ALLANGRAY

Fund managers: Duncan Artus, Jacques Plaut, Rory Kutisker-Jacobson, Tim Acker (Most foreign assets are invested in Orbis funds) **Inception date:** 1 February 2016
Only available through tax-free investment accounts.

Allan Gray Tax-Free Balanced Fund

31 January 2024

Fund description and summary of investment policy

The Fund is managed in broadly the same way as the Allan Gray Balanced Fund. It was created specifically for use in tax-free accounts and can only be accessed through these products. The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund can invest a maximum of 45% offshore. The Fund typically invests the bulk of its foreign allowance in a mix of funds managed by Orbis Investment Management Limited, our offshore investment partner. The maximum net equity exposure of the Fund is 75% and we may use exchange-traded derivative contracts on stock market indices to reduce net equity exposure from time to time. The Fund is managed to comply with the investment limits governing retirement funds. Returns are likely to be less volatile than those of an equity-only fund.

ASISA unit trust category: South African – Multi Asset – High Equity

Fund objective and benchmark

The Fund aims to create long-term wealth for investors within the constraints governing retirement funds. It aims to outperform the average return of similar funds without assuming any more risk. The Fund's benchmark is the market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding Allan Gray funds).

How we aim to achieve the Fund's objective

We seek to buy shares at a discount to their intrinsic value. We thoroughly research companies to assess their intrinsic value from a long-term perspective. This long-term perspective enables us to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. If the stock market offers few attractive shares we may increase the Fund's weighting to alternative assets such as bonds, property, commodities and cash, or we may partially hedge the Fund's stock market exposure. By varying the Fund's exposure to these different asset classes over time, we seek to enhance the Fund's long-term returns and to manage its risk. The Fund's bond and money market investments are actively managed.

Suitable for those investors who

- Seek steady long-term capital growth
- Are comfortable with taking on some risk of market fluctuation and potential capital loss, but typically less than that of an equity fund
- Wish to invest in a tax-free investment account
- Typically have an investment horizon of at least three years

Minimum investment amounts*

Initial lump sum per investor account	R36 000
Additional lump sum	R1 000
Debit order**	R1 000

*Lower minimum investment amounts apply for investments in the name of an investor younger than 18. Please refer to our website for more information.

**Only available to investors with a South African bank account.

Maximum investment amounts

Maximum lump sum per investor account	R36 000
Lifetime maximum	R500 000
Maximum debit order**	R3 000

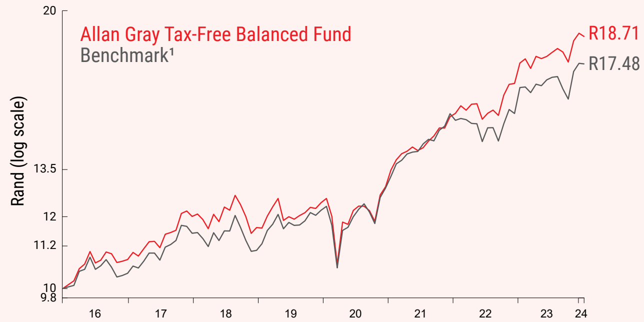
Fund information on 31 January 2024

Fund size	R2.8bn
Number of units	154 017 898
Price (net asset value per unit)	R15.51
Class	A

1. The market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding Allan Gray funds). Source: Morningstar, performance as calculated by Allan Gray as at 31 January 2024.
2. This is based on the latest available numbers published by IRESS as at 31 December 2023.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 20 January 2020 to 23 March 2020 and maximum benchmark drawdown occurred from 20 January 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 March 2021 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 31 March 2020 and the benchmark's occurred during the 12 months ended 31 March 2020. 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 February 2016)	87.1	74.8	48.3
Annualised:			
Since inception (1 February 2016)	8.1	7.2	5.1
Latest 5 years	10.0	9.4	5.0
Latest 3 years	11.7	9.8	6.1
Latest 2 years	10.0	7.3	6.2
Latest 1 year	6.8	6.1	5.1
Year-to-date (not annualised)	-0.9	-0.1	0.0
Risk measures (since inception)			
Maximum drawdown[3]	-24.6	-23.3	n/a
Percentage positive months[4]	65.6	63.5	n/a
Annualised monthly volatility[5]	9.5	9.5	n/a
Highest annual return[6]	31.7	30.7	n/a
Lowest annual return[6]	-13.4	-10.3	n/a

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Fund history

This Fund is managed in broadly the same way as the Allan Gray Balanced Fund. It was created specifically for use in tax-free accounts. Refer to the Allan Gray Balanced Fund factsheet for a history of the Allan Gray Balanced Fund since its inception on 1 October 1999.

