

Fund description and summary of investment policy

The Fund invests in a focused portfolio of African (excluding South African) securities that are selected for their expected risk and return profile. The Fund may invest a substantial portion of the assets in a single country or region rather than a diversified portfolio of assets.

Fund objective and benchmark

The Fund seeks to achieve the maximum US dollar total return while minimising the risk of loss within the context of an African bond fund. The benchmark is the J.P. Morgan GBI-EM Global Diversified 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 assess an asset's intrinsic value based on long-term fundamentals and invest where our assessment of intrinsic value exceeds the price by a margin of safety. This approach allows us to identify assets 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 may deviate meaningfully from those in the index.

Suitable for those investors who

- Seek exposure to African (excluding South African) interest bearing assets
- Are comfortable with 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 currently has no capacity constraints. Allan Gray Bermuda Limited (the 'Investment Manager') may, at its discretion, refuse a subscription or phase a subscription into the Fund over a number of dealing days. The Investment Manager may, at its discretion, limit redemptions to 4% of the Fund 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 May 2018

Fund currency	US\$
Fund size	US\$430m
Number of shares	3 338 628
Price (net asset value per share)	US\$127.44
Number of issuers	15
Dealing day	Weekly (Thursday)
Class	A

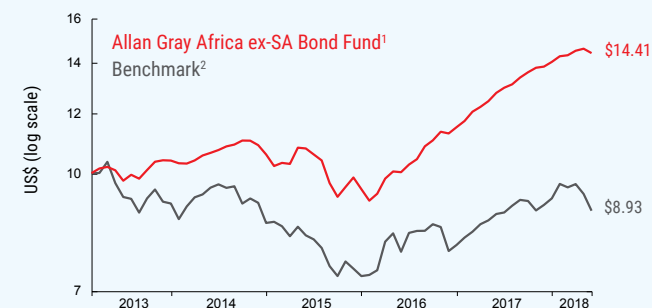
Minimum investment amounts

Minimum initial investment	US\$100 000
Minimum subsequent investment	US\$1 000

- The net of fee return is calculated as the gross of fee return reduced by an investment management fee of 1% per annum, which is accrued monthly in arrears.
- J.P. Morgan GBI-EM Global Diversified Index (source J.P. Morgan), performance as calculated by Allan Gray as at 31 May 2018. Calculation based on the latest available data as supplied by third parties.
- Maximum percentage decline over any period. The maximum drawdown occurred from October 2014 to January 2016 and maximum benchmark drawdown occurred from April 2013 to December 2015. 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 28 February 2017 and the benchmark's occurred during the 12 months ended 31 January 2018. The Fund's lowest annual return occurred during the 12 months ended 30 September 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 ¹	Benchmark ²
Cumulative:		
Since inception (27 March 2013)	44.1	-10.7
Annualised:		
Since inception (27 March 2013)	7.3	-2.2
Latest 5 years	7.4	-1.7
Latest 3 years	10.0	2.5
Latest 2 years	19.9	6.4
Latest 1 year	12.9	1.0
Year-to-date (not annualised)	2.7	-3.7
Risk measures (since inception, based on month-end prices)		
Maximum drawdown ³	-15.8	-29.3
Percentage positive months ⁴	66.7	55.6
Annualised monthly volatility ⁵	7.5	11.3
Highest annual return ⁶	28.4	17.7
Lowest annual return ⁶	-15.7	-21.5

Meeting the Fund objective

The Fund seeks to achieve the maximum US dollar return while minimising the risk of loss within the context of an African (excluding South Africa) bond fund. The Fund experiences periods of underperformance in pursuit of this objective. Since inception the Fund has outperformed its benchmark and delivered positive absolute returns in US dollars.

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. The Investment Manager may waive these charges if transactions substantially offset one another.

Annual management fee

The management fee consists of a fixed fee of 1.00% p.a.

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 March 2018	1yr %	3yr %
Total expense ratio	1.18	1.12
Management fee	1.00	1.00
Custody fees	0.14	0.08
Other costs excluding transaction costs	0.04	0.04
Transaction costs	0.00	0.00
Total investment charge	1.18	1.12

Fund positioning on 31 May 2018⁷

	Local currency	Foreign currency	% of portfolio
Governments	49.8	6.6	56.5
Nigeria	24.4	2.3	26.7
Egypt	15.3	0.3	15.7
Ghana	10.1	0.7	10.8
Zambia	0.0	3.3	3.3
Corporates	0.9	37.7	38.6
Nigeria	0.9	27.7	28.6
Ghana	0.0	4.7	4.7
Mauritius	0.0	3.9	3.9
Kenya	0.0	1.4	1.4
Cash⁸	0.3	4.6	5.0
Total⁹	51.1	48.9	100.0

7. The total Nigerian exposure includes accruals for naira-settled currency forwards, valued at the Nigerian Autonomous Foreign Exchange Rate (NAFEX), that are shown under cash.

8. Cash is held in multiple currencies.

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

Weighted average yield on 31 May 2018

	Weighted average yield (%)	% of portfolio
Local currency	14.6	50.7
Foreign currency		
US\$	7.8	44.3
Cash	-	5.0
Total	11.4	100.0

Asset allocation on 31 May 2018

Asset Class	Total
Net equity	0.0
Hedged equity	0.0
Property	0.0
Commodity-linked	0.0
Bonds	55.4
Money market, bank deposits and currency hedges	44.6
Total (%)	100.0

The Allan Gray Africa ex-SA Bond Fund celebrates five years since inception. Despite the political and macroeconomic headwinds, patient investors in Africa's debt markets have been well rewarded. Over the past five years, the Fund has generated 7.4% compared to benchmark's -0.7% return, which tracks local currency debt in emerging markets.

