

INTRODUCING CHANGES TO OUR FIXED INCOME FUND OFFERING

We are pleased to inform you of the addition of two new funds to our fixed income offering – the Allan Gray Interest Fund (the Interest Fund) and the Allan Gray Income Fund (the Income Fund), which will be available for investment from 20 August 2024. The addition of these funds broadens our fixed income range, offering clients a more comprehensive selection of lower-risk and building block options. At the same time, we will be changing the benchmark of the Allan Gray Money Market Fund (the Money Market Fund) to the Alexander Forbes Short Term Fixed Interest (STeFI) 3-month Index.

Allan Gray Interest Fund

The Interest Fund seeks to generate returns higher than bank deposits and traditional money market funds, while maintaining capital stability and low volatility, by investing in select South African interest-bearing securities. These primarily consist of floating-rate notes, money market instruments and fixed interest paper with a low duration. Returns are likely to be less volatile than those of traditional income and bond funds, but more volatile than those of money market funds.

For clients with an investment horizon of up to one year, we believe the Interest Fund is a better alternative to traditional money market funds, since it is not subject to the same duration restrictions imposed on money market portfolios, which can constrain the return potential of these funds.

Allan Gray Income Fund

The Income Fund seeks to generate income and produce returns that are superior to traditional money market funds, while preserving capital and minimising the risk of loss over any one- to two-year period. The Income Fund invests in a broad range of South African interest-bearing securities, such as floating-rate notes, inflation-linked bonds, fixed-rate instruments and money market securities, with limited exposure to offshore interest-bearing securities. While the Income Fund can have limited exposure to equities and property, we expect this to occur infrequently and to typically coincide with unusual or extreme points in the valuation cycle. Returns are likely to be less volatile than those of bond-only funds.

While the Interest Fund has a more flexible mandate than the Money Market Fund, the Income Fund, in turn, has more flexibility than the Interest Fund: The Income Fund has no prescribed maturity or duration limits and has the ability to invest in offshore interest-bearing securities when these assets offer a more appropriate balance of risk and reward. **Table 1** provides detail on who the Interest and Income funds may be suitable for.

Table 1: Who are the new funds suitable for?

Allan Gray Interest Fund	Allan Gray Income Fund
Risk-averse investors seeking returns higher than bank deposits and traditional money market funds	Investors who seek returns higher than traditional money market funds
Investors who need a short-term investment account	Risk-averse investors who require capital preservation over any one- to two-year period
Investors seeking a domestic-only interest-bearing building block fund	Investors who seek a prudently managed income building block fund
Investors who require monthly income distributions	Investors who seek a unit trust that provides an income

Where do the new funds fit into our fixed income fund range?

We believe that the new funds offer a good solution for investors looking for higher-yielding alternatives to traditional money market funds, while maintaining capital stability. Similar to our other fixed income funds, which are included in **Table 2** below, the Interest and Income funds are primarily intended to be used as building blocks.

Table 2: Key characteristics of our fixed income offering, as of 20 August 2024

	Allan Gray Money Market Fund	Allan Gray Interest Fund	Allan Gray Income Fund	Allan Gray Bond Fund
Target return	Greater than bank deposits	Greater than traditional money market funds	Greater than traditional money market funds and enhanced cash options	Greater than traditional money market funds and the FTSE/JSE All Bond Index
Benchmark	STeFI 3-month Index	STeFI Composite Index	STeFI Composite Index	FTSE/JSE All Bond Index
Annual management fee (excluding VAT)¹	Fixed fee of 0.25% p.a.	Fixed fee of 0.65% p.a.	Fixed fee of 0.75% p.a.	Fixed fee of 0.50% p.a.
Time horizon	Up to 6 months	Up to 1 year	1-2 years	3-5 years
Foreign exposure	None	None	Limited	None
Equity exposure	None	None	Typically 0% ²	None
Property exposure	None	None	Typically 0% ³	None
Prescribed duration and maturity limits	Weighted average duration limited to 90 days; and weighted average legal maturity limited to 120 days	Weighted average modified duration limited to a maximum of two	There are no prescribed limits, but we expect these to be lower than those of traditional bond funds	None
Regulation 28	Complies	Complies	Complies	Complies
ASISA category	South African – Interest Bearing – Money Market	South African – Interest Bearing – Short Term	South African – Multi Asset – Income	South African – Interest Bearing – Variable Term

1. These fees are for the A class versions of our funds. The annual management fees include our administration fees, which are currently set at 0.20% p.a. (excluding VAT).

2. We expect equity exposure to occur infrequently and to typically coincide with unusual or extreme points in the valuation cycle.

3. We expect property exposure to occur infrequently and to typically coincide with unusual or extreme points in the valuation cycle.

Why are we changing the Money Market Fund benchmark?

According to Board Notice 90 of 2014, which determines the securities, classes of securities, assets or classes of assets that may be included in a portfolio of a collective investment scheme, money market portfolios are limited to investing in money market instruments with a maturity of less than 13 months. In addition, the weighted average duration of the assets in these portfolios cannot exceed 90 days, and their weighted average legal maturity must not be more than 120 days. To better align with these restrictions, and the Money Market Fund's investable universe, we will be changing the Money Market Fund's benchmark from the STeFI Composite Index to the STeFI 3-month Index. This change has no impact for clients invested in the Money Market Fund as it does not affect how it is managed nor the annual management fee levied.

How to invest in our new funds

From 20 August, you will be able to invest in the new funds via the usual channels. Our updated Local Investment Platform Fund List and latest fund factsheets will be available on our website from this date.

If you have any questions or feedback, please contact your Business Development Manager, our Adviser Service Centre on 0860 000 653 or email us at ifa@allangray.co.za.