

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

31 DECEMBER 2018

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ALLAN GRAY AFRICA EX-SA BOND FUND LIMITED STRATEGY

As at 31 December 2018

Inception date

27 March 2013

Portfolio managers

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

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.

Commentary

The Allan Gray Africa ex-SA Bond Fund was launched in March 2013 because we believed that our long-term, value oriented philosophy would deliver attractive returns in African debt markets. Results thus far have been pleasing, with the Fund delivering 46.2% cumulative return since inception.

Performance has not come in a straight line, as one would expect given the nascent markets the Fund invests in. The Fund lost 15.8% over the 12 months to September 2015, then subsequently gained

28.4% over the 12 months to February 2017. Two of the Fund's holdings defaulted, namely Afren and Depthwise, but were sufficiently small to have a negligible impact on performance. Despite this volatility, the Fund's performance confirms that Africa provides opportunities for investors willing to look through headline noise, focus on fundamentals and be contrarian and patient.

Looking forward, there are concerns that African countries have taken on excessive amounts of hard currency debt over recent years. A rapid rise in debt is risky, particularly when the debt is denominated in a stronger and more stable currency than that of the issuer. History suggests that similar situations periodically result in defaults, and it is probable that recent excesses in Africa could have sobering consequences over the coming years. Given these risks, the Fund holds diversified investments across dollar and local-currency denominated debt.

40.3% of the Fund is invested in local currency instruments, predominantly issued by the governments of Nigeria, Egypt and Ghana. We reduced local currency exposure over the quarter as instruments matured, choosing instead to re-invest in dollar denominated Eurobonds that sold off in line with global markets. We are cautious about devaluation of the Nigerian naira, and have consequently hedged most of the Fund's naira exposure.

54.3% of the Fund is invested in dollar debt, the weighted average yield of which increased from 8.5% to 9.2% over the quarter. About a third of the Fund's dollar debt is government issued, the largest exposure being to Nigeria and Zambia. Both these countries face a difficult year ahead, but we believe current yields sufficiently price in the risks. The other two-thirds of dollar debt is issued by higher rated companies, in particular:

- Seplat, an oil company that is also one of the largest gas producers in Nigeria – a country with a chronic electricity shortage partly caused by insufficient gas production.
- MTN, a pan-African mobile operator with almost 250m subscribers spread across growing, communications dependent populations.
- Tullow, the owner operator of Ghana's largest oil field as well as attractive undeveloped resources in East Africa.
- Top tier Nigerian banks, in particular Access Bank and Zenith Bank, with profitable and well established franchises.

The remaining 5.4% of the Fund is held in dollar cash.

Commentary contributed by Mark Dunley-Owen

ALLAN GRAY AFRICA EX-SA BOND FUND LIMITED STRATEGY

As at 31 December 2018

Performance in US\$ net of all fees and expenses

% Returns	Fund ¹	Benchmark ²
Cumulative:		
Since inception (27 March 2013)	46.2	-13.1
Annualised:		
Since inception (27 March 2013)	6.8	-2.4
Latest 5 years	7.1	-1.0
Latest 3 years	15.4	5.9
Latest 2 years	12.8	3.9
Latest 1 year	4.2	-6.2
Risk measures (since inception, based on month-end prices)		
Maximum drawdown ³	-15.8	-29.3
Percentage positive months ⁴	65.7	55.7
Annualised monthly volatility ⁵	7.2	11.2
Highest annual return ⁶	28.4	17.7
Lowest annual return ⁶	-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 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.

Fund positioning on 31 December 2018⁷

	Local currency	Foreign currency	% of portfolio
Governments	38.7	19.8	58.6
Nigeria	17.9	6.5	24.5
Egypt	11.5	1.2	12.6
Ghana	9.3	2.8	12.2
Zambia	0.0	5.7	5.7
Kenya	0.0	2.2	2.2
Ivory Coast	0.0	1.4	1.4
Corporates	1.5	34.4	35.9
Nigeria	1.5	24.5	26.0
Ghana	0.0	4.8	4.8
Mauritius	0.0	4.1	4.1
Kenya	0.0	1.0	1.0
Cash⁸	0.1	5.4	5.5
Total⁹	40.3	59.7	100.0

- 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.

- Cash is held in multiple currencies.