The Fund invests across three segments of Africa's debt markets: Sovereign local currency debt, US\$-denominated sovereign debt, and corporate credits (predominantly US\$-denominated). The Fund's positioning across these segments has varied considerably, as shown in Table 1 below. This is often a reflection of bottom-up opportunities that may be out of favour with the market but offer good value over the long term.

Table 1: Fund positioning (% of portfolio)

	March 2014	March 2016	March 2018
Sovereign - Local currency	30.0	6.4	52.4
Sovereign - US\$	39.0	27.5	7.2
Corporates - US\$	25.3	57.9	35.3
Other	5.7	8.2	5.2

Sovereign local currency debt continues to provide attractive yields in today's low interest rate environment. Local currency yields are in the range of 15% to 17% across Nigeria, Egypt and Ghana. These yields are trending downwards with improving fundamentals and receding currency risks. Nigeria has rebuilt its foreign exchange reserves to about US\$45bn, aided by stable oil production, higher oil prices and portfolio inflows. Egypt has made painful reforms to its subsidy programmes and foreign exchange reserves have more than doubled since 2016. Ghana is benefiting from higher oil and gold export volumes, and its fiscal consolidation measures are starting to manifest in a narrowing fiscal deficit.

The risk-reward profile for sovereign US\$-denominated debt is less attractive. African governments have taken advantage of record low interest rates to borrow US dollars cheaply and the pace of external borrowing has picked up. This has revived fears of the continent's debt burden in the mid-1990s, when sub-Saharan Africa's external debt as percentage of gross national income peaked at 60%, compared to 20% currently. Our bottom-up analysis doesn't suggest that credit fundamentals are uniformly negative and we seek to avoid fundamentally impaired sovereign issuers. Nevertheless, the return prospects are less appealing as this subset of Africa's debt markets continues to attract significant inflows from yield-hungry global investors. The risk premium relative to US government bonds (spread) has tightened from 825 basis points (bps) in Jan-2016 to 397bps, which is well below the long-term average of 573bps seen since 2002. We continue to exercise caution and have drastically reduced the Fund's exposure.

Finally, we continue to favour creditworthy corporate issuers with an attractive risk-return profile. Over the last quarter, we invested in a US\$-denominated corporate bond issued by Seplat at 9.25% yield. As a first-time issuer in public debt markets, Seplat's credit story may be less well known among global investors and risk perceptions are often negative for Nigerian oil & gas companies. However, we have tracked the company's progress since its equity listing in 2014. On our analysis, Seplat can generate attractive contracted cashflows from its growing gas business, reducing debt repayment risks from volatility in oil prices and production shocks.

The next five or ten years will undoubtedly have their fair share of market volatility and uncertainty. We will remain focused on generating attractive US dollar returns, exploiting the flexibility to find mispriced assets across different segments in Africa's debt markets.

Commentary contributed by Nick Ndiritu

Fund manager quarterly commentary as at 31 March 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 Standard Bank of South Africa Limited. The custodian can be contacted at Investor Services, 2nd Floor, 25 Pixley Ka Isaka Seme Street, Johannesburg, South Africa. 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 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. 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 applicable 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 of 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 JPMorgan Chase & Co. (J.P. Morgan) who require that we include the following legal note. All information provided herein regarding J.P. Morgan index products (referred to herein as 'Index' or 'Indices'), including without limitation, the levels of the Indices, is provided for informational purposes only and nothing herein constitutes, or forms part of, an offer or solicitation for the purchase or sale of any financial instrument, or an official confirmation of any transaction, or a valuation or price for any product referencing the Indices. Nor should anything herein be construed as a recommendation to adopt any investment strategy or as legal, tax or accounting advice. All market prices, data and other information contained herein is believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The information contained herein is subject to change without notice. Past performance is not indicative of future returns, which will vary. J.P. Morgan and/or its affiliates and employees may hold positions (long or short), effect transactions or act as market maker in the financial instruments of any issuer data contained herein or act as underwriter, placement agent, advisor or lender to such issuer. J.P. Morgan Securities LLC (JPMS) (the 'Index Sponsor') does not sponsor, endorse or otherwise promote any security or financial product or transaction (each the 'Product') referencing any of the Indices. The Index Sponsor makes no representation or warranty, express or implied, regarding the advisability of investing in securities or financial products generally, or in the Product particularly, or the advisability of any of the Indices to track investment opportunities in the financial markets or otherwise achieve their objective. The Index Sponsor has no obligation or liability in connection with the administration, marketing or trading of any Product. The Index is derived from sources that are considered reliable, but the Index Sponsor does not warrant its completeness or accuracy or any other information furnished in connection with the Index. The Index is the exclusive property of the Index Sponsor and the Index Sponsor retains all property rights therein.

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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.com

Yield

The Allan Gray Africa ex-SA Bond Fund yield is current, calculated as at month-end.

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. There are no explicit brokerage charges in global bond markets. The broker rather takes an undisclosed spread between the purchase and sale price. The spread (charge) can vary from negligible to substantial depending on the asset and market circumstances. The disclosed transaction charge is therefore zero but in reality there are transaction costs which reflect in the Fund's returns. We aim to minimise costs by keeping our trading activity to a minimum and always seeking out the most favourable price when buying and selling assets. 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 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 securities 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 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 **0860 000 654** or **+27 (0)21 415 2301** or by email at africafund@allangray.co.za