Allan Gray Africa Bond Fund

C Class 31 May 2023

Fund description and summary of investment policy

The Fund invests in a focused portfolio of African securities that are selected for their expected risk and return profile. The Fund may invest a substantial portion of the assets in a single country or region rather than a diversified portfolio of assets.

Classification: Africa – Interest Bearing

Fund objective and benchmark

The Fund seeks to achieve the maximum US dollar total return while minimising the risk of loss within the context of an African bond fund. The benchmark is the FTSE 3 Month US T Bill + 4% Index.

African security markets

There are numerous risks involved in investing in African security markets. These risks may be significantly higher than in more developed markets and may include (but are not limited to) the following:

- Individual countries may impose capital controls preventing the repatriation of foreign currency
- Returns are expected to be more volatile, and the average drawdown may be higher, than in more developed markets
- Low liquidity whereby subscriptions into the Fund may have to be phased in, and redemptions from the Fund may be limited per dealing day
- Market prices may not accurately reflect the fair value of a Fund asset and fair value pricing may be used

There is no assurance that the investment approach of the Fund will be successful or that the Fund will achieve its investment objective.

See the "Important information for investors" section for more information.

How we aim to achieve the Fund's objective

We assess an asset's intrinsic value based on long-term fundamentals and invest where our assessment of intrinsic value exceeds the price by a margin of safety. This approach allows us to identify assets that may be out of favour with the market because of poor near-term prospects, but offer good value over the long term.

Suitable for those investors who

- Seek exposure to African interest-bearing assets
- Are comfortable with above-average market and currency fluctuations
- Are prepared to take on the risk of capital loss
- Have a minimum investment horizon of five years

Fund information on 31 May 2023

Fund currency	US$
Fund size	US$297m
Number of shares	2 025 402
Price (net asset value per share)	US$139.88
Number of issuers	19
Dealing day	Weekly (Thursday)
Class	C
Class inception date	14 May 2020

Minimum investment amounts

Minimum initial investment	US$100 000
Minimum subsequent investment	US$1 000

1. Prior to the inception of this class of the Fund, the performance and risk measures are calculated using the A class performance of the Fund. The net of fee return is calculated as the gross of fee return reduced by an investment management fee of 0.7% per annum, which is accrued monthly in arrears.

2. The current benchmark is the FTSE 3 Month US T Bill + 4% Index. From inception to 31 December 2020 the benchmark was the J.P. Morgan GBI-EM Global Diversified Index. Performance as calculated by Allan Gray as at 31 May 2023. Calculation based on the latest available data as supplied by third parties.

3. Maximum percentage decline over any period calculated from monthly returns. The maximum drawdown occurred from August 2021 to September 2022 and maximum benchmark drawdown occurred from April 2013 to December 2015. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).

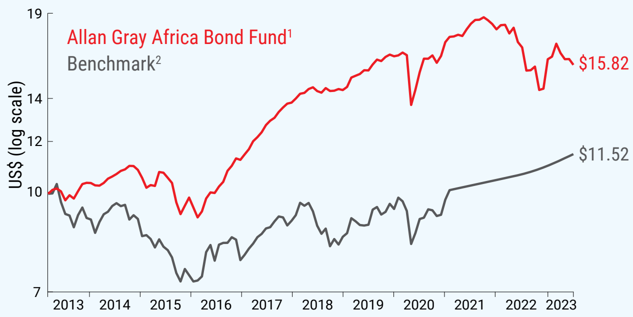
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.

5. 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.

6. This is the highest or lowest rolling 12-month return the Fund has experienced since inception. The Fund's highest annual return occurred during the 12 months ended 28 February 2017 and the benchmark's occurred during the 12 months ended 31 March 2021. The Fund's lowest annual return occurred during the 12 months ended 30 September 2022 and the benchmark's occurred during the 12 months ended 31 August 2015. All rolling 12-month figures for the Fund and the benchmark are available from the Allan Gray Service Team on request.

