Fund manager: Andrew Lapping Inception date: 1 July 1998 Registration number: 23261

Fund description and summary of investment policy

The Fund invests in a focused portfolio of companies with significant business interests in Africa, regardless of the location of the stock exchange listing. The Fund price is reported in US dollars but the underlying holdings are denominated in various currencies. Returns are likely to be volatile.

Fund objective and benchmark

The Fund aims to outperform African equity markets over the long term without taking on greater risk of loss. The Fund's benchmark is the MSCI Emerging and Frontier Markets (EFM) Africa Index (total returns).

How we aim to achieve the Fund's objective

We invest in shares that we believe offer superior fundamental value while taking into account risk and return. We research companies and assess their intrinsic value based on long-term fundamentals; we then invest in businesses where our assessment of intrinsic value exceeds the share price by a margin of safety. This approach allows us to identify shares that may be out of favour with the market because of poor near-term prospects, but offer good value over the long term. The Fund's holdings will deviate meaningfully from those in the index both in terms of individual holdings and sector exposure.

Suitable for those investors who

Seek exposure to African equities

- Are comfortable with stock market and currency fluctuations
- Are prepared to take on the risk of capital loss
- Typically have an investment horizon of more than five years

The Fund is not available to South African residents.

Minimum investment amounts

Minimum initial investment	US\$50 000
Minimum subsequent investment	US\$1 000

Subscription and redemption charge

Investors are charged 0.5% when subscribing for Fund shares. Investors may be charged 0.5% when redeeming Fund shares in the case of significant redemptions. These charges are paid into the Fund to offset the costs associated with the transactions that are borne by the Fund. Allan Gray International Proprietary Limited (the 'Investment Manager') may waive these charges if transactions substantially offset one another.

Fund information on 31 July 2016

Fund currency	US\$1
Fund size	US\$160m
Fund price	U\$\$118.78
Number of share holdings	48
Dealing day	Weekly (Thursday)
Class	A

Performance in US\$ net of all fees and expenses

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



% Returns	Fund	Benchmark ²
Cumulative:		
Since inception	1600.9	472.4
Annualised:		
Since inception	17.0	10.1
Latest 10 years	3.6	5.5
Latest 5 years	-6.6	-0.8
Latest 3 years	-13.9	1.2
Latest 2 years	-27.7	-6.9
Latest 1 year	-24.2	-3.8
Year-to-date (not annualised)	-5.5	22.2
Risk measures (since inception, based on month-end prices)		
Maximum drawdown ³	-52.5	-60.5
Percentage positive months ⁴	57.1	57.6
Annualised monthly volatility ⁵	25.6	26.8

 The Fund is currently priced in US dollars. From inception to 30 April 2012 the Fund was priced in South African rands.

2. The current benchmark is the MSCI EFM Africa Index (total returns). From inception to 30 April 2012 the benchmark was the FTSE/JSE All Share Index including income. Performance as calculated by Allan Gray as at 31 July 2016 (source: Bloomberg). Calculation based on the latest available data as supplied by third parties.

3. Maximum percentage decline over any period. The maximum drawdown occurred from October 2007 to February 2009 and maximum benchmark drawdown occurred from October 2007 to February 2009. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).

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.

Income distributions for the last 12 months

Dollars per unit	
To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus.	31 Dec 2015

Annual management fee

The annual management fee ranges from 0.5% to 2.5% depending on the relative return of the Fund to the benchmark, before fees. The fee is calculated on a base of 1.5% plus one twenty-fifth of the cumulative three-year relative performance, subject to a floor of 0.5% and cap of 2.5%. For example if the cumulative three year performance of the fund is 20% and that of the benchmark is 15%, the fee rate is: 1.5% + (20%-15%)/25 = 1.7%.

Total expense ratio (TER) and Transaction costs

The annual management fee charged is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a 3-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 3-year period ending 30 June 2016	%
Total expense ratio	2.33
Fee for benchmark performance	1.50
Performance fees	0.56
Custody fees	0.21
Other costs excluding transaction costs	0.06
Transaction costs	0.21
Total investment charge	2.54

Country of primary listing on 31 July 2016

Country	% of Equities	Benchmark ⁶
South Africa	26.4	83.2
Egypt	21.8	2.2
Zimbabwe	17.3	0.0
Nigeria	17.1	2.2
Kenya	5.1	1.5
United Kingdom	4.1	0.0
Uganda	3.4	0.0
France	2.3	0.0
Australia	2.1	0.0
Canada	0.6	0.0
Netherlands	0.0	5.6
Morocco	0.0	2.4
Malta	0.0	0.9
Mauritius	0.0	0.9
Romania	0.0	0.9
Tunisia	0.0	0.2
BRVM	0.0	0.1
Total ⁷	100.0	100.0

