ALLANGRAY

Investment team: Mark Dunley-Owen, Thalia Petousis **Fund inception date:** 27 March 2013
Registration number: 47091

Allan Gray Africa Bond Fund

C Class 31 May 2024

Fund description and summary of investment policy

The Fund invests in a focused portfolio of African securities that are selected for their expected risk and return profile. The Fund may invest a substantial portion of the assets in a single country or region rather than a diversified portfolio of assets.

Classification: Africa – Interest Bearing

Fund objective and benchmark

The Fund seeks to achieve the maximum US dollar total return while minimising the risk of loss within the context of an African bond fund. The benchmark is the FTSE 3 Month US T Bill + 4% Index.

African security markets

There are numerous risks involved in investing in African security markets. These risks may be significantly higher than in more developed markets and may include (but are not limited to) the following:

- Individual countries may impose capital controls preventing the repatriation of foreign currency
- Returns are expected to be more volatile, and the average drawdown may be higher, than in more developed markets
- Low liquidity whereby subscriptions into the Fund may have to be phased in, and redemptions from the Fund may be limited per dealing day
- Market prices may not accurately reflect the fair value of a Fund asset and fair value pricing may be used

There is no assurance that the investment approach of the Fund will be successful or that the Fund will achieve its investment objective.

See the "Important information for investors" section for more information.

How we aim to achieve the Fund's objective

We assess an asset's intrinsic value based on long-term fundamentals and invest where our assessment of intrinsic value exceeds the price by a margin of safety. This approach allows us to identify assets that may be out of favour with the market because of poor near-term prospects, but offer good value over the long term.

Suitable for those investors who

- Seek exposure to African interest-bearing assets
- Are comfortable with above-average market and currency fluctuations
- Are prepared to take on the risk of capital loss
- Have a minimum investment horizon of five years

Fund information on 31 May 2024

Fund currency	US$
Fund size	US$303m
Number of shares	1 637 624
Price (net asset value per share)	US$177.32
Number of issuers	16
Dealing day	Weekly (Thursday)
Class	C
Class inception date	14 May 2020

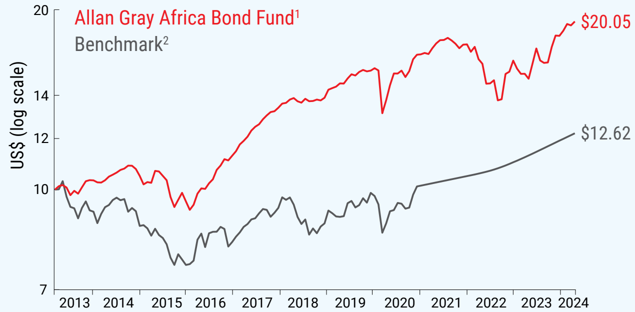
Minimum investment amounts

Minimum initial investment	US$100 000
Minimum subsequent investment	US$1 000

1. Prior to the inception of this class of the Fund, the performance and risk measures are calculated using the A class performance of the Fund. The net of fee return is calculated as the gross of fee return reduced by an investment management fee of 0.7% per annum, which is accrued monthly in arrears.
2. The current benchmark is the FTSE 3 Month US T Bill + 4% Index. From inception to 31 December 2020 the benchmark was the J.P. Morgan GBI-EM Global Diversified Index. Performance as calculated by Allan Gray as at 31 May 2024. Calculation based on the latest available data as supplied by third parties.
3. Maximum percentage decline over any period calculated from monthly returns. The maximum drawdown occurred from August 2021 to September 2022 and maximum benchmark drawdown occurred from April 2013 to December 2015. 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. This is the highest or lowest rolling 12-month return the Fund has experienced since inception. The Fund's highest annual return occurred during the 12 months ended 28 February 2017 and the benchmark's occurred during the 12 months ended 31 March 2021. The Fund's lowest annual return occurred during the 12 months ended 30 September 2022 and the benchmark's occurred during the 12 months ended 31 August 2015. All rolling 12-month figures for the Fund and the benchmark are available from the Allan Gray Service Team on request.