Meeting the Fund objective

The Fund aims to create long-term wealth for investors within the constraints governing retirement funds. It aims to outperform the average return of similar funds without assuming any more risk. The Fund experiences periods of underperformance in pursuit of this objective. Since inception and over the latest five-year period, the Fund has outperformed its benchmark.

Income distributions for the last 12 months

To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus biannually.	30 Jun 2023	31 Dec 2023
Cents per unit	**15.7833**	**19.8006**

Annual management fee

The fee we charge is fixed at 1.25% excluding VAT.

This fee only applies to the portion of the unit trusts that we manage. The offshore portion of the unit trust is managed by Orbis. Orbis charges fixed fees within these funds. Orbis pays a marketing and distribution fee to Allan Gray.

Total expense ratio (TER) and transaction costs

The annual management fees charged by both Allan Gray and Orbis are 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.

Top 10 share holdings on 31 December 2023 (SA and Foreign) (updated quarterly)[7]

Company	% of portfolio
AB InBev	4.3
British American Tobacco	4.1
Glencore	2.9
Naspers & Prosus	2.6
Mondi	2.3
Woolworths	2.2
Nedbank	2.1
Standard Bank	2.0
Remgro	1.8
Sasol	1.5
Total (%)	**25.7**

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

TER and transaction costs breakdown for the 1- and 3-year period ending 31 December 2023	1yr %	3yr %
Total expense ratio	**1.46**	**1.47**
Fee for benchmark performance	1.29	1.30
Performance fees	0.00	0.00
Other costs excluding transaction costs	0.03	0.03
VAT	0.14	0.14
Transaction costs (including VAT)	**0.07**	**0.08**
Total investment charge	**1.53**	**1.55**

Asset allocation on 31 January 2024[7]

Asset class	Total	South Africa	Foreign
Net equities	64.8	40.6	24.2
Hedged equities	8.7	2.2	6.4
Property	0.8	0.5	0.3
Commodity-linked	3.1	2.5	0.6
Bonds	14.2	9.3	4.9
Money market and bank deposits[8]	8.4	7.0	1.3
Total (%)	**100.0**	**62.3**	**37.7**[9]

7. Underlying holdings of foreign funds are included on a look-through basis.
8. Including currency hedges.
9. The Fund can invest a maximum of 45% offshore. Market movements may periodically cause the Fund to move beyond these limits. This must be corrected within 12 months.

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

Since inception, the Fund's month-end net equity exposure has varied as follows:

Minimum	(February 2016) 57.5%
Average	64.4%
Maximum	(May 2021) 72.5%

Fund manager quarterly commentary as at 31 December 2023

2023 was another year full of surprising and unpredictable events. Most notably, in our opinion, global markets continue to be dominated by the announcements and actions of central banks, and expectations around those actions, rather than fundamentals. In 2022, as global inflation spiked and central banks responded by hiking interest rates, we saw a considerable sell-off in speculative, long-duration and leveraged assets, as the era of "easy money" appeared to be over. As inflation tapered during the course of 2023, and central banks have begun to signal an end to rate hiking and possible rate cuts, many of these assets have rebounded sharply:

- After selling off in 2022, global equity markets rebounded and were once again dominated by US stocks, and in particular large-cap US technology stocks. For the year ending 31 December 2023, the MSCI World Index was up 24%, the S&P 500 up 26% and the Nasdaq up 45% – in US dollars. The largest US stocks (Apple, Alphabet, Meta, Microsoft, Tesla, Nvidia and Amazon) have come to be known as the "magnificent seven", and in 2023, magnificent they were. The "worst" performing of the group was Apple, up 49%, while the best, Nvidia, buoyed by the excitement around artificial intelligence and the related demand for their chips, was up over 200%. In absolute terms, the market value of Nvidia increased by over US$800bn.
- Cryptocurrencies have also seen a resurgence. After being down over 64% in 2022, Bitcoin has bounced more than 160% to end the year at US$42 085. Remarkably, that is still below where it began in 2022. This mathematical fact highlights how important avoiding large losses is to successful long-term investing. If you buy something that subsequently halves in value, you need it to increase by 100% to get your money back. In this particular case, Bitcoin speculators who bought on 31 December 2021 need to see a price recovery of 178% from 31 December 2022 to get their money back in nominal terms.
- One asset class that hasn't seen as strong a recovery is the bond market. At the end of 2020, at the peak of the "easy money" era, there were roughly US$18tn of negative-yielding bonds. That is to say, at that point in the market cycle, there was US$18tn of debt where lenders were paying borrowers to borrow money from them! As interest rates began increasing in 2021 and increased further through 2022, bondholders began to suffer. The J.P. Morgan Global Government Bond Index fell by 6.5% in 2021 and a further 17.2% in 2022. It has failed to recover meaningfully in 2023, returning 4.0%. Those who held long-duration "safe-haven" developed market bonds have fared much worse. In 2022, investors in US and UK 30-year bonds lost a third and half of their investments, respectively – only to see further declines in prices during the course of 2023, with a marginal recovery by year end.

