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ANNUAL REPORT ALLAN GRAY  
AFRICA EX-SA BOND FUND LIMITED

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ALLAN GRAY

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# ALLAN GRAY AFRICA EX-SA BOND FUND LIMITED STRATEGY

as at 31 December 2013

The Allan Gray Africa ex-SA Bond Fund Limited (the 'Fund') invests in a focused portfolio of African (ex-South African) interest bearing assets that are selected for their perceived superior fundamental value and expected risk and return profile. 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 may invest a substantial portion of the assets in a single country or region rather than a diversified portfolio of assets. The Fund's holdings may deviate meaningfully from those in the index.

## COUNTRY OF ISSUER ON 31 DECEMBER 2013

COUNTRY	% OF FUND
Nigeria	36.0
Canada	11.0
Ghana	10.2
Zambia	9.5
Rwanda	6.6
Tanzania	5.5
Malawi	3.8
Mozambique	3.5
Kenya	3.4
Namibia	3.2
BRVM*	2.3
Zimbabwe	1.7
Cash	3.3
<b>TOTAL<sup>1</sup></b>	<b>100.0</b>

1. Note: There may be slight discrepancies in the totals due to rounding.

\* Bourse Régionale des Valeurs Mobilières SA

# ALLAN GRAY AFRICA EX-SA BOND FUND LIMITED STRATEGY

as at 31 December 2013

## INVESTMENT MANAGER'S REPORT

TOTAL RATE OF RETURN IN US DOLLARS	% NOT ANNUALISED	
	SINCE INCEPTION ON 27 MARCH 2013	LATEST QUARTER
Allan Gray Africa ex-SA Bond Fund	4.8	3.2
J.P. Morgan GBI-EM Global Diversified Index <sup>1</sup>	-8.8	-1.5

1. Source: J.P. Morgan

Note: The offshore sector includes insufficient comparables for a meaningful peer group comparison for the Fund.

The Fund aims to generate attractive long-term returns by investing in African fixed income assets that are trading below our estimates of their intrinsic value.

African fixed income is a relatively new asset class. Many African countries only started issuing international debt in the last five years. Over this short period, the yield on this debt has ranged between 3% and 8.5% more than US government bonds. This begs the question: how do we calculate the intrinsic value of assets that have limited and volatile historical data?

We do not have a definitive answer but believe we can gain perspective from the following:

We compare African dollar-denominated debt to similar, better understood debt. For example, US corporate debt with similar credit risk characteristics as African sovereign debt has, on average, traded 4.5% higher than US government debt. We would expect African sovereign debt to offer comparable returns. We avoided Zambian dollar-denominated debt when it was yielding 5% in early 2012, but we have recently bought some at

7.5%, which we believe is a more accurate reflection of intrinsic value.

We apply our South African fixed income experience to African local currency debt. South African rand-denominated government debt has, on average, traded at the same real yield as US government debt. We would expect a similar return from other African local currency debt after adjusting for default risk. Based on this principle, we believe Ghanaian local currency debt yielding 20% is attractive.

We apply our equity analysis expertise to African corporate debt. We believe one must understand the cash flows of a business before lending it money.

The Fund has returned 4.8% in US dollars since inception in March 2013. The Fund's benchmark, the JPMorgan GBI-EM Global Diversified Index, has returned -8.8% over the same period. We believe our value-based philosophy will generate attractive long-term returns, but remain cognisant of the risks.

# INDEPENDENT AUDITORS' REPORT

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

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## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Allan Gray Africa ex-SA Bond Fund Limited (the 'Fund') set out on pages 4 to 22, which comprise the statement of financial position as at 31 December 2013, 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 period then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Fund's directors are responsible for the preparation and fair presentation of these 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.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

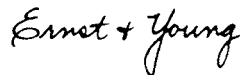
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the

financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

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 2013, and its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards.



