Fund manager: Thalia Petousis **Inception date:** 1 October 2004

Allan Gray Bond Fund

30 June 2023

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.

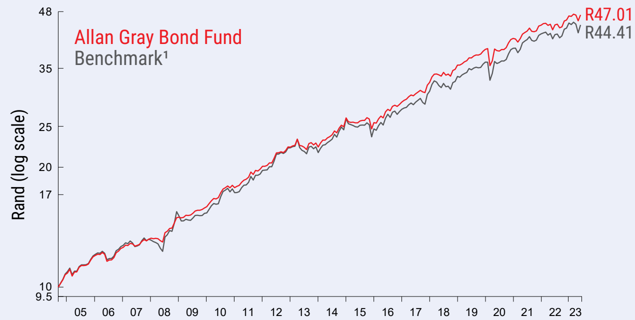
**Only available to investors with a South African bank account.

Fund information on 30 June 2023

Fund size	R6.5bn
Number of units	607 463 639
Price (net asset value per unit)	R10.34
Modified duration	4.4
Gross yield (before fees)	11.4
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)	370.1	344.1	175.4
Annualised:			
Since inception (1 October 2004)	8.6	8.3	5.6
Latest 10 years	7.7	7.4	5.2
Latest 5 years	7.2	7.4	4.9
Latest 3 years	7.0	7.6	6.0
Latest 2 years	5.1	4.7	6.4
Latest 1 year	8.8	8.2	6.3
Year-to-date (not annualised)	2.9	1.8	2.6
Risk measures (since inception)			
Maximum drawdown[3]	-18.9	-19.3	n/a
Percentage positive months[4]	71.6	68.4	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

1. FTSE/JSE All Bond Index (source: IRESS), performance as calculated by Allan Gray as at 30 June 2023.
2. This is based on the latest available numbers published by IRESS as at 31 May 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.

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Meeting the Fund objective

Since inception and over the latest 10-year period, the Fund has outperformed its benchmark. Over the latest five-year period, the Fund has underperformed 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 2022	31 Dec 2022	31 Mar 2023	30 Jun 2023
Cents per unit	**25.6894**	**25.0699**	**24.7203**	**26.0679**

Annual management fee

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

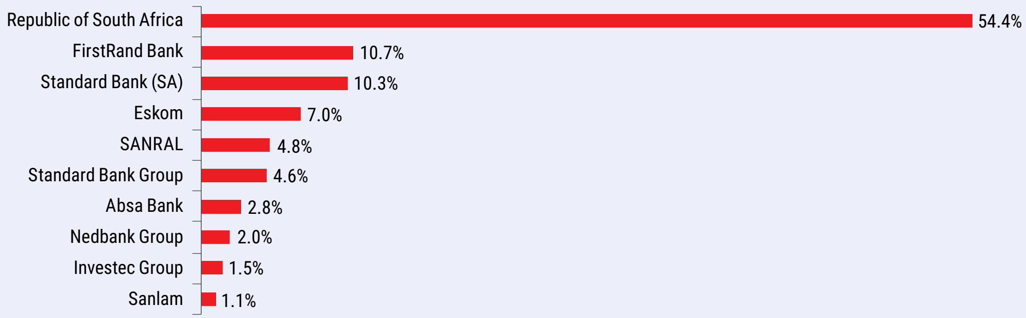
Total expense ratio (TER) and transaction costs (updated quarterly)

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.

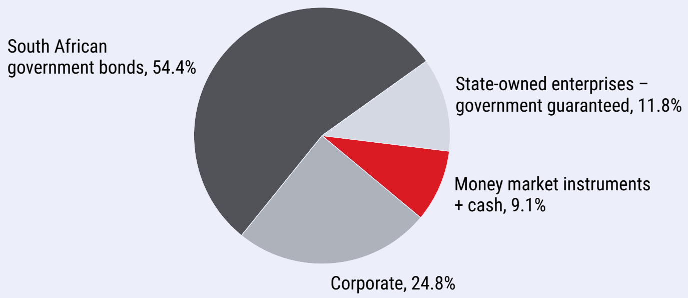
TER and transaction costs breakdown for the 1- and 3-year period ending 30 June 2023	1yr %	3yr %
Total expense ratio	**0.59**	**0.45**
Fee for benchmark performance*	0.50	0.38
Performance fees*	0.00	0.00
Other costs excluding transaction costs	0.01	0.01
VAT	0.08	0.06
Transaction costs (including VAT)	**0.00**	**0.00**
Total investment charge	**0.59**	**0.45**

*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.

