowing August's CPI print to moderate to 4.4% and the SARB modelling for sub-4% throughout the first half of 2025. Given that inflation is by nature a year-on-year calculation and can almost always be expected to disinflate in the short term when base prices are high, the SARB has stated that it will "look through" a temporary inflation breach on the downside of their target. Although the SARB's quarterly projection model is just a loose policy guide and is not strictly implemented, the model currently suggests that the appropriate terminal rate of interest at the end of the South African rate-cutting cycle is an overnight rate of 7%, which implies a further 1% worth of rate cuts.

In the last quarter, the Fund lowered its modified duration by reducing exposure to five-year fixed-rate instruments as the market rallied following the formation of South Africa's government of national unity, the anticipation of a global rate-cutting cycle and the monetisation of R100bn from South Africa's Gold and Foreign Exchange Contingency Reserve Account (GFECRA). Monetising the GFECRA has to some degree bailed out the fiscus such that bond auction sizes can remain unchanged.

Most of the Fund has exposure to floating-rate instruments that return cash rates plus a spread and have low modified duration. At the end of September, the lowest yielding of these floating-rate notes held in the Fund was earning cash plus 1.3%, and the highest yielding was earning cash plus 3.5%. While the future remains uncertain, we aim to construct portfolios that can do well across a range of possible scenarios. In the event of rate cuts, the Fund's weighted average yield (gross of fees) of 9.5% as at 30 September 2024 should further decline but still offers a rate of interest that is 1.5% higher than that of overnight cash.

Commentary contributed by Thalia Petousis

**Fund manager  
commentary as at  
30 September 2024**

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### 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](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. 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](http://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).

### FTSE/JSE All Share Index, FTSE/JSE All Bond Index

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