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

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. Transaction costs are disclosed separately.


TER and Transaction costs breakdown for the 1 and 3-year period ending 31 December 2018	1yr %	3yr %
Total expense ratio	1.16	1.16
Management fee	1.00	1.00
Custody fees	0.12	0.12
Other costs excluding transaction costs	0.04	0.04
Transaction costs	0.00	0.00
Total investment charge	1.16	1.16

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

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, which comprise the financial position as at 31 December 2018 and its financial performance and cash flows for the year ended 31 December 2018, are set out on pages 6 to 30 and have been approved by the directors of the Fund and are signed on its behalf by:



John CR Collis
Director
26 March 2019



Craig Bodenstab
Director
26 March 2019

INDEPENDENT AUDITOR'S REPORT

To the directors and members 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 ('The Fund') set out on pages 6 to 30, which comprise the statement of financial position as at 31 December 2018, 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 2018, 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 Financial Statements section of our report. We are independent of the Fund in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code), the International Ethics Standard Board of Accountants Code of Ethics for Professional Accountants (IESBA 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, IESBA 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, Approval of the Annual Financial Statements, 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 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.

INDEPENDENT AUDITOR'S REPORT

In preparing the financial statements, the directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund 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 Fund'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 Fund'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 Fund 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 – J C de Villiers
Registered Auditor
Chartered Accountant
Cape Town
26 March 2019

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 US\$	2017 US\$
NET INVESTMENT INCOME		21 472 647	60 168 090
Interest income		48 805 176	32 822 956
Realised gains / (losses) on disposal of financial assets at fair value through profit or loss		6 884 859	(5 996 681)
Unrealised (losses) / gains on financial assets at fair value through profit or loss		(34 266 155)	33 215 489
Other income		48 767	126 326
EXPENSES		(2 123 197)	(958 622)
Custodian fees		(500 696)	(325 096)
Management fees		(112 511)	(9 065)
Audit fees		(15 393)	(13 816)
Directors' fees		(18 000)	(18 000)
Bank charges		(51 565)	(10 432)
Withholding taxes		(1 339 226)	(527 775)
Other expenses		(85 806)	(54 438)
CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES		19 349 450	59 209 468

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 US\$	2017 US\$
ASSETS			
Financial assets at fair value through profit or loss	2	397 094 814	311 861 038
Trade and other receivables	3	17 070 504	13 378 186
Cash and cash equivalents		23 289 841	12 771 092
TOTAL ASSETS		437 455 159	338 010 316
LIABILITIES			
Trade and other payables	4	87 548	831 196
TOTAL LIABILITIES, EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES		87 548	831 196
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES		437 367 611	337 179 120

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

For the year ended 31 December 2018

	Net assets attributable to holders of redeemable shares US\$	Number of shares in issue	Net asset value per share US\$
BALANCE AT 31 DECEMBER 2016	233 063 918	2 291 672	101.70
Increase in net assets attributable to holders of redeemable shares from transactions in shares	44 905 734	405 864	
Increase in net assets attributable to holders of redeemable shares from operations	59 209 468		
BALANCE AT 31 DECEMBER 2017	337 179 120	2 697 536	125.00
Increase in net assets attributable to holders of redeemable shares from transactions in shares	80 839 041	628 939	
Increase in net assets attributable to holders of redeemable shares from operations	19 349 450		
BALANCE AT 31 DECEMBER 2018	437 367 611	3 326 475	131.48

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 US\$	2017 US\$
CASH FLOW FROM OPERATING ACTIVITIES			
Net cash outflow from operations before working capital changes	5.1	(735 204)	(304 521)
Working capital changes	5.2	(1 557 975)	1 893 829
Interest received, net of withholding tax		44 587 959	24 781 523
NET CASH GENERATED BY OPERATING ACTIVITIES		42 294 780	26 370 831
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of investments		(340 176 654)	(197 629 443)
Proceeds from sale of investments		227 561 582	123 990 638
NET CASH UTILISED IN INVESTING ACTIVITIES		(112 615 072)	(73 638 805)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of redeemable shares		97 709 531	72 181 317
Redemption of redeemable shares		(16 870 490)	(37 740 320)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		80 839 041	34 440 997
Net increase / (decrease) in cash and cash equivalents		10 518 749	(12 826 977)
Cash and cash equivalents at the beginning of the year		12 771 092	25 598 069
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		23 289 841	12 771 092

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 under the laws of Bermuda. 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 Bermuda 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 directors of the Fund on 26 March 2019.

