

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 achieve 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.

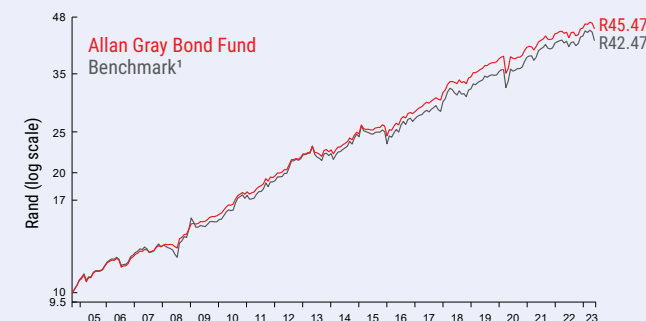
Fund information on 31 May 2023

Fund size	R6.3bn
Number of units	606 734 194
Price (net asset value per unit)	R10.00
Modified duration	4.4
Gross yield (before fees)	11.8
Class	A

1. FTSE/JSE All Bond Index (source: IRESS), performance as calculated by Allan Gray as at 31 May 2023.
2. This is based on the latest available numbers published by IRESS as at 30 April 2023.
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)	354.7	324.7	174.9
Annualised:			
Since inception (1 October 2004)	8.5	8.1	5.6
Latest 10 years	7.4	6.7	5.1
Latest 5 years	6.3	6.2	4.9
Latest 3 years	5.5	5.6	5.7
Latest 2 years	3.9	2.9	6.4
Latest 1 year	2.0	0.3	6.8
Year-to-date (not annualised)	-0.5	-2.7	2.4
Risk measures (since inception)			
Maximum drawdown ³	-18.9	-19.3	n/a
Percentage positive months ⁴	71.4	68.3	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

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 2022	30 Sep 2022	31 Dec 2022	31 Mar 2023
Cents per unit	24.5459	25.6894	25.0699	24.7203

Annual management fee

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

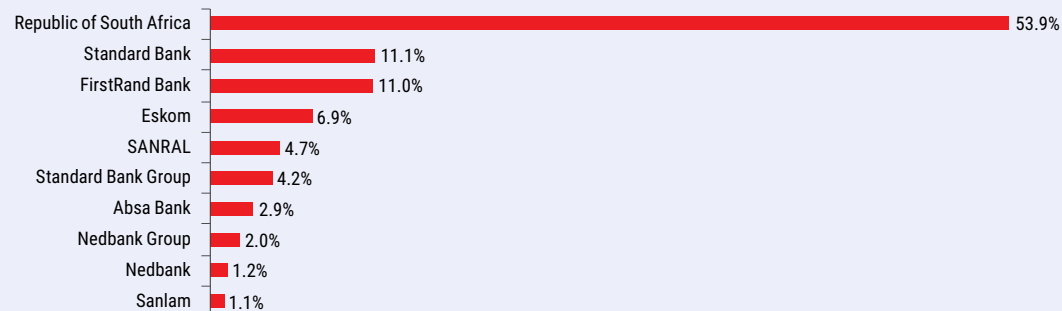
Total expense ratio (TER) and transaction costs (updated quarterly)

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.

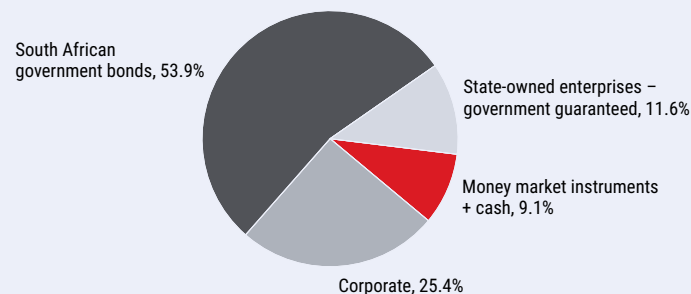
TER and transaction costs breakdown for the 1- and 3-year period ending 31 March 2023	1yr %	3yr %
Total expense ratio	0.59	0.46
Fee for benchmark performance*	0.50	0.36
Performance fees*	0.00	0.03
Other costs excluding transaction costs	0.01	0.01
VAT	0.08	0.06
Transaction costs (including VAT)	0.00	0.00
Total investment charge	0.59	0.46

*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.

