Allan Gray

Fund manager: Londa Nxumalo Inception date: 1 October 2004

Allan Gray Bond Fund

30 April 2022

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.

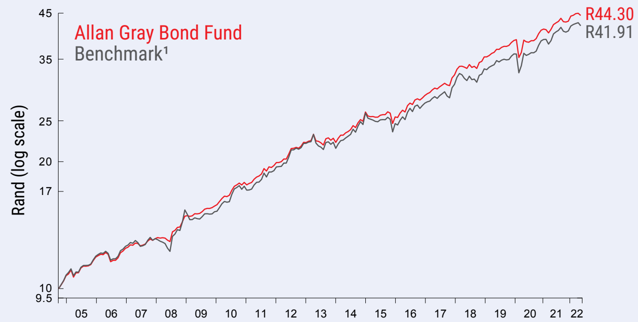
Fund information on 30 April 2022

Fund size	R6.5bn
Number of units	567 650 694
Price (net asset value per unit)	R10.73
Modified duration	5.8
Gross yield (before fees)	10.0
Class	A

1. FTSE/JSE All Bond Index (source: IRESS), performance as calculated by Allan Gray as at 30 April 2022.
2. This is based on the latest available numbers published by IRESS as at 31 March 2022.
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)	343.0	319.1	155.8
Annualised:			
Since inception (1 October 2004)	8.8	8.5	5.5
Latest 10 years	8.1	7.8	5.0
Latest 5 years	8.5	8.2	4.3
Latest 3 years	7.1	7.6	4.4
Latest 2 years	10.6	11.5	4.6
Latest 1 year	7.8	8.4	5.9
Year-to-date (not annualised)	0.3	0.1	2.4
Risk measures (since inception)			
Maximum drawdown[3]	-18.9	-19.3	n/a
Percentage positive months[4]	72.0	68.7	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

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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	30 Jun 2021	30 Sep 2021	31 Dec 2021	31 Mar 2022
Cents per unit	22.9999	23.8985	24.6430	23.9256

Annual management fee

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

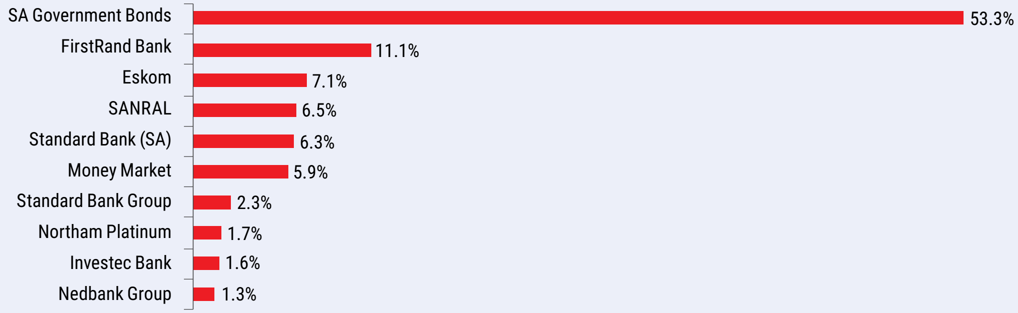
Total expense ratio (TER) and transaction costs

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.

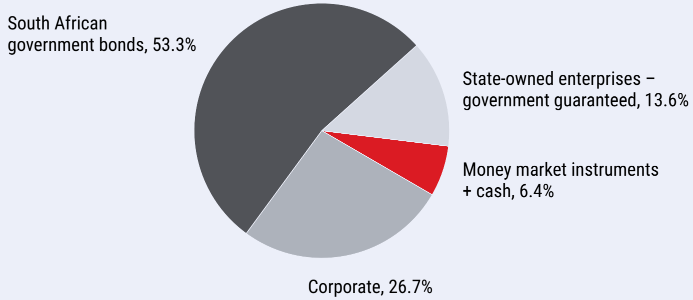
TER and transaction costs breakdown for the 1- and 3-year period ending 31 March 2022	1yr %	3yr %
Total expense ratio	**0.39**	**0.47**
Fee for benchmark performance*	0.33	0.28
Performance fees*	0.00	0.12
Other costs excluding transaction costs	0.01	0.01
VAT	0.05	0.06
Transaction costs (including VAT)	**0.00**	**0.00**
Total investment charge	**0.39**	**0.47**

*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.