1. Accounting standards and policies**1.1 Basis of preparation**

The financial statements have been prepared on a going concern basis, using the 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 ('IFRIC') of the IASB that are relevant to its operations and effective for the annual accounting period ended 31 December 2018.

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

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

Standards		Effective date: Years beginning on/after	Impact
IFRS 9	Financial Instruments	1 January 2018	Refer to Note 1.3.7
IFRS 15	Revenue from Contracts with Customers	1 January 2018	No material impact

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

Standards		Effective date: Years beginning on/after	Expected impact
IFRS 16	Leases	1 January 2019	No material impact
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019	No material impact

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

A number of other changes, that are effective for accounting periods ended after 31 December 2018, have been issued by the IASB and IFRIC. However, these are not considered relevant to the Fund's operations.

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 Net investment income

Net investment income comprises interest income and realised and unrealised gains and losses on investments.

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 presented gross of withholding taxes, which are disclosed separately in the Statement of comprehensive income.

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 management fee is the fee paid by the Fund to the Investment Manager for the management of the Fund. Management fees are calculated and accrued based on the weekly net asset value of the share class and recognised on an accrual basis in profit or loss.

1.3.3 Distributions to holders of redeemable shares

Distributions from the Fund that may be declared 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

1.3.4 Taxation

There is no income tax, corporation tax, profits tax, withholding tax, capital gains tax, capital transfer tax estate, 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, 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.

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, when shares are purchased and sold.

1.3.7 Financial instruments: Financial assets and liabilities**Transition**

The Fund adopted IFRS Financial Instruments during the year with the date of initial application being 1 January 2018. IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. As a result, the Fund's loans and receivables at amortised cost were reclassified to financial assets at amortised cost. The Fund applied the transitional provisions whereby prior year comparatives were not restated. There were no transitional adjustments identified.

The Fund assessed the classification of financial instruments at the date of initial application:

- Financial assets previously classified as fair value through profit or loss continue to be classified as such.
- Preference shares, equity and debt instruments are designated as at fair value through profit or loss as they are held in a portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis.
- Financial assets previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These financial assets are now classified and measured as financial assets at amortised cost, which approximates fair value.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

In summary, upon the adoption of IFRS 9, the Fund had the following required or elected reclassifications as at 1 January 2018. There were no changes to the carrying amounts of these financial assets.

IAS 39 measurement category	IFRS 9 measurement category
	Amortised cost US\$
LOANS AND RECEIVABLES	
Trade and other receivables	13 378 186
Cash and cash equivalents	12 771 092
TOTAL	26 149 278

Classification**Financial assets**

The Fund determines the classification of its financial assets on initial recognition, when it becomes a party to the contract governing the instrument. The classification depends on how the Fund manages its financial assets in order to generate cash flows.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss when:

- they are held for trading;
- the contractual cash flows do not represent solely payments of principal and interest; or
- designated as such upon initial recognition to eliminate or significantly reduce a measurement or recognition inconsistency.

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.

Financial assets at amortised cost – Policy effective from 1 January 2018 (IFRS 9)

The Fund classifies financial assets at amortised cost when:

- the financial asset is held with the objective to collect contractual cash flows; and
- the terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets at amortised cost comprise cash and cash equivalents and trade and other receivables, which include interest receivable and amounts due from brokers, which are short-term in nature.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

Loans and receivables at amortised cost – Policy effective before 1 January 2018 (IAS39)

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 trade and other receivables, which include interest receivable and amounts due from brokers, which are short-term in nature.

Financial liabilities

The Fund determines the classification of its financial liabilities on initial recognition, when it becomes a party to the contract governing the instrument, according to the nature and purpose of the financial instrument.

Financial liabilities at fair value through profit or loss

The Fund's financial liabilities at fair value through profit or loss include net assets attributable to holders of redeemable shares (refer to note 1.3.11).

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. Amortised cost approximates fair value due to the short-term nature of the financial liabilities.

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.

