

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 (excluding South Africa). 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 Standard Bank Africa Total Return Index. The Fund does not seek to mirror the benchmark but instead may deviate meaningfully from this performance benchmark in pursuit of superior returns. To the extent that its investments differ from those in the benchmark, the Fund faces the risk of underperforming the benchmark.

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 (excluding South 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

Capacity

The Fund has limited capacity and is thus restricting inflows. Redemptions may be limited to US\$5m or 2.5% of the Fund (whichever is less) per dealing day.

Fair value pricing

The board of directors of the Fund ('the board') may fair value the Fund's assets in accordance with the board's fair value pricing policies if:

- the closing market quotations or official closing prices are not readily available or do not accurately reflect the fair value of a Fund asset; or
- the value of a Fund asset has been materially affected by events occurring before the Fund's pricing time but after the close of the exchange or market on which the asset is principally traded.

The board delegates the responsibility for fair value pricing decisions to a Valuation Committee of the Investment Manager.

Fund information on 30 June 2018

Fund currency	US\$
Fund size	US\$435m
Number of shares	2 461 481
Price (net asset value per share)	US\$149.75
Number of share holdings	53
Dealing day	Weekly (Thursday)
Class	A

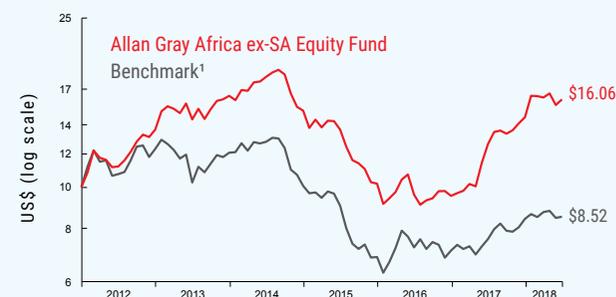
Minimum investment amounts

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

- Standard Bank Africa Total Return Index (source: Standard Bank), performance as calculated by Allan Gray as at 30 June 2018. Calculation based on the latest available data as supplied by third parties.
- Maximum percentage decline over any period. The maximum drawdown occurred from August 2014 to July 2016 and maximum benchmark drawdown occurred from July 2014 to January 2016. 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.
- 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.
- This is the highest or lowest rolling 12-month return the Fund has experienced since inception. The Fund's highest annual return occurred during the 12 months ended 31 January 2018 and the benchmark's occurred during the 12 months ended 30 April 2018. The Fund's lowest annual return occurred during the 12 months ended 31 August 2015 and the benchmark's occurred during the 12 months ended 31 August 2015. All rolling 12-month figures for the Fund and the benchmark are available from the Allan Gray Service Team on request.

Performance in US\$ net of all fees and expenses

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



% Returns	Fund	Benchmark ¹
Cumulative:		
Since inception (1 January 2012)	60.6	-14.8
Annualised:		
Since inception (1 January 2012)	7.6	-2.4
Latest 5 years	2.2	-3.6
Latest 3 years	5.6	-2.0
Latest 2 years	29.3	8.6
Latest 1 year	27.3	12.8
Year-to-date (not annualised)	10.1	1.1
Risk measures (since inception, based on month-end prices)		
Maximum drawdown ²	-51.7	-51.8
Percentage positive months ³	57.7	53.8
Annualised monthly volatility ⁴	18.3	18.0
Highest annual return ⁵	69.1	26.6
Lowest annual return ⁵	-38.6	-43.4

Relative to benchmark return required to reach high watermark: 2.9%.

Meeting the Fund objective

The Fund aims to outperform African equity markets (excluding South Africa) over the long term without taking on greater risk of loss. The Fund experiences periods of underperformance in pursuit of this objective. Since inception the Fund has outperformed its benchmark by a significant margin. The maximum drawdown and lowest annual return numbers, in the 'Performance in US\$ net of all fees and expenses' table, show that the Fund has not experienced more downside than its benchmark in periods of negative market returns. We believe our philosophy of buying undervalued equities should generate positive absolute returns over time.

Subscription and redemption charge

Investors may be charged 1% when subscribing for Fund shares. Investors may be charged 1% 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. The Investment Manager may waive these charges if transactions substantially offset one another.

