

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*

Initial lump sum per investor account	R50 000
Additional lump sum	R1 000
Debit order**	R1 000

*Lower minimum investment amounts apply for investments in the name of an investor younger than 18. Please refer to our website for more information.

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

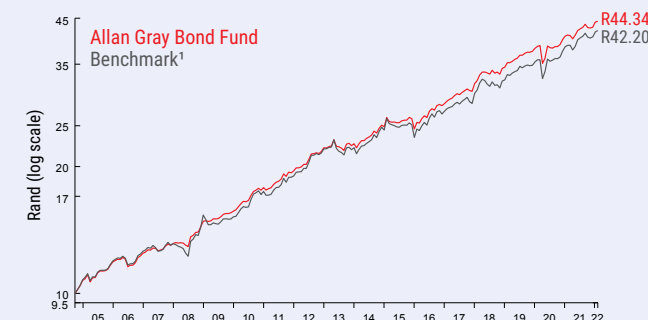
Fund information on 31 January 2022

Fund size	R6.3bn
Number of units	547 805 285
Price (net asset value per unit)	R10.97
Modified duration	6.1
Gross yield (before fees)	9.3
Class	A

1. FTSE/JSE All Bond Index (source: IRESS), performance as calculated by Allan Gray as at 31 January 2022.
2. This is based on the latest available numbers published by IRESS as at 31 December 2021.
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)	343.4	322.0	151.4
Annualised:			
Since inception (1 October 2004)	9.0	8.7	5.5
Latest 10 years	8.4	8.1	5.0
Latest 5 years	9.1	9.0	4.4
Latest 3 years	7.8	8.4	4.3
Latest 2 years	7.1	8.3	4.5
Latest 1 year	7.8	8.5	5.9
Year-to-date (not annualised)	0.5	0.9	0.6
Risk measures (since inception)			
Maximum drawdown ³	-18.9	-19.3	n/a
Percentage positive months ⁴	72.1	68.8	n/a
Annualised monthly volatility ⁵	5.8	7.4	n/a
Highest annual return ⁶	18.0	21.2	n/a
Lowest annual return ⁶	-2.6	-5.6	n/a

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 2021	30 Jun 2021	30 Sep 2021	31 Dec 2021
Cents per unit	22.5561	22.9999	23.8985	24.6430

Annual management fee

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

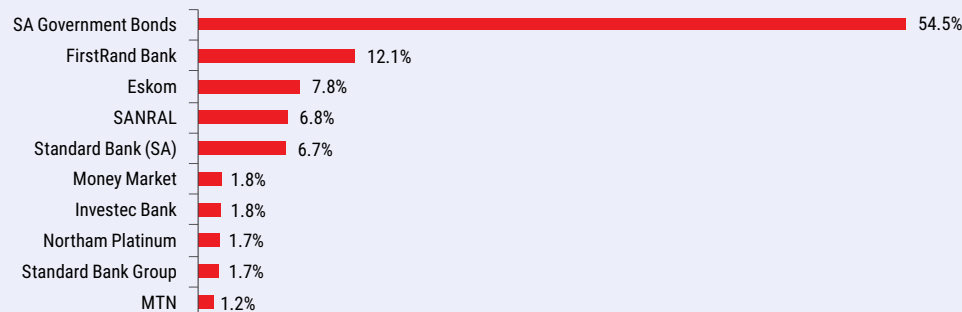
Total expense ratio (TER) and transaction costs

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.

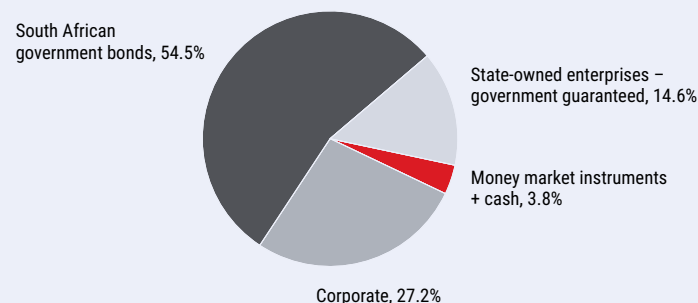
TER and transaction costs breakdown for the 1- and 3-year period ending 31 December 2021	1yr %	3yr %
Total expense ratio	0.32	0.49
Fee for benchmark performance*	0.27	0.26
Performance fees*	0.00	0.16
Other costs excluding transaction costs	0.01	0.01
VAT	0.04	0.06
Transaction costs (including VAT)	0.00	0.00
Total investment charge	0.32	0.49

*On 1 December 2021, the Fund's annual management fee changed from the previous performance-based fee to the current fixed fee of 0.5% p.a. excl. VAT.

