

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

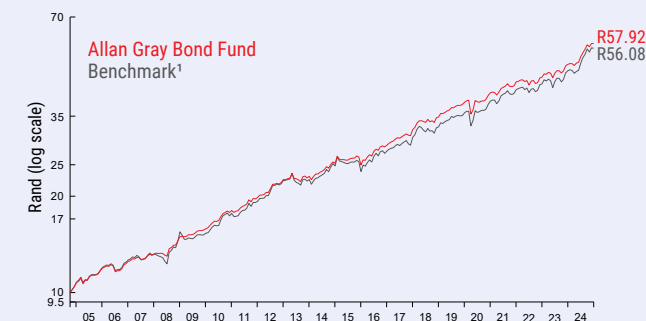
Fund information on 31 December 2024

Fund size	R8.7bn
Number of units	631 688 681
Price (net asset value per unit)	R10.92
Modified duration	4.1
Gross yield (before fees)	10.4
Class	A

1. FTSE/JSE All Bond Index (source: IRESS), performance as calculated by Allan Gray as at 31 December 2024.
2. This is based on the latest available numbers published by IRESS as at 30 November 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 30 September 2024 and the benchmark's occurred during the 12 months ended 30 September 2024. 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)	479.2	460.8	191.5
Annualised:			
Since inception (1 October 2004)	9.1	8.9	5.4
Latest 10 years	8.8	8.6	4.9
Latest 5 years	8.7	9.6	4.9
Latest 3 years	9.5	10.2	5.3
Latest 2 years	12.6	13.4	4.2
Latest 1 year	15.8	17.2	2.9
Year-to-date (not annualised)	15.8	17.2	2.9
Risk measures (since inception)			
Maximum drawdown ³	-18.9	-19.3	n/a
Percentage positive months ⁴	71.6	68.3	n/a
Annualised monthly volatility ⁵	5.9	7.6	n/a
Highest annual return ⁶	22.0	26.1	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 2024	30 Jun 2024	30 Sep 2024	31 Dec 2024
Cents per unit	25.8263	27.2485	26.5758	26.1592

Annual management fee

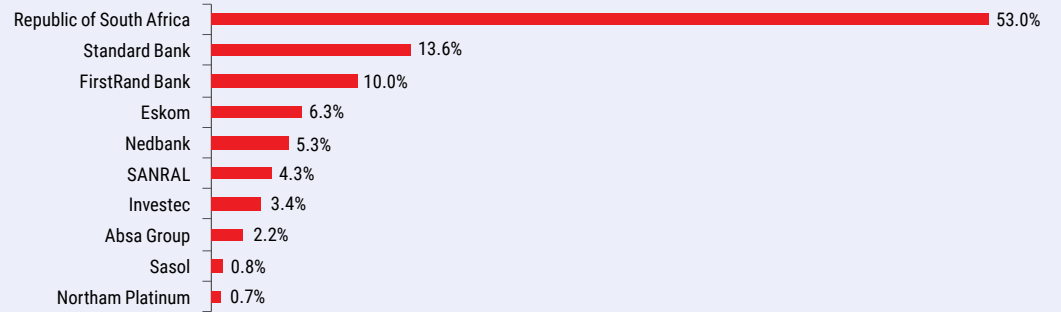
A fixed fee of 0.5% p.a. excl. VAT

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

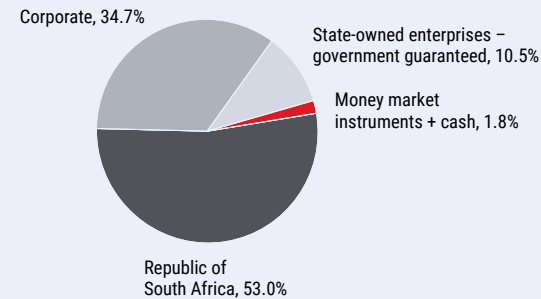
The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

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

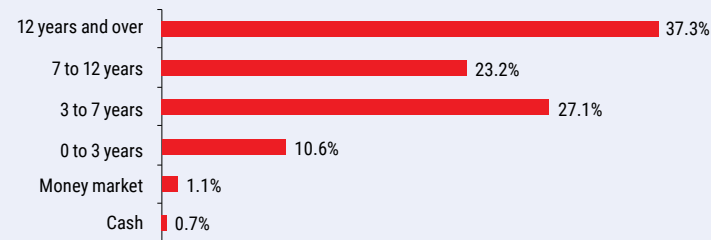
Top 10 credit exposures on 31 December 2024



