

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 31 December 2019

Fund currency	US\$
Fund size	US\$360m
Number of shares	2 587 791
Price (net asset value per share)	US\$117.17
Number of share holdings	53
Dealing day	Weekly (Thursday)
Class	A

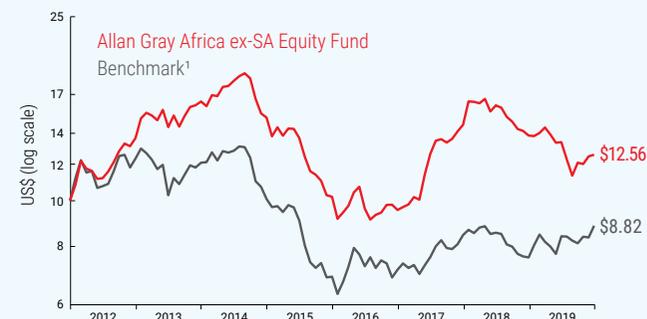
Minimum investment amounts

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

1. Standard Bank Africa Total Return Index (source: Standard Bank), performance as calculated by Allan Gray as at 31 December 2019. Calculation based on the latest available data as supplied by third parties.
2. 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).
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. 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	Benchmark¹
Cumulative:		
Since inception (1 January 2012)	25.6	-11.8
Annualised:		
Since inception (1 January 2012)	2.9	-1.6
Latest 5 years	-3.6	-2.6
Latest 3 years	9.6	7.5
Latest 2 years	-7.2	2.3
Latest 1 year	-9.1	17.0
Year-to-date (not annualised)	-9.1	17.0
Risk measures (since inception, based on month-end prices)		
Maximum drawdown²	-51.7	-51.8
Percentage positive months³	53.7	49.4
Annualised monthly volatility⁴	17.6	17.3
Highest annual return⁵	69.1	26.6
Lowest annual return⁵	-38.6	-43.4

Relative to benchmark return required to reach high watermark: 28.3%.

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 31 December 2019

Country	% of Equities	Benchmark ⁶
Nigeria	44.0	15.5
Kenya	11.5	14.8
Egypt	11.4	13.4
Zimbabwe	10.3	0.3
BRVM	4.5	1.6
United Kingdom	4.1	1.9
Australia	4.1	8.2
Uganda	2.4	0.0
Ghana	2.4	0.0
Rwanda	2.0	0.0
Malawi	1.7	0.0
Tanzania	0.6	0.4
France	0.4	0.0
Zambia	0.4	0.0
Canada	0.2	31.3
Morocco	0.0	5.9
Mauritius	0.0	3.7
Tunisia	0.0	2.5
United States	0.0	0.4
Total⁷	100.0	100.0

Sector allocation on 31 December 2019

Sector	% of Fund	Benchmark ⁶
Oil and gas	11.5	1.9
Basic materials	7.1	42.7
Industrials	1.5	0.1
Consumer goods	16.6	6.1
Consumer services	0.2	0.5
Telecommunications	9.6	13.0
Utilities	2.4	0.0
Financials	46.0	35.1
Technology	2.6	0.0
Money market and bank deposits	2.5	0.5
Total⁷	100.0	100.0

6. Standard Bank Africa Total Return Index (source: Standard Bank). 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 December 2019

Asset Class	Total
Net equity	97.5
Hedged equity	0.0
Property	0.0
Commodity-linked	0.0
Bonds	0.0
Money market and bank deposits	2.5
Total (%)	100.0

Total expense ratio (TER) and Transaction costs⁸

TER and Transaction costs breakdown for the 1 and 3-year period ending 30 September 2019	1yr %	3yr %
Total expense ratio	0.67	2.27
Fee for benchmark performance	1.00	0.79
Performance fees	-1.00	0.95
Custody fees	0.59	0.43
Other costs excluding transaction costs	0.08	0.06
VAT	0.00	0.04
Transaction costs (including VAT)	0.52	0.50
Total investment charge	1.19	2.77

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

At the core of our investment philosophy is a belief that markets are not always efficient or rational. We invest in businesses that we consider to be irrationally priced relative to our assessment of their intrinsic value. Unsurprisingly, non-consensus investments that are out of favour can get much cheaper, and the time it takes for the storms to pass can be highly variable. Inevitably, by focusing relentlessly on generating superior long-term returns, we bear the risks of being different from our performance benchmarks and having to endure uncomfortable periods of underperformance.

