

ANNUAL REPORT **ALLAN GRAY AFRICA EX-SA BOND FUND**

20
16

ALLAN**GRAY**

TABLE OF CONTENTS

1	ALLAN GRAY AFRICA EX-SA BOND FUND LIMITED STRATEGY	8	STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES
3	APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS	9	STATEMENT OF CASH FLOWS
4	INDEPENDENT AUDITORS' REPORT	10	NOTES TO THE ANNUAL FINANCIAL STATEMENTS
6	STATEMENT OF COMPREHENSIVE INCOME	31	IMPORTANT NOTES FOR INVESTORS
7	STATEMENT OF FINANCIAL POSITION	36	CHARACTERISTICS AND DIRECTORY

ALLAN GRAY AFRICA EX-SA BOND FUND LIMITED STRATEGY

as at 31 December 2016

PORTFOLIO MANAGER

Mark Dunley-Owen, Nick Ndiritu

FUND DESCRIPTION AND SUMMARY OF INVESTMENT POLICY

The Allan Gray Africa ex-SA Bond Fund Limited (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.

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

COMMENTARY

We believe one needs to understand the intrinsic value of a business before investing in its debt. This is particularly difficult for oil-related companies, as it requires one to forecast the oil price and the value of geological resources – and there is a low probability of getting these forecasts right. We prefer to invest in the debt of oil companies only when these risks are already in the price. This often happens when sentiment is negative, as has been the case recently.

The Fund's largest oil-related investment is Tullow's senior bond. Tullow owns valuable oil assets, but took on considerable debt to fund the development of two of these in Ghana. As the oil price fell, investors questioned the ability of these assets to generate sufficient cash flow to repay this debt, which impacted the price of the debt. This gave us the opportunity to buy Tullow's bond at double-digit yields. Our analysis suggested that the cash flows and underlying value of its assets were sufficient to protect debtholders in most scenarios.

Another example of an oil-related holding is TransGlobe Energy, an Egyptian oil producer. TransGlobe Energy is exposed to the unstable Egyptian environment and erratic payments from the government oil company. We were attracted to the company's strong balance sheet, with cash and receivables that were worth more than the outstanding debt. The market has since become aware of this and expects TransGlobe to repay its debt within the next few months. This has allowed the Fund to realise gains. However, it is disappointing that the bond was denominated in Canadian dollars, which has depreciated, limiting gains when measured in US dollars - the Fund's currency.

The Fund's worst investment since inception was in Nigerian oil company Afren's senior unsecured bonds. Afren went bankrupt in 2015 due to a combination of high debt, management fraud and a falling oil price. Following a similar process as with Tullow and TransGlobe, we invested in Afren bonds when we believed these risks were adequately reflected in the price. In hindsight, we were too optimistic and the bonds had near-zero value when the company was liquidated.

The Fund held a large cash position at the end of the year in anticipation of further oil-related investments. The cash was raised by realising gains on Tullow and TransGlobe bonds.

Commentary contributed by Mark Dunley-Owen

ALLAN GRAY AFRICA EX-SA BOND FUND LIMITED STRATEGY

as at 31 December 2016

PERFORMANCE IN US\$ NET OF ALL FEES AND EXPENSES

% Returns	Fund ¹	Benchmark ²
Cumulative		
Since inception	15.0	-19.5
Annualised:		
Since inception	3.8	-5.6
Latest 3 years	3.4	-4.1
Latest 2 years	4.1	-3.3
Latest 1 year	20.8	9.9
Risk measures (since inception, based on month-end prices)		
Highest annual return ³	20.8	17.1
Lowest annual return ³	-15.7	-21.5

- 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 December 2016. Calculation based on the latest available data as supplied by third parties.
- 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 December 2016 and the benchmark's occurred during the 12 months ended 30 September 2016. 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.

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 3-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns. Transaction costs are disclosed separately.

TER and Transaction costs breakdown for the 3-year period ending 31 December 2016	%
Total expense ratio	1.09
Management fee	1.00
Custody fees	0.05
Other costs excluding transaction costs	0.04
Transaction costs	-
Total investment charge	1.09

INCOME DISTRIBUTION 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 will distribute any surplus.	30 Jun 2016	31 Dec 2016
Dollars per unit	3.2893	4.0647

FUND POSITIONING ON 31 DECEMBER 2016⁴

	Local currency	Foreign currency	% of portfolio
Governments	25.8	17.6	43.4
Nigeria	16.3	-	16.3
Zambia	2.4	8.3	10.7
Ghana	3.6	4.6	8.2
Kenya	1.6	1.6	3.1
Egypt	1.9	-	1.9
Tanzania	-	1.4	1.4
Ivory Coast	-	1.0	1.0
Rwanda	-	0.8	0.8
Corporate	2.5	40.8	43.3
Nigeria	1.8	28.9	30.8
Kenya	0.6	3.2	3.8
Ghana	-	3.8	3.8
Mauritius	-	3.0	3.0
Egypt	-	1.8	1.8
Supranational	0.3	-	0.3
Zambia	0.3	-	0.3
Cash⁵	2.1	10.8	13.0
Total⁶	30.8	69.2	100.0

- The Nigeria local currency holdings include naira-settled currency forwards.
- Cash is held in multiple currencies.
- There may be slight discrepancies in the totals due to rounding.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

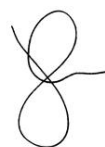
The directors of the Fund are responsible for the preparation of the annual financial statements and related financial information included in this report.

The annual financial statements for the year ended 31 December 2016 set out on pages 6 to 30 have been approved by the board of directors of the Fund and are signed on its behalf by:



John CR Collis
Director

3 March 2017



Craig Bodenstab
Director

3 March 2017

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Allan Gray Africa ex-SA Bond Fund Limited

OPINION

We have audited the financial statements of Allan Gray Africa ex-SA Bond Fund Limited set out on pages 6 to 30, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in net assets attributable to holders of redeemable shares and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Allan Gray Africa ex-SA Bond Fund Limited as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code), the International Federation of Accountants' Code of Ethics for Professional Accountants (IFAC code) and other independence requirements applicable to performing the audit of Allan Gray Africa ex-SA Bond Fund Limited. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code, IFAC Code, and in accordance with other ethical requirements applicable to performing the audit of Allan Gray Africa ex-SA Bond Fund Limited. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the Allan Gray ex-SA Bond Fund Limited Strategy, Important notes for investors and Characteristics and directory. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The directors of Allan Gray ex-SA Bond Fund Limited are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Allan Gray Africa ex-SA Bond Fund Limited

concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Inc.