Performance in US$ net of all fees and expenses

Value of US$10 invested at inception with all distributions reinvested



% Returns	Fund[1]	Benchmark[2]
Cumulative:		
Since inception (27 March 2013)	58.2	15.2
Annualised:		
Since inception (27 March 2013)	4.6	1.4
Latest 10 years	4.6	1.7
Latest 5 years	1.9	5.2
Latest 3 years	0.9	8.0
Latest 2 years	-7.1	5.7
Latest 1 year	-6.0	7.4
Year-to-date (not annualised)	-2.9	3.6
Risk measures (since inception. based on month-end prices)		
Maximum drawdown[3]	-22.8	-29.3
Percentage positive months[4]	65.0	66.7
Annualised monthly volatility[5]	10.3	10.2
Highest annual return[6]	28.4	22.3
Lowest annual return[6]	-22.0	-21.5

Meeting the Fund objective

The Fund seeks to achieve the maximum US dollar return while minimising the risk of loss within the context of an African bond fund. The Fund experiences periods of underperformance in pursuit of this objective. Since inception, the Fund has outperformed its benchmark and delivered positive absolute returns in US dollars.

Subscription and redemption charge

Investors may be charged 0.5% when subscribing for Fund shares. Investors may be charged 0.5% when redeeming Fund shares in the case of significant redemptions. These charges are paid into the Fund to offset the costs associated with the transactions that are borne by the Fund. Allan Gray Bermuda Limited (the "Investment Manager") may waive these charges if transactions substantially offset one another.

Annual management fee

The management fee consists of a fixed fee of 0.70% p.a.

Total expense ratio (TER) and transaction costs[7]

The annual management fee charged 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. The TER and transaction costs cannot be determined accurately because of the short life span of the class. Calculations are based on actual data where possible and best estimates where actual data is not available.

TER and transaction costs breakdown for the 1- and 3-year period ending 31 March 2023	1yr %	3yr %
Total expense ratio	**0.76**	**0.82**
Management fee	0.70	0.70
Custody fees	0.04	0.07
Other costs excluding transaction costs	0.02	0.05
Transaction costs	**0.00**	**0.00**
Total investment charge	**0.76**	**0.82**

7. Prior to the inception of this class of the Fund, the TER and transaction costs data is that of the A Class of the Fund, reduced by 0.3% p.a.

Fund positioning on 31 May 2023[8]

	Local currency	Foreign currency	% of portfolio
Governments[10]	**23.3**	**46.2**	**69.6**
Ivory Coast	0.0	15.7	15.7
Uganda	13.4	0.0	13.4
Senegal	0.0	10.9	10.9
Egypt	2.1	8.4	10.4
South Africa	7.0	0.0	7.0
Ghana	0.0	6.1	6.1
Benin	0.0	2.3	2.3
United States	0.0	2.2	2.2
Zambia	0.0	0.7	0.7
Botswana	0.6	0.0	0.6
Namibia	0.3	0.0	0.3
Nigeria	0.0	0.0	0.0
Corporates[10]	**0.0**	**25.8**	**25.8**
Nigeria	0.0	12.8	12.8
South Africa	0.0	6.8	6.8
Ghana	0.0	4.5	4.5
Zambia	0.0	1.8	1.8
Cash[9]	**0.6**	**4.0**	**4.6**
Total (%)[10]	**24.0**	**76.0**	**100.0**

Weighted average yield on 31 May 2023

	Weighted average yield (%)	% of portfolio
Local currency	13.7	23.3
Other[11]	10.3	26.1
US$	18.4	45.9
Cash	0.0	4.6
Total	**13.7**	**100.0**

Asset allocation on 31 May 2023

Asset Class	Total
Net equity	0.0
Hedged equity	0.0
Property	0.0
Commodity-linked	0.0
Bonds	89.8
Money market, bank deposits and currency hedges	10.2
Total (%)[10]	**100.0**

8. The total Nigerian exposure includes accruals for naira-settled currency forwards, valued at the Nigerian Autonomous Foreign Exchange Rate (NAFEX), that are shown under cash.