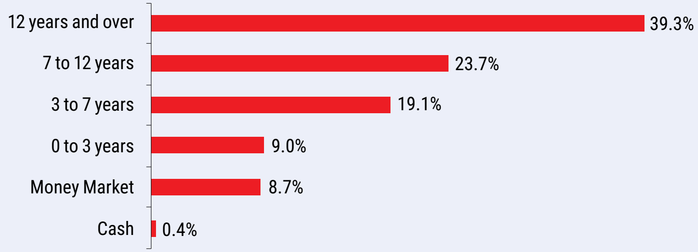
Top 10 credit exposures on 30 June 2023



Asset allocation on 30 June 2023



Maturity profile on 30 June 2023



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

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Fund manager quarterly commentary as at 30 June 2023

The second quarter of 2023 has seen negative returns for holders of SA government bonds, with the 20-year bond selling off from a yield of 11.7% to as high as 12.8% during the period. To contextualise this move, it roughly equates to a 7% price loss on the 20-year bond – a drawdown too large to be absorbed by the interest coupon accrual over such a short period. Not only have foreign investors stopped reinvesting their SA government bond coupons for some time, but National Treasury data suggests that they were also net sellers of roughly R30bn of SA bonds over the fiscal year 2022/2023. Over the period from March 2018 to May 2023, ownership of SA government bonds by foreigners has fallen materially from a peak of 43% to 25%. Some of this decline is the result of foreign investors simply "standing still" against a tide of significant government bond issuance over the period, the burden of which fell on local participants to absorb alone.

There is arguably a confluence of reasons for foreigners' lacklustre interest in our bonds, the most important of which is structural, given that we are no longer a member of the World Government Bond Index following our 2020 credit rating downgrade to sub-investment grade. For many passive offshore bond managers, it is as though we do not exist. For active managers, the investment case has likely been weakened by our anaemic growth rates, shortage of energy, large structural twin deficits (i.e. the fiscal and current account), as well as political and upcoming election risk. Foreigners are also now able to invest "risklessly" in core US markets at overnight rates of 5%, keeping in mind that the US dollar return of the FTSE/JSE All Bond Index (ALBI) has been relatively flat over the last five to 10 years. During the last quarter, investor sentiment was also severely dented by the risk of secondary sanctions in South Africa. The country's neutral official stance on the Russia-Ukraine war is perceived by certain foreign parties as unconvincing.

There have also been calls from a group of US legislators not to renew South Africa's favourable access to the US market via the African Growth and Opportunity Act (AGOA) when the current agreement expires in 2025. This would have negative consequences both for SA industries, such as the auto sector, who have benefited from it over the last 20 years, as well as for SA government revenue via downstream tax collections.

A popular question that I am asked is why we remain underweight duration given the relative cheapness of SA bond yields. Going "long" SA government bonds has been a consensus local trade for some time: The average holding of government paper represents 19% of SA balanced or "multi-asset" funds and 17% of SA bank assets – a historical high. The downside to this crowded positioning is that in a situation where supply of paper is large (whether due to foreigner sales or SA government running a larger deficit than expected), there is little room across local institutions to support the bonds, even if the yield has surpassed their expectation of "fair value". When there are *structural* impediments to a fair value being reached, for example if the size and growth of the local savings pool are inadequate to swallow the volume of debt on offer, one must interrogate the value of such a model.

During the quarter, the Fund added to money market instruments above 10% yield and maintained its relative duration positioning by adding to SA government bonds above 12.5% yield. The Fund is still able to achieve a weighted average yield marginally higher than the ALBI for a lower degree of both interest rate and SA government risk, given the attractiveness of cash and floating yields. The Fund remains conservatively positioned with 58% invested in fixed-rate bonds and 42% invested across floating-rate notes, money market instruments and short-dated inflation-linked bonds.

Commentary contributed by Thalia Petousis

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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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