Ernst & Young Inc.
Director – Anthony Robert Cadman
Registered Auditor
Chartered Accountant
3 March 2017

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTE	2016 US\$	ADJUSTED 2015* US\$
NET INVESTMENT INCOME / (LOSS)		40 691 553	(15 417 733)
Interest income		17 420 053	14 933 175
Dividend income		41 048	53 400
Realised losses on disposal of financial assets at fair value through profit or loss		(1 215 279)	(9 990 384)
Unrealised gains / (losses) on financial assets at fair value through profit or loss		24 445 731	(20 413 924)
EXPENSES		(438 588)	(453 984)
Custodian fees		(106 804)	(82 047)
Management fees		(3 026)	(36 937)
Audit fees		(12 054)	(14 721)
Directors fees		(6 000)	(18 000)
Bank charges		(11 572)	(14 958)
Withholding taxes		(263 290)	(261 079)
Other expenses		(35 842)	(26 242)
CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES BEFORE FINANCE COSTS		40 252 965	(15 871 717)
Finance cost - distribution to holders of redeemable shares	7	(17 573 312)	(12 092 127)
CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES		22 679 653	(27 963 844)

* Refer to note 8 of the annual financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

	NOTE	2016 US\$	2015 US\$
ASSETS			
Financial assets at fair value through profit or loss	2	211 003 425	146 336 033
Trade and other receivables	3	6 960 478	3 946 418
Cash and cash equivalents		25 598 069	5 033 958
TOTAL ASSETS		243 561 972	155 316 409
LIABILITIES			
Trade and other payables		33 317	13 128
Distribution payable	7	10 464 737	6 311 301
TOTAL LIABILITIES, EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES		10 498 054	6 324 429
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES		233 063 918	148 991 980

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES

For the year ended 31 December 2016

	NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES US\$	NUMBER OF SHARES IN ISSUE	NET ASSET VALUE PER SHARE US\$
BALANCE AT 31 DECEMBER 2014	110 759 839	1 025 652	107.99
Increase in net assets attributable to shareholders from transactions in shares (adjusted*)	66 195 985	618 534	
Decrease in net assets attributable to shareholders from operations (adjusted*)	(27 963 844)		
BALANCE AT 31 DECEMBER 2015	148 991 980	1 644 186	90.62
Increase in net assets attributable to shareholders from transactions in shares	61 392 285	647 486	
Increase in net assets attributable to shareholders from operations	22 679 653		
BALANCE AT 31 DECEMBER 2016	233 063 918	2 291 672	101.70

* Refer to note 8 of the annual financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	NOTE	2016 US\$	ADJUSTED 2015* US\$
CASH FLOW FROM OPERATING ACTIVITIES			
Net cash outflow from operations before working capital changes	4.1	(175 298)	(192 905)
Working capital changes	4.2	(485 581)	(16 260)
Interest received, net of withholding tax		14 658 735	11 348 214
Dividends received, net of withholding tax		30 786	40 050
NET CASH GENERATED BY OPERATING ACTIVITIES		14 028 642	11 179 099
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of investments		(121 383 661)	(117 429 328)
Proceeds from sale of investments		79 303 076	49 609 569
NET CASH UTILISED IN INVESTING ACTIVITIES		(42 080 585)	(67 819 759)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of redeemable shares		68 442 454	87 862 829
Redemption of redeemable shares		(19 826 400)	(27 447 670)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		48 616 054	60 415 159
Net increase in cash and cash equivalents		20 564 111	3 774 499
Cash and cash equivalents at the beginning of the year		5 033 958	1 259 459
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		25 598 069	5 033 958

* Refer to note 8 of the annual financial statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

CORPORATE INFORMATION

Allan Gray Africa ex-SA Bond Fund Limited (the 'Fund') was incorporated on 16 November 2012 and is a limited liability company of unlimited duration. The Fund was launched to the public on 27 March 2013 and is a Bermuda exempted Mutual Fund Company. The investment manager of the Fund is Allan Gray International Proprietary Limited (the 'Investment Manager'). Allan Gray Proprietary Limited is the investment advisor to the Fund.

The financial statements of the Fund were authorised for issue by the board of directors on 3 March 2017.

1. ACCOUNTING STANDARDS AND POLICIES

1.1 BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at either fair value or amortised cost, in accordance with International Financial Reporting Standards ('IFRS'). These financial statements are presented in US dollars, being the functional currency of the Fund.

1.2 IFRS

The Fund has adopted all new and revised Standards, Interpretations and Amendments issued by the International Accounting Standards Board (the 'IASB') and the IFRS Interpretations Committee of the IASB that are relevant to its operations and effective for the annual accounting period ended 31 December 2016.

The significant accounting policies adopted in the preparation of the financial statements are set out on the following page and are in accordance with and comply with IFRS.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

The following new IFRS standards, interpretations and amendments applicable to the Fund were adopted during the year.

STANDARDS		EFFECTIVE DATE: YEARS BEGINNING ON/AFTER	IMPACT
IAS 1	Presentation of Financial Statements (Disclosure initiative)	1 January 2016	No material impact

The following new or revised IFRS statements, interpretations and amendments applicable to the Fund have been issued but are not yet effective.

STANDARDS		EFFECTIVE DATE: YEARS BEGINNING ON/AFTER	IMPACT
IAS 7	Statement of Cash Flows (Disclosure initiative)	1 January 2017	No material impact
IFRS 7	Financial Instruments: Disclosures (Amendment)	1 January 2018	No material impact
IFRS 9	Financial Instruments	1 January 2018	No material impact
IFRS 15	Revenue from Contracts with Customers	1 January 2018	No material impact

A number of other changes, that are effective for accounting periods ended after 31 December 2016, have been issued by the IASB and IFRS Interpretations Committee. However, these are not considered relevant to the Fund's operations.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

1.3 ACCOUNTING POLICIES

The Fund has identified the accounting policies that are most significant to its business operations and the understanding of its results. These accounting policies are set out below and have been consistently applied.

1.3.1 REVENUE

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Fund and the amount of revenue can be measured reliably.

Interest income is accrued on a daily basis using the effective interest method. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its carrying value. Interest income includes income from cash and cash equivalents, debt securities and money market instruments. Interest income is recognised in the Statement of comprehensive income, gross of withholding taxes.