Subsequent measurement

Subsequent to initial recognition, 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.

Financial assets and financial liabilities at amortised cost

Initial measurement

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

Subsequent measurement

Subsequent to initial recognition, financial assets 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 financial assets 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***Policy effective from 1 January 2018 (IFRS9)***

The Fund assesses at each reporting date whether an allowance for expected credit losses ('ECL') should be recognised. The ECL allowance does not require any trigger event to occur but rather relies on an expectation of future losses.

Assets carried at amortised cost

The allowance for ECL is determined based on the difference between the contractual cash flows and the cash flows expected to be received, discounted at the original effective interest rate. The Fund has adopted an approach similar to the simplified approach in determining the ECL based on its historical credit loss experience, days past due of the receivables and consideration of forward-looking factors specific to the counter-party and economic environment. The exposure has been assessed and concluded to be immaterial.

A financial asset is classified as in default when the contractual payments are 30 days past due unless there is specific information indicating that the Fund is unlikely to receive the outstanding amounts. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. The Fund holds trade receivables with no financing component and which have maturities of less than 12 months. All trade receivables are expected to be received within 30 days.

Policy effective before 1 January 2018 (IAS39)

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

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.

Determination of fair value

Financial instruments carried at fair value are valued based on a quoted price in an active market. For all 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 7.2.

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. Amortised cost approximates fair value due to the short-term nature of amounts due from and to 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

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.

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 or in specie 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, determined 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 directors believes accurately reflects fair value in accordance with the valuation methodology described in the Fund's Prospectus.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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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 relative 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 2018 as well as the Statement of financial position as at 31 December 2018.

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 2018

	2018 US\$	2017 US\$
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2. Financial assets at fair value through profit or loss

Money market instruments	111 931 373	104 183 655
Gilts and semi-gilts	278 955 987	203 424 061
Cash and cash equivalents for investment purposes	6 292 953	4 326 286
Forward contracts	(85 499)	(72 964)
TOTAL	397 094 814	311 861 038

3. Trade and other receivables

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

Interest receivable	16 237 171	13 359 180
Amounts due from brokers	833 333	19 006
TOTAL	17 070 504	13 378 186

4. Trade and other payables

Other payables	87 548	74 885
Amounts due to brokers	-	756 311
TOTAL	87 548	831 196

5. Notes to the statement of cash flows**5.1 Net cash outflow from operations before working capital changes**

Profit for the year	19 349 450	59 209 468
ADJUSTMENTS		
Interest income, net of withholding tax	(47 465 950)	(32 295 181)
Realised (gains) / losses on disposal of financial assets at fair value through profit or loss	(6 884 859)	5 996 681
Unrealised losses / (gains) on financial assets at fair value through profit or loss	34 266 155	(33 215 489)
TOTAL	(735 204)	(304 521)

5.2 Working capital changes

(Increase) / decrease in amounts due from brokers	(814 327)	1 095 950
(Decrease) / increase in trade and other payables	(743 648)	797 879
TOTAL	(1 557 975)	1 893 829

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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6. Related party transactions

The Investment Manager held all of the authorised and issued Founder shares of the Fund. Further details on the number of shares held and their value are disclosed in note 8.

The directors of the Investment Manager and the directors of the Fund held no shares, directly or indirectly in the Fund at 31 December 2018 and 31 December 2017.

Allan Gray Life Limited, a fellow subsidiary of the Investment Manager, held 536 474 shares in the Fund (2017: 472 258 shares).

No rights, contingent or otherwise, to subscribe for shares have been granted to the Investment Manager, its directors or the directors of the Fund.

At 31 December 2018, the Allan Gray Unit Trust Funds and the Allan Gray Namibia Funds held 2 382 544 shares in the Fund (2017: 1 863 517 shares).

The directors of the Fund received total fees of US\$18 000 from the Fund (2017: US\$18 000).

During the financial year ended 31 December 2018, one of the directors waived his fee of US\$6 000 and Orbis Investment Management Limited waived any fees due in respect of company secretarial services rendered to the Fund.

7. 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.

7.1 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. 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

Market risk

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 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 following tables 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.