Asset allocation on 31 December 2024



Maturity profile on 31 December 2024



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

To put it simply, South African government bonds had an extremely strong year in 2024. In 2024, the FTSE/JSE All Bond Index (ALBI) returned 17.2% in rand terms, outperforming the FTSE/JSE All Share Index, which returned 13.4%. The ALBI's outperformance is more extreme when comparing the SA bond market to its peer bond markets. In US dollar terms¹, the ALBI returned 13.2% versus the J.P Morgan GBI-EM Global Core Index at -2.4% for the year.

An extreme underperformer in the emerging market bond arena has been Brazil. Its 2033 local currency bonds lost 16.2% of their value this year, or an even more abysmal 37.6% when measured in US dollar returns. The Brazilian real hit a record low this year as leftist President Luiz Inácio Lula da Silva (Lula) ramped up government spending on welfare while also caving to populist measures like tax breaks for low-income earners. Brazil's budget deficit has doubled since Lula took office and is now close to 10% of GDP in a single year, threatening the sustainability of government debt. By contrast, recent changes to the SA government were seen as overwhelmingly positive – pivoting the country away from populism and towards pro-growth policies, market-friendly private sector inclusion and structural reform.

The SA 10-year bond now trades at a yield of 10.3% versus the Brazilian 10-year bond at a 15.4% yield and the US 10-year bond at a 4.6% yield. The SA yield spread differential versus the US at 5.7% is the tightest spread on record in the last six years, which should ideally reflect an enhancement in our creditworthiness versus the US. This is somewhat difficult to square from a fundamental perspective when one considers that the SA sovereign has outpaced the US government in terms of debt accumulation as a percentage of GDP over that period – in part due to substantially weaker economic growth. Even if one accepts this phenomenon of a tighter spread, another conundrum is that we are witnessing one of the first times in US history when US long bond yields have in fact *risen* following the beginning of a rate-cutting cycle. Some of this is undoubtedly due to the differing trajectories of tight monetary policy versus loose fiscal policy. In addition, what has rattled offshore bond markets are comments like those made most recently by US Federal Reserve (Fed) Chair Jerome Powell at the final Fed meeting of 2024, where he stated that their year-end inflation projection has “kind of fallen apart”. At the December meeting, Powell acknowledged that inflation has not abated by as much as the Fed had expected and that “people are still feeling high prices”, which limits the scope to cut rates further by a substantial amount.

When thinking about South Africa's future trajectory for debt accumulation, what has become clear in the final months of 2024 is that the financial year 2025 borrowing requirement was initially underestimated by Treasury. As such, it was revised higher at the September Medium Term Budget Policy Statement to accommodate for further fiscal slippage. Rand SA government bonds, however, have become sacrosanct in the Budget, and Treasury has shown a strong commitment to not raising the issuance of rand bonds further, given that they do not want to put pressure on their borrowing costs. Instead, Treasury opted to raise US\$3.5bn worth of US dollar-denominated Eurobonds in international markets in November 2024. They are also contemplating creative ways to raise more rand debt outside of the formal SA government bond market. The use of proceeds for this debt would be the infrastructure projects which have historically been repeatedly cut back from the Budget during rounds of fiscal consolidation. In short, these projects are often crowded out by a larger government wage bill and social grant expenditure. Such efforts to raise rand debt outside of the formal SA government bond market architecture could act to curtail a large rise in supply of paper and could provide a shield for bond investors in particular. One must keep in mind, however, that the ultimate funder being tapped for a larger rand debt requirement remains the SA savings pool, regardless of the format of the debt and, as such, it is questionable how large the untapped pools of local capital are.

In the last quarter, the Fund cut some long bond duration when SA yields were at their lows and reduced short-dated inflation exposure in exchange for some of the “new” short fixed-rate bonds issued at attractive levels in primary auction. The Fund offers a gross yield of 10.4% against a modified duration of 4.1, versus the ALBI at 10.1% and 5.7. While it was the wrong call to enter the election period with a low modified duration position, valuations now look somewhat stretched on a fundamental basis, warranting caution in positioning.

Commentary contributed by Thalia Petousis

**Fund manager quarterly
commentary as at
31 December 2024**

1. Source: Bloomberg

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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'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, FTSE/JSE All Share Index

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