Dividends on preference shares are recognised when the last date to register for the dividend has passed. Dividend income is presented gross of any non-recoverable withholding taxes, which are disclosed separately in the Statement of comprehensive income.

Unrealised gains and losses comprise changes in the fair value of financial assets for the period.

Realised gains and losses on disposal on financial assets classified as at fair value through profit or loss are calculated using the weighted average basis. This represents the difference between an instrument's weighted average cost and disposal amount.

1.3.2 ANNUAL MANAGEMENT FEE

The Investment Manager is entitled to receive a fixed fee of 1.00% per annum of the Fund's daily value for Class A. The fixed fee is calculated and accrued

daily and paid by the Fund to the Investment Manager monthly in arrears. A zero fee is levied for Class B.

1.3.3 DISTRIBUTIONS TO HOLDERS OF REDEEMABLE SHARES

Distributions from the Fund will be automatically reinvested in additional redeemable shares unless a holder of redeemable shares requests in writing that any dividends be paid to them. Distributions to holders of redeemable shares are recognised in the Statement of comprehensive income as finance costs.

All unclaimed dividends may be invested or otherwise made use of by the directors for the benefit of the Fund until claimed. No dividend shall bear interest against the Fund. An entitlement shall lapse in favour of the Fund if not claimed within 12 years after the accrual of such entitlement.

1.3.4 TAXATION

There is no income tax, corporation tax, profits tax, withholding tax, capital gains tax, capital transfer tax estate or stamp duty or inheritance tax payable, in Bermuda by the Fund or its Members in respect of shares in the Fund. The government of Bermuda has undertaken that in the event that any income, profit, transfer capital, capital gains, estate or inheritance taxes are levied in Bermuda in the future, the Fund and its shares will be exempt from such taxes until 31 March 2035.

Income from the Fund's investments, however, may be subject to taxes withheld at source in certain countries.

1.3.5 EXPENSES

Any interest expense is recognised on an accrual basis using the effective interest method. All other expenses are recognised in profit or loss on an accrual basis.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

1.3.6 INCOME ADJUSTMENTS

Income adjustments on creation/cancellation of shares represent the income portion of the price received or paid when shares are created or cancelled. The income portion of the price received by the Fund on creation of shares is, in effect, a payment by shareholders for entitlement to a distribution of income that was earned by the Fund before they joined. The income portion of the price paid to shareholders when shares are cancelled is, in effect, compensation for the income distribution they will forfeit when exiting the Fund before the distribution date. Income adjustments on creation/cancellation of shares are classified as equity transactions and are recognised as net assets attributable to shareholders from transactions in shares in the Statement of changes in net assets attributable to holders of redeemable shares.

1.3.7 FINANCIAL INSTRUMENTS: FINANCIAL ASSETS AND LIABILITIES

CLASSIFICATION

FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Fund classifies its investments in debt instruments, derivatives and cash and cash equivalents held for investment purposes as financial assets at fair value through profit or loss.

Financial instruments designated as at fair value through profit or loss upon initial recognition comprise debt instruments that are not held for trading. These financial assets are designated upon initial recognition on the basis that they are part of a group of financial assets that are managed and have their performance evaluated on a fair value basis, in accordance with the risk management and investment strategies of the Fund.

LOANS AND RECEIVABLES AT AMORTISED COST

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise cash and cash equivalents and amounts due from brokers.

FINANCIAL LIABILITIES AT AMORTISED COST

Trade and other payables, including amounts due to brokers and distributions payable, are classified as financial liabilities at amortised cost which are measured at amortised cost. Net assets attributable to holders of redeemable shares are held at fair value (refer to note 1.3.11).

RECOGNITION

A 'regular way' contract is one that requires the delivery of an asset within the time frame established, generally by regulation or convention within the marketplace concerned. Regular way purchases and sales of financial assets are recognised using trade date accounting. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date. The trade date is the date that an entity commits itself to purchase or to sell an asset.

MEASUREMENT

FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Initial measurement

Financial assets and financial liabilities at fair value through profit or loss are initially recorded in the Statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

Subsequent measurement

After initial measurement, the Fund measures financial instruments which are classified as at fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are recorded in unrealised gains or losses on financial assets and liabilities at fair value through profit or loss in the Statement of comprehensive income.

LOANS AND RECEIVABLES AND FINANCIAL LIABILITIES AT AMORTISED COST

Initial measurement

Loans and receivables and financial liabilities at amortised cost are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

Subsequent measurement

Subsequent to initial recognition, loans and receivables and financial liabilities at amortised cost are measured at amortised cost using the effective interest method, less any impairment losses. Gains and losses are recognised in profit or loss when loans and receivables are derecognised or impaired, and through the amortisation process.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset is derecognised where:

- The rights to receive cash flows from the asset have expired, or
- The Fund has transferred its rights to receive cash flows from the asset, or
- The Fund has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement. Either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in profit or loss.

IMPAIRMENT OF FINANCIAL ASSETS

The Fund assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

ASSETS CARRIED AT AMORTISED COST

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced directly. The amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its original amortised cost at the reversal date.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

DETERMINATION OF FAIR VALUE

Financial instruments carried at fair value are valued based on a quoted price in an active market. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques.

An analysis of fair values of financial instruments and further details as to how they are measured, are provided in note 6.2.

OFFSETTING FINANCIAL INSTRUMENTS

A financial asset and a financial liability are offset, and the net amount presented in the Statement of financial position, only when the Fund currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expense items are only offset to the extent that their related instruments have been offset in the Statement of financial position.

1.3.8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

1.3.9 AMOUNTS DUE FROM AND DUE TO BROKERS

Amounts due from and to brokers represent receivables for securities sold and payables for securities purchased (in a regular way transaction) that have been contracted for but not yet settled or delivered on the Statement of financial position date. These are included in trade and other receivables, and in trade and other payables, respectively.

These amounts are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment for amounts due from brokers. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker.

