

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

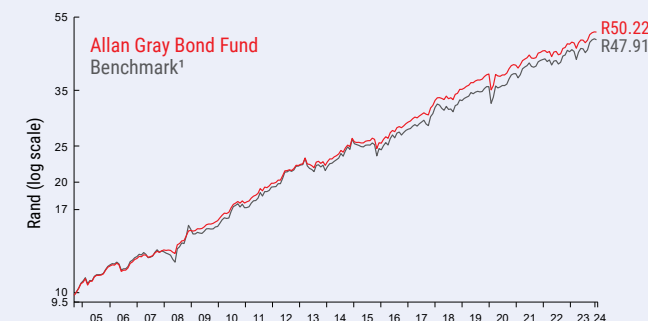
Fund information on 29 February 2024

Fund size	R7.8bn
Number of units	633 503 994
Price (net asset value per unit)	R10.22
Modified duration	4.2
Gross yield (before fees)	11.3
Class	A

1. FTSE/JSE All Bond Index (source: IRESS), performance as calculated by Allan Gray as at 29 February 2024.
2. This is based on the latest available numbers published by IRESS as at 31 January 2024.
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)	402.2	379.1	183.4
Annualised:			
Since inception (1 October 2004)	8.7	8.4	5.5
Latest 10 years	8.3	8.1	5.1
Latest 5 years	7.3	7.7	5.1
Latest 3 years	7.0	7.2	6.0
Latest 2 years	5.9	6.3	6.1
Latest 1 year	7.7	7.6	5.3
Year-to-date (not annualised)	0.4	0.1	0.1
Risk measures (since inception)			
Maximum drawdown ³	-18.9	-19.3	n/a
Percentage positive months ⁴	71.2	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

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	31 Mar 2023	30 Jun 2023	30 Sep 2023	31 Dec 2023
Cents per unit	24.7203	26.0679	25.7014	26.6398

Annual management fee

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

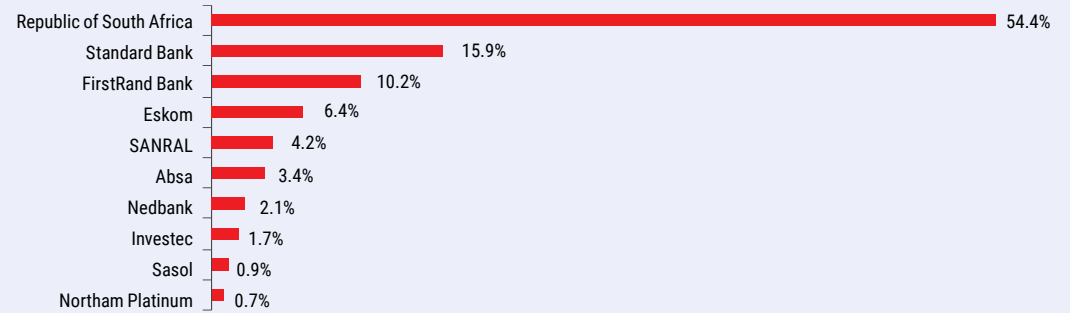
Total expense ratio (TER) and transaction costs (updated quarterly)

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.

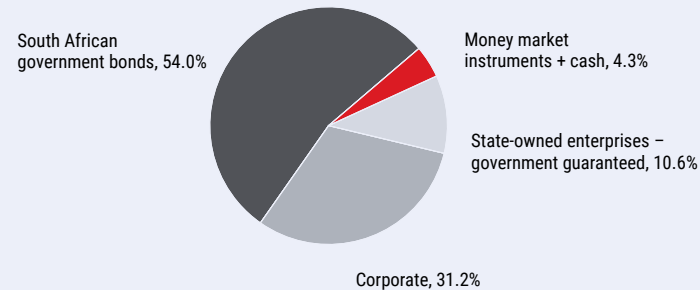
TER and transaction costs breakdown for the 1- and 3-year period ending 31 December 2023	1yr %	3yr %
Total expense ratio	0.59	0.49
Fee for benchmark performance*	0.50	0.42
Performance fees*	0.00	0.00
Other costs excluding transaction costs	0.01	0.01
VAT	0.08	0.06
Transaction costs (including VAT)	0.00	0.00
Total investment charge	0.59	0.49

*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.