The Fund's performance over the past year was downright disappointing. Overweight positions in Nigeria and Zimbabwe were significant detractors.

Nigerian equities underperformed on continued negative sentiment, with investors unnerved by the uncertain regulatory environment in the banking sector and dim growth prospects. The MSCI Nigeria Index was down 16% in US dollars, and the market's dividend yield has increased to 7.7%. Local pension funds have shunned equities in favour of higher-yielding fixed income securities, and their allocation to domestic equities has dropped to below 5% from 9% at the end of 2017.

We are mindful of the headwinds in Nigeria. Still, we are excited about the prospects for generating attractive risk-adjusted returns from a low base of market expectations reflected in deeply discounted equity prices. Since February 2018, the aggregate market capitalisation of the top three banks (Guaranty, Zenith, Stanbic) has declined by 36% (in US dollars) despite growing earnings by 8% (in US dollars) over this same period. The top three banks are trading at an average 4.6x PE and 10% dividend yield. In our assessment, the leading banks are well positioned to navigate through the current challenges and maintain or continue to grow earnings in real terms. On this basis, long-term investors are still earning an attractive dividend yield while waiting for rationality to return to market prices.

Zimbabwe's macroeconomic challenges have persisted over the past year. The introduction of a new currency regime in June 2019 was a welcome relief. However, slippages in fiscal prudence and delays in implementing specific reforms demanded by international lenders held back much-needed debt relief. Forex shortages and the absence of international support pose a high risk of exchange rate overshooting, which has contributed to inflationary pressures. Further, a prolonged drought has caused food shortages and curtailed hydropower generation from Lake Kariba, where water levels have

dropped to below 10% of usable storage, the lowest in more than two decades. Rolling electricity blackouts lasting 18 hours a day have negatively impacted manufacturing and mining output.

Consequently, the market is heavily discounting the risks in Zimbabwe. Using the official exchange rate, the top three largest listed companies in Zimbabwe are trading at an aggregate market capitalisation of US\$796m, down 63% from the market value at the beginning of 2019 using the Old Mutual implied exchange rate, and down 62% using our carrying values at the time. In our assessment, these market prices are well below the intrinsic values for the dominant brewer (Delta), telecoms company (Econet), and mobile money platform (Cassava). The ongoing drought isn't likely to lead to a permanent impairment in the intrinsic values of these businesses. However, the path to Zimbabwe's recovery is a steep and uncertain climb which warrants a discount.

On the other hand, the positive contributors over the past year include Kenyan banks, which bounced back after the repeal of the interest rate capping law in Kenya. Access Bank in Nigeria delivered a pleasing performance from extremely depressed valuations. Zimbabwean mining-related stocks were strong performers – Zimplats (platinum) and Caledonia Mining (gold).

What lies ahead?

After a decade of lacklustre returns in Africa's frontier equity markets, many investors are throwing in the towel or questioning the asset class's long-term return prospects. Our core belief is that human nature hasn't changed, and investor sentiment often drives markets to irrational extremes.

Today's asset valuations are signalling stronger prospective returns and offering long-term investors ample compensation for the risks in African frontier markets. Periods of underperformance, accompanied by negative market sentiment and rock-bottom valuations, are often a compelling starting point for generating superior long-term returns.

Commentary contributed by Nick Ndiritu

Fund manager quarterly commentary as at 31 December 2019

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 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).

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**