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

Allan Gray Bond Fund

31 July 2020

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 FTSE/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

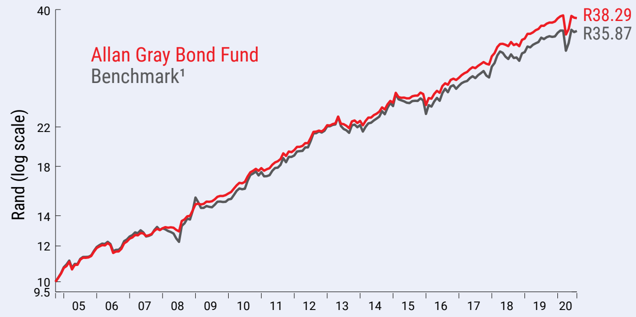
*Only available to investors with a South African bank account.

Fund information on 31 July 2020

Fund size	R5.0bn
Number of units	411 519 817
Price (net asset value per unit)	R10.78
Modified duration	6.0
Gross yield (before fees)	9.6
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)	282.9	258.7	132.6
Annualised:			
Since inception (1 October 2004)	8.8	8.4	5.5
Latest 10 years	8.4	7.9	5.0
Latest 5 years	8.3	7.4	4.5
Latest 3 years	8.4	7.8	3.7
Latest 2 years	6.3	6.1	3.3
Latest 1 year	4.0	4.3	2.2
Year-to-date (not annualised)	0.1	1.0	1.2
Risk measures (since inception)			
Maximum drawdown[3]	-18.9	-19.3	n/a
Percentage positive months[4]	71.6	67.9	n/a
Annualised monthly volatility[5]	6.0	7.6	n/a
Highest annual return[6]	18.0	21.2	n/a
Lowest annual return[6]	-2.6	-5.6	n/a

1. FTSE/JSE All Bond Index (source: IRESS), performance as calculated by Allan Gray as at 31 July 2020.
2. This is based on the latest available numbers published by IRESS as at 30 June 2020.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 27 February 2020 to 24 March 2020 and maximum benchmark drawdown occurred from 26 February 2020 to 23 March 2020. 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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Allan Gray Bond Fund

31 July 2020

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

Meeting the Fund objective

Since inception and over the latest 10- 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 Sep 2019	31 Dec 2019	31 Mar 2020	30 Jun 2020
Cents per unit	25.3241	24.7456	26.1980	23.3855

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

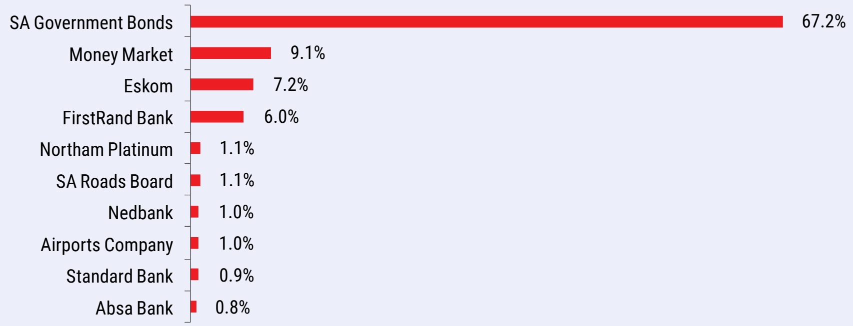
If the Fund outperforms its benchmark, for each percentage of performance above the benchmark we add 0.25% to the minimum fee to a maximum fee of 0.75% p.a. excl. VAT. The fee rate is applied to the daily value of the Fund.

Total expense ratio (TER) and Transaction costs

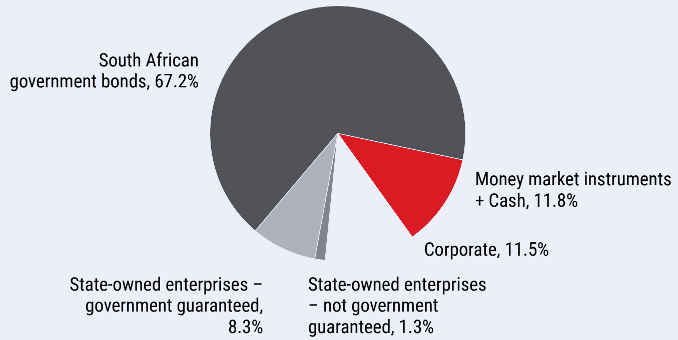
The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4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