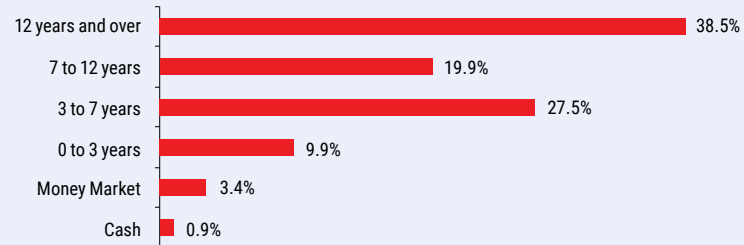
Top 10 credit exposures on 29 February 2024



Asset allocation on 29 February 2024



Maturity profile on 29 February 2024



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

2023 was another volatile year for bonds both locally and offshore. When measured from the price high in January 2023 to the price low in late September 2023, the SA 20-year government bond fell from a price of 81 cents down to 69 cents on the rand, or a 15% clean price deterioration. While interest coupons cushioned just over half of that drawdown for bondholders, it was still undoubtedly a tumultuous period for the fixed interest market. When performing the same calculation for US Treasury bonds of an equivalent maturity over that period, the returns were similar even when measured in rand terms. For much of the year, there was simply no safe place to hide for a long-duration fixed-rate bondholder, highlighting the current importance of diversified fixed interest exposure across floating-rate paper, inflation-linked bonds, and money market instruments, as is held in the Fund at attractive yields.

In the final quarter of 2023, US and SA bonds staged a recovery from those pricing lows. Part of the rationale underlying this move is that the market is eagerly anticipating the start of the US Federal Reserve's (the Fed's) interest rate cutting cycle, with expectations for the overnight rate to fall from 5.5% to closer to 4% over the course of 2024. Fed chairman Jerome Powell does not explicitly endorse such an outlook, instead emphasising his desire to pause and evaluate the impact of higher borrowing costs on the US economy and to assess whether inflation is falling back to the Fed's 2% target. What is interesting beyond this is that 4% is still a healthy US dollar yield and one that has not been enjoyed by US fixed interest investors since 2007. Additionally, 4% is certainly not a return that the FTSE/JSE All Bond Index has been able to deliver over the last five to 10 years in US dollar terms.

Would such a move in the US to short-term rates of 3-4% entice foreign investors to participate in our local market to the degree that they did from 2012 to 2018 when they desperately hunted for a decent yield in a world of virtually zero percent rates? This uncomfortable question hangs in the balance for many emerging market (EM), African and frontier sovereigns who became accustomed to issuing a large quantum of debt into a world abundant with easy capital. As higher developed market rates and large offshore deficits have drained these flows from the periphery of financial markets, the issue of scarcity of capital has taken centre stage. Only when the tide goes out do you learn who has been swimming naked, and several African and EM sovereigns have met their debt demise in the last few years as capital flows wash into the core of financial markets and expose the fragility of fiscal accounts in the periphery.

Another reason for the partial recovery in SA government bonds in November was the delivery of the Medium-Term Budget Policy Statement. Despite a projected deterioration in SA debt to 75% of GDP in the 2023/2024 financial year, the bond market took comfort from the suggestion that Treasury will not raise rand fixed-rate and inflation-linked bond issuance to the degree that they can avoid doing so.

Yields promptly fell, although the curve did steepen to reflect heightened long-term fiscal risks. Whether or not fixed-rate bond auction sizes will be increased has become a key issue given that the local savings pool is highly saturated with government paper versus history, which has put upward pressure on yields.

Important to note is that local debt issuance targets did increase by 15% in FY2023/2024 versus the February 2023 Budget projection, but this will be met with increased Treasury Bill and floating-rate note auctions, as well as with the issuance of the new RSA Sukuk bond in Q4 2023 which was largely taken up by local banks to be held as high-quality liquid assets against their Shari'ah deposit liabilities. For the financial year starting 1 March 2024, issuance is projected to rise by another 11% and then another 13% in the year thereafter. Without a return of significant foreign capital flows, this will require the local savings pool to increase their sovereign debt holdings further. Treasury has asserted that in order to avoid raising issuance in the sacred cow arena of fixed-rate bonds, they will instead continue to utilise the floating-rate funding tool (a shorter-dated note with five-year to seven-year refinancing risks) as well as begin to issue inaugural rand green bonds. It remains to be seen what form the green bonds will take and whether the local savings pool demand will be sufficient to meet supply. While these tools represent a diversification of funding *tools*, they do not represent a diversification of funding *sources*.

Where the Treasury has made positive inroads in terms of diversifying their funding sources and lowering their debt financing costs is via the avoidance of the expensive offshore Eurobond capital markets. Treasury has been absent from the Eurobond market since early 2022 and has instead made significant progress in replacing that foreign debt with lower-cost financing from sources like the International Monetary Fund, German state-owned development bank, and the Government of Canada. This is commendable and speaks to the strength of our National Treasury in managing our debt mix and profile despite the mounting burden that is placed upon them, with available government cash balances estimated to have fallen intra-month in early December 2023 to below R100bn, or a 13-year low, after repaying a large inflation-linked bond maturity.

In the fourth quarter of 2023, the Fund maintained its relative duration positioning and extended its money market maturities into the five-year space to lock in cash rates of 10% at a high point in the interest rate cycle.

Commentary contributed by Thalia Petousis

Fund manager quarterly commentary as at 31 December 2023

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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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