Ernst & Young Inc.  
Director – Anthony Robert Cadman  
Registered Auditor  
Chartered Accountant  
Ernst & Young  
35 Lower Long Street  
Cape Town  
26 February 2014

Allan Gray Africa ex-SA Bond Fund Limited

## STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 December 2013

	2013 US\$
<b>REVENUE</b>	1 053 337
Net gain on financial assets and liabilities at fair value through profit or loss	1 053 337
<b>EXPENSES</b>	(51 666)
Custodian fees	(26 952)
Bank charges	(10 425)
Management and performance fees	-
Other expenses	(14 289)
<b>OPERATING PROFIT FOR THE YEAR</b>	1 001 671
Finance costs - distributions to holders of redeemable shares	-
<b>CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES</b>	1 001 671

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	NOTES	2013 US\$
<b>ASSETS</b>		
<b>NON-CURRENT ASSETS</b>		
Financial assets at fair value through profit or loss	2	28 317 263
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	3	963 586
<b>TOTAL ASSETS</b>		29 280 849
<b>CURRENT LIABILITIES</b>		
Trade and other payables		12 094
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES</b>	6	29 268 755

Allan Gray Africa ex-SA Bond Fund Limited

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

For the period ended 31 December 2013

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	NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES (US\$)	NUMBER OF SHARES IN ISSUE	NET ASSET VALUE PER SHARE
BALANCE AT 16 NOVEMBER 2012 (INCORPORATION)		-	-
Increase in net assets attributable to holders of redeemable shares from transactions in shares	28 267 084	279 264	
Increase in net assets attributable to holders of redeemable shares as a result of operations	1 001 671		
BALANCE AT 31 DECEMBER 2013	29 268 755	279 264	104.81



Allan Gray Africa ex-SA Bond Fund Limited

## STATEMENT OF CASH FLOWS

For the period ended 31 December 2013

	NOTES	2013 US\$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Interest received		697 163
Expenses paid		(36 694)
<b>NET CASH GENERATED BY OPERATING ACTIVITIES</b>		<b>660 469</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Payments on purchases of investments		(37 366 455)
Proceeds from sale of investments		9 405 767
<b>NET CASH UTILISED IN INVESTING ACTIVITIES</b>		<b>(27 960 688)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of redeemable shares		28 267 084
<b>NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>		<b>28 267 084</b>
Net increase in cash and cash equivalents		966 865
Cash and cash equivalents at the beginning of the year		-
Effect of exchange rate changes on cash and cash equivalents		(3 279)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>3</b>	<b>963 586</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the period ended 31 December 2013

### 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 Fund invests in a focused portfolio of African (ex-South African) interest bearing assets, regardless of the location of the stock exchange listing. The assets are selected for their perceived superior fundamental value and 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.

### 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 2013.

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

STATEMENTS/INTERPRETATIONS/AMENDMENTS		EFFECTIVE DATE YEARS BEGINNING ON/AFTER	EXPECTED IMPACT
IFRS 9	Financial instruments disclosure	No date set	No significant impact
IAS 32	Offsetting financial assets and financial liabilities	1 January 2014	No significant impact
IFRS 10	IFRS 10 - Investment entities exemption	1 January 2014	No significant impact

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the period ended 31 December 2013

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A number of other changes, that are effective for accounting periods ended after 31 December 2013, have been issued by the IASB and IFRS Interpretations Committee. 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 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.

Net gain on financial assets and liabilities at fair value through profit or loss, includes changes in the fair value of financial assets held for trading or designated upon initial recognition as at fair value through profit or loss and includes unrealised gains and losses, realised gains and losses and interest 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 MANAGEMENT FEE

The Fund pays the Investment Manager either no fee or a fixed fee depending on the investor type. 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. Class B shares are a non-fee paying class and at 31 December 2013, all the Fund's shares were invested in Class B. Consequently, no investment management fee accrued to the Investment Manager for the period ended 31 December 2013.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the period ended 31 December 2013

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### 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.

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 twelve years after the accrual of such entitlement.

### 1.3.4 TAXATION

There are no Bermuda income, corporation, or profits taxes, withholding taxes, capital gains taxes, capital transfer taxes, estate or stamp duty or inheritance taxes payable by the Fund or its Members in respect of shares in the Fund. The Bermuda Government 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 30 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 FINANCIAL INSTRUMENTS

#### FINANCIAL ASSETS AND LIABILITIES

##### CLASSIFICATION

The Fund classifies its investments in debt instruments 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 which 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

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

Trade and other payables, including amounts due to brokers, are classified as financial instruments measured at amortised cost. Net assets attributable to holders of redeemable shares are held at fair value (refer to note 1.3.10).