1.3.10 FOREIGN CURRENCIES

Functional and presentation currency

The financial statements of the Fund are presented in US dollars, which is the functional and presentation currency. The performance of the Fund is measured and reported to holders of redeemable shares in US dollars relative to its benchmark and its shares are priced in US dollars. The Investment Manager considers the US dollar as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

Foreign currency translation

Foreign currency transactions, including purchases and sales of securities, income and expenses, are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Gains and losses arising from the translation of these monetary assets and liabilities are recognised in profit or loss. Foreign currency transaction gains and losses on financial instruments classified as at fair value through profit or loss are included as part of realised gains or losses on disposal of financial assets at fair value through profit or loss.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

1.3.11 REDEEMABLE SHARES AND NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES

The Fund's redeemable shares are not the most subordinate class of shares. Therefore, these are classified as financial liabilities in the Statement of financial position and disclosed as net assets attributable to holders of redeemable shares.

Redeemable shares can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's net asset value attributable to the share class.

Redeemable shares are issued and redeemed based on the Fund's net asset value per share, calculated by dividing the net assets of the Fund, calculated in accordance with the Fund's Prospectus, by the number of redeemable shares in issue.

The Fund's assets are valued primarily on the basis of closing market quotations or official closing prices on each valuation day. If closing market quotations or official closing prices are not readily available or do not accurately reflect the fair value of the Fund asset, or if the value of the 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, that asset will be valued by another method that the board of directors believes accurately reflects fair value in accordance with the valuation methodology described in the Fund's Prospectus.

1.3.12 CRITICAL JUDGEMENT IN APPLYING THE FUND'S ACCOUNTING POLICIES

FAIR VALUE OF FINANCIAL INSTRUMENTS

Non-government securities in Africa tend to be very illiquid and there is often no market price to use for mark-to-market purposes. If there is no market price, illiquid assets will be valued relative to an appropriate reference asset, such as government debt in the country and currency of domicile. The calculation between the illiquid asset and the reference asset will be kept unchanged unless there is a deterioration or substantial improvement in the credit quality. The Investment Manager will assess changes in the credit quality and make appropriate adjustments on a monthly basis. Changes to the calculation may be made intra-month in the case of a rapid deterioration in quality.

The Investment Manager will use best efforts to obtain an independent third party to value the illiquid assets quarterly.

1.3.13 FINANCIAL RESULTS

The results of operations for the year are prepared in terms of IFRS and are set out in the accompanying Statement of comprehensive income and Statement of cash flows for the year ended 31 December 2016 as well as the Statement of financial position as at 31 December 2016.

1.3.14 EVENTS SUBSEQUENT TO YEAR END

There were no significant events subsequent to year end.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

	2016 US\$	ADJUSTED 2015* US\$
2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Money market instruments	41 761 919	6 310 575
Gilts and semi-gilts	159 962 804	139 964 754
Preference shares	-	60 704
Cash and cash equivalents for investment purposes	4 410 762	-
Forward contracts	4 867 940	-
TOTAL	211 003 425	146 336 033

3. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of interest and dividend receivables from investments, as well as receivables due from stockbrokers for deals not settled at year end.

Interest receivable	5 845 522	3 337 232
Amounts due from brokers	1 114 956	609 186
TOTAL	6 960 478	3 946 418

4. NOTES TO THE STATEMENT OF CASH FLOWS

4.1 NET CASH OUTFLOW FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES

Profit / (loss) for the year	22 679 653	(27 963 844)
ADJUSTMENTS		
Interest income, net of withholding tax	(17 167 025)	(14 685 446)
Dividend income, net of withholding tax	(30 786)	(40 050)
Realised losses on disposal of financial assets at fair value through profit or loss	1 215 279	9 990 384
Unrealised (gains) / losses on financial assets at fair value through profit or loss	(24 445 731)	20 413 924
Finance cost - distribution to holders of redeemable shares	17 573 312	12 092 127
TOTAL	(175 298)	(192 905)

4.2 WORKING CAPITAL CHANGES

Increase in amounts due from brokers	(505 770)	(1 448)
Increase / (decrease) in trade and other payables	20 189	(14 812)
TOTAL	(485 581)	(16 260)

* Refer to note 8 of the annual financial statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. RELATED PARTY TRANSACTIONS

The directors of the Investment Manager and the directors of the Fund held no shares, directly or indirectly in the Fund at 31 December 2016 and 31 December 2015.

Allan Gray Life Limited, a fellow subsidiary of the Investment Manager, held 365 466 shares in the Fund (2015: 326 318 shares).

A related party relationship exists between Allan Gray Orbis Foundation and the Investment Manager of the Fund, by virtue of a common ultimate shareholder. Allan Gray Orbis Foundation held 5 406 shares in the Fund at 31 December 2016 (2015: 1 593 shares).

At 31 December 2016, the Allan Gray Unit Trust Funds and the Allan Gray Namibia Funds held 1 476 897 shares in the Fund (2015: 992 721 shares).

6. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 to the financial statements.

6.1 FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The directors of the Fund have defined that the Fund's investment portfolio may comprise interest bearing securities, cash and cash equivalents, government and corporate debt, convertible bonds, securitised debt, preference shares and derivative instruments where the underlying asset is a debt security. The Fund may invest in listed and unlisted securities as well as unrated securities and these securities may be

denominated in local or foreign currency. The Fund invests in a focused portfolio of assets that are selected for their perceived superior fundamental value and expected risk and return profile. The Fund seeks to take advantage of opportunities that arise and may invest a substantial portion of the assets in a single country or region rather than a diversified portfolio of assets with exposure to a basket of African countries. The Fund defines "African Securities" as securities issued by entities that are African but not South African in nature. The Fund's asset allocation will be flexible amongst the various fixed income asset classes.

MARKET RISK

The Fund's investing activities expose holders of Fund shares to various types of risk that are associated with the financial instruments and markets in which the Fund invests. Market risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and includes interest rate, foreign currency and other price risks.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is exposed to interest rate risk as it invests in interest bearing instruments. The Investment Manager manages the Fund's exposure to interest rates in accordance with the Fund's investment objectives and policies.

The Fund does not hedge interest rate risk. Instead the Investment Manager tries to mitigate interest rate risk by monitoring the duration and term of the Fund compared to its benchmark, and relative to the long-term outlook on interest rate levels. Interest rate risk is linked to foreign currency risk, as currency weakness

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

typically results in inflationary pressure which in turn poses significant upside risk to the outlook for interest rates. Where the Investment Manager believes there is upside risk to the outlook for interest rates, the Investment Manager would look to manage this through lowering the duration in the portfolio.