Performance in US$ net of all fees and expenses

Value of US$10 invested at inception with all distributions reinvested



% Returns	Fund[1]	Benchmark[2]
Cumulative:		
Since inception (27 March 2013)	100.5	26.2
Annualised:		
Since inception (27 March 2013)	6.4	2.1
Latest 10 years	6.5	2.8
Latest 5 years	5.3	7.1
Latest 3 years	3.1	7.0
Latest 2 years	9.1	8.5
Latest 1 year	26.8	9.6
Year-to-date (not annualised)	6.0	3.9
Risk measures (since inception. based on month-end prices)		
Maximum drawdown[3]	-22.8	-29.3
Percentage positive months[4]	65.2	69.6
Annualised monthly volatility[5]	10.6	9.8
Highest annual return[6]	28.4	22.3
Lowest annual return[6]	-22.0	-21.5

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Meeting the Fund objective

The Fund seeks to achieve the maximum US dollar return while minimising the risk of loss within the context of an African bond fund. The Fund experiences periods of underperformance in pursuit of this objective. Since inception, the Fund has outperformed its benchmark and delivered positive absolute returns in US dollars.

Subscription and redemption charge

Investors will be charged 0.5% when subscribing for Fund shares and 0.5% when redeeming Fund shares. These charges are paid into the Fund to offset the costs associated with the transactions that are borne by the Fund. Allan Gray Bermuda Limited (the "Investment Manager") may waive these charges at its discretion, for example in the case of significant offsetting between subscriptions and redemptions.

Annual management fee

The management fee consists of a fixed fee of 0.70% p.a.

Total expense ratio (TER) and transaction costs[7]

The annual management fee charged 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 2024	1yr %	3yr %
Total expense ratio	**0.78**	**0.78**
Management fee	0.70	0.70
Custody fees	0.06	0.06
Other costs excluding transaction costs	0.02	0.02
Transaction costs	**0.00**	**0.00**
Total investment charge	**0.78**	**0.78**

7. Prior to the inception of this class of the Fund, the TER and transaction costs data is that of the A Class of the Fund, reduced by 0.3% p.a.

Fund positioning on 31 May 2024[8]

	Local currency	Foreign currency	% of portfolio
Governments[10]	**15.5**	**53.5**	**69.0**
Egypt	4.4	11.3	15.7
Ivory Coast	0.0	15.5	15.5
Senegal	0.0	11.6	11.6
Ghana	0.0	7.0	7.0
Uganda	5.1	0.0	5.1
Benin	0.0	4.6	4.6
South Africa	3.6	0.0	3.6
United States	0.0	3.5	3.5
Namibia	2.6	0.0	2.6
Nigeria	0.0	0.0	0.0
Corporates[10]	**0.0**	**29.2**	**29.2**
Nigeria	0.0	15.1	15.1
South Africa	0.0	6.7	6.7
Ghana	0.0	4.6	4.6
United States	0.0	2.7	2.7
Cash[9]	**0.2**	**1.6**	**1.8**
Total (%)[10]	**15.8**	**84.2**	**100.0**

Weighted average yield on 31 May 2024

	Weighted average yield (%)	% of portfolio
Local currency	15.9	15.5
Other[11]	8.5	29.7
US$	10.9	53.0
Cash	0.0	1.8
Total	**10.8**	**100.0**

Asset allocation on 31 May 2024

Asset Class	Total
Net equity	0.0
Hedged equity	0.0
Property	0.0
Commodity-linked	0.0
Bonds	91.6
Money market, bank deposits and currency hedges	8.4
Total (%)[10]	**100.0**

8. The total Nigerian exposure includes accruals for naira-settled currency forwards, valued at the Nigerian Autonomous Foreign Exchange Rate (NAFEX), that are shown under cash.
9. Cash is held in multiple currencies and includes USD treasury bills.
10. There may be slight discrepancies in the totals due to rounding.
11. Represents all non-cash holdings not denominated in local African currency or US$ (eg. EUR)

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Investment team quarterly commentary as at 31 March 2024

It was a strong start to the year, with the Fund earning double-digit US dollar returns on several of its larger holdings. Year-to-date, the best-performing position in the Fund has been its Egypt US dollar-denominated government bonds. In our Q4 2023 commentary, we highlighted that these bonds were priced with added upside if the sovereign could avoid default – an outcome that we felt was increasingly possible as its strategic role in the Middle East was being reinforced by geopolitical turmoil. Since October 2023, the Egypt 25-year US dollar bond has rallied from a price low of 50 cents on the dollar to 80 cents on the dollar, reflecting a 60% price appreciation or capital gain.