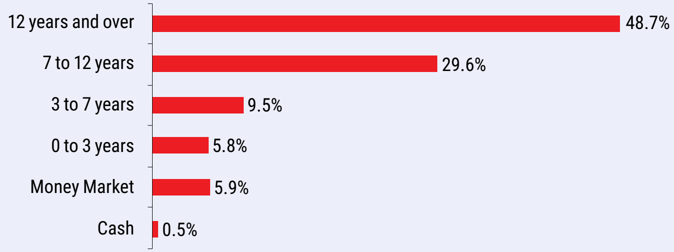
Top 10 credit exposures on 30 April 2022



Asset allocation on 30 April 2022



Maturity profile on 30 April 2022



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

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Fund manager quarterly commentary as at 31 March 2022

The narrative about inflation being transitory – a common refrain among major central banks during the pandemic recovery period – has decisively been put to rest. Developed country policymakers are increasingly waking up to the reality of persistently higher prices, and this has been a rude awakening: US inflation reached 40-year highs in February, printing at a whopping 7.9%. During the quarter, the Federal Reserve ended its asset purchase programme and embarked on its first rate hike of 25 basis points. The Bank of England implemented its third rate hike in a row, while the European Central Bank announced the winding down of asset purchases from the end of March.

If the major central banks were still in bed recovering from the rude inflationary wake-up call, then Russia's invasion of Ukraine must have been akin to being splashed with a bucket of ice cold water. The sanctions imposed on Russia resulted in the oil price touching US$140 per barrel, the highest since 2008. The conflict has also affected global food prices, given that Russia and Ukraine are large wheat exporters. The sad reality is that the conflict has not only resulted in unjustifiable human suffering and loss of life in Ukraine but has also exported economic pain to the rest of the world through higher food and fuel prices, which have a particularly harmful effect on people in developing countries.

The domestic environment has been rather tame compared to the upheaval observed in other parts of the world. The South African Reserve Bank implemented two 25 basis point rate hikes in a bid to normalise monetary policy and contain inflation that is hovering just below the 6% upper bound. February saw Finance Minister, Enoch Godongwana, deliver his maiden Budget speech. It was a bullish budget due to revenue overshooting relative to the upwardly revised November estimates, largely owing to the continued outperformance of commodities.

Some of this extra revenue was used to extend the COVID-19 Social Relief of Distress grant for another year. The Budget also pencilled in minimal salary increases for civil servants and made no provision for new bailouts of state-owned enterprises (SOEs) – these two items have been leading threats to fiscal sustainability in recent years. In a final boost to the fiscus, the Constitutional Court exonerated the government from having to make good on the final year of a previous wage deal, which the government had reneged on due to affordability concerns.

Credit spreads in the domestic market appear to have stabilised at low levels. Furthermore, more and more auctions have been clearing towards the top end of guidance – another indicator of the potential end of the spread contraction seen over the past few years. Notable issuances came from Fortress REIT, which privately placed sustainability-linked bonds worth R1.3bn, and Transnet, which held its first auction in several years, raising a total of R2bn.

During the quarter, we switched from short-dated to long-dated FirstRand senior bonds, sold low-yielding Standard Bank and MTN paper, and added duration ahead of what we anticipated would be a positive budget. Half of the Fund is invested in liquid, long-dated government bonds, which are offering good value at current yields. This is balanced against bank bonds, other fixed rate credit, floating rate notes and inflation-linked bonds – all of which tend to be defensive during bouts of risk aversion. The Fund's modified duration is 0.6 years less than that of the FTSE/JSE All Bond Index.

Commentary contributed by Londa Nxumalo

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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)11 301 6335 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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