The tables below illustrate the effect of reasonably possible changes in prevailing interest rates, with all other variables held constant. This analysis ignores

operating bank accounts in the underlying Fund. Modified duration is used to estimate the change in the net assets attributable to holders of redeemable shares as a result of a change in interest rates. The actual results may differ from the sensitivity analysis and the difference could be material. The disclosure provides information on the risks to which holders of redeemable shares are exposed and is not indicative of future performance.

ASSETS	SENSITIVITY TO CHANGES IN INTEREST RATES		
	INVESTMENT VALUE (US\$)	+ 0.50% OR - 0.50%	+ 1.00% OR - 1.00%
2016			
MONEY MARKET INSTRUMENTS	41 761 919	88 724	177 449
Denominated in Egyptian pound	4 641 381	9 860	19 721
Denominated in Nigerian naira	37 120 538	78 864	157 728
GILTS AND SEMI-GILTS	159 962 804	2 631 488	5 262 978
Denominated in Canadian dollar	4 477 991	73 666	147 332
Denominated in Ghanaian cedi	8 277 877	136 176	272 353
Denominated in Kenyan shilling	5 271 651	86 722	173 444
Denominated in US dollar	135 399 478	2 227 406	4 454 813
Denominated in Zambian kwacha	6 535 807	107 518	215 036

Coupon rates on bonds range between 4.8% and 25.5% (2015: 6.0% and 17.0%).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

ASSETS	SENSITIVITY TO CHANGES IN INTEREST RATES		
	INVESTMENT VALUE (US\$)	+ 0.50% OR - 0.50%	+ 1.00% OR - 1.00%
2015			
MONEY MARKET INSTRUMENTS	6 310 575	8 644	17 286
Denominated in Kenyan shilling	911 591	1 249	2 497
Denominated in Ugandan shilling	529 713	726	1 451
Denominated in Zambian kwacha	4 869 271	6 669	13 338
GILTS AND SEMI-GILTS	139 964 754	2 155 403	4 310 806
Denominated in Canadian dollar	10 657 180	164 116	328 233
Denominated in Kenyan shilling	7 239 972	111 493	222 986
Denominated in Ugandan shilling	858 444	13 220	26 439
Denominated in US dollar	119 539 018	1 840 854	3 681 709
Denominated in Zambian kwacha	1 670 140	25 720	51 439

FOREIGN CURRENCY RISK

Currency risk is the risk that the value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund undertakes certain transactions denominated in foreign currencies and hence is exposed to the effects of exchange rate fluctuations.

The Fund does not hedge foreign currency risk. The Investment Manager's primary concern in managing the Fund is the risk of permanent capital loss. As such the Investment Manager is cognisant of all macro and political risks, including any currency devaluation risk. This risk is incorporated in the assessment of the attractiveness of the securities the Fund invests in. As part of the investment research, the Investment Manager also determines what is believed to be the long-term fair value of each currency in which the Fund invests. As part of this analysis, the Investment Manager looks at which markets are in a period of currency weakness or strength alongside what level of currency risk the markets are pricing in relative

to history. For long-term investors, the ability to find cheap assets in discounted macro-weak environments can help to mitigate the currency risk.

The following tables indicate the currencies to which the Fund had exposure at 31 December 2016 and 31 December 2015 on its monetary financial assets and liabilities. It illustrates the effect of reasonably possible changes in exchange rates, with all other variables held constant. The actual results may differ from the sensitivity analysis and the difference could be material. The disclosure provides information on the risks to which holders of redeemable shares are exposed and is not indicative of future performance. A positive number indicates a decrease in net assets attributable to holders of redeemable shares where the US dollar strengthens against the relevant currency. For a weakening of the US dollar against the relevant currency, there would be an equal and opposite impact on the net assets attributable to holders of redeemable shares, and the balances below would be negative.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

2016	CURRENCY IMPACT IN US\$							
	CANADIAN DOLLAR (CAD)	EGYPTIAN POUND (EGP)	GHANAIAN CEDI (GHS)	KENYAN SHILLING (KES)	MALAWIAN KWACHA (MWK)	NIGERIAN NAIRA (NGN)	UGANDAN SHILLING (UGX)	ZAMBIAN KWACHA (ZMW)
MONETARY FINANCIAL ASSETS	4 478 940	4 643 049	8 338 104	5 457 814	6 800	46 399 240	-	6 627 302
+5%	223 947	232 152	416 905	272 891	340	2 319 962	-	331 365
+10%	447 894	464 305	833 810	545 781	680	4 639 924	-	662 730
+20%	895 788	928 610	1 667 621	1 091 563	1 360	9 279 848	-	1 325 460

2015	CURRENCY IMPACT IN US\$							
	CANADIAN DOLLAR (CAD)	EGYPTIAN POUND (EGP)	GHANAIAN CEDI (GHS)	KENYAN SHILLING (KES)	MALAWIAN KWACHA (MWK)	NIGERIAN NAIRA (NGN)	UGANDAN SHILLING (UGX)	ZAMBIAN KWACHA (ZMW)
MONETARY FINANCIAL ASSETS	10 657 180	-	7	8 151 567	7 352	-	1 389 228	6 614 070
+5%	532 859	-	-	407 578	368	-	69 461	330 703
+10%	1 065 718	-	-	815 158	734	-	138 923	661 407
+20%	2 131 436	-	1	1 630 315	1 469	-	277 845	1 322 813

The closing foreign exchange rates at 31 December 2016 and 31 December 2015 are as follows:

	2016	2015
USD: CAD	1.35	1.39
USD: EGP	18.50	7.83
USD: GHS	4.23	3.83
USD: KES	102.55	102.22
USD: MWK	718.91	664.45
USD: NGN	304.79	199.08
USD: UGX	3 690.04	3 389.83
USD: ZMW	9.93	11.01

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund.

At year end, financial assets exposed to credit risk included debt instruments. Risk is mitigated by transacting on recognised exchanges where it is possible and practical. The Investment Manager monitors the creditworthiness of the Fund's counterparties (e.g. brokers, custodians and banks) by reviewing their credit ratings, financial statements and press releases on a regular basis. In accordance with the investment restrictions as described in the Fund's Prospectus, no more than 10% of the Fund may be invested in any one corporate's debt securities. This limit does not apply to cash held in a bank. The Fund may own no more than 25% of any one corporate's outstanding debt. The sum of individual corporate credit exposures exceeding 5% may not exceed 60% of the Fund. The Fund may not enter into uncovered derivative positions. The Investment Manager's compliance department monitors compliance with applicable regulations and the investment mandate on a daily basis.