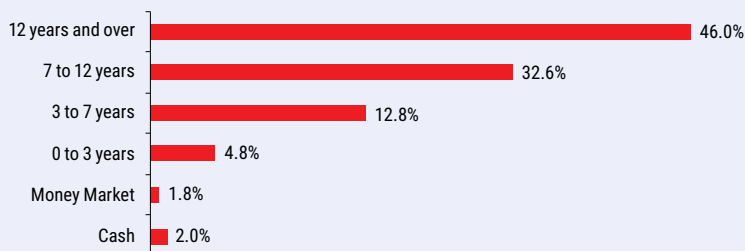
Top 10 credit exposures on 31 January 2022



Asset allocation on 31 January 2022



Maturity profile on 31 January 2022



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

The year 2021 started off on a strong note, given the low base set by the previous year. Economies bounced back strongly after a non-repetition of the stringent lockdowns of 2020. This also led to rising commodity prices due to recovering demand, which was a boon for commodity-exporting countries, including those in emerging markets (EMs). The broad increase in asset prices – termed “reflation” – was seen as the inevitable effect of a growing, more prosperous economy. Any sign of *inflation* (the malignant kind that results from too much money chasing too few goods) was seen as merely “transitory”, to quote the storied US Federal Reserve (the Fed).

However, fears soon began to surface that increasingly pervasive *inflation* would, in fact, be more persistent than the markets had been led to believe. This rude awakening was prelude by rising global food and energy prices, supply chain disruptions and bottlenecks against a backdrop of heightened reopening demand, and worker shortages creating fears of a wage spiral. Aside from the effects of latent demand coming back online as economies reopened, this resurgent inflation was the inevitable result of loose fiscal *and* monetary policy; the US is a prime example of this kind of profligacy. US inflation printed at 6.8% in November – the highest in a generation.

Central banks around the world began to act against rising inflation. Not wanting to be caught behind the curve, major EM central banks – such as those in Brazil, Russia, Mexico and Poland – led the charge. The South African Reserve Bank, warily watching inflation while still desiring to support the economy, joined the fray in November by hiking its repo rate from 3.5% to 3.75%. Credibility is all the more important for EM central bankers, given these countries’ dependence on global capital flows. Meanwhile, only *some* developed market (DM) central banks started withdrawing their monetary stimulus – such as Norway, New Zealand and Canada – while major DM central banks, i.e. the Fed, European Central Bank and Bank of England, remained laggards, although the Fed finally announced the beginning of its bond purchase tapering programme in early November. However, the Omicron variant threw a spanner in the works in late November, resulting in rapid border closures and travel restrictions across many countries, with implications for further global supply chain disruptions and dire effects for tourism industries, especially in EMs.

South Africa experienced its own economic recovery due to less stringent lockdown restrictions, although growth in the third quarter was negatively affected by the July unrest. The high commodity prices gave a positive boost to the country’s terms of trade, as well as government revenues. However, the strong revenue overrun came against the backdrop of pressing and conflicting fiscal priorities. On the one side, escalating spending pressures in the form of a bloated civil service wage bill, troubled state-owned entities (SOEs), and a proposed basic income grant. On the other side, arresting South Africa’s debt accumulation, which is unsustainable in the absence of markedly higher economic growth. Positively, the National Treasury reduced its bond auction sizes twice during the year, with a total 40% reduction.

Credit issuance during 2021 surpassed the total amount issued in 2020, but is yet to return to pre-pandemic levels. Nonetheless, issuances were more consistent throughout the year than the long dry spell experienced in the middle of 2020. Credit spreads continued to tighten due to strong investor demand, with the exception of the parastatal sector (municipalities and SOEs), which continues to be largely unloved due to heightened risks and poor transparency. Bonds that reference environmental and social parameters are becoming a regular theme in the domestic market, with over R10 billion of these types of instruments issued in 2020 – a record. Sizeable issuers in this space during the year were Netcare, Rand Water, Redefine Properties and Standard Bank.

The Allan Gray Bond Fund seeks to strike a reasonable balance between liquidity, credit and duration risk. Currently, the Fund is more or less evenly split between government bonds and credit, which mostly comprises the big South African banks and government guaranteed SOE bonds. During the fourth quarter, we added Northam Platinum and switched into longer-dated Standard Bank senior debt. We also added FirstRand and government inflation-linked bonds due to their attractive real rates. The duration of the Fund is 0.6 years lower than that of the FTSE/JSE All Bond Index.

Commentary contributed by Londa Nxumalo

Fund manager quarterly commentary as at 31 December 2021

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Management Company

Allan Gray Unit Trust Management (RF) (Pty) Ltd (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 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 (Pty) Ltd (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. Actual investor performance may differ as a result of the investment date, the date of reinvestment and applicable taxes.

Fund mandate

Funds may be closed to new investments at any time in order to be managed according to their mandates. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The funds may borrow up to 10% of their 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, 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, Share Transactions Totally Electronic (STRATE) and FSCA Investor Protection Levy and VAT thereon) are shown separately. 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 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 24 of 1956. 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

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Important information for investors

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