ALLAN GRAY

Allan Gray Income Fund

30 April 2025

Fund managers: Sean Munsie, Thalia Petousis **Inception date:** 1 May 2024

Fund description and summary of investment policy

The Fund invests primarily in a mix of South African interest-bearing securities, with limited exposure to offshore interest-bearing securities. Returns are likely to be less volatile than those of a bond-only fund. The Fund is managed to comply with the investment limits governing retirement funds.

ASISA unit trust category: South African – Multi Asset – Income

Fund objective and benchmark

The Fund aims to generate income and produce returns that are superior to traditional money market funds, while preserving capital and minimising the risk of loss over any one- to two-year period. The Fund's benchmark is the Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index.

How we aim to achieve the Fund's objective

The Fund invests in a broad range of South African interest-bearing securities, such as floating-rate notes, inflation-linked bonds, fixed-rate instruments and money market securities, with limited exposure to offshore interest-bearing securities. It provides investors with income and a high degree of capital stability. We formulate an interest rate outlook, which is influenced by our inflation outlook and expectations of the resulting Reserve Bank policy response. Based on this analysis, we select securities for the Fund. While the Fund can have limited exposure to equities and property, we expect this to occur infrequently and to typically coincide with unusual or extreme points in the valuation cycle. We take a conservative approach to managing the Fund, balancing credit risk, duration risk and liquidity risk when selecting securities.

Suitable for those investors who

- Are risk-averse and require capital preservation over any one- to two-year period
- Seek returns higher than traditional money market funds
- Seek a unit trust that provides an income
- Seek a prudently managed income 'building block'
- Wish to invest in a unit trust that complies with retirement fund investment limits

Income distributions for the last 12 months

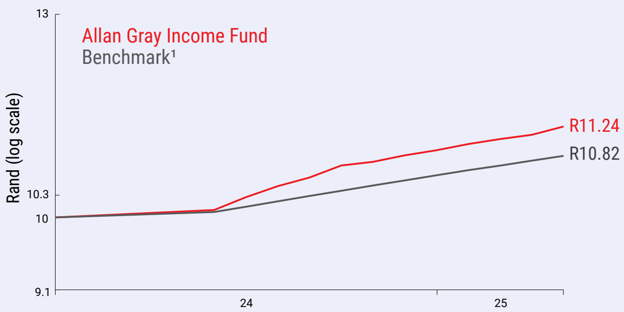
Actual payout, the Fund distributes quarterly	30 Jun 2024	30 Sep 2024	31 Dec 2024	31 Mar 2025
Cents per unit	13.7849	24.6096	23.6333	22.3434

Fund information on 30 April 2025

Fund size	R1.4bn
Number of units	47 775 033
Price (net asset value per unit)	R10.36
Modified duration	1.0
Gross yield (i.e. before fees)	9.3
Net yield (i.e. after fees)	8.3
Fund weighted average maturity (years)	4.7
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 May 2024)	12.4	8.2	2.5
Annualised:			
Since inception (1 May 2024)	12.4	8.2	n/a
Latest 1 year	12.4	8.2	2.7
Year-to-date (not annualised)	3.1	2.5	1.7
Risk measures (since inception)			
Maximum drawdown[3]	-0.9	n/a	n/a
Percentage positive months[4]	100.0	100.0	n/a
Annualised monthly volatility[5]	1.4	0.1	n/a
Highest annual return[6]	12.4	8.2	n/a
Lowest annual return[6]	12.4	8.2	n/a

1. The Fund's benchmark is the Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index. Performance as calculated by Allan Gray as at 30 April 2025. Source: Bloomberg.
2. CPI inflation has been calculated based on the most recent rebased values from Stats SA, reflecting the data as at 31 March 2025 (source: IRESS).
3. Maximum percentage decline over any period. The maximum drawdown occurred from 1 October 2024 to 8 October 2024. Drawdown is calculated on the total return of the Fund (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 April 2025 and the benchmark's occurred during the 12 months ended 30 April 2025. The Fund's lowest annual return occurred during the 12 months ended 30 April 2025 and the benchmark's occurred during the 12 months ended 30 April 2025. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

