Fund manager: Mark Dunley-Owen **Inception date:** 1 October 2004

Allan Gray Bond Fund

31 March 2019

Fund description and summary of investment policy

The Fund invests in South African interest bearing securities. Securities include national government, parastatal, municipal, corporate bonds and money market instruments. The Fund price is sensitive to interest rate movements because of the long-term nature of the Fund's investments. The duration of the Fund may differ materially from the benchmark. The Fund is managed to comply with investment limits governing retirement funds.

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

Fund objective and benchmark

The Fund aims to provide investors with a real return over the long-term and outperform the JSE All Bond Index at no greater risk.

How we aim to achieve the Fund's objective

We formulate a view of the long-term inflation rate. This forecast together with an estimate of a reasonable real return requirement for bond investors is used to determine a fair value for the various bonds in the South African market. The assets in the Fund are then optimised to give investors the highest returns based on the managers' fair value estimates.

Suitable for those investors who

- Seek a bond 'building block' for a diversified multi-asset class portfolio
- Are looking for returns in excess of those provided by money market or cash investments
- Are prepared to accept more risk of capital depreciation than in a money market or cash investment

Minimum investment amounts

Minimum lump sum per investor account	R20 000
Additional lump sum	R500
Minimum debit order*	R500

*Only available to investors with a South African bank account.

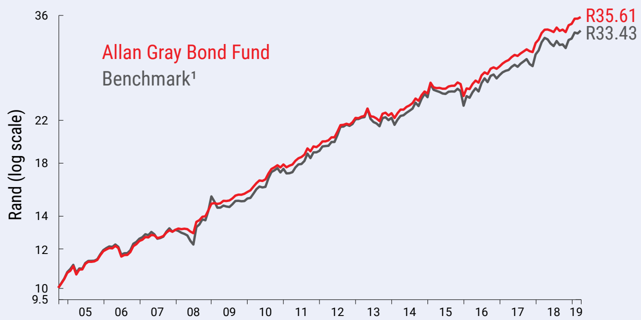
Fund information on 31 March 2019

Fund size	R1.7bn
Number of units	150 206 582
Price (net asset value per unit)	R11.45
Fund duration (years)	5.6
Gross yield (before fees)	9.4%
Class	A

1. JSE All Bond Index (source: IRESS), performance as calculated by Allan Gray as at 31 March 2019.
2. This is based on the latest numbers published by IRESS as at 28 February 2019.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 30 January 2015 to 11 December 2015 and maximum benchmark drawdown occurred from 29 January 2015 to 11 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. 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 January 2015 and the benchmark's occurred during the 12 months ended 31 January 2015. The Fund's lowest annual return occurred during the 12 months ended 31 January 2016 and the benchmark's occurred during the 12 months ended 31 January 2016. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested



% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (1 October 2004)	256.1	234.3	122.9
Annualised:			
Since inception (1 October 2004)	9.2	8.7	5.7
Latest 10 years	9.1	8.7	5.3
Latest 5 years	9.1	8.3	5.1
Latest 3 years	11.0	10.1	4.8
Latest 2 years	10.6	9.7	4.1
Latest 1 year	6.1	3.5	4.1
Year-to-date (not annualised)	3.2	3.8	0.5
Risk measures (since inception)			
Maximum drawdown[3]	-11.7	-14.4	n/a
Percentage positive months[4]	71.8	67.8	n/a
Annualised monthly volatility[5]	5.3	7.2	n/a
Highest annual return[6]	18.0	21.2	n/a
Lowest annual return[6]	-2.6	-5.6	n/a

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Meeting the Fund objective

Since inception and over the latest 10 years and five-year periods, the Fund has outperformed its benchmark. The Fund has provided returns in excess of CPI inflation for all three periods. The Fund aims to take no greater risk than its benchmark. The maximum drawdown and lowest annual return numbers, in the 'Performance net of all fees and expenses' table, show that the Fund has successfully reduced downside risk in periods of negative market returns.

Income distributions for the last 12 months

Actual payout, the Fund distributes quarterly	30 Jun 2018	30 Sep 2018	31 Dec 2018	31 Mar 2019
Cents per unit	**23.4296**	**23.2524**	**24.9249**	**22.9318**

Annual management fee

The fee rate is calculated daily by comparing the Fund's total performance over the last year, to that of the benchmark adjusted for Fund expenses and cash flows.

Minimum fee: 0.25% p.a. excl. VAT

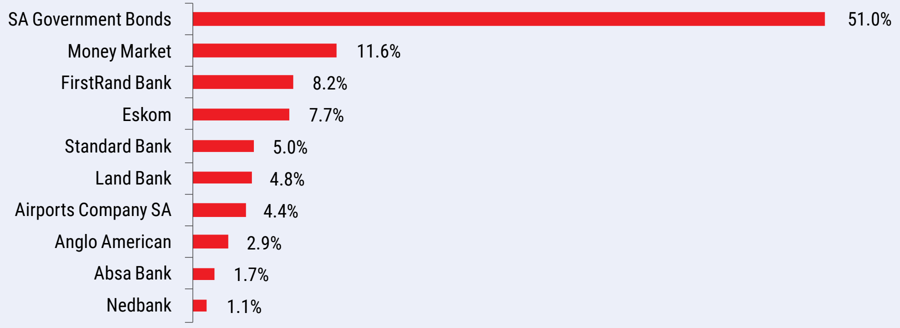
If the Fund outperforms its benchmark, for each percentage of performance above the benchmark we add 0.25% to the minimum fee to a maximum fee of 0.75% p.a. excl. VAT. The fee rate is applied to the daily value of the Fund.

Total expense ratio (TER) and Transaction costs

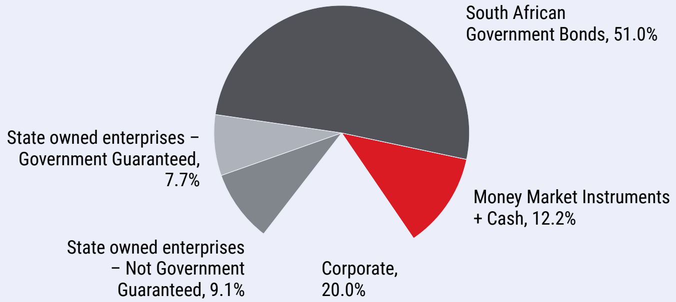
The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

TER and Transaction costs breakdown for the 1 and 3-year period ending 31 March 2019	1yr %	3yr %
Total expense ratio	**0.80**	**0.74**
Fee for benchmark performance	0.25	0.25
Performance fees	0.44	0.38
Other costs excluding transaction costs	0.01	0.02
VAT	0.10	0.09
Transaction costs (including VAT)	**0.00**	**0.00**
Total investment charge	**0.80**	**0.74**

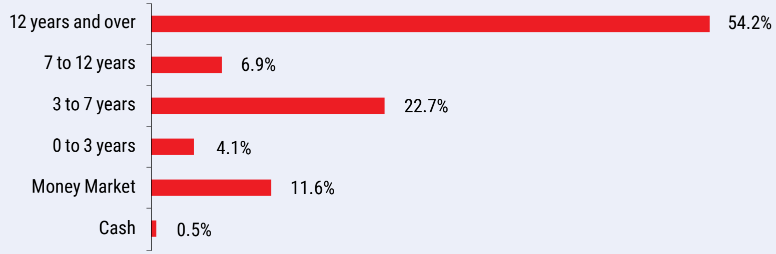
Top 10 credit exposures on 31 March 2019



Asset allocation on 31 March 2019



Maturity profile on 31 March 2019



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

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Fund manager quarterly commentary as at 31 March 2019

The current talking point in fixed income markets is the inversion of the US yield curve. This refers to the yield differential between long- and short-dated US government debt securities, for example, the 10-year bond and three-month Treasury bill. While the US economy is improving, the longer bond typically offers a higher yield than the short Treasury bill bond to entice investors to move out of riskier assets, such as equities, and extend fixed income duration. As the economy peaks, the US Federal Reserve raises short-term interest rates to control inflation, while investors move into longer-duration bonds, which typically outperform other assets in the down cycle. The yield curve differential goes to zero or negative, in which case the yield curve is said to be inverted.

This is important because an inverted yield curve has preceded every US recession since the mid-1950s. A simplistic explanation for why this happens is that the US fixed income market is the deepest investment market in the world, making it as good an economic predictor as one can get. In the current cycle, the yield differential between the US 10-year bond and three-month Treasury bill has declined from positive 380 basis points in mid-2009 to negative five basis points in March 2019. The conclusion being drawn is that if history repeats, a US recession is imminent.

Yield curve inversion is a popular topic of conversation because of its past predictive accuracy and simplicity. However, it ignores other factors which impact bond yields, the most important of which is the increased role played by Central Banks in manipulating interest rates. It is also unusual that something that everyone is talking about turns out to meet expectations; if this were the case, investing would be easier than it is. We are thus reluctant to assume a global recession based on a single data point.

A more interesting question is what would happen to South African bonds if a global recession did occur? South Africa typically tracks the world; therefore, the country's already weak economic growth should be expected to deteriorate further. This would be negative for South African risk assets, and the prices of equities would likely fall. It is, however, not clear what would happen to the prices of South African bonds as investors move out of riskier countries, such as South Africa, and move into lower risk assets such as bonds. Contrary to expectations, a global recession may be positive for SA bonds if falling US bond yields drag SA bond yields lower, and prices higher.

One should also remember that the SA economy has diverged from the global economy over recent years as negative domestic events have overwhelmed positive global trends. SA bond prices thus already reflect a concoction of local risks, in contrast to the prices of developed market bonds, which reflect the near-perfect bond conditions of recent times. It is probable that South African assets would outperform global assets if reality turns out to be not as bad as feared in South Africa, and not as good as hoped in the developed world.

The Fund's positioning remains consistent with recent quarters, offering above-inflation yield with some downside protection from below benchmark duration. Changes were made to the portfolio when opportunities presented themselves, including a small reduction in Eskom and increase in Land Bank and FirstRand exposure.

Commentary contributed by Mark Dunley-Owen

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Management Company

Allan Gray Unit Trust Management (RF) Proprietary Limited (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 11 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 Proprietary Limited (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)87 736 1732 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. Where annualised performance is mentioned, this refers to the average return per year over the period. Actual investor performance may differ as a result of the investment date, the date of reinvestment and applicable taxes.

Fund mandate

The Fund may be closed to new investments at any time in order to be managed according to its mandate. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The Fund may borrow up to 10% of its 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 Allan Gray Bond Fund yield is current, calculated as at month-end.

Fees

Permissible deductions may include management fees, brokerage, Securities Transfer Tax (STT), 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 [STT], STRATE and Investor Protection Levy and VAT thereon) are shown separately. Transaction costs are a necessary cost 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. 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**.