

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.

Capacity

The Fund has limited capacity. Allan Gray Bermuda Limited (the 'Investment Manager') may refuse a subscription or phase it into the Fund. 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 2017

Fund currency	US\$ ¹
Fund size	US\$270m
Fund price	US\$198.88
Number of share holdings	49
Dealing day	Weekly (Thursday)
Class	A

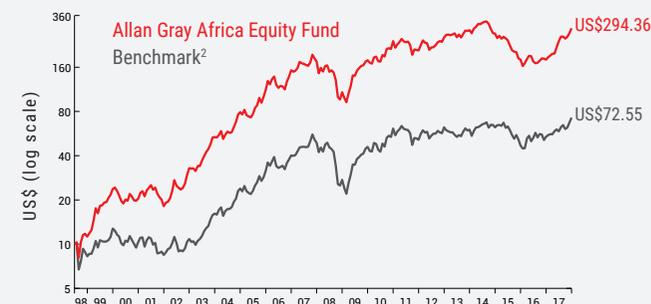
Minimum investment amounts

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

1. 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 December 2017 (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).
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.

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 (1 July 1998)	2843.6	625.5
Annualised:		
Since inception (1 July 1998)	18.9	10.7
Latest 10 years	5.4	4.0
Latest 5 years	2.9	3.1
Latest 3 years	2.8	5.2
Latest 2 years	27.9	24.4
Latest 1 year	63.4	34.9
Year-to-date (not annualised)	63.4	34.9
Risk measures (since inception, based on month-end prices)		
Maximum drawdown ³	-52.5	-60.5
Percentage positive months ⁴	59.0	58.1
Annualised monthly volatility ⁵	24.9	26.2

Relative to benchmark return required to reach high watermark: 22.9%.

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 may distribute any surplus.	31 Dec 2016
Dollars per unit	4.0861

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. 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 costs⁶

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.

TER and Transaction costs breakdown for the 1 and 3-year period ending 30 September 2017	1yr %	3yr %
Total expense ratio	0.78	1.48
Fee for benchmark performance ⁷	1.42	1.47
Performance fees	-0.89	-0.25
Custody fees	0.21	0.21
Other costs excluding transaction costs	0.04	0.05
Transaction costs	0.23	0.19
Total investment charge	1.01	1.67

6. The Fund's annual management fee was amended on 1 September 2017.

7. The fee for benchmark performance was previously 1.5% p.a. up until 31 August 2017. Effective 1 September 2017, when we implemented the new investment management fee, the fee for benchmark performance changed to 1% p.a. The fee for benchmark performance reflected is the average fee charged over the respective period.

Country of primary listing on 31 December 2017

Country	% of Equities	Benchmark ⁹
Nigeria	26.6	2.1
South Africa	23.0	89.5
Zimbabwe ⁸	20.2	0.0
Egypt	16.6	1.4
United Kingdom	4.8	0.0
Kenya	3.6	1.4
Australia	2.8	0.0
Uganda	2.3	0.0
Canada	0.0	0.0
Morocco	0.0	2.4
Romania	0.0	1.5
Mauritius	0.0	0.8
BRVM	0.0	0.4
Malta	0.0	0.3
Tunisia	0.0	0.1
Total¹⁰	100.0	100.0

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

Sector allocation on 31 December 2017

Sector	% of Fund	Benchmark ⁹
Oil and gas	8.3	0.1
Basic materials	14.1	10.2
Industrials	0.9	5.3
Consumer goods	22.4	3.1
Healthcare	1.0	3.2
Consumer services	3.3	37.9
Telecommunications	11.9	8.1
Utilities	3.0	0.0
Financials	31.8	31.9
Fixed interest/Liquidity	3.4	0.0
Total¹⁰	100.0	100.0

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

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

Asset allocation on 31 December 2017

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

African equity markets bounced back strongly in 2017, yielding attractive dollar returns in key markets: Kenya 29%, Nigeria 27% and Egypt 20%. Zimbabwe's stock market had triple digit nominal gains, but real US dollar returns were harder to quantify. The Fund delivered a net return of 63.4% in 2017, compared to its benchmark return of 34.9%.