Domestically, the economic environment remains challenging, dominated by poor sentiment and record levels of loadshedding. It is not surprising that we have not seen the same resurgence in asset prices:

- In rands, the FTSE/JSE Capped SWIX All Share Index generated a return of 7.9% in 2023, which equates to a decline of 1.1% in US dollars, given persistent rand weakness. Within that though, there has been a large divergence in individual sector and stock performance. By way of example, within the precious metals sector, Harmony Gold has returned 105% for the year, while Impala Platinum fell by 55%, including dividends.
- The FTSE/JSE All Bond Index has fared slightly better, generating a return of 9.7% in rands and 0.6% in US dollars. Somewhat surprisingly, given the economic landscape, growing government debt and fiscal deficits, the yield on 10-year bonds has strengthened marginally from 11.1% at the start of 2023 to 10.9% at the end of the year.

In this environment, the Fund returned 4.8% for the fourth quarter of 2023 and 13.3% for the 2023 calendar year. This compares with benchmark returns of 6.6% for the quarter and 13.3% for the year. Over three years, the Fund has delivered an annualised return of 13.6%, compared with 10.9% for the benchmark and inflation of 6.1%.

As we look to 2024 and beyond, what should we expect of inflation, and how this may impact central banks' behaviour, interest rates and market returns?

In short: We don't know. Our only expectation is that events are likely to surprise us, and surprise us in how the market reacts. We navigate this uncertainty by being patient and disciplined, and striving to buy only those assets where the risk-to-reward opportunity is skewed heavily in our favour, with a large margin of safety and the knowledge that we won't always get it right.

During the quarter, the Fund bought AB InBev and British American Tobacco and sold Glencore and Standard Bank.

One other notable event that occurred in the final quarter of 2023 was the passing of Charlie Munger, aged 99. Warren Buffett's right-hand man, Charlie, was renowned for his investment acumen, common sense and "worldly wisdom". A remarkable man, Charlie never shied from sharing his opinion on a variety of topics, often with biting bluntness. On the topics of inflation, forecasting and probabilities, we think Charlie said it best:

"I remember the US$0.05 hamburger and a US$0.40-per-hour minimum wage, so I've seen a tremendous amount of inflation in my lifetime. Did it ruin the investment climate? I think not."

"People have always had this craving to have someone tell them the future. Long ago, kings would hire people to read sheep guts. There's always been a market for people who pretend to know the future. Listening to today's forecasters is just as crazy as when the king hired the guy to look at the sheep guts."

"If you don't get this elementary, but mildly unnatural, mathematics of elementary probability into your repertoire, then you go through a long life like a one-legged man in an *ss-kicking contest."

The investment world is a little less wise without Charlie in it.

Commentary contributed by Rory Kutisker-Jacobson

Information and content

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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. Movements in exchange rates may also cause the value of underlying international investments to go up or down. 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.

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).

Information for investors in the tax-free investment account

The Allan Gray Tax-Free Investment Account is administered by Allan Gray Investment Services (Pty) Ltd, an authorised administrative financial services provider, and underwritten by Allan Gray Life Ltd, an insurer licensed to conduct investment-linked life insurance business as defined in the Insurance Act 18 of 2017. The underlying investment options of the Allan Gray individual products are portfolios of collective investment schemes in securities (unit trusts or funds).

FTSE/JSE All Share Index, FTSE/JSE Capped Shareholder Weighted All Share Index and FTSE/JSE All Bond Index

The FTSE/JSE All Share Index, FTSE/JSE Capped Shareholder Weighted All Share Index and FTSE/JSE All Bond Index are calculated by FTSE International Limited ("FTSE") in conjunction with the JSE Limited ("JSE") in accordance with standard criteria. The FTSE/JSE All Share Index, FTSE/JSE Capped Shareholder Weighted All Share Index and FTSE/JSE All Bond Index are the proprietary information of FTSE and the JSE. All copyright subsisting in the values and constituent lists of the FTSE/JSE All Share Index, FTSE/JSE Capped Shareholder Weighted All Share Index and FTSE/JSE All Bond Index vests in FTSE and the JSE jointly. All their rights are reserved.