2018	Sensitivity to changes in interest rates US\$		
	Investment value	+ or - 0.50%	+ or - 1.00%
MONEY MARKET INSTRUMENTS	111 931 373	181 004	362 010
Denominated in Egyptian pound	37 239 027	60 219	120 439
Denominated in Nigerian naira	74 692 346	120 785	241 571
GILTS AND SEMI-GILTS	278 955 987	5 326 063	10 652 125
Denominated in Egyptian pound	7 717 090	147 341	294 682
Denominated in Ghanaian cedi	38 608 710	737 150	1 474 300
Denominated in US dollar	232 630 187	4 441 572	8 883 143

Coupon rates on bonds range between 6.0% and 21.4% (2017: 4.1% and 18.6%).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

2017	Sensitivity to changes in interest rates US\$		
	Investment value	+ or - 0.50%	+ or - 1.00%
MONEY MARKET INSTRUMENTS	104 183 655	204 719	409 437
Denominated in Egyptian pound	25 191 035	49 500	99 000
Denominated in Nigerian naira	78 992 620	155 219	310 437
GILTS AND SEMI-GILTS	203 424 061	2 890 310	5 780 621
Denominated in Egyptian pound	6 226 672	88 470	176 941
Denominated in Ghanaian cedi	28 623 054	406 685	813 370
Denominated in US dollar	156 299 196	2 220 746	4 441 492
Denominated in Zambian kwacha	12 275 139	174 409	348 818

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 hedges 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 2018 and 31 December 2017 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.

2018	Currency impact in US\$						
	Canadian dollar (CAD)	Egyptian pound (EGP)	Ghanaian cedi (GHS)	Kenyan shilling (KES)	Malawian kwacha (MWK)	Nigerian naira (NGN)	Zambian kwacha (ZMW)
MONETARY FINANCIAL ASSETS	34	44 958 404	38 615 406	5 050	6 699	81 334 730	378
+5%	2	2 247 920	1 930 770	253	335	4 066 737	19
+10%	3	4 495 840	3 861 540	505	670	8 133 473	38
+20%	7	8 991 681	7 723 081	1 010	1 340	16 266 946	76

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

2017	Currency impact in US\$						
	Canadian dollar (CAD)	Egyptian pound (EGP)	Ghanaian cedi (GHS)	Kenyan shilling (KES)	Malawian kwacha (MWK)	Nigerian naira (NGN)	Zambian kwacha (ZMW)
MONETARY FINANCIAL ASSETS	37	31 478 532	28 831 204	4 979	6 727	83 288 191	12 610 444
+5%	2	1 573 927	1 441 560	249	336	4 164 410	630 522
+10%	4	3 147 853	2 883 120	498	673	8 328 819	1 261 044
+20%	7	6 295 706	5 766 240	996	1 345	16 657 638	2 522 089

The closing foreign exchange rates at 31 December 2018 and 31 December 2017 are as follows:

	2018	2017
USD: CAD	1.36	1.25
USD: EGP	17.93	17.78
USD: GHS	4.83	4.54
USD: KES	101.85	103.31
USD: MWK	729.39	726.22
USD: NGN	364.30	360.10
USD: ZMW	11.92	9.98

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.

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Credit rating	2018 % of debt securities	2017 % of debt securities
A+	-	4.8
A	6.8	-
B+	6.2	34.0
B	60.4	38.4
B-	15.7	6.4
BB+	6.3	4.7
CCC+	3.1	5.4
UNRATED	1.5	6.3
	100.0	100.0

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	2018 % of Fund	2017 % of Fund
Nigeria	50.5	54.6
Ghana	17.0	14.9
Egypt	12.6	10.0
Zambia	5.7	9.0
Mauritius	4.1	4.7
Kenya	3.2	3.3
Ivory Coast	1.4	-
Cash and accruals	5.5	3.5
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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

The Fund's redeemable shares are redeemable for cash or in specie 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.

The Fund manages its obligation to repurchase shares when required to do so and its overall liquidity risk in the following ways:

- 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 2018.