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Annual management fee

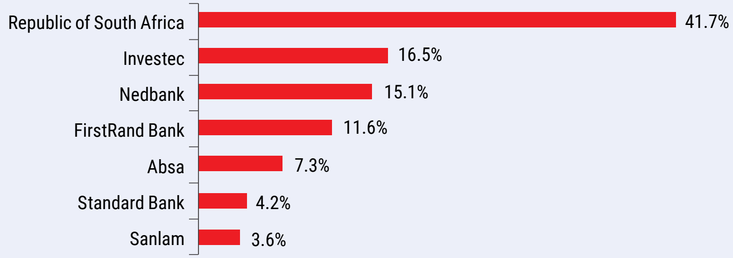
A fixed fee of 0.75% p.a. excl. VAT

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

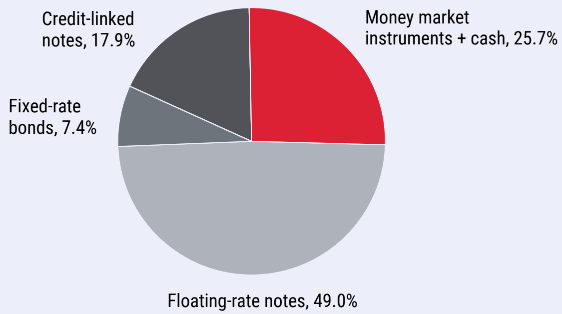
The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one-year period (annualised). Transaction costs are disclosed separately. Complete and accurate data is only available after 12 months. The TER and transaction costs are therefore based on actual data, where available, and best estimates.

TER and transaction costs breakdown for the 1-year period ending 31 March 2025	1yr %
Total expense ratio	**0.87**
Fee for benchmark performance	0.75
Other costs excluding transaction costs	0.01
VAT	0.11
Transaction costs (including VAT)	**0.00**
Total investment charge	**0.87**

Top credit exposures on 30 April 2025

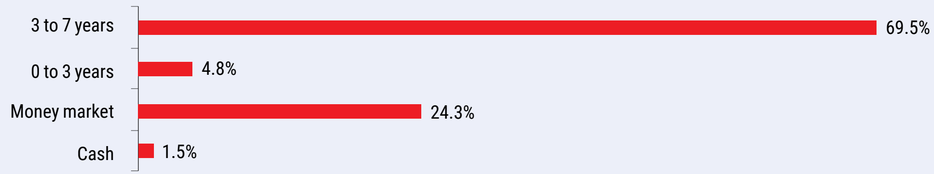


Asset allocation on 30 April 2025[5]



5. Foreign exposure on 30 April 2025: 0.0% is invested in foreign investments.

Maturity profile on 30 April 2025



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

Fund manager commentary as at 31 March 2025

A key question when allocating cash to an income fund is how the bond versus cash and income asset classes will perform. After the large SA government bond rally of 2024, the tide has arguably turned in income's favour. Since the September 2024 yield lows in the SA 20-year government bond, clean prices have fallen by 7%. The SA 20-year credit spread relative to US Treasuries has also widened from a low of 614 basis points (bps) to 700 bps year to date. Not only had absolute and relative SA bond valuations become stretched, but the market also digested uncomfortable truths this year regarding the unfunded nature of the SA government's revised expenditure trajectory.

National Treasury has pulled a lot of levers in the last 18 months in order to meet expenditure commitments. They have monetised R150bn of the Gold and Foreign Exchange Contingency Reserve Account (GFECRA), frozen personal income tax brackets for two years in a row, raised an additional US$3.5bn of offshore Eurobonds, and attempted a 2% increase in value-added tax (VAT) that was rejected by the Democratic Alliance (DA). If one accepts that they are out of levers to pull, then one should also accept that their primary surplus projections will fall short of targets, and therefore debt may not stabilise at 76% of gross domestic product (GDP) as laid out in the Budget presented in March 2025. Alternatively, spending may be scaled back on the items added to the Budget more recently, such as the extra allocation for infrastructure, early childhood development and doctors' salaries.

Although the DA has suggested a review of all government spending with the aim of rooting out inefficiencies, National Treasury already embarked on such an exercise two years ago and made a raft of recommendations regarding redundant government programmes and departments to be cut.

These recommendations lacked the political willpower to be implemented, and the present Budget in fact *increases* the allocation to South Africa's Democratic Republic of Congo peacekeeping mission that Treasury had advised should be scrapped entirely under the previous review.

Market indigestion towards SA government bonds was also caused by the perilous state of the diplomatic relations both within the government of national unity itself and between South Africa and the United States. The SA government's policies, foreign relations with the likes of Iran and views on the Middle East have caught the ire of US President Donald Trump and many of his aides. In this regard, the South African Reserve Bank estimates that the loss of access to the preferential African Growth and Opportunity Act (AGOA) US-SA trade relationship and subsequent decline in SA automotive and fruit exports to the US could shave 0.7% off SA GDP. This analysis was done prior to the 30% tariff on South African imports announced by the Trump administration on 2 April 2025, which nullifies many AGOA benefits and will likely represent a shock to growth. A silver lining for SA growth is that it should still rebound off the low base of prior years given reduced loadshedding and the allocated increase towards infrastructure spending.

In the last quarter, the Fund added to short-dated RSA nominal bonds as the market began to sell off and yields surpassed those on the equivalent-tenor money market. The Fund also added to longer-dated bonds with an interest rate swap hedge overlay to offset the modified duration risk. The Fund ended the quarter on an annual yield of 9.4%, with the market pricing for one more SA interest rate cut this year.

Commentary contributed by Thalia Petousis

Important information for investors

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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 dividend withholding tax.

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 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. The one-year TER is deducted from the gross yield to derive a yield net of fund expenses. 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).

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