The carrying amount of financial assets recorded in the financial statements, represents redeemable shareholders' maximum exposure to credit risk. None of the financial assets disclosed in the financial statements are past due.

The following table provides an analysis of the credit quality of the Fund's debt securities at reporting date

by rating agency category. The credit quality has been assessed by reference to Fitch credit ratings and, where unavailable, Moody's ratings have been used. Ratings are presented in ascending order of credit risk.

CREDIT RATING	2016 % OF DEBT SECURITIES	2015 % OF DEBT SECURITIES
AAA	4.3	0.5
Baa3	3.1	-
B+	30.5	23.3
B	19.1	29.1
B2	3.9	8.7
B-	7.2	-
B3	2.3	-
BB	-	7.4
BB-	4.8	7.6
CCC	6.2	-
UNRATED	9.1	21.6
	90.5	98.2

Note that the balance (9.5% of the Funds assets) (2015: 1.8% of the Fund's assets) comprises cash and cash equivalents, interest receivable, amounts due from brokers and accrued expenses which have been excluded from the table above.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

RISK CONCENTRATIONS OF THE MAXIMUM EXPOSURE TO CREDIT RISK

Concentration indicates the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or that have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentration of credit risk is managed by counterparty and geographical region.

The following table contains an analysis of the concentration of credit risk in the Fund's debt portfolio by geographical distribution (based on counterparties' country of domicile):

COUNTRY OF ISSUER ON 31 DECEMBER	2016 % OF FUND	2015 % OF FUND
Nigeria	49.6	40.2
Ghana	12.2	15.1
Zambia	10.9	14.7
Kenya	7.2	14.8
Egypt	3.9	7.1
Mauritius	3.1	-
Tanzania	1.4	4.0
Ivory Coast	1.0	-
Rwanda	0.8	1.2
Supranational	0.4	-
Uganda	-	0.9
DRC	-	0.2
Cash and accruals	9.5	1.8
TOTAL	100.0	100.0

LIQUIDITY RISK

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund invests in markets that are considered emerging markets. Such markets are generally less mature and developed than those in advanced countries. Liquidity risk management rests with the Investment Manager, which has built an appropriate liquidity risk management framework for the management of the Fund's short-, medium- and long-term funding and liquidity management requirements.

The Fund's redeemable shares are redeemable for cash equal to the proportionate share of the Fund's net asset value. The Fund is therefore potentially exposed to weekly redemptions by the holders of redeemable shares.

The Fund may not borrow other than to meet redemptions. Such borrowing is limited to 10% of the Fund's Net Asset Value and must be repaid as soon as practically possible. The Investment Manager's compliance department monitors compliance with the applicable requirements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

The Fund manages its obligation to repurchase shares when required to do so and its overall liquidity risk by: Where total Members' redemptions on any dealing day are more than 4% of the total number of issued redeemable shares, the Investment Manager may, at its discretion, redeem only 4% of the total number of issued redeemable shares of the Fund, on a pro-rata basis, per dealing day. If any redemptions requests are not satisfied in full,

the balance will be carried forward to the following dealing day, subject to the same 4% restriction.

The Fund invests primarily in marketable securities and other financial instruments which, under normal market conditions, are readily convertible to cash. In addition, the Fund's policy is to maintain sufficient cash and cash equivalents to meet normal operating requirements and expected redemption requests.

The following table analyses the contractual maturities of the Fund's financial assets and financial liabilities as at 31 December 2016.

MATURITIES	US\$				TOTAL
	LESS THAN 1 YEAR	1 TO 3 YEARS	3 TO 7 YEARS	GREATER THAN 7 YEARS	
FINANCIAL ASSETS					243 561 972
Cash and cash equivalents	25 598 069	-	-	-	25 598 069
Cash and cash equivalents for investment purposes	4 410 762	-	-	-	4 410 762
Forward contracts	4 867 940	-	-	-	4 867 940
Money market instruments	41 761 919	-	-	-	41 761 919
Gilts and semi-gilts	7 885 981	52 658 333	45 994 710	53 423 780	159 962 804
Trade and other receivables	6 960 478	-	-	-	6 960 478
FINANCIAL LIABILITIES					(243 561 972)
Net assets attributable to holders of redeemable shares	(233 063 918)	-	-	-	(233 063 918)
Distribution payable	(10 464 737)	-	-	-	(10 464 737)
Trade and other payables	(33 317)	-	-	-	(33 317)

The maturity analyses for financial assets are prepared on a discounted basis and exclude future interest cash flows.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

The following table analyses the contractual maturities of the Fund's financial assets and financial liabilities as at 31 December 2015.

MATURITIES	US\$				TOTAL
	LESS THAN 1 YEAR	1 TO 3 YEARS	3 TO 7 YEARS	GREATER THAN 7 YEARS	
FINANCIAL ASSETS					155 316 409
Cash and cash equivalents	5 033 958	-	-	-	5 033 958
Money market instruments	6 310 575	-	-	-	6 310 575
Gilts and semi-gilts	-	38 864 341	62 411 576	38 688 837	139 964 754
Preference shares	-	-	-	60 704	60 704
Trade and other receivables	3 946 418	-	-	-	3 946 418
FINANCIAL LIABILITIES					(155 316 409)
Net assets attributable to holders of redeemable shares	(148 991 980)	-	-	-	(148 991 980)
Distribution payable	(6 311 301)	-	-	-	(6 311 301)
Trade and other payables	(13 128)	-	-	-	(13 128)

6.2 FAIR VALUE

The fair values of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices. Loans and receivables are usually held for the instrument's entire life, being periods not exceeding a year. The carrying amount of these instruments closely approximates the fair value. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques.

Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

When the fair value of instruments, at the reporting date, are based on quoted market prices, the instruments are included within level 1 of the hierarchy.

In the event that the Fund's financial instruments are not measured at the quoted price in an active market, they are valued using observable inputs such as recently executed transaction prices in securities of the issuer, or comparable issuers and yield curves. Financial instruments are valued using discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. To the extent that these inputs are observable, the Fund classifies the fair value of these instruments as level 2. The Fund holds investments in debt instruments that are

listed on an exchange but are priced based on binding dealer price quotations. These instruments are valued using observable inputs, such as recently executed transaction prices which can be observed for the same instrument. The Fund classifies the fair value of these instruments as level 2.