Maturities	US\$					Total
	On demand	Less than 1 year	1 to 3 years	3 to 7 years	Greater than 7 years	
FINANCIAL ASSETS						437 455 159
Cash and cash equivalents	23 289 841	-	-	-	-	23 289 841
Cash and cash equivalents for investment purposes	-	6 292 953	-	-	-	6 292 953
Forward contracts	-	(85 499)	-	-	-	(85 499)
Money market instruments	-	111 931 373	-	-	-	111 931 373
Gilts and semi-gilts	-	22 292 405	57 256 317	104 274 061	95 133 204	278 955 987
Trade and other receivables	-	17 070 504	-	-	-	17 070 504
FINANCIAL LIABILITIES						(437 455 159)
Net assets attributable to holders of redeemable shares	(437 367 611)	-	-	-	-	(437 367 611)
Trade and other payables	-	(87 548)	-	-	-	(87 548)

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

The following table analyses the contractual maturities of the Fund's financial assets and financial liabilities as at 31 December 2017.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

Maturities	US\$					Total
	On demand	Less than 1 year	1 to 3 years	3 to 7 years	Greater than 7 years	
FINANCIAL ASSETS						338 010 316
Cash and cash equivalents	12 771 092	-	-	-	-	12 771 092
Cash and cash equivalents for investment purposes	-	4 326 286	-	-	-	4 326 286
Forward contracts	-	(72 964)	-	-	-	(72 964)
Money market instruments	-	104 183 655	-	-	-	104 183 655
Gilts and semi-gilts	-	15 709 827	49 870 450	101 476 709	36 367 075	203 424 061
Trade and other receivables	-	13 378 186	-	-	-	13 378 186
FINANCIAL LIABILITIES						(338 010 316)
Net assets attributable to holders of redeemable shares	(337 179 120)	-	-	-	-	(337 179 120)
Trade and other payables	-	(831 196)	-	-	-	(831 196)

7.2 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. Financial assets at amortised cost 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 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).

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 listed and unlisted debt instruments. Debt instruments which are listed on an active exchange are classified as level 1. Non-listed debt instruments which are valued using observable inputs are classified as level 2.

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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. Where no credit spread is applied, the carrying amount approximates fair value.

Net assets attributable to holders of redeemable shares are classified as level 2 as the shares are not listed in an active market. It derives its value from instruments which are classified as a combination of level 1 and level 2.

The table below analyses financial instruments, measured at fair value at 31 December 2018, 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	111 931 373		-	111 931 373
Gilts and semi-gilts	273 716 749	4 166 617	1 072 621	278 955 987
Forward contracts	-	(85 499)	-	(85 499)
	385 648 122	4 081 118	1 072 621	390 801 861
FINANCIAL LIABILITIES				
Net assets attributable to holders of redeemable shares	-	437 367 611	-	437 367 611
	-	437 367 611	-	437 367 611

The gilts and semi-gilts instruments were classified as level 2 in 2017 using guidance published by the South African stock exchange during 2017. For 2018, the actual trading frequency of these instruments were reassessed and it has been confirmed that the instruments meet the criteria for level 1 classification.

The table below analyses financial instruments, measured at fair value at 31 December 2017, 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	104 183 655	-	-	104 183 655
Gilts and semi-gilts	75 770 059	125 824 696	1 829 306	203 424 061
Forward contracts	-	(72 964)	-	(72 964)
	179 953 714	125 751 732	1 829 306	307 534 752
FINANCIAL LIABILITIES				
Net assets attributable to holders of redeemable shares	-	337 179 120	-	337 179 120
	-	337 179 120	-	337 179 120

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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There were no transfers between levels 1 and 2 during the year ended 31 December 2017.

During the year ended 31 December 2017, the drop in oil price negatively impacted the issuing company of a semi-gilt and as a result, the company has not kept up with the scheduled repayments. The valuation of the semi-gilt 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, there was no change in the valuation technique of the semi-gilt and remained classified as level 3.

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:

	2018 US\$	2017 US\$
Opening balance	1 829 306	-
Transfer into level 3	-	3 099 743
Disposal of gilts and semi-gilts	(1 400 924)	-
Net gains / (losses) recognised in profit or loss	644 239	(1 270 437)
TOTAL	1 072 621	1 829 306

Total gains or losses included in profit or loss for the year for level 3 assets are presented in the Statement of comprehensive income as follows:

	2018 US\$	2017 US\$
Unrealised gains recognised in profit or loss	70 843	59 285
Realised gains / (losses) recognised in profit or loss	573 396	(1 329 722)
TOTAL	644 239	(1 270 437)

The Investment Manager uses an expected recovery valuation technique to estimate the expected recovery of the nominal value of the semi-gilt at 31 December 2018 and 31 December 2017. The key unobservable assumption used in the valuation is the expected recovery rate of 60%. This valuation process is subjective and the results may vary according to the inputs and process applied.