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the period ended 31 December 2013

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### 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*

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 Net gain or loss on financial assets and liabilities at fair value through profit or loss in the Statement of comprehensive income.

### LOANS AND RECEIVABLES

##### *Initial measurement*

Loans and receivables and financial liabilities 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 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
- 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; and 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 or cancelled or expires. Where an existing financial

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the period ended 31 December 2013

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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.

### 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 5.2.

### 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.

### 1.3.7 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.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the period ended 31 December 2013

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### 1.3.8 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 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.

### 1.3.9 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 rate of exchange ruling 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 net gain or loss on financial assets and liabilities at fair value through profit or loss.

### 1.3.10 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.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the period ended 31 December 2013

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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.

### 1.3.11 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.

### 1.3.12 FINANCIAL RESULTS

The results of operations for the year are prepared in terms of International Financial Reporting Standards ('IFRS') and are set out in the accompanying Statement of comprehensive income and Statement of cash flows for the period ended 31 December 2013 as well as the Statement of financial position as at 31 December 2013.

### 1.3.13 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 2013

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### 2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013 US\$
Money market instruments	9 182 581
Gilts and semi-gilts	18 667 282
Preference shares	467 400
	28 317 263

### 3. CASH AND CASH EQUIVALENTS

Cash at banks	963 586
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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the period ended 31 December 2013

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### 4. RELATED PARTY TRANSACTIONS

The Investment Manager is entitled to receive a fixed fee of 1.00% per annum of the Fund's daily value for Class A shares. The fixed fee is accrued daily and paid by the Fund to the Investment Manager monthly in arrears. Class B shares are a non-fee paying class and at 31 December 2013, all the Fund's shares were invested in Class B. Consequently, no investment management fee accrued to the Investment Manager for the period ended 31 December 2013.

The Investment Advisor is paid by the Investment Manager and receives no fees from the Fund. Directors of the Investment Advisor held no shares, directly or indirectly, in the Fund at year end.

Directors of the Investment Manager held no shares in the Fund at year end.

A related party relationship exists between Allan Gray Orbis Foundation and the Investment Manager of the Fund, by virtue of a common co-founder. Allan Gray Orbis Foundation held approximately 1 thousand shares in the Fund at year end.

At year end, Allan Gray Group Proprietary Limited held approximately 82 thousand shares in the Fund and Allan Gray Life Limited held approximately 135 thousand shares in the Fund.

None of the Fund's directors have any interest in the securities of the Fund.

### 5. 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.

#### 5.1 FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

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.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the period ended 31 December 2013

### 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 table below illustrates 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%
<b>2013</b>			
<b>MONEY MARKET INSTRUMENTS</b>	9 182 581	117 996	235 992
Denominated in Malawian Kwacha	1 105 784	14 209	28 418
Denominated in Nigerian Naira	7 568 459	97 255	194 510
Denominated in US Dollar	508 338	6 532	13 064
<b>PREFERENCE SHARES</b>	467 400	6 006	12 012
Denominated in US Dollar	467 400	6 006	12 012
<b>GILTS AND SEMI-GILTS</b>	18 667 282	239 874	479 748
Denominated in Canadian Dollar	2 473 018	31 778	63 556
Denominated in Ghanaian Cedi	1 703 170	21 886	43 772
Denominated in Kenyan Shilling	993 252	12 763	25 526
Denominated in Namibian Dollar	950 665	12 216	24 432
Denominated in US Dollar	11 027 133	141 698	283 396
Denominated in Zambian Kwacha	1 520 044	19 533	39 066

Coupon rates on bonds range between 5.4% and 26.0%.

### FOREIGN CURRENCY RISK

Currency risk is the risk that the value 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 following table indicates the currencies to which the Fund had exposure at 31 December 2013 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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the period ended 31 December 2013

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.

	CURRENCY IMPACT IN US\$						
	CANADIAN DOLLAR (CAD)	GHANAIAN CEDI (GHS)	KENYAN SHILLING (KES)	MALAWIAN KWACHA (MWK)	NAMIBIAN DOLLAR (NAD)	