MSCI Index

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J.P. Morgan Index

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Important information for investors

Need more information?
You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website **www.allangray.co.za** or via our Client Service Centre on **0860 000 654**

Allan Gray Bond Fund

31 January 2024

Fund manager: Thalia Petousis **Inception date:** 1 October 2004

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

Minimum investment amounts*

Initial lump sum per investor account	R50 000
Additional lump sum	R1 000
Debit order**	R1 000

*Lower minimum investment amounts apply for investments in the name of an investor younger than 18. Please refer to our website for more information.

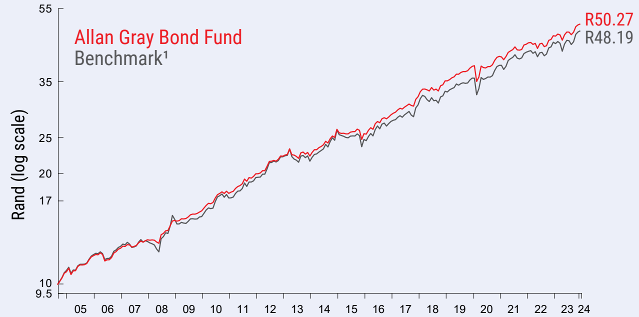
**Only available to investors with a South African bank account.

Fund information on 31 January 2024

Fund size	R7.8bn
Number of units	633 725 722
Price (net asset value per unit)	R10.23
Modified duration	4.2
Gross yield (before fees)	11.1
Class	A

Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested



1. FTSE/JSE All Bond Index (source: IRESS), performance as calculated by Allan Gray as at 31 January 2024.
2. This is based on the latest available numbers published by IRESS as at 31 December 2023.
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.

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (1 October 2004)	402.7	381.9	183.2
Annualised:			
Since inception (1 October 2004)	8.7	8.5	5.6
Latest 10 years	8.5	8.4	5.2
Latest 5 years	7.3	7.8	5.0
Latest 3 years	6.9	7.4	6.1
Latest 2 years	6.5	6.9	6.2
Latest 1 year	7.5	7.3	5.1
Year-to-date (not annualised)	0.5	0.7	0.0
Risk measures (since inception)			
Maximum drawdown[3]	-18.9	-19.3	n/a
Percentage positive months[4]	71.6	68.5	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

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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

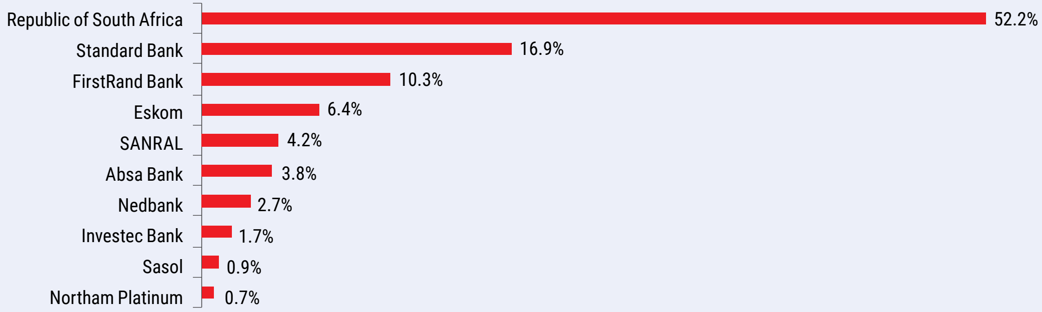
Total expense ratio (TER) and transaction costs (updated quarterly)

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.