The fair value of cash and cash equivalents is generally considered to be the amount held on deposit at the relevant institution. When considered necessary a credit spread will be applied. This is considered a level 2 valuation. In terms of exchange requirements, margin deposits are pledged as collateral for derivatives in cash and cash equivalents for investment purposes.

The table below analyses financial instruments, measured at fair value at 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	US\$			
	QUOTED MARKET PRICES (LEVEL 1)	OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL
FINANCIAL ASSETS				
Money market instruments	4 641 381	37 120 538	-	41 761 919
Preference shares	-	-	-	-
Gilts and semi-gilts	148 298 315	11 664 489	-	159 962 804
Forward contracts	-	4 867 940	-	4 867 940
	152 939 696	53 652 967	-	206 592 663
FINANCIAL LIABILITIES				
Net assets attributable to holders of redeemable shares	-	233 063 918	-	233 063 918
	-	233 063 918	-	233 063 918

There were no transfers between levels 1, 2 and 3 during the year ended 31 December 2016.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

The table below analyses financial instruments, measured at fair value at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	US\$			
	QUOTED MARKET PRICES (LEVEL 1)	OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL
FINANCIAL ASSETS				
Money market instruments	-	6 310 575	-	6 310 575
Preference shares	-	-	60 704	60 704
Gilts and semi-gilts	126 098 740	13 866 014	-	139 964 754
	126 098 740	20 176 589	60 704	146 336 033
FINANCIAL LIABILITIES				
Net assets attributable to holders of redeemable shares	-	148 991 980	-	148 991 980
	-	148 991 980	-	148 991 980

There were no transfers between levels 1 and 2 during the year ended 31 December 2015.

During the year ended 31 December 2015, negative market conditions impacted the issuing company of the preference share held by the Fund and as a result, the issuing company stopped paying dividends. The valuation of the preference share was adjusted to take into account the expected recovery of the nominal value, which resulted in a transfer from level 2 to level 3. During the current year, the preference share was disposed of and all net gains recognised in the Statement of comprehensive income.

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements of financial assets held at fair value through profit or loss, in level 3 of the fair value hierarchy:

	2016 US\$	2015 US\$
Opening balance	60 704	-
Transfer into level 3	-	156 400
Disposal of shares	(134 168)	(155 089)
Net gains recognised in profit or loss	73 464	59 393
	-	60 704

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

Total gains or losses included in profit or loss for the year are presented in the Statement of comprehensive income as follows:

	2016 US\$	2015 US\$
Unrealised gains recognised in profit or loss	219 296	124 304
Realised losses recognised in profit or loss	(145 832)	(64 911)
	73 464	59 393

The Investment Manager uses an expected recovery valuation technique to estimate the expected recovery of the nominal value of the preference shares at 31 December 2016 and 31 December 2015. The key unobservable input used in the valuation is the expected recovery rate of 25%.

For fair value measurements in level 3 of the fair value hierarchy, changing the expected recovery rate would have the following effect:

EFFECT ON PROFIT OR LOSS:

INCREASE / (DECREASE) OF EXPECTED RECOVERY RATE:

2016	GAIN	LOSS
+5%	-	-
+10%	-	-
2015	GAIN	LOSS
+5%	11 928	(12 283)
+10%	24 034	(24 388)

6.3 DERIVATIVE CONTRACTS

Typically, derivative contracts serve as components of the Fund's investment strategy and are utilised primarily to structure and hedge investments, to

enhance performance and reduce risk to the Fund (the Fund does not designate any derivative as a hedging instrument for hedge accounting purposes). The derivative contracts that the Fund holds include forwards. The Fund uses derivative financial instruments to hedge its risks associated primarily with fair value risks relating to debt instruments.

Derivatives often reflect at their inception only a mutual exchange of promises with little or no transfer of tangible consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the underlying of a derivative contract may have a significant impact on the profit or loss of the Fund.

At 31 December 2016 and 31 December 2015, the Fund had positions in the following derivatives:

FORWARDS

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the OTC market.

The Fund has credit exposure to the counterparties of forward contracts. The credit risk related to forward contracts is considered minimal because the contracts are held with institutions of good repute. Forward contracts are settled gross and, therefore, considered to bear a higher liquidity risk than the future contracts which are settled on a net basis. Forward contracts result in market risk exposure. Fair value gains of US\$4 858 639 (2015 - US\$0) relating to these contracts was recognised in profit or loss during the year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

Forwards held for risk management purposes:

	2016 US\$	2015 US\$
Forward contracts (total exposure)	(50 708 770)	-

7. SHARE CAPITAL

AUTHORISED AND ISSUED CAPITAL

The authorised share capital of the Fund is US\$10 000 comprising redeemable participating shares with a par value of US\$0.0001 each and Founders' Shares with a par value of US\$0.01 each.

The Fund's authorised share capital at 31 December 2016 and 31 December 2015 is detailed below.

	AUTHORISED SHARES	PAR VALUE PER SHARE	SHARE CAPITAL (US\$)
Redeemable shares	99 990 000	0.0001	9 999
Founders' shares	100	0.01	1
Total			10 000

NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES

The redeemable participating shares are issued as Class A or Class B shares, which participate pro-rata in the Fund's net assets and dividends, and are redeemable and non-voting. The Fund's capital is represented by these redeemable participating shares. Quantitative information about the Fund's capital is provided in the Statement of changes in net assets attributable to holders of redeemable shares.

FOUNDERS' SHARES

Founders' shares do not participate in the Fund's portfolio, are redeemable at par value only after all

Fund shares have been redeemed, and carry the right to vote. If the Fund is wound up or dissolved, the Founders' shares will participate only to the extent of their par value. All of the authorised Founders' shares of the Fund have been issued as fully paid and are held by the Investment Manager.

