

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.

Classification: Africa – Equity

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).

African equity markets

There are numerous risks involved in investing in African equity markets. These risks may be significantly higher than in more developed markets and may include (but are not limited to) the following:

- Individual countries may impose capital controls preventing the repatriation of foreign currency
- Returns are expected to be more volatile, and the average drawdown may be higher, than in more developed markets
- Low liquidity whereby subscriptions into the Fund may have to be phased in, and redemptions from the Fund may be limited per dealing day
- Market prices may not accurately reflect the fair value of a Fund asset and fair value pricing may be used

There is no assurance that the investment approach of the Fund will be successful or that the Fund will achieve its investment objective.

See the "Important information for investors" section for more information.

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 above-average stock market and currency fluctuations
- Are prepared to take on the risk of capital loss
- Have a minimum investment horizon of five years

Fund information on 28 February 2023

Fund currency	US\$ ¹
Fund size	US\$265m
Number of shares	1 248 265
Price (net asset value per share)	US\$210.07
Number of share holdings	42
Dealing day	Weekly (Thursday)
Class	A
Class inception date	1 July 1998

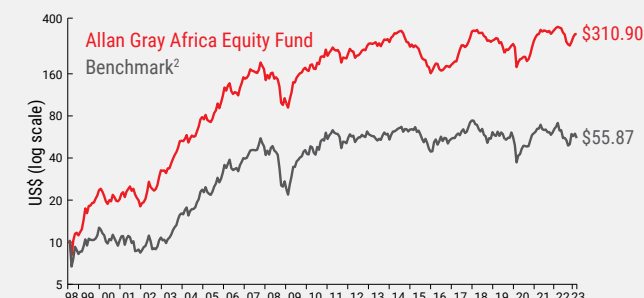
Minimum investment amounts

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

- The Fund is currently priced in US dollars. From inception to 30 April 2012 the Fund was priced in South African rands.
- 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 28 February 2023 (source: Bloomberg). Calculation based on the latest available data as supplied by third parties.
- 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.
- 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 August 1999 and the benchmark's occurred during the 12 months ended 28 February 2010. The Fund's lowest annual return occurred during the 12 months ended 31 October 2008 and the benchmark's occurred during the 12 months ended 31 October 2008. 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 ²
Cumulative:		
Since inception (1 July 1998)	3009.0	458.7
Annualised:		
Since inception (1 July 1998)	15.0	7.2
Latest 10 years	1.6	-0.5
Latest 5 years	-1.2	-5.6
Latest 3 years	7.6	3.9
Latest 2 years	2.8	-5.1
Latest 1 year	-9.7	-17.2
Year-to-date (not annualised)	5.2	-3.2
Risk measures (since inception, based on month-end prices)		
Maximum drawdown ³	-52.5	-60.5
Percentage positive months ⁴	59.1	56.8
Annualised monthly volatility ⁵	24.3	26.0
Highest annual return ⁶	136.4	94.1
Lowest annual return ⁶	-48.6	-54.1

Relative to benchmark return required to reach high watermark: 0.0%.

Meeting the Fund objective

The Fund aims to outperform African equity markets 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 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 Bermuda Limited (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.

TER and transaction costs breakdown for the 1- and 3-year period ending 31 December 2022	1yr %	3yr %
Total expense ratio	2.90	2.23
Fee for benchmark performance	1.00	1.00
Performance fees	1.60	0.95
Custody fees	0.20	0.18
Other costs excluding transaction costs	0.10	0.10
Transaction costs	0.21	0.15
Total investment charge	3.11	2.38

Country of primary listing on 28 February 2023

Country	% of Equities	Benchmark ⁷
Nigeria	28.2	1.8
Zimbabwe	19.1	0.0
South Africa	15.5	88.2
Australia	8.4	0.0
Jersey	8.0	0.0
Egypt	7.4	2.2
United Kingdom	3.8	0.0
Uganda	2.6	0.0
Kenya	2.6	1.5
Netherlands	2.1	1.1
BRVM	0.9	0.3
Canada	0.8	0.0
Norway	0.4	0.0
Luxembourg	0.2	1.1
Ghana	0.1	0.0
Morocco	0.0	2.9
Mauritius	0.0	0.7
Tunisia	0.0	0.2
Total (%)⁸	100.0	100.0

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

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

Sector allocation on 28 February 2023

Sector	% of Fund	Benchmark ⁷
Energy	9.9	1.3
Basic materials	26.1	19.3
Industrials	0.7	2.5
Consumer staples	18.0	8.5
Healthcare	0.0	1.2
Consumer discretionary	2.5	4.0
Telecommunications	6.5	10.5
Utilities	2.5	0.1
Financials	22.1	34.9
Technology	6.8	15.5
Real estate	0.0	2.1
Money market and bank deposits	5.0	0.0
Total (%)⁸	100.0	100.0

Asset allocation on 28 February 2023

Asset class	Total
Net equity	95.0
Hedged equity	0.0
Property	0.0
Commodity-linked	0.0
Bonds	0.0
Money market and bank deposits	5.0
Total (%)⁸	100.0

The Fund had a very poor second half of 2022, declining 7.4% versus the benchmark, which delivered a 3.2% return. As a result, for the full year, the Fund returned -8.3% versus the benchmark at -5.9%.