The notion of the "Gulf put option" is central to our investment thesis for Egypt. Gulf states, and in particular the United Arab Emirates (UAE), have provided crucial financial support to Egypt for several decades to prevent economic collapse, ensure safe passage of traded goods through the Suez Canal and guarantee political security. Egyptian political unrest has had dire consequences for its neighbours in the past. In 2011, Egyptian bread riots sparked by rising food prices inspired a wave of protests that arguably lit the flame of the Arab Spring. It is perhaps unsurprising, then, that after Russia invaded Ukraine in 2022, the subsequent foreign exit from the local Egyptian bond market saw the Gulf states deposit US$13bn with Egypt's central bank to fill the funding gap. While this stabilised the situation temporarily, Egypt has nonetheless suffered a severe in-country US dollar shortage ever since. Understandably, the market grew concerned that the sovereign would not be able to refinance its large foreign currency borrowings nor service its US dollar debt for much longer.

While a new loan programme from the International Monetary Fund (IMF) was up for consideration last year, the IMF's requirements were that Egypt must depeg and devalue the currency further. By this point, Egypt had already devalued the Egyptian pound three times over 2022 and 2023 by a cumulative 50%, a painful series of actions that led to excessive domestic imported inflation and high local food prices. Year-on-year consumer price inflation peaked at 38% in 2023. To devalue the pound yet again was seen as a risky move for Egypt in the context of limited foreign exchange reserves to prevent a total and unconstrained currency collapse.

In response to this extraordinary crisis, this year, the UAE's sovereign wealth fund agreed to pay US$35bn to Egypt in exchange for 170 square kilometres of land along Egypt's North Coast. The UAE plans to develop the pristine shores of Ras al-Hekma into a Mediterranean holiday destination. This is certainly no small land sale. It is equivalent to 7% of the UAE's gross domestic product (GDP) and is roughly the same size as the last decade's worth of cumulative grants from the Gulf to Egypt. For the sovereign wealth fund leading the deal, the purchase represents almost 20% of its total assets under management. Perhaps most importantly, it effectively doubles Egypt's foreign exchange reserves. The cash began to be disbursed to Egypt within days of signing the deal, giving the central bank the confidence to devalue the pound by another 40%. Following this decision, the IMF agreed to a loan which also unlocked medium-term funding from other concessional partners like the World Bank. In total, the quantum of financial support including the land sale is now north of US$55bn, which eliminates the prospects of a near- to medium-term Egyptian debt default.

Despite the large rally in the Egypt 25-year US dollar bond price, it still offers an ample 11% US dollar yield, reflecting just how undervalued the starting position was. The market also rationally still prices in a risk premium in excess of non-defaulted African peers, given longer-term concerns around Egypt's prospects and its substantial interest service burden, which currently stands at about 50% of tax revenue.

Over the last year, Cote d'Ivoire's has been one of the best-performing positions in the Fund, benefiting in part from a Moody's ratings upgrade so that the sovereign credit rating is now in line with that of South Africa's. Cote d'Ivoire's real GDP growth has been high, averaging 6% over the last several years. The country has a strong track record of private sector-led growth, job creation and good capital investments. It has a manageable debt burden of approximately 56% of GDP, a lengthy debt maturity profile and both lower debt and lower interest costs as a percentage of tax revenue compared to South Africa.

Encouragingly, the positive rerating in several of our bond positions reflects not a broad-based risk-on rally but rather idiosyncratic factors. This is a healthier and more rational environment for a bond fund like ours to operate in. While 2024 has seen the Eurobond markets reopen to African sovereign issuers for the first time since the pandemic, the market is more discerning than it was in the hey-day of ultra-low US rates. For a sovereign like Kenya, which issued US$1.5bn of a seven-year Eurobond, the understanding that the issuance would be used to repay part of its 2024 debt maturities and not to raise new debt played a role in its success. Additionally, the hefty 10% US dollar coupon attached to the issuance reflects a greater acknowledgement of the underlying risks in buying the dollar debt of a sovereign that runs a large structural current account deficit.

In the last quarter, the Fund took profit on some of its Egypt US dollar-denominated bond positions and switched them into local currency bonds after the currency had been devalued. It also took profit on its Zambian US dollar bond holdings, which strengthened after a March announcement that the sovereign had reached an agreement with its bondholders nearly three-and-a-half years after defaulting. The Fund trimmed its Senegal Eurobond exposure following election results, given heightened policy risk in the event that the newly elected president will make good on his promise to abolish the CFA franc, which has created a remarkable underpin to Senegal's low domestic inflation and low local currency borrowing yields. The Fund sold rand-denominated government bonds prior to a significant sell-off given upcoming South African election risk. The Fund also built up its Kosmos Energy bond position at 10% US dollar yields as the company continued to show commitment to deleveraging its balance sheet and repaying debt.