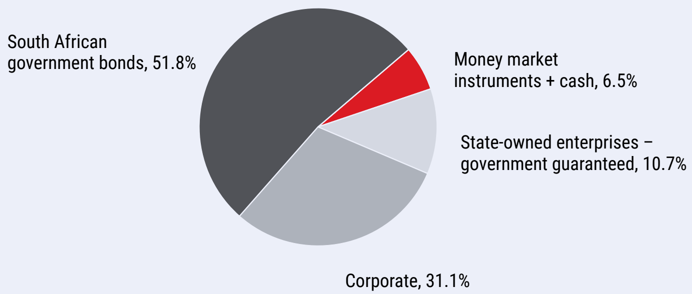
TER and transaction costs breakdown for the 1- and 3-year period ending 31 December 2023	1yr %	3yr %
Total expense ratio	**0.59**	**0.49**
Fee for benchmark performance*	0.50	0.42
Performance fees*	0.00	0.00
Other costs excluding transaction costs	0.01	0.01
VAT	0.08	0.06
Transaction costs (including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

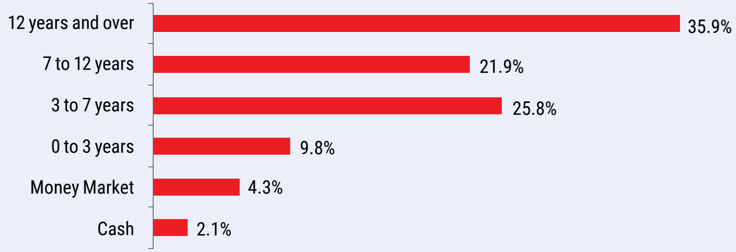
Top 10 credit exposures on 31 January 2024



Asset allocation on 31 January 2024



Maturity profile on 31 January 2024



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

Fund manager quarterly commentary as at 31 December 2023

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

Information and content

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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 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

The FTSE/JSE All Bond Index is calculated by FTSE International Limited ("FTSE") in conjunction with the JSE Limited ("JSE") in accordance with standard criteria. The FTSE/JSE All Bond Index is the proprietary information of FTSE and the JSE. All copyright subsisting in the FTSE/JSE All Bond Index values and constituent lists vests in FTSE and the JSE jointly. All their rights are reserved.

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Allan Gray Money Market Fund

31 January 2024

Fund description and summary of investment policy

The Fund invests in South African money market instruments with a term shorter than 13 months. These instruments can be issued by government, parastatals, corporates and banks. The Fund is managed to comply with regulations governing retirement funds.

While capital losses are unlikely, they can occur if, for example, one of the issuers of an instrument held by the Fund defaults. In this event losses will be borne by the Fund and its investors.

ASISA unit trust category: South African – Interest Bearing – Money Market

Fund objective and benchmark

The Fund aims to preserve capital, maintain liquidity and generate a sound level of income. 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 selected money market instruments providing an income yield 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 investments for the Fund. These assets are typically held to maturity. We take a conservative approach to credit risk.

Suitable for those investors who

- Require monthly income distributions
- Are highly risk-averse but seek returns higher than bank deposits
- Need a short-term investment account

Minimum investment amounts*

Initial lump sum per investor account	R50 000
Additional lump sum	R1 000
Debit order**	R1 000

*Lower minimum investment amounts apply for investments in the name of an investor younger than 18. Please refer to our website for more information.

**Only available to investors with a South African bank account.

Fund information on 31 January 2024

Fund size	R28.7bn
Number of units	25 584 879 819
Price (net asset value per unit)	R1.00
Monthly yield at month end	0.75
Fund weighted average coupon (days)	84.66
Fund weighted average maturity (days)	109.58
Class	A

1. The current benchmark is the Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index. Since inception to 31 March 2003, the benchmark was the Alexander Forbes 3-Month Deposit Index. From 1 April 2003 to 31 October 2011 the benchmark was the Domestic Fixed Interest Money Market Collective Investment Scheme sector excluding the Allan Gray Money Market Fund, performance as calculated by Allan Gray as at 31 January 2024
2. This is based on the latest available numbers published by IRESS as at 31 December 2023.
3. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
4. 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.
5. 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 July 2003 and the benchmark's occurred during the 12 months ended 31 July 2003. The Fund's lowest annual return occurred during the 12 months ended 31 October 2021 and the benchmark's occurred during the 12 months ended 31 October 2021. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

Income distribution for the last 12 months

Actual payout (cents per unit), the Fund distributes monthly

Feb 2023	Mar 2023	Apr 2023	May 2023
0.56	0.64	0.64	0.68
Jun 2023	Jul 2023	Aug 2023	Sep 2023
0.68	0.71	0.72	0.70
Oct 2023	Nov 2023	Dec 2023	Jan 2024
0.73	0.71	0.74	0.75

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (1 July 2001)	429.2	407.7	231.5
Annualised:			
Since inception (1 July 2001)	7.7	7.5	5.5
Latest 10 years	6.8	6.4	5.2
Latest 5 years	6.4	6.0	5.0
Latest 3 years	6.2	5.8	6.1
Latest 2 years	7.2	6.8	6.2
Latest 1 year	8.6	8.2	5.1
Year-to-date (not annualised)	0.7	0.7	0.0
Risk measures (since inception)			
Percentage positive months[3]	100.0	100.0	n/a
Annualised monthly volatility[4]	0.6	0.6	n/a
Highest annual return[5]	12.8	13.3	n/a
Lowest annual return[5]	4.3	3.8	n/a

Meeting the Fund objective

The Fund has preserved capital, maintained liquidity and generated a sound level of income.