Sector allocation on 31 July 2016

Sector	% of Fund	Benchmark ⁶
Oil & gas	9.0	0.1
Basic materials	10.7	12.9
Industrials	2.4	5.3
Consumer goods	25.7	8.7
Healthcare	0.0	4.3
Consumer services	3.5	31.2
Telecommunications	9.6	8.5
Utilities	4.5	0.0
Financials	31.1	29.0
Fixed interest/Liquidity	3.4	0.0
Total ⁷	100.0	100.0

 MSCI EFM Africa Index (total returns) (source: Bloomberg). Calculation based on the latest available data as supplied by third parties.

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

Asset allocation on 31 July 2016

Asset Class	Total
Net equity	96.6
Hedged equity	0.0
Property	0.0
Commodity-linked	0.0
Bonds	0.0
Money market and bank deposits	3.4
Total (%)	100.0

Updated comments as at 31 July 2016

Since March 2016 the Egyptian government has held the Egyptian pound at EGP8.88/US\$. This peg looks to be unsustainable and it is currently not possible to buy US dollars in the market as the supply of Egyptian pounds exceeds demand. A devaluation of the Egyptian pound is widely anticipated, but it is difficult to judge where the exchange rate will settle in a free market. The black market rate and dual-listed equities are pricing in a devaluation of up to 35%. In our opinion this is high. In light of the impending devaluation, we have decided to price the Egyptian assets within the Fund using the three-month forward rate, effective 28 July 2016. This rate is EGP10.69/US\$ at present, which is 20% below the official spot rate. Foreign investors are currently unwilling to invest in Egypt given concerns around the expected devaluation. This may change in a free market where the exchange rate is allowed to float. We have maintained our Egyptian exposures and reinvested the dividends in attractively priced equities.

The Fund's exposure to Egyptian listed equities post the currency adjustment is 21.0%.

Fund manager quarterly commentary as at 30 June 2016

Our investment approach does not change even during periods of extreme market volatility. As always, we carefully consider investment opportunities where risks may be mispriced and we are only prepared to act when we believe we can preserve capital and when the odds of generating superior risk-adjusted returns favour long-term investors. The Fund's overweight position in Nigeria reflects this approach.

In late June 2016, the Central Bank of Nigeria (CBN) was forced to devalue the naira by about 40%. Nigeria had maintained a fixed currency peg since March 2015 despite the sharp fall in oil prices and recent disruptions in oil supply from the Niger Delta. To achieve its policy objective, the CBN had imposed restrictions on access to US dollars, which resulted in an official exchange rate that was not freely tradeable and businesses struggling to source dollars for imported raw materials. Consequently, equity valuations were heavily discounting the uncertainty and currency convertibility risks.

We believed that the currency peg was unsustainable and were incorporating a naira devaluation over our investment horizon. The new exchange rate regime may experience some teething problems, but it is an important step in the right direction for the economy. We are also encouraged by the structural changes the government has undertaken, such as reforming the oil sector, eliminating fuel subsidies and increasing electricity tariffs to boost investments in power supply. In due time, as these changes take hold, we believe that the elevated country and equity risk premiums will unwind.

How is the Fund positioned in Nigeria?

Rising inflation and stretched consumer spending power will likely constrain revenue growth for consumer goods companies. We are also likely to see margin pressure if companies are unable to pass-through their higher costs. We believe that current valuations for most consumer goods companies do not yet offer us a sufficient margin of safety, given these risks.

On the other hand, most Nigerian banks can withstand and even thrive in a higher inflation environment. Most banks have low funding costs, while yields on treasury bills are rising to counter inflation. Fee income will also benefit from a higher nominal GDP base and the gradual resumption in foreign exchange-related trading volumes.

In our assessment, the major banks are well capitalised and are generating adequate profits to withstand the 40% devaluation and our prudent estimates of potential impairment charges. We have not yet seen a sharp deterioration in asset quality across the entire sector, except for a few company-specific credit losses related to the oil sector. In addition, the recent devaluation was widely expected and a number of the banks have built-up net long US dollar positions to cushion the impact of the naira devaluation on their capital buffers.