Commentary contributed by Thalia Petousis

Information and content

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Performance

Collective investment schemes (unit trusts or mutual funds) are generally medium- to long-term investments. Where annualised performance is mentioned, this refers to the average return per year over the period. The value of shares or the investment may go down as well as up and past performance is not necessarily a guide to future performance. Movements in exchange rates may cause the value of underlying international investments to go up or down. Neither the Investment Manager, the Fund, nor the Representative provides 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. The performance graph is for illustrative purposes only. Actual investor performance may differ as a result of the investment date, the date of reinvestment and applicable taxes. The yield is current, calculated as at month-end.

J.P. Morgan Index

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FTSE Russell Index

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Share price

Share 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, less any permissible deductions from the Fund, divided by the number of shares in issue. Forward pricing is used. The weekly price of the Fund is normally calculated each Friday. Purchase requests must be received by the Registrar of the Fund by 17:00 South African time on that dealing day to receive that week's price. Redemption requests must be received by the Registrar by 17:00 South African time on the dealing day on which shares are to be redeemed to receive that week's price. Share prices are available on www.allangray.co.za.

Fees and charges

Permissible deductions from the Fund may include management fees, brokerage, securities transfer tax, auditor's fees, bank charges and custody fees. A schedule of fees, charges and maximum commissions is available on request from the Representative.

Total expense ratio (TER) and transaction costs

The 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) and other expenses like audit fees. Transaction costs (including brokerage, securities transfer tax and investor protection levies where applicable) are shown separately. There are no explicit brokerage charges in global bond markets. The broker rather takes an undisclosed spread between the purchase and sale price. The spread (charge) can vary from negligible to substantial depending on the asset and market circumstances. The disclosed transaction charge is therefore zero but in reality, there are transaction costs which reflect in the Fund's returns. We aim to minimise costs by keeping our trading activity to a minimum and always seeking out the most favourable price when buying and selling assets. 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 fund, 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 from published returns. As collective investment scheme 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).

African markets

There are significant risks involved in investing in securities listed in the Fund's universe of emerging and developing countries, including liquidity risks, sometimes aggravated by rapid and large outflows of "hot money" and capital flight, concentration risk, currency risks, political and social instability, the possibility of expropriation, confiscatory taxation or nationalisation of assets and the establishment of foreign exchange controls which may include the suspension of the ability to transfer currency from a given country. African countries have varying laws and regulations and, in some, foreign investment is controlled or restricted in varying degrees.

Capacity

The Fund currently has limited capacity. The Investment Manager may, at its discretion, refuse a subscription or phase a subscription into the Fund over a number of dealing days. Total investor redemptions may be limited to US$5m or 2.5% of the Fund (whichever is less) per dealing day. The Investment Manager retains the right to distribute all or part of any redemption proceeds in specie (in kind).

Fair value pricing

The board of directors of the Fund (the "Board") may fair value the Fund's assets in accordance with the Board's fair value pricing policies if: 1) the closing market quotations or official closing prices are not readily available or do not accurately reflect the fair value of a Fund asset; or 2) the value of a Fund asset has been materially affected by events occurring before the Fund's pricing time but after the close of the exchange or market on which the asset is principally traded. The Board delegates the responsibility for fair value pricing decisions to a valuation committee of the Investment Manager.

Contractual risk

The Fund can use derivatives to manage its exposure to currencies and/or interest rates and this exposes the Fund to contractual risk. Contractual risk includes the risk that a counterparty will not settle a transaction according to its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, causing the Fund to suffer a loss. Such contract counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Fund has concentrated its transactions with a single or small group of counterparties.

Derivatives

Borrowing, leveraging and trading securities on margin will result in interest charges and, depending on the amount of trading activity, such charges could be substantial. The low margin deposits normally required in futures and forward trading, which the Fund may utilise, permit a high degree of leverage. As a result, a relatively small price movement in a futures or forward contract may result in immediate and substantial losses to the investor. Price movements of forward contracts and other derivative contracts in which the assets of the Fund may be invested are highly volatile and are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programmes and policies of governments, and national and international political and economic events and policies. Forward contracts are not traded on exchanges and are not standardised; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Trading in forward contracts is substantially unregulated and there is no limitation on daily price movements.

FTSE/JSE All Share Index and FTSE/JSE All Bond Index

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Important information for investors

Need more information?

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