

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

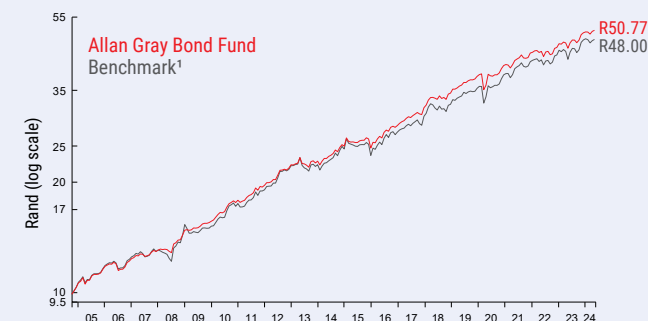
Fund information on 31 May 2024

Fund size	R7.7bn
Number of units	624 247 875
Price (net asset value per unit)	R10.07
Modified duration	4.0
Gross yield (before fees)	11.6
Class	A

1. FTSE/JSE All Bond Index (source: IRESS), performance as calculated by Allan Gray as at 31 May 2024.
2. This is based on the latest available numbers published by IRESS as at 30 April 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)	407.7	380.0	189.2
Annualised:			
Since inception (1 October 2004)	8.6	8.3	5.6
Latest 10 years	8.1	7.8	5.0
Latest 5 years	7.0	7.2	5.1
Latest 3 years	6.4	6.2	6.0
Latest 2 years	6.7	6.5	6.0
Latest 1 year	11.7	13.0	5.2
Year-to-date (not annualised)	1.5	0.3	2.1
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	30 Jun 2023	30 Sep 2023	31 Dec 2023	31 Mar 2024
Cents per unit	26.0679	25.7014	26.6398	25.8263

Annual management fee

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

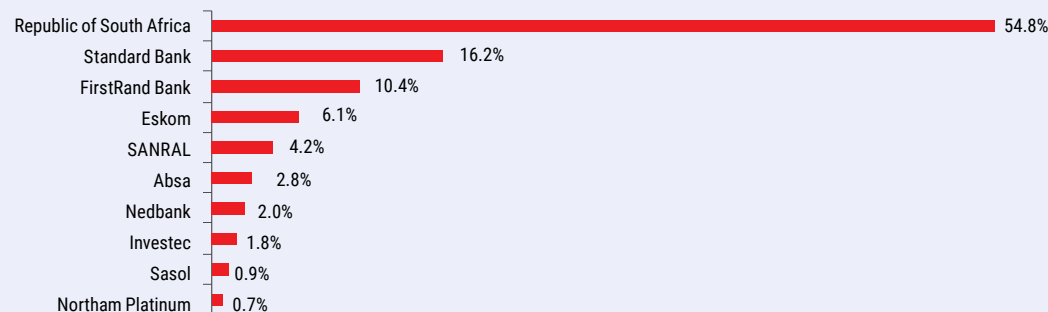
Total expense ratio (TER) and transaction costs (updated quarterly)

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.

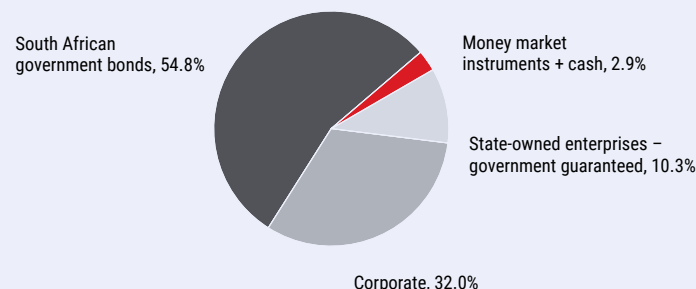
TER and transaction costs breakdown for the 1- and 3-year period ending 31 March 2024	1yr %	3yr %
Total expense ratio	0.59	0.52
Fee for benchmark performance*	0.50	0.44
Performance fees*	0.00	0.00
Other costs excluding transaction costs	0.01	0.01
VAT	0.08	0.07
Transaction costs (including VAT)	0.00	0.00
Total investment charge	0.59	0.52

*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.

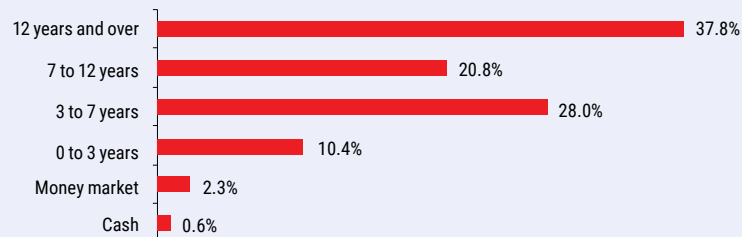
Top 10 credit exposures on 31 May 2024



Asset allocation on 31 May 2024



Maturity profile on 31 May 2024



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

South African government bonds have had a rough start to the year, as indicated by a rise in government borrowing costs (i.e. bond yields). After the SA 20-year bond yield sold off to an intra-year high of 13.2% in September 2023, it staged a recovery in late 2023 and traded down to 12.1%. Late in March 2024, roughly 80% of these gains (in price terms) had been unwound, and the bond again sold off to an elevated yield of 13.0%. Around half of this sell-off can be explained by the weakening of the 20-year US Treasury bond, as investors quite rationally questioned the market's pricing of up to seven US rates cuts in 2024 against the reality of a strong US labour market, low unemployment and sticky inflation in US services.