Annual management fee

The management fee consists of a base fee of 1% and a performance component. The fee rate is calculated weekly by comparing the Fund's total performance for the week, after the base fee is deducted, to that of the benchmark.

Fee for performance equal to the Fund's benchmark: 1.00% p.a.

For each percentage point above or below the benchmark we add or deduct 0.2%. This means that Allan Gray shares in approximately 20% of the performance relative to the benchmark.

The fee is capped at 5% over any 12 month rolling period and can decrease to a minimum of 0%. If the fee would have been negative, the negative fee will be carried forward to reduce the next week's fee (and all subsequent weeks until the underperformance is recovered).

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 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.

Country of primary listing on 30 June 2018

Country	% of Equities	Benchmark ⁷
Nigeria	39.6	15.2
Zimbabwe ⁶	24.5	2.4
Egypt	13.7	21.2
United Kingdom	6.0	12.5
Kenya	4.6	6.5
Uganda	2.0	0.0
Australia	1.9	0.4
BRVM	1.9	2.1
Rwanda	1.7	0.0
Malawi	1.2	0.0
Ghana	0.8	0.0
Canada	0.6	28.2
Zambia	0.6	0.0
Tanzania	0.5	0.4
France	0.4	0.0
Morocco	0.0	5.4
Tunisia	0.0	3.1
Mauritius	0.0	2.1
United States	0.0	0.3
Botswana	0.0	0.1
Total⁸	100.0	100.0

6. Zimbabwe assets are currently being fair valued in accordance with the board's fair value pricing policies.

Sector allocation on 30 June 2018

Sector	% of Fund	Benchmark ⁷
Oil and gas	12.4	5.6
Basic materials	4.7	35.4
Industrials	0.4	1.0
Consumer goods	23.4	5.6
Consumer services	0.8	0.1
Telecommunications	15.3	11.9
Utilities	1.9	0.0
Financials	35.0	39.6
Money market and bank deposits	6.0	0.7
Total⁸	100.0	100.0

7. Standard Bank Africa Total Return Index (source: Standard Bank). Calculation based on the latest available data as supplied by third parties.

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

Asset allocation on 30 June 2018

Asset Class	Total
Net equity	94.0
Hedged equity	0.0
Property	0.0
Commodity-linked	0.0
Bonds	0.0
Money market and bank deposits	6.0
Total (%)	100.0

Total expense ratio (TER) and Transaction costs⁹

TER and Transaction costs breakdown for the 1 and 3-year period ending 31 March 2018	1yr %	3yr %
Total expense ratio	4.93	3.08
Fee for benchmark performance	0.92	0.79
Performance fees	3.49	1.71
Custody fees	0.37	0.33
Other costs excluding transaction costs	0.05	0.05
VAT	0.10	0.20
Transaction costs (including VAT)	0.68	0.51
Total investment charge	5.61	3.59

9. Prior to 1 September 2017, the Fund was subject to VAT.

Zimbabwe's election on 30 July 2018 heralds a new beginning after the abrupt end to President Robert Mugabe's 37-year reign in November 2017. We are not picking favourites among the presidential candidates, rather we are rooting for a credible election process that allows Zimbabweans to freely vote for a leader of their choice. A democratic outcome, respected by politicians and the military, will dispel any doubts on Zimbabwe's commitment to political reforms.

Unfortunately, the post-election celebrations ought to be short lived. Zimbabwe's economic challenges have been well chronicled, but the most pressing for any new regime will be to constrain fiscal spending, dig out of the mountain of bad debts and arrears, and establish a functional currency regime. The illusion of a government running a US dollar economy by printing ever-greater amounts of quasi-currency instruments is simply unsustainable. Inevitably, the proliferation of 'bad' money forces citizens to physically hoard 'good' money, exacerbating the chronic shortage of US dollars in Zimbabwe's formal banking system.

Locally, market participants are signalling an implicit currency devaluation in the varying discounts applied to electronic money and bond notes in exchange for a real US dollar. For foreign investors, the implied currency devaluation is reflected in adjusted asset prices. One common approach is to use Old Mutual's share price in Zimbabwe compared to the JSE listing, which implies discounting a dollar in Zimbabwe to 42 US cents. However, this currency proxy has been extremely volatile on thinly traded volumes. In the past year, the implied value for a dollar in Zimbabwe has oscillated from as low as 17 US cents in November 2017 to as high as 68 US cents in February 2018.