INCOME DISTRIBUTIONS

The Fund declared the following income distributions for the year ended 31 December 2016:

	CLASS A US\$	CLASS B US\$	TOTAL US\$
31 DECEMBER 2016			
Total distribution	14 218	10 450 519	10 464 737
Distribution per share	4.0647	4.5672	
30 JUNE 2016			
Total distribution	11 121	7 097 454	7 108 575
Distribution per share	3.2893	3.7478	
			17 573 312

The Fund declared the following income distributions for the year ended 31 December 2015:

	CLASS A US\$	CLASS B US\$	TOTAL US\$
31 DECEMBER 2015			
Total distribution	4 976	6 306 325	6 311 301
Distribution per share	3.3490	3.8390	
30 JUNE 2015			
Total distribution	-	5 780 826	5 780 826
Distribution per share	-	3.8156	
			12 092 127

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. PRIOR YEAR ADJUSTMENT

Prior year figures were restated to reclassify the income adjustments on creation and cancellation of shares by the Fund during the year ended 31 December 2015, which were previously reported in the Statement of comprehensive income, as the directors consider classification of these as part of transactions in shares to be more appropriate. The following table details comparative figures as restated to account for the income adjustments reclassified to Net assets attributable to holders of redeemable shares for the year ended 31 December 2015:

	AUDITED 31 DECEMBER 2015 US\$	ADJUSTED US\$	RESTATED 31 DECEMBER 2015 US\$
STATEMENT OF COMPREHENSIVE INCOME			
Income adjustments on creation and cancellation of shares	135 816	(135 816)	-
CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES	(27 828 028)	(135 816)	(27 963 844)
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES			
Increase in net assets attributable to holders of redeemable shares from transactions in shares	66 060 169	135 816	66 195 985
Decrease in net assets attributable to shareholders from operations	(27 828 028)	(135 816)	(27 963 844)
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES	148 991 980	-	148 991 980
STATEMENT OF CASH FLOWS			
Net cash outflow from operations before working capital changes	(57 089)	(135 816)	(192 905)
Proceeds from issue of redeemable shares	60 279 343	135 816	60 415 159
NET INCREASE IN CASH AND CASH EQUIVALENTS	3 774 499	-	3 774 499

IMPORTANT NOTES FOR INVESTORS

FUND INFORMATION

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 Services Board ('FSB'). The Fund is currently open to new investors however the Fund may be closed to new investments at any time to be managed according to its mandate. If you have any questions regarding the status of the Fund, please contact the Registrar. Shares in the Fund are traded at ruling prices and the Fund can engage in borrowing and scrip lending. 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.

EUROPEAN UNION SAVINGS DIRECTIVE AND DIRECTIVE ON ADMINISTRATIVE COOPERATION

The European Union Savings Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments was repealed in November 2015, as a consequence of the adoption in December 2015 of the EU Directive on Administrative Cooperation 2014/107/EU. The Directive on Administrative Cooperation expands the scope of income and information subject to automatic exchange between EU Member States to include not only interest income, but also dividends and other types of capital income, as well as the annual balance of the accounts

producing such income. The board of directors of the Fund believes that the Fund is exempt from the application of the EU Directive on Administrative Cooperation.

UNITED KINGDOM REPORTING FUND STATUS

The Fund's application for reporting fund status for the year ended 31 December 2015 was successful. The Fund will apply for reporting fund status for the year ended 31 December 2016 and subsequent years. The board of directors intend to manage the Fund in such a way that it should continue to be certified as a reporting fund. There can be no assurance that the Fund's intended applications for reporting fund status will be successful.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA ('EEA')

The Fund is not currently marketed in the EEA. As a result, the Investment Manager does not comply with the requirements of the Alternative Investment Fund Managers Directive ('AIFMD'), and persons located in any EEA member state ('European Investors') are only permitted to subscribe for shares in the Fund in the discretion of the Investment Manager and subject to compliance with applicable law. European Investors who are permitted to invest in the Fund will not benefit from any of the protections of the AIFMD to which a European Investor making an investment in a non-European fund would otherwise have, including but without limitation, certain initial disclosure requirements, periodic reporting on illiquid assets and leverage, and certain annual reporting requirements.

IMPORTANT NOTES FOR INVESTORS

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 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.

IMPORTANT NOTES FOR INVESTORS

JPMS is a member of FINRA, NYSE, SIPC and NFA. JPMorgan Chase Bank, National Association is a member of FDIC. J.P. Morgan Securities plc is authorized by the FSA and is a member of the LSE. J.P. Morgan Europe Limited is authorized by the FSA. J.P. Morgan Equities South Africa Proprietary Limited is a member of the JSE Ltd. and is regulated by the FSB. J.P. Morgan Securities (Asia Pacific) Limited is registered as an investment adviser with the Securities & Futures Commission in Hong Kong and its CE number is AAJ321. J.P. Morgan Securities Singapore Private Limited is a member of Singapore Exchange Securities Trading Limited and is regulated by the Monetary Authority of Singapore ('MAS'). J.P. Morgan Securities Asia Private Limited is regulated by the MAS and the Financial Services Agency in Japan. J.P. Morgan Australia Limited (ABN 52 002 888 011) is a licensed securities dealer. J.P. Morgan is the marketing name for the investment banking activities of JPMorgan Chase Bank, N.A., JPMS, J.P. Morgan Securities plc (authorized by the FSA and member, LSE) and their investment banking affiliates. Copyright 2015 JPMorgan Chase & Co. All rights 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 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.

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 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, 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

IMPORTANT NOTES FOR INVESTORS

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.

ADDITIONAL INFORMATION

You can obtain additional information about the Fund, including copies of the fact sheet, prospectus and application forms, 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.

CHARACTERISTICS AND DIRECTORY

DOMICILE AND STRUCTURE

Bermuda open-ended investment company

REGULATION

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, and regulated by, the Bermuda Stock Exchange.

REGISTERED OFFICE

Orbis House
25 Front Street
Hamilton HM11
Bermuda

COMPANY SECRETARY

Orbis Administration Limited

DIRECTORS

Craig T Bodenstab
John C R Collis
Tapologo Motshubi

INVESTMENT MANAGER

Allan Gray International Proprietary Limited
1 Silo Square
V & A Waterfront
Cape Town 8001
South Africa

The Investment Manager is an authorised Financial Services Provider in terms of the Financial Advisory and Intermediary Services Act 37 of 2002.

INVESTMENT ADVISOR

Allan Gray Proprietary Limited
1 Silo Square
V & A Waterfront
Cape Town 8001
South Africa

PRIMARY CUSTODIAN

Standard Bank of South Africa Limited
Investor Services 2nd Floor
25 Sauer Street
Johannesburg
South Africa

AUDITORS

Ernst & Young Inc.
Ernst & Young House
35 Lower Long Street
Cape Town 8001
South Africa

ADMINISTRATOR & REGISTRAR

Allan Gray Proprietary Limited
1 Silo Square
V & A Waterfront
Cape Town 8001
South Africa
Tel +27 21 415 2301
Fax +27 21 415 2413
Email africafund@allangray.co.za

ALLAN GRAY