9. Cash is held in multiple currencies and includes USD treasury bills.

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

11. Represents all non-cash holdings not denominated in local African currency or US$ (eg. EUR)

Investment team quarterly commentary as at 30 April 2023

In December, Ghana announced its intention to restructure both its local and foreign currency debt. While the country's precarious fiscal situation had been known for some time – evidenced by debt servicing consuming more than 50% of government revenue and almost 70% of tax revenue – what made this case somewhat unique was the immediate inclusion of local currency debt in the restructure. Local currency debt defaults are rare due to the economic fallout associated with the sovereign-bank nexus. In other words, the problem with a local currency debt restructure is that it risks taking out the financial sector. Therefore, governments generally prefer to use other tools when dealing with excessive local currency debt – such as raising taxes, financial repression or monetisation. To be fair, it does appear that the Ghanaian government had very little choice in the matter: firstly, because local currency debt made up the lion's share of debt service obligations and, secondly, because *total* debt needed to be put on a sustainable path in order to secure an IMF bailout.

The voluntary domestic debt restructure initially involved exchanging local currency bonds worth 137bn Ghanian cedis for a series of new bonds with significantly lower coupons and longer maturities. The stakes were high, as failure to secure sufficient participation (of over 80%) would have likely resulted in the IMF deal falling through, leading to a hard default and an ensuing economic crisis. The banking sector which, together with the central bank, owned around 40% of the local currency debt stock, was relatively easily cajoled through regulatory measures such as lower risk-weightings on the new bonds and other capital and liquidity relief. However, other investor groups proved much more challenging, with the initial deadline of 19 December 2022 having to be extended multiple times through 10 February 2023. The final participation rate of 85% was secured off the back of various concessions made to different investor groups – somewhat reducing the amount of fiscal relief achieved by the entire exercise.

It remains unclear whether or not the domestic debt exchange will leave scarring on the economy. Lower bank interest income and weakened capital ratios may reduce credit growth in the economy, slowing GDP growth and hampering the country's ability to grow out of its debt load. Conversely, lower debt-servicing costs and smaller fiscal deficits could allow the government to focus on growth-enhancing public investment and free up the banks for more private sector lending, boosting economic growth. Furthermore, discussions with Eurobond investors are yet to commence in earnest for the purpose of restructuring the foreign currency debt. Credibility is key, and the government will have to convince creditors and rating agencies that these debt restructures are part of a comprehensive medium-term economic strategy to turn the country around – a tall order, given the fiscal slippage observed over a number of years.

The Fund's exposure to Ghana has been actively and materially reduced since late 2019, based on our perception of the country's deteriorating fundamentals and increasing likelihood of default. As a result, Ghana's sovereign weighting decreased from 13.7% at the end of 2019 – the Fund's second highest sovereign exposure – to only 5.5% currently, of which 2.4% carries a partial World Bank guarantee amounting to 40% of principal. The Ghanaian Eurobonds held by the Fund are currently priced at a market valuation which implies a 60% to 66% haircut, which we believe is overdone.

During the quarter, we sold out of Kenya and added Uganda local currency bonds and Côte d'Ivoire Eurobonds. We also sold MTN and reduced the holding in First Quantum Minerals over heightened government-related risks – namely fines and expropriation, respectively. Finally, we reinstated a position in Egyptian T-bills after the currency was devalued sharply and short rates increased to levels last seen after the large currency devaluation of late 2016. The weighted average yield of the Fund is 13.8%.

Commentary contributed by Londa Nxumalo

Changes to the Allan Gray Africa Bond Fund team, effective 1 April 2023

Londa Nxumalo currently manages a portion of the Fund alongside Mark Dunley-Owen. After six years at Allan Gray, Londa is joining our sister company, Orbis. We are fortunate that she will remain within the broader group and continue to contribute to the fixed interest research and investment process. We are pleased to announce that from 1 April 2023, portfolio manager Thalia Petousis will start managing a portion of the Fund alongside Mark. Thalia joined Allan Gray in 2015 and has been managing fixed interest assets since 2019.

Information and content

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Performance

Collective investment schemes (unit trusts or mutual funds) are generally medium- to long-term investments. Where annualised performance is mentioned, this refers to the average return per year over the period. The value of shares or the investment may go down as well as up and past performance is not necessarily a guide to future performance. Movements in exchange rates may cause the value of underlying international investments to go up or down. Neither the Investment Manager, the Fund, nor the Representative provides 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. The performance graph is for illustrative purposes only. Actual investor performance may differ as a result of the investment date, the date of reinvestment and applicable taxes. The yield is current, calculated as at month-end.