In estimating the intrinsic value of a bank, we seek to determine what represents a sustainable return on equity that the bank can generate through the cycle. There will be short-term fluctuations in returns, but the long-term drivers are predicated on the strength of the banking franchise to withstand competition; a stable, low-cost funding base; and prudent risk and cost management. We have been increasing our exposure to the leading Nigerian banking franchises at a significant discount to our estimate of intrinsic value.

The Fund was down 3.8% over the second quarter. There were no other major position changes in the Fund.

Commentary contributed by Nick Ndiritu

Notes for consideration

Fund information

The Fund is incorporated and registered under the laws of Bermuda and is supervised by the Bermuda Monetary Authority. The Fund is also listed on, and regulated by, the Bermuda Stock Exchange. The primary custodian of the Fund is Citibank N.A. The custodian can be contacted at 390 Greenwich Street, New York, New York, USA. The Investment Manager, an authorised Financial Services Provider in terms of the Financial Advisory and Intermediary Services Act 37 of 2002, is the appointed investment manager of the Fund.

The Fund may be closed to new investments at any time to be managed according to its mandate. Shares in the Fund are traded at ruling prices and the Fund can engage in borrowing and scrip lending. The Fund may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. This report does not constitute a financial promotion, a recommendation, an offer to sell or a solicitation to buy shares in the Fund. Investments in the Fund are made according to the terms and conditions and subject to the restrictions set out in the prospectus. Shares in the Fund are not offered to South African residents and the offering of shares in the Fund may be restricted in certain other jurisdictions. Please contact the Allan Gray service team to confirm if there are any restrictions that apply to you.

Performance

Collective Investment Schemes in Securities (unit trusts or mutual funds) are generally medium- to long-term investments. Where annualised performance is mentioned, this refers to the average return per year over the period. The value of shares may go down as well as up and past performance is not necessarily a guide to future performance. Movements in exchange rates may cause the value of underlying international investments to go up or down. Neither the Investment Manager nor the Fund provides any guarantee regarding the capital or the performance of the Fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Actual investor performance may differ as a result of the investment date, the date of reinvestment and applicable taxes.

Benchmark data

The Fund's benchmark data is provided by MSCI who require that we include the following legal notes. Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.

Share price

Share prices are calculated on a net asset value basis, which is the total market value of all assets in the Fund including any income accruals and less any permissible deductions from the Fund divided by the number of shares in issue. Forward pricing is used. The weekly price of the Fund is normally calculated each Friday. Purchase requests must be received by the Registrar of the Fund (being Citibank Europe plc, Luxembourg Branch) by 17:00 Bermuda time on that dealing day to receive that week's price. Redemption requests must be received by the Registrar of the Fund by 12:00 Bermuda time, on the particular dealing day on which shares are to be redeemed to receive that week's price. Share prices are available on www.allangray.com.

Fees and charges

Permissible deductions from the Fund may include management fees, brokerage, Securities Transfer Tax (STT), auditor's fees, bank charges and custody fees. A schedule of fees, charges and maximum commissions is available on request from the Allan Gray Service Team.

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 three years. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged) and other expenses like audit fees. Transaction costs (including brokerage, Securities Transfer Tax [STT] and investor protection levies where applicable) are shown separately. Transaction costs are a necessary cost in administering the Fund and impacts Fund returns. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER. Since Fund returns are quoted after the deduction of these expenses, the TER and Transaction costs should not be deducted again from published returns. As collective investment scheme expenses vary, the current TER cannot be used as an indication of future TERs. A higher TER ratio 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.

Foreign exposure

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

The Fund can use derivatives to manage its exposure to stock markets, currencies and/ or interest rates and this exposes the Fund to contractual risk. Contractual risk includes the risk that a counterparty will not settle a transaction according to its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, causing the Fund to suffer a loss. Such contract counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Fund has concentrated its transactions with a single or small group of counterparties. Borrowing, leveraging, and trading securities on margin will result in interest charges and, depending on the amount of trading activity, such charges could be substantial. The low margin deposits normally required in futures and forward trading, which the Fund may utilise, permit a high degree of leverage. As a result, a relatively small price movement in a futures or forward contract may result in immediate and substantial losses to the investor.

Additional information

You can obtain additional information about the Fund, including copies of the prospectus, application forms and the annual report, free of charge, by contacting the Allan Gray service team, at +353 1 622 4716 or by email at AGclientservice@citi.com.