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:			
2018		GAIN	LOSS
+5%		53 631	(53 631)
+10%		107 262	(107 262)
2017		GAIN	LOSS
+5%		91 465	(91 465)
+10%		182 931	(182 931)

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7.3 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 and currency 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 instrument of a derivative contract may have a significant impact on the profit or loss of the Fund.

At 31 December 2018 and 31 December 2017, 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 losses of US\$77 663 (2017 - gain of US\$12 909 634) relating to these contracts were recognised in profit or loss during the year.

Forward contracts held for risk management purposes:

	2018 US\$	2017 US\$
Forward contracts (total exposure)	(78 729 505)	(43 242 139)

8. 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 Founder shares with a par value of US\$0.01 each.

The Fund's authorised share capital at 31 December 2018 and 31 December 2017 is detailed below.

	Authorised shares	Par value per share	Share capital (US\$)
Redeemable shares	99 990 000	0.0001	9 999
Founder shares	100	0.01	1
TOTAL			10 000

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

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.

Founder shares

Founder 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 Founder shares will participate only to the extent of their par value. All of the authorised Founder shares of the Fund have been issued as fully paid and are held by the Investment Manager. The Founder shares are classified as a trade and other payable in the Statement of financial position.

Income distributions

No income distributions were declared by the Fund for the years ended 31 December 2018 and 31 December 2017.

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 Sector Conduct Authority ('FSCA'). 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. 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. Certain capitalised terms are defined in the glossary section of the Fund's prospectus, a copy of which is available on request. 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 directors of the Fund believe 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 has been successful. The directors intend to manage the Fund in such a way that it should continue to be certified as a reporting fund.

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 at 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.

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.

IMPORTANT NOTES FOR INVESTORS**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, adviser 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.

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.

IMPORTANT NOTES FOR INVESTORS**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, 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 impact Fund returns. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER. Since Fund returns are quoted after the deduction of these expenses, the TER and Transaction costs should not be deducted 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.

African markets

African markets are generally less mature and developed than those in advanced countries and have varying laws and regulations. There are significant risks involved in investing in securities listed in the Fund's universe of African markets 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. In many cases, such risks are significantly higher than those in developed markets. Furthermore, African markets often have a more limited number of potential buyers and issuers and may be dependent on revenue from particular commodities or international aid. Additionally, African markets may have less government supervision and regulation, differences in auditing and financial reporting standards, and less developed legal systems. African Markets also often have less developed securities settlements processes which may delay or prevent settlement of securities transactions. African markets also typically have smaller economies or less developed capital markets than more developed markets.

Contractual risk

The Fund can use derivatives to manage its exposure to stock markets, currencies and/or interest rates and this exposes the Fund to contractual risk. Contractual risk includes the risk that a counterparty will not settle a transaction according to its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, causing the Fund to suffer a loss. Such contract counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Fund has concentrated its transactions with a single or small group of counterparties.

IMPORTANT NOTES FOR INVESTORS

Derivatives

Borrowing, leveraging, and trading securities on margin will result in interest charges and, depending on the amount of trading activity, such charges could be substantial. The low margin deposits normally required in futures and forward trading utilized by the Fund permit a high degree of leverage; accordingly, a relatively small price movement in a futures or forward contract may result in immediate and substantial losses to the investor. Price movements of forward contracts and other derivative contracts in which the assets of the Fund may be invested are highly volatile and are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. Forward contracts are not traded on exchanges and are not standardised; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Trading in forward contracts is substantially unregulated and there is no limitation on daily price movements.

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 allangraybermuda@allangray.com

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 the Bermuda Stock Exchange.

Registered Office

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Hamilton HM11
Bermuda

Company Secretary

Orbis Administration Limited

Directors

Craig T Bodensab BCom MBA CFA
John C R Collis BCom BA (Jurisprudence)
K Renée Oliveira BA LLB
Tapologo Motshubi BCom (Hons) CA (SA) ACPA CFA

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