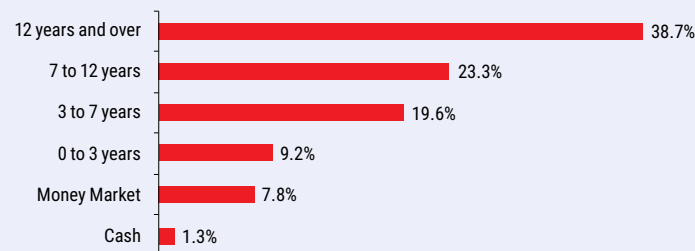
Top 10 credit exposures on 31 May 2023



Asset allocation on 31 May 2023



Maturity profile on 31 May 2023



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

The notion of **avoiding undue risk** is at odds with the reckless abandon that we have observed many market players partaking in during what is often termed the global “hunt for yield” of the last decade. This notion is especially pertinent in present times given the financially imprudent way in which several US banks have conducted themselves, resulting in their collapse. Silicon Valley Bank imploded in part because it took on excessive duration risk (a measure of interest rate sensitivity) by ploughing cash into long-dated US Treasury government bonds and mortgage-backed securities during 2020. The bank’s risk and asset-liability committees ignored recommendations to reduce this duration risk – after all, it would have given up yield and this could have reduced its “earnings”.

As interest rates rose in the US, the market value of Silicon Valley Bank’s bonds fell to such a great degree that the bank became insolvent – meaning that the mark-to-market value of its assets fell below that of its equity. However, optically things “appeared” to be fine because, very importantly, the bank had designated a disproportionately large portion of these securities as “hold-to-maturity” assets. This means that the bank was not required to mark them to current market prices. While it is common practice for banks to own some “hold-to-maturity” assets, this is typically a small portion of their asset base. They use interest rate derivatives to hedge out a large portion of their risk to rising interest rates, even if this comes at a cost – something which Silicon Valley Bank did not do.

The death knell for Silicon Valley Bank was when their concentrated group of venture capital depositors caught wind of the fact that trouble was afoot and pulled their deposit cash in unison – forcing the bank to sell Treasury assets and to *realise* the concealed mark-to-market losses in order to generate liquidity to pay out depositors. The chickens had come home to roost. The moral of the bank’s unravelling highlights two key cautionary tales: that of not taking on undue risk and that of the importance of marking to market one’s portfolio. On the latter point, we note with concern the growth in popularity of highly structured bilateral notes and products with attractive yields wherein the mark-to-market value is concealed. This is a strategy we will never consider.

The Fund continues to be managed with the unchanged aim to deliver returns above inflation and cash over the long term – but perhaps most importantly to do so without taking on undue risk. Using current inflation, the Fund’s simple weighted average yield is 10.8%. That said, we maintain a lower modified duration of 4.8, which measures the Fund’s interest rate risk sensitivity, versus that of the FTSE/JSE All Bond Index at 6.1. We remain cognisant that the South African government’s debt-to-GDP estimates presented at the National Budget may have underestimated the degree to which heightened loadshedding will negatively impact corporate profitability and tax revenue collection, raising the fiscal deficit. We also remain alive to the real risks associated with slippages in government spending, as we are already seeing in the recent public sector wage agreement.

During the quarter, the Fund reduced duration risk and took profit as bond prices rose beyond our estimates of fair value in February, and then subsequently added back a small portion as 20-year bond yields reached close to 12% in March, amid global risk-off sentiment. The Fund also added to money market and floating rate notes in the run-up to the March meeting of the Monetary Policy Committee, where the South African Reserve Bank hiked the repo rate to a 14-year high and one-year deposits traded to 9.1%.

Commentary contributed by Thalia Petousis

Changes to the Allan Gray Bond Fund, effective 1 February 2023

Londa Nxumalo managed the Fund until 31 January 2023. After six years at Allan Gray, Londa is joining our sister company, Orbis. We are fortunate that she will remain within the broader group and continue to contribute to the fixed interest research and investment process. We are pleased to announce that from 1 February 2023, portfolio manager Thalia Petousis started managing the Fund. Thalia joined Allan Gray in 2015 and has been managing fixed interest assets since 2019.

Fund manager quarterly commentary as at 31 March 2023

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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 (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 the prescribed regulatory 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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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**