Intuitively, it is easy to grasp that occasional periods of negative market sentiment and gloomy economic forecasts often lay the foundation for finding attractive bargains and a subsequent market recovery. In practice, these periods can be excruciatingly long and uncomfortable – for investment managers and clients. There is false comfort in trying to predict the timing of a market rebound. Rather, the best anchor during these periods is to focus on the intrinsic value of individual companies. Over time, equity prices gravitate towards intrinsic value.

Today's most promising African equity markets were yesterday's laggards. The Fund's largest overweight positions in Zimbabwe and Nigeria are discussed in detail below. Both markets have experienced challenging periods in the recent past, but their fortunes are improving. Egypt is also a turnaround story, but the country's promising prospects are broadly reflected in equity prices. The Fund's large exposure to Eastern Tobacco has contributed meaningfully to the past year's performance, but we have struggled to find similar attractively priced opportunities in that country. In early 2017, we increased the Fund's exposure to Kenya's top tier banks, premised on the market being overly pessimistic after the introduction of a law capping interest rates. We subsequently reduced this exposure after the banking stocks rallied.

Zimbabwe

Counterintuitively, Zimbabwe's equity prices rose sharply as macro conditions worsened. The Zimbabwe stock exchange was up 268% over the year to 10 November 2017. This reflected fears of a return to hyperinflation as the government, shunned by international lenders, funded its growing fiscal deficits domestically by creating pseudo-US dollars. Robert Mugabe's ouster was a welcome relief and the market has corrected by 38% since 10 November 2017. Using Old Mutual's dual-listed shares in Harare and London, the implied discount for a US dollar in Zimbabwe has sharply reduced to 44% from a peak of 83% before Mugabe's exit. This suggests that the risk of monetary collapse has reduced, but a chronic shortage of US dollars persists.

As discussed in our previous commentary, we have steadily discounted our Zimbabwean assets since December 2016 and we are currently using a bottom-up approach to value each of the Fund's Zimbabwean holdings. In aggregate, our carrying value on 31 December 2017 implies a 61% discount to market prices

compared to the 44% discount implied by Old Mutual's dual listing. Using the Old Mutual rate as a currency proxy is useful, but has its drawbacks since Old Mutual Zimbabwe shares are thinly traded with significant price volatility. In effect, it is one of multiple black market currency rates in Zimbabwe.

We do not have an edge in estimating the appropriate discount for a dollar in Zimbabwe – no more than we did three months ago. What we can predict is that patience will be handsomely rewarded as Zimbabwe's risk premium unwinds over time. The pace of political and fiscal reforms will dictate the turnaround in US dollar liquidity shortages. We are encouraged by the new government's focus on restoring fiscal discipline, which could be a harbinger for re-engagement with international institutions. Our best anchor today is that Econet and Delta, the Fund's top holdings in that country, are cash-generative businesses with dominant market shares. In a normal macro environment, the intrinsic values of these businesses are meaningfully above our carrying values.

Nigeria

Keen readers of our commentaries are familiar with our long held view that Nigerian banks are undervalued, despite the country's macro risks. Nigeria's economic challenges started dissipating in 2017. Relative stability in the Niger Delta has led to a recovery in oil production and oil prices have bounced back. The authorities effectively devalued the naira in April 2017 with the introduction of a new foreign exchange regime. Foreign investors, who had previously shunned Nigeria's fixed income and equity markets, have trooped back gradually. Domestic investors, who were underweight equities, are also waking up to the realisation that a high-yielding fixed income environment will not last forever.

An index of the top 10 Nigerian banks has returned 54% in US dollars over the past year. Remarkably, despite this run, this same index is trading on 7.1x price-to-earnings ratio and 0.9x price-to-book. On our estimates, there is still ample headroom for these banks to continue re-rating.

Outlook

Over time, we aim to deliver substantial returns for patient investors, but market gains or losses in any single year are unpredictable. In spite of the recent gains in most African markets, the Fund is well positioned in attractively priced equities and we are continuously scouting for new bargains. Over the past quarter, we have sold some Kenyan banks and rebalanced some positions in Nigeria and Zimbabwe.

Commentary contributed by Nick Ndiritu

**Fund manager quarterly
commentary as at
31 December 2017**

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 of the Fund is Allan Gray Bermuda Limited.

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.

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**