TER and Transaction costs breakdown for the 1- and 3-year period ending 30 June 2020	1yr %	3yr %
Total expense ratio	**0.59**	**0.72**
Fee for benchmark performance	0.25	0.25
Performance fees	0.25	0.37
Other costs excluding transaction costs	0.01	0.01
VAT	0.08	0.09
Transaction costs (including VAT)	**0.00**	**0.00**
Total investment charge	**0.59**	**0.72**

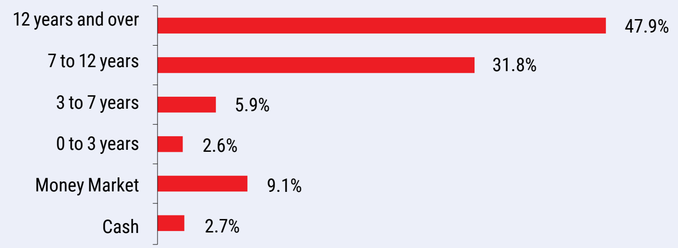
Top 10 credit exposures on 31 July 2020



Asset allocation on 31 July 2020



Maturity profile on 31 July 2020



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

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Fund manager quarterly commentary as at 30 June 2020

US treasury yields have come down dramatically in 2020. The benchmark 10-year yield, which started the year at 1.9%, is now hovering around historical lows at 0.6%. This is due to the US Federal Reserve (the Fed) unleashing an enormous amount of monetary stimulus in response to the COVID-19 crisis. Since January, the Fed has: (i) cut policy rates by a cumulative 150 basis points (bps), returning them to the post-global financial crisis (GFC) low of 0% to 0.25%, and (ii) grown its balance sheet from US$4.1tn to over US$7tn by purchasing various debt securities, including US treasuries. The Fed now owns over 20% of US government net debt and has committed to buying a further US$80bn per month.

Historically, such a large liquidity injection into the financial system would have been a boon for South Africa as the money found its way into emerging markets. But this has not been the case. Foreign investors have sold a net R59bn of South African bonds this year, with most of the selling (R53bn) happening in March, which resulted in bonds having a negative first quarter. Towards the end of March, the South African Reserve Bank (SARB) started buying government bonds to stabilise the market. Bonds had a positive second quarter as foreign investor sales abated and the SARB remained active in the market. The SARB has purchased over R20bn of government bonds since March.

Despite 275bps of interest rate cuts this year, our government real yields remain high by historical standards. At 6%, the real 10-year yield remains far above its long-term average of 3.5%. This is due to fiscal concerns. National Treasury increased its weekly bond auctions from R5.6bn to R7.5bn in May, and will be increasing them to R8.6bn in July, to plug a burgeoning budget deficit that is projected to exceed 15% of GDP this year. Inflation remains benign, with the last print at 3%, which bodes positively for nominal bonds despite the heightened fiscal risks.

The major credit event of the quarter was Land Bank defaulting on its R46bn of debt in April. Land Bank ran into liquidity problems after successive downgrades by Moody's in January and March 2020 resulted in numerous lenders withdrawing funding lines. This resulted in it being unable to repay maturing debts. Given the strategic importance of Land Bank to the agricultural sector, the government has announced a R3bn bailout. Land Bank is also in talks with investors to restructure its debt. The proposal sees investors exchanging their existing instruments for longer-dated instruments, which would offer an appropriate return and have a credit-enhanced element. Most importantly, investors will not be required to take haircuts on their existing instruments. Currently, 0.3% of the Allan Gray Bond Fund is invested in Land Bank bonds.

During the quarter, we sold out of municipal and Transnet bonds and took profit on senior bank paper. We bought long-dated nominal government bonds and added medium-term inflation-linked government bonds, as we believe these provide a more attractive return than credit. The Allan Gray Bond Fund is 90% invested in government bonds, money market instruments and government-guaranteed state-owned enterprises. We believe that this conservative positioning is warranted, given heightened risks in the credit space.

Commentary contributed by Londa Nxumalo

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).

FTSE/JSE All Bond Index

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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