Allan Gray Bond Fund

31 December 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 Bond Fund's goal is to deliver returns that exceed inflation and cash over the long term, without taking on undue risk. The Fund's benchmark is the FTSE/JSE All Bond Index.

How we aim to achieve the Fund's objective

We try to balance credit risk, duration risk and liquidity risk when selecting investments. We target total returns for investors rather than trying to mirror the returns of the FTSE/JSE All Bond Index. When we cannot find value in the bond markets, our portfolio will be weighted towards cash to get better returns.

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.

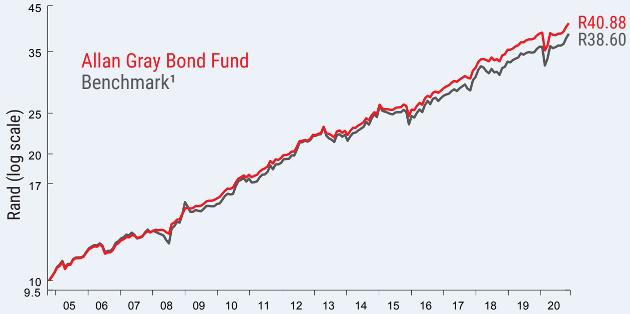
Fund information on 31 December 2020

Fund size	R5.2bn
Number of units	453 624 423
Price (net asset value per unit)	R11.26
Modified duration	5.3
Gross yield (before fees)	8.4
Class	A

1. FTSE/JSE All Bond Index (source: IRESS), performance as calculated by Allan Gray as at 31 December 2020.
2. This is based on the latest available numbers published by IRESS as at 30 November 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.

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)	308.8	286.0	137.0
Annualised:			
Since inception (1 October 2004)	9.1	8.7	5.5
Latest 10 years	8.6	8.2	5.1
Latest 5 years	10.7	10.4	4.6
Latest 3 years	9.0	8.9	4.0
Latest 2 years	8.9	9.5	3.4
Latest 1 year	6.9	8.7	3.2
Year-to-date (not annualised)	6.9	8.7	3.2
Risk measures (since inception)			
Maximum drawdown[3]	-18.9	-19.3	n/a
Percentage positive months[4]	72.3	68.2	n/a
Annualised monthly volatility[5]	5.9	7.5	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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ALLANGRAY

Fund manager: Londa Nxumalo **Inception date:** 1 October 2004

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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	31 Mar 2020	30 Jun 2020	30 Sep 2020	31 Dec 2020
Cents per unit	**26.1980**	**23.3855**	**24.3176**	**23.6527**

Annual management fee

A fixed fee of 0.5% p.a. excl. VAT

From 1 December 2020 to 30 November 2021, we will calculate both the above fixed fee and the previous performance-based fee each day and charge whichever is lower on the day. From 1 December 2021, only the above fixed fee will apply.

The previous performance-based fee rate is calculated by comparing the Fund's total performance over the previous year to that of the benchmark, adjusted for Fund expenses and cash flows. The minimum fee is 0.25% p.a. excl. VAT and, for each percentage of performance above the benchmark, the fee is increased by 0.25%, up to a maximum fee of 0.75% p.a. excl. VAT.

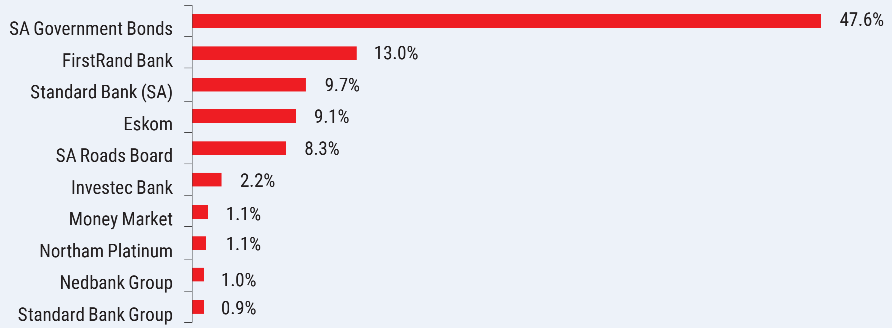
Total expense ratio (TER) and Transaction costs

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.

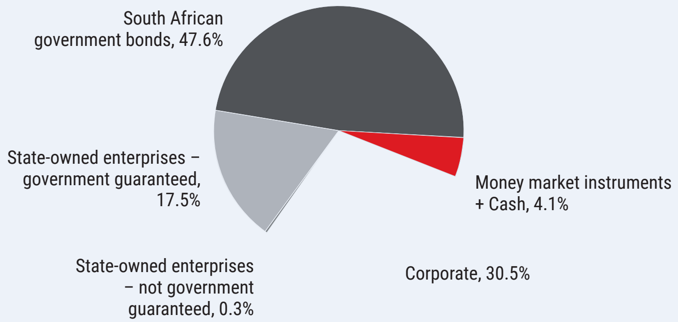
TER and Transaction costs breakdown for the 1- and 3-year period ending 31 December 2020	1yr %	3yr %
Total expense ratio	**0.48**	**0.63**
Fee for benchmark performance*	0.25	0.25
Performance fees*	0.16	0.29
Other costs excluding transaction costs	0.01	0.01
VAT	0.06	0.08
Transaction costs (including VAT)	**0.00**	**0.00**
Total investment charge	**0.48**	**0.63**

*On 1 December 2020, the Fund's annual management fee started transitioning to a fixed fee of 0.5% p.a. excl. VAT. See the 'Annual management fee' section for more information.