J.P. Morgan Index

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FTSE Russell Index

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Share price

Share 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, less any permissible deductions from the Fund, divided by the number of shares in issue. Forward pricing is used. The weekly price of the Fund is normally calculated each Friday. Purchase requests must be received by the Registrar of the Fund by 17:00 South African time on that dealing day to receive that week's price. Redemption requests must be received by the Registrar by 17:00 South African time on the dealing day on which shares are to be redeemed to receive that week's price. Share prices are available on www.allangray.co.za.

Fees and charges

Permissible deductions from the Fund may include management fees, brokerage, securities transfer tax, auditor's fees, bank charges and custody fees. A schedule of fees, charges and maximum commissions is available on request from the Representative.

Total expense ratio (TER) and transaction costs

The 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) and other expenses like audit fees. Transaction costs (including brokerage, securities transfer tax and investor protection levies where applicable) are shown separately. There are no explicit brokerage charges in global bond markets. The broker rather takes an undisclosed spread between the purchase and sale price. The spread (charge) can vary from negligible to substantial depending on the asset and market circumstances. The disclosed transaction charge is therefore zero but in reality, there are transaction costs which reflect in the Fund's returns. We aim to minimise costs by keeping our trading activity to a minimum and always seeking out the most favourable price when buying and selling assets. 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 fund, 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 from published returns. As collective investment scheme 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).

African markets

There are significant risks involved in investing in securities listed in the Fund's universe of emerging and developing countries, including liquidity risks, sometimes aggravated by rapid and large outflows of "hot money" and capital flight, concentration risk, currency risks, political and social instability, the possibility of expropriation, confiscatory taxation or nationalisation of assets and the establishment of foreign exchange controls which may include the suspension of the ability to transfer currency from a given country. African countries have varying laws and regulations and, in some, foreign investment is controlled or restricted in varying degrees.

Capacity

The Fund currently has limited capacity. The Investment Manager may, at its discretion, refuse a subscription or phase a subscription into the Fund over a number of dealing days. Total investor redemptions may be limited to US$5m or 2.5% of the Fund (whichever is less) per dealing day. The Investment Manager retains the right to distribute all or part of any redemption proceeds in specie (in kind).

Fair value pricing

The board of directors of the Fund (the "Board") may fair value the Fund's assets in accordance with the Board's fair value pricing policies if: 1) the closing market quotations or official closing prices are not readily available or do not accurately reflect the fair value of a Fund asset; or 2) the value of a Fund asset has been materially affected by events occurring before the Fund's pricing time but after the close of the exchange or market on which the asset is principally traded. The Board delegates the responsibility for fair value pricing decisions to a valuation committee of the Investment Manager.

Contractual risk

The Fund can use derivatives to manage its exposure to currencies and/or interest rates and this exposes the Fund to contractual risk. Contractual risk includes the risk that a counterparty will not settle a transaction according to its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, causing the Fund to suffer a loss. Such contract counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Fund has concentrated its transactions with a single or small group of counterparties.

Derivatives

Borrowing, leveraging and trading securities on margin will result in interest charges and, depending on the amount of trading activity, such charges could be substantial. The low margin deposits normally required in futures and forward trading, which the Fund may utilise, permit a high degree of leverage. As a result, a relatively small price movement in a futures or forward contract may result in immediate and substantial losses to the investor. Price movements of forward contracts and other derivative contracts in which the assets of the Fund may be invested are highly volatile and are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programmes and policies of governments, and national and international political and economic events and policies. Forward contracts are not traded on exchanges and are not standardised; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Trading in forward contracts is substantially unregulated and there is no limitation on daily price movements.

FTSE/JSE All Share Index and FTSE/JSE All Bond Index

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Important information for investors

Need more information?

You can obtain additional information about the Fund, including copies of the prospectus, application forms and the annual report, free of charge, by contacting the Allan Gray service team, at **0860 000 654** or **+27 (0)21 415 2301** or by email at **allangraybermuda@allangray.com.**