The largest detractors from performance in the second half of the year were our overweight positions in Nigerian and Zimbabwean holdings.

In Nigeria, our two largest positions are Seplat Energy and Zenith Bank. Seplat Energy owns a portfolio of low-cost, onshore oil and gas assets that break even at an oil price of approximately US\$20 per barrel. Our investment is split between the London and local Nigerian listing, where recently there has been significant diversion in price (with the London price up 9.6% in US dollars over the past six months and the Nigerian price down 22.8% in dollars). Seplat had a very good first quarter in 2022 on the news of an agreement to acquire ExxonMobil's entire offshore shallow water business in Nigeria at a very favourable price. Unfortunately, Seplat has since given most of this back, as Nigerian President Muhammadu Buhari first approved and then rescinded his approval of the deal in early August. News flow on the deal has gone quiet, and it appears unlikely that anything will happen prior to the Nigerian presidential election in February 2023. This is disappointing news but, importantly, when we value Seplat, we attach no value to the deal being consummated, and we still find it very attractive at current prices.

Zenith Bank is the largest bank in Nigeria by market capitalisation. Its share price has been flat in US dollars over the last six months, but it is down 16.7% for the full year. Current earnings are growing in the high single digits which is below local inflation, largely due to the low interest rate environment. Over the longer term, Zenith has been able to grow earnings in dollars in real terms. There is no obvious catalyst for a rerating, but today it trades on less than three times earnings and a dividend yield of over 12%.

In Zimbabwe, our two largest positions are in Delta and Econet. Delta is the dominant brewer in the country with a market share in beer and sorghum north of 85%. Econet is the dominant mobile operator with more than 65% market share. The Zimbabwean government has introduced a number of measures to bring local inflation under control and improve the access to foreign capital, most notably allowing the currency to weaken materially and reallowing the US dollar as a medium of exchange for in-country trade (please see our [September 2022 commentary](#) for more detail).

We think these are positive measures, and the impact has been an improvement in local volumes and trade for most businesses and greater access to foreign exchange for the importation of goods and services.

However, as the currency has weakened by more than 500%, share prices, when measured in US dollars, have fallen dramatically: For the full year, Delta is down 62% and Econet 81%. As a reminder, we value our locally listed Zimbabwean assets at the lower of:

- The market price using the official exchange rate
- Our conservative estimate of each stock's fair value

At the start of 2022, we were carrying our investments in Delta and Econet at a discount of roughly 50% to the official market price. As a result, the drawdown experienced in the Fund has been 61% for Econet and 28% for Delta. The economic environment in Zimbabwe is likely to remain turbulent, but we continue to see substantial value for long-term, patient investors. Both companies continue to navigate the operating environment and trade at a substantial discount to replacement value.

On the positive side, one of the largest contributors to performance in 2022 was also a Zimbabwean-related company, Zimplats. Zimplats is one of the lowest cost platinum miners in the world, has a shallow, long-life ore body and has begun paying consistent dividends to shareholders. It remains one of the largest shares in the Fund.

Being underweight South African listed stocks hurt relative performance in the second half of 2022, as the FTSE/JSE Capped SWIX All Share Index was up 5% in US dollars. In particular, our underweight position in Naspers hurt as it rallied 14% in the second half of the year.

Despite the poor performance of the past few years, we remain extremely excited about the Fund's long-term prospects. We own a number of companies that have strong local franchises, trade on single-digit multiples and have decent growth outlooks. Many of the companies in which we are invested continue to grow their underlying earnings in local currency and US dollar terms, and yet their prices continue to contract. We do not know when sentiment on Africa will change but, in many respects, it feels like a coil that is getting tighter and tighter and is ready to spring at any moment.

During the quarter we bought Sappi and sold Standard Bank.

We thank long-standing investors for their continued support and patience.

Commentary contributed by Rory Kutisker-Jacobson

Fund manager quarterly commentary as at 31 December 2022

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Performance

Collective investment schemes (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 or the investment 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. The performance graph is for illustrative purposes only. Actual investor performance may differ as a result of the investment date, the date of reinvestment and applicable taxes.

MSCI Index

Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

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 by 17:00 South African time on that dealing day to receive that week's price. Redemption requests must be received by the Registrar of the Fund by 17:00 South African 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, 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 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 and investor protection levies where applicable) 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 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).

African markets

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. African countries have varying laws and regulations and, in some, foreign investment is controlled or restricted in varying degrees.

Capacity

The Fund currently has limited capacity. The Investment Manager may, at its discretion, refuse a subscription or phase a subscription into the Fund over a number of dealing days. Total investor redemptions may be limited to US\$5m or 2.5% of the Fund (whichever is less) per dealing day. The Investment Manager retains the right to distribute all or part of any redemption proceeds in specie (in kind).

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: 1) 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 2) 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.

Contractual risk

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.

Derivatives

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. Price movements of forward contracts and other derivative contracts in which the assets of the Fund may be invested are highly volatile and are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programmes and policies of governments, and national and international political and economic events and policies. Forward contracts are not traded on exchanges and are not standardised; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Trading in forward contracts is substantially unregulated and there is no limitation on daily price movements.

FTSE/JSE Capped Shareholder Weighted All Share Index

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

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 **0860 000 654** or **+27 (0)21 415 2301** or by email at allangraybermuda@allangray.com.