The drivers of US services inflation over the last few months cover quite a range of items, like costlier prices for elder care and domestic work, hospital and veterinary services, financial services and even admission to sporting events. When an economy experiences an energy, food and fuel price shock, as seen in 2022, then it is natural to expect that a second-round shock via services-led inflation could follow. This is particularly true for an economy with a shortage of low-skilled labour, like the US. When in short supply, lower-cost labourers have a lot of bargaining power, and US wage growth is unsurprisingly still running at an elevated 5.4% year-on-year with 8.8 million job openings versus only 6.4 million unemployed workers.

The other half of the sell-off in the SA 20-year government bond can be explained by South Africa-specific factors, as seen by a widening in the risk premium of SA versus US government bonds. This relates to elevated political risk heading into South Africa's May 2024 elections. Alongside this, the South African Budget in February was poorly received by the market, sparking some selling of bonds and limited reinvestment of fixed-rate bond coupons back into the government bond market – of which roughly R105bn was paid out to bondholders over the first three months of the year. The much-discussed lever of restructuring the South African public sector and closing redundant government departments and programmes received little airtime in the Budget. National Treasury instead agreed to monetise R150bn of the Gold and Foreign Exchange Contingency Reserve Account (GFECRA), as well as carve out an additional R100bn from this account for the Reserve Bank to use in order to pay interest on the newly printed bank reserves as a sterilisation measure.

Even with such arguably drastic measures being taken, government debt to gross domestic product (GDP) is only forecast to stabilise at 75% of GDP over the next three years from 78% prior. This is still a very elevated level of debt. While GFECRA does mean that government's gross borrowing requirement over the next three years falls from R560bn per annum on average to R480bn per annum, it is not clear that there would be any room to cut the already-high quantum of weekly debt issuance from current levels given the government's anaemic cash levels.

The Budget also contained some relaxation of the budgetary spending restraint in the government wage bill forecasts, and we have yet to see fiscal anchors like a spending ceiling being imposed.

One concern is that now that GFECRA has been "discovered", it will be easier to pull on this as an emergency lever as opposed to getting to the heart and underlying cause of our structural fiscal woes. In this regard, Treasury has indicated that there could be room to monetise more in future depending on the behaviour of the exchange rate. Theoretically, every one rand of exchange rate depreciation against the US dollar creates R60bn of additional GFECRA. Given this perverse hedge, it may allow government to keep monetising the account the worse that things are going in the economy, instead of using a desperate situation to enforce reform.

SA government bonds have also continued to sell off as recent polls suggest a major decline in ANC support as we head into the May 2024 elections. Early in the year, market concerns likely centred around the notion that the rising tide of economic dissatisfaction and joblessness may also have lifted the ship of populist parties like the EFF, who promise their constituents a radical redistribution of wealth. That said, the polling data is changing quickly to reflect a larger threat coming from former president Jacob Zuma's uMkhonto weSizwe Party (MK Party), which has been polling as high as 13% nationally according to the February 2024 Brenthurst polls, taking market share from both the ANC and EFF. There are currently a range of election and coalition outcomes and clearly not all of them are positive.

In the last quarter, the Fund upweighted its allocation to senior floating-rate notes at annualised yields above 10%, to take the total allocation to floating-rate paper to approximately 30% of the Fund. It also reinvested coupons into 13-year SA government bonds as yields began to sell off but maintained its underweight duration positioning with only 45% of the Fund invested in fixed-rate government bonds. Valuations are compelling, in that a 13-year government bond bought at 12% yield would still be able to offer a five-year return of 10% per annum if it sold off to a 15% yield by the end of that period. That said, given that the Fund offers a healthy weighted average yield of 11.8% for a modified duration of 4.1, there is arguably no need to take on undue risk beyond the current allocation. A full position would also limit the ability of the Fund to participate into further price depreciation in a rising bond yield environment, which has been the status quo for the last decade in South Africa. For yields to decline on a sustained basis, we need to become an attractive investment destination again. Large pools of foreign capital have a lot of choices globally, and South Africa is small enough to ignore if the risk-reward ratio is not favourable.

Commentary contributed by Thalia Petousis

Fund manager quarterly commentary as at 31 March 2024

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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.

Minimum disclosure document and quarterly general investors' report **Issued:** 11 June 2024

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's gross yield is the estimated weighted average yield-to-maturity of all underlying interest-bearing instruments as at the last day of the month. Actual returns may differ, based on changes in market values, interest rates and market factors during the investment period.

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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