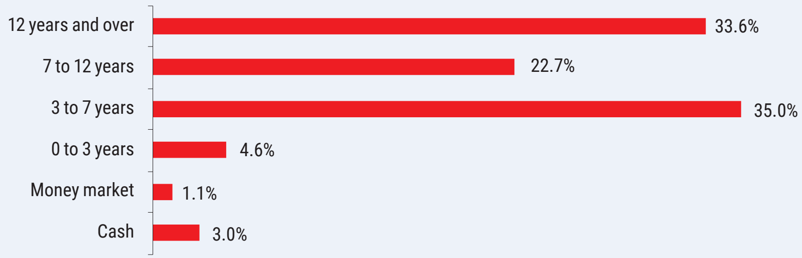
Top 10 credit exposures on 31 December 2020



Asset allocation on 31 December 2020



Maturity profile on 31 December 2020



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

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Fund manager quarterly commentary as at 31 December 2020

The novel coronavirus, COVID-19, rightfully consumed the minds of policymakers, investors, and everyday people in 2020. The first signs of what would eventually take an enormous human and economic toll emerged early in the year, with the Chinese lockdown and its ripple effect on trade reminding every industry and country what it means to be part of an interconnected global ecosystem. Lockdowns quickly cascaded through the rest of the world as policymakers tried to limit the spread of the virus, and the global economy sank into a recession.

The heightened uncertainty caused a spike in risk aversion, with global investors dumping risk assets in a dash for US dollar cash. The gravity of the economic, fiscal and market disruption led to unprecedented monetary stimulus being unleashed by developed market (DM) central banks, led by the Federal Reserve, European Central Bank, Bank of Japan, and Bank of England. This action was mimicked in a much smaller way by emerging market (EM) central banks – for example, Indonesia and South Africa – who were constrained by their lowly status in the global currency pecking order.

The South African bond market bears the distinction of being one of the most liquid among EMs. Therefore, this resulted in heavy selling of our bonds by global investors during quarter one's great flight to safety. The sell-off was further exacerbated by Moody's finally downgrading the country to sub-investment grade. Severe market dislocation resulted in the yield on the 10-year government bond peaking at 12.3% in March. The South African Reserve Bank (SARB) ultimately stepped in and started to purchase government bonds in small amounts to restore the proper functioning of the bond market.

South Africa is expected to post a fiscal deficit of 15.7% for 2020/21, the largest in generations. Government debt to GDP is expected to reach 81.8% by the close of the 2020/21 fiscal year, raising fiscal sustainability concerns. Foreign investors continued to sell South African bonds throughout the first half of the year, despite massive amounts of liquidity being pumped into financial markets by DM central banks. Foreign investor inflows only returned in the second half of the year, apparently off the back of Joe Biden winning the US presidential election (which is viewed as positive for EMs) and COVID-19 vaccine optimism. This reversal in sentiment means that actual outflows were only marginally negative for the year.

Inflation remained subdued throughout 2020 due to a collapse in the oil price and constrained demand when the country was under lockdown. Inflation has remained well below the SARB's 4.5% midpoint target, which has been positive for nominal bonds. Low inflation also allowed the SARB to cut the repo rate by a cumulative 300 basis points to support the economy. The yield curve is now steeper than a year ago, with the front end having been supported by the rate cuts, while elevated yields on the back end reflect long-term fiscal concerns. The combination of high nominal yields and low inflation makes real yields on nominal bonds extremely attractive at current levels.

The local credit market was not spared the tumult of 2020. Land Bank defaulted on R50 billion of debt. Credit spreads initially widened across all sectors as risk aversion started to infuse some semblance of reality into the rather lethargic corporate bond market. Banks and blue-chip corporates have been well bid in the latter half of the year, however, with credit spreads tightening due to strong investor demand. Parastatal credit spreads remain wider, with the development finance institutions being under particular pressure.

During the quarter, we took profit on long-dated government bonds purchased earlier in the year and reduced the duration of the Fund. We significantly reduced the exposure to Airports Company South Africa (ACSA), which once was a good credit but has been ruined by COVID-19. The company now faces a long, slow recovery and default risk has risen materially. Finally, we built up a holding in Standard Bank senior bonds. The duration of the Fund is currently one year less than that of the benchmark, with just over half of the Fund invested in long-dated bonds due to their attractive real yields. Around half of the Fund is invested in credit, consisting largely of government-guaranteed parastatals and senior bank bonds. The Fund seeks to strike a balance between being conservatively positioned, while taking advantage of high long-term yields.

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).

FTSE/JSE All Bond Index

The FTSE/JSE All Bond Index is calculated by FTSE International Limited ('FTSE') in conjunction with the JSE Limited ('JSE') in accordance with standard criteria. The FTSE/JSE All Bond Index is the proprietary information of FTSE and the JSE. All copyright subsisting in the FTSE/JSE All Bond Index values and constituent lists vests in FTSE and the JSE jointly. All their rights are reserved.

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**