We have steadily discounted the value of the Fund's holdings in Zimbabwe since December 2016 and, as conditions worsened, we adopted a fair value methodology in September 2017 to value each of our Zimbabwe holdings. The aggregate carrying value implies a 60% discount to market prices at the end of June 2018. In other words, we are effectively discounting a dollar in Zimbabwe to 40 US cents.

These multiple implied exchange rates illustrate that the market is grappling with uncertainty. Adopting a functional currency regime will require credible fiscal restraint, but it helps attract foreign investors who stay away when they can't efficiently price risk in US dollars and also repatriate their money. This is similar to our recent experiences in Nigeria and Egypt. In both countries, policy makers had imposed capital controls and were rationing scarce US dollars to defend unsustainable currency pegs. The authorities had little to show for these efforts until they let their currencies adjust to reflect market reality, which helped unlock investor inflows.

Finding opportunities in a new Zimbabwe

Despite the risks and uncertainty, we have accumulated material positions in thriving businesses well-positioned for Zimbabwe's recovery. The Fund has a

22% exposure to Zimbabwean assets and 90% of this exposure is concentrated in telecommunications group Econet and brewer Delta. Both companies reported strong operating results over the past quarter.

Econet has established an enviable position as the dominant mobile money payments platform in Zimbabwe. In March 2018, the value of Zimbabwe's mobile payments jumped to 60% of all retail payments (mobile, internet, card and cash transactions) compared to 22% two years ago. Understandably, this dramatic shift has been at the expense of reduced cash payments from 42% of retail payments to just 5% currently. Notwithstanding Zimbabwe's current cash shortages, does this pattern represent a permanent shift in consumer behaviour? The jury is out, but it is difficult to envision many Zimbabweans will be willing to stand in queues again to pay their utility bills. If the trend holds, Econet is the new poster child for successful mobile money platforms. In its latest financial year, Econet's revenue from mobile financial services was 29% of total revenues, up from 10% just 3 years ago. In Kenya, communications company Safaricom's revenue contribution from its MPesa mobile money platform is 27%, and it took 8 years to grow from 9%.

Delta's full-year results demonstrated significant improvement in operating performance. Volumes for lager beer increased by 43% in the second half compared to the similar period in the prior year. Delta is benefiting from improved cash availability in the economy, but constrained by the inability to source adequate real US dollars to buy critical inputs or pay foreign creditors.

In the second quarter of 2018, we revalued both companies on the basis of the strong operating results. This revaluation impact is incorporated in the effective discount to our Zimbabwe holdings, which is noted above. Our valuations reflect cautious optimism that the outlook is improving but investors still face currency devaluation risks and can't repatriate funds out of Zimbabwe.

Conclusion

Zimbabwe's journey from the brink under Mugabe's rule to the prospect of political and economic reforms offers great hope for the people of Zimbabwe. A functional currency regime accompanied by reliable fiscal reforms will help attract capital inflows to re-capitalise the economy. We can't predict the pace of reforms, but we believe that owning great businesses at conservative valuations should allow patient investors to realise a substantial gain from Zimbabwe's eventual recovery.

Aside from revaluing these Zimbabwean assets, other material changes to the Fund include increased exposure to select Nigerian banks as these stocks pulled back after the strong rally in the first quarter of 2018.

Commentary contributed by Nick Ndiritu

Fund manager quarterly commentary as at 30 June 2018

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 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 has appointed Allan Gray Unit Trust Management (RF) Proprietary Limited (the 'Representative') as its representative for the purpose of approval in terms of the Collective Investment Schemes Control Act 45 of 2002. The Representative is incorporated under the laws of South Africa and is supervised by the Financial Sector Conduct Authority ('FSCA').

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. The offering of shares in the Fund may be restricted in certain 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, the Fund nor the Representative 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 Standard Bank Plc who require that we include the following legal note. The Standard Bank Africa Total Return Index is the proprietary information and registered trademark of Standard Bank Plc. All copyright subsisting in the Standard Bank Africa Total Return Index values and constituent lists vests in Standard Bank Plc. All their rights are reserved.

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.co.za

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 Representative.

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) 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.

Important information for investors

Need more 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