Annual management fee

A fixed fee of 0.25% 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	**0.29**	**0.29**
Fee for benchmark performance	0.25	0.25
Performance fees	0.00	0.00
Other costs excluding transaction costs	0.00	0.00
VAT	0.04	0.04
Transaction costs (including VAT)	**0.00**	**0.00**
Total investment charge	**0.29**	**0.29**

Exposure by issuer on 31 January 2024

	% of portfolio
Corporates	**11.3**
Shoprite	2.3
Mercedes-Benz Group	2.3
Daimler Truck	2.1
Sanlam	1.5
AVI Limited	1.4
Pick n Pay Stores	0.9
Toyota Financial Services	0.7
Banks[6]	**51.9**
Nedbank	18.4
Standard Bank	11.7
Investec Bank	9.3
Absa Bank	8.9
FirstRand Bank	3.5
Governments	**36.8**
Republic of South Africa	36.8
Total (%)	**100.0**

6. Banks include negotiable certificates of deposit (NCDs), floating rate notes, fixed deposits and call deposits.

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

Fund manager quarterly commentary as at 31 December 2023

Over the course of 2023, the South African Reserve Bank (SARB) raised the overnight repo rate from 7.00% to 8.25%. In their final meeting for 2023, for the first time in the year, the committee members unanimously voted to keep the rate unchanged. Several SARB members have communicated that high rates have not been their ideal outcome but have been necessary, because the bank carries an outsized burden when it comes to stabilising South Africa's macro economy and inflation.

In this regard, the SARB repeatedly calls for government to share the burden with them via a prudent fiscal policy. While the SARB's preference would in fact be for lower interest rates and lower inflation, they have not been able to achieve this while government continues to run an imprudently high debt level which raises the country risk premium. This elevated country risk premium entrenches itself in national borrowing costs as foreign investors demand a higher interest rate to invest in the ever-growing supply of South African government debt and to refinance the debt of ailing state-owned entities like Eskom and Transnet. This country risk premium also contributes to a weaker rand exchange rate and ergo higher imported price inflation.

Beyond actively lowering their debt pile, the SARB also continues to recommend to government that they lower inflation by increasing the supply of energy and reducing real government wage growth so that it matches the weak economic productivity gains in our economy. The SARB's final bugbear is that administered prices, such as those for electricity, water, and rates and taxes, have been allowed to rise at double digits and faster than the country's targeted price inflation. Such pricing pressures necessitate that the SARB keep rates higher than they would prefer as a necessary evil that serves to lower consumer borrowing appetite and crush household demand. In theory, such action is meant to arrest any second-round price increases from taking hold.

While the market is pricing for the SARB to begin cutting interest rates in mid-2024, the SARB maintains that they will not provide future guidance on interest rates nor pre-commit to a specific policy path. The only hard promise that they will make is that they need to deliver on their mandate of lowering inflation to maintain price stability in the economy.

In the last quarter of 2023, the Fund raised its exposure to Treasury bills again as yields rose above bank deposit rates due to increased weekly government debt issuance in the face of a larger funding requirement. The weighted average yield of the Fund (gross of fees) started the 2023 year at 7.49% and ended the year at 9.45%, thus paying the highest rate of interest in the Fund in over 14 years.

Commentary contributed by Thalia Petousis

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The Allan Gray Money Market Fund is not a bank deposit account

The Fund aims to maintain a constant price of 100 cents per unit. The total return an investor receives is made up of interest received and any gain or loss made on instruments held by the Fund. While capital losses are unlikely, they can occur if, for example, one of the issuers of an instrument defaults. In this event, investors may lose some of their capital. To maintain a constant price of 100 cents per unit, investors' unit holdings will be reduced to the extent of such losses. The yield is calculated according to applicable ASISA standards. Excessive withdrawals from the Fund may place it under liquidity pressure; if this happens, withdrawals may be ring-fenced and managed over a period of time.

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