Allan Gray Bond Fund

30 September 2019

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

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

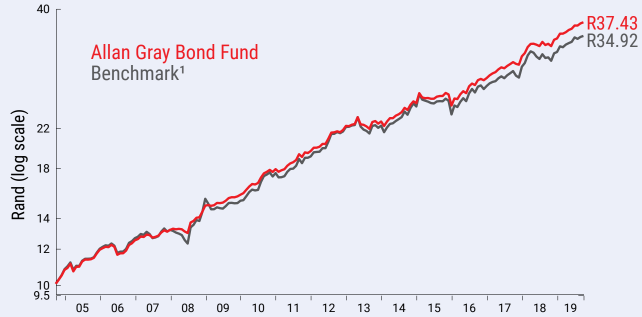
*Only available to investors with a South African bank account.

Fund information on 30 September 2019

Fund size	R2.4bn
Number of units	204 184 568
Price (net asset value per unit)	R11.55
Fund duration (years)	5.0
Gross yield (before fees)	9.2
Class	A

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)	274.3	249.2	128.9
Annualised:			
Since inception (1 October 2004)	9.2	8.7	5.7
Latest 10 years	9.2	8.8	5.1
Latest 5 years	9.3	8.3	4.9
Latest 3 years	10.2	8.9	4.7
Latest 2 years	10.6	9.3	4.6
Latest 1 year	11.5	11.4	4.3
Year-to-date (not annualised)	8.5	8.4	3.2
Risk measures (since inception)			
Maximum drawdown[3]	-11.7	-14.4	n/a
Percentage positive months[4]	72.2	68.3	n/a
Annualised monthly volatility[5]	5.2	7.1	n/a
Highest annual return[6]	18.0	21.2	n/a
Lowest annual return[6]	-2.6	-5.6	n/a

1. JSE All Bond Index (source: IRESS), performance as calculated by Allan Gray as at 30 September 2019.
2. This is based on the latest numbers published by IRESS as at 31 August 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.

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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	31 Dec 2018	31 Mar 2019	30 Jun 2019	30 Sep 2019
Cents per unit	**24.9249**	**22.9318**	**23.9501**	**25.3241**

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

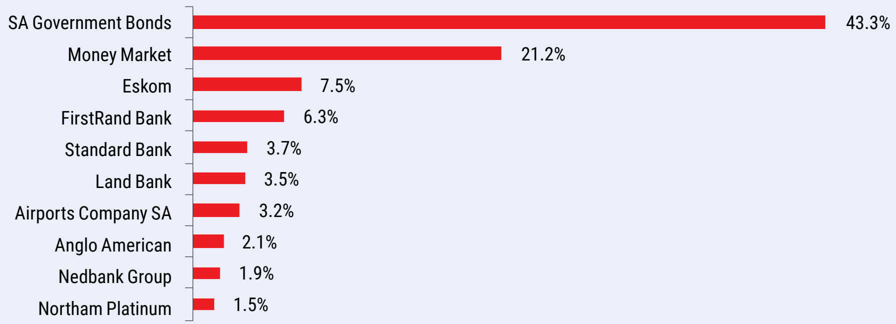
If the Fund outperforms its benchmark, for each percentage of performance above the benchmark we add 0.25% to the minimum fee to a maximum fee of 0.75% p.a. excl. VAT. The fee rate is applied to the daily value of the Fund.

Total expense ratio (TER) and Transaction costs

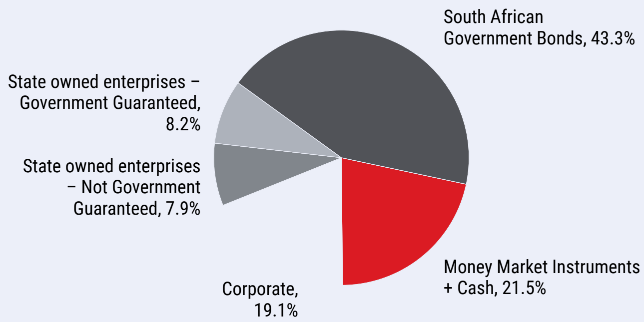
The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4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

TER and Transaction costs breakdown for the 1 and 3-year period ending 30 September 2019	1yr %	3yr %
Total expense ratio	0.71	0.72
Fee for benchmark performance	0.25	0.25
Performance fees	0.36	0.36
Other costs excluding transaction costs	0.01	0.02
VAT	0.09	0.09
Transaction costs (including VAT)	0.00	0.00
Total investment charge	**0.71**	**0.72**

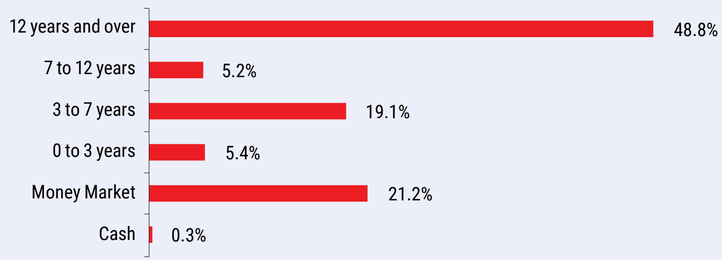
Top 10 credit exposures on 30 September 2019



Asset allocation on 30 September 2019



Maturity profile on 30 September 2019



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

Fund manager quarterly commentary as at 30 September 2019

US treasuries had a volatile quarter, with the benchmark 10-year yield starting at 2%, then falling to as low as 1.47% at the end of August, as a result of escalating trade concerns. Yields subsequently retraced to 1.79% as the hunt for yield resumed after dovish policy action from the Federal Reserve and other key central banks. The US treasury yield curve remains inverted – meaning that short-term yields are higher than longer-term yields. These inversions are noteworthy because they have historically preceded recessions.

In South Africa, real sovereign credit spreads ticked up during the quarter, with fiscal concerns coming under closer scrutiny. The SA government is facing a double whammy of increased spending to bail out struggling state-owned entities (SOEs) – with Eskom being the largest burden – together with revenue under-collection due to slow economic growth and rising unemployment. This will necessitate increased bond issuance if the shortfall cannot be sufficiently met by expenditure cuts elsewhere.

Despite the prevailing economic malaise, the domestic credit market has proven to be rather robust, with 2019 issuance on track to exceed last year's R115bn. Auction activity has been dominated by banks and corporates, while SOEs have largely avoided public auctions due to negative investor sentiment around the sector. Demand for credit assets also remains robust. Therefore, credit spreads have continued to tighten, although the rate of compression is slowing down relative to prior years.

During the quarter, we switched out of short-dated Eskom bonds into longer-dated bonds (both are government guaranteed) in order to capture the term premium, as the long bonds had a higher credit spread relative to the benchmark. We took advantage of a mid-August sell-off in bonds by adding a little bit of duration to the Fund. We also added some bank AT1 paper, which is floating rate and provides attractive credit spreads relative to SOEs, corporates and bank senior paper.

The Fund remains conservatively positioned, with duration significantly shorter than the All Bond Index and sufficient liquidity to take advantage of any sell-offs in the bond market that may provide attractive entry points.

Commentary contributed by Londa Nxumalo

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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.**

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