ALLANGRAY

Fund manager: Thalia Petousis **Inception date:** 2 July 2020
Only available in the Allan Gray Umbrella Retirement Fund.

Allan Gray Money Market Fund

U Class 30 June 2022

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

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-year period. Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 3 for further information). Transaction costs are disclosed separately.

Fund information on 30 June 2022

Fund size	R24.5bn
Number of units	978 800 163
Price (net asset value per unit)	R1.00
Monthly yield at month end	0.44
Fund weighted average coupon (days)	88.40
Fund weighted average maturity (days)	118.21
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 30 June 2022.
3. This is based on the latest numbers published by IRESS as at 31 May 2022.
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 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

July 2021	Aug 2021	Sep 2021	Oct 2021
0.36	0.36	0.36	0.37
Nov 2021	Dec 2021	Jan 2022	Feb 2022
0.37	0.38	0.39	0.36
Mar 2022	Apr 2022	May 2022	Jun 2022
0.41	0.41	0.43	0.44

Performance net of all fees and expenses

% Returns	Fund[1]	Benchmark[2]	CPI inflation[3]
Cumulative:			
Since inception (1 July 2001)	370.3	353.2	203.2
Annualised:			
Since inception (1 July 2001)	7.7	7.5	5.4
Latest 10 years	6.4	6.1	5.1
Latest 5 years	6.4	5.9	4.5
Latest 3 years	5.5	5.0	4.6
Latest 2 years	4.7	4.1	5.9
Latest 1 year	4.7	4.2	6.5
Year-to-date (not annualised)	2.5	2.2	3.7
Risk measures (since inception)			
Highest annual return[4]	12.8	13.3	n/a
Lowest annual return[4]	4.3	3.8	n/a

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Fund manager quarterly commentary as at 30 June 2022

In the first half of this year, global energy, equity and interest rate markets have rapidly repriced. Are we watching an episode from *That '70s Show*? The hallmark events of that decade – namely, energy boycotts, wars and supply chain disruptions – offer tantalising parallels to the present day. During that period, Arab states boycotted the West using oil sanctions as punishment for their Middle East wartime alliances. The 1973 and 1979 energy crises saw US food inflation peak at 20% year-on-year as the cost of transport and manufacturing soared. The tumultuous era also saw the UK withdraw from the Persian Gulf and abandon the long-standing security role it played in the region. This reignited territorial disputes and resulted in the Iran-Iraq War of the 1980s, de-anchoring the security of global trade. Sound familiar? Importantly, this unexpectedly protracted and indecisive conflict precipitated several inflationary shocks throughout the following years.

US producer price inflation in May 2022 of 16.7% year-on-year is just a hair's breadth shy of its 1974 peak at 19.6% year-on-year. If supply chain disruptions were the only driving force, then we should see similarly elevated levels of inflation around the world; but this is not the case. This is because there is another common denominator between now and the period leading up to the 1970s – money supply. The US has increased liquidity for the last few years in a similarly reckless fashion, reaching a 25% year-on-year rise in broad money supply in 2021. US consumer price inflation is not simply due to supply-side factors, but also due to the aggressive stimulation of consumer demand.

The Federal Reserve (the Fed) now faces the unenviable task of raising interest rates and facilitating wealth destruction in order to depress consumer and corporate activity. This should stimulate some form of recession and take a bite out of inflation. In the first half of the year, the Fed has raised interest rates by 1.5% to achieve a 1.75% Federal Funds overnight rate. If US forward markets are to be believed, they will move by a similar quantum in the second half of the year so that the overnight rate rises to around 3.5%. Not only can this crush consumer demand, but it could also raise the interest bill of the US government – who was already spending 14 cents on every dollar of 2021 tax revenue to pay back gross interest on their debt.

In South Africa at end-May 2022, the price of diesel had risen by over 45% year-on-year and the price of petrol by just shy of 27% year-on-year, which has knock-on effects for the prices of manufactured goods, transport and labour. Several local retailers have warned of continued price increases as they run down their food inventory and start to rebuild their supplies at replacement cost. South African Reserve Bank (SARB) Governor Lesetja Kganyago has spoken fervently of living true to the SARB's mandate and protecting the incomes of the working class by raising interest rates. While food and fuel inflation are being driven by global dynamics, there are risks to the exchange rates of countries who do not follow the path of higher rates alongside the developed world. The SARB has begun to deliver what may in part be "credibility hikes" to maintain market-wide confidence that they will protect the value of the rand. This is needed both to contain import inflation and to encourage sorely lacking foreign participation in our local asset markets.

This quarter, the local forward rate market revised the probability of SA rate hikes higher – pricing in increases of 50 basis points at almost every Monetary Policy Committee meeting for the next year. This has raised the attractiveness of longer-dated bank deposits in contrast to government treasury bills. The Fund has reinvested maturing bills into one-year bank paper, most recently at interest rates above 7.4%.

Commentary contributed by Thalia Petousis

Exposure by issuer on 30 June 2022

	% of portfolio
Corporates	**10.4**
Pick 'n Pay	2.8
Shoprite	2.7
Sanlam	2.4
AVI	1.6
MTN	0.5
Mercedes-Benz	0.4
Banks[4]	**78.2**
Standard Bank	21.1
Nedbank	19.4
Investec Bank	19.1
Absa Bank	12.1
FirstRand Bank	6.4
Government	**11.4**
Republic of South Africa	11.4
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.

Total expense ratio (TER) and transaction costs

TER and transaction costs breakdown for the 1-year period ending 30 June 2022	1yr %
Total expense ratio	**0.23**
Fee for benchmark performance	0.20
Performance fees	0.00
Other costs excluding transaction costs	0.00
VAT	0.03
Transaction costs (including VAT)	**0.00**
Total investment charge	**0.23**

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Allan Gray is an authorised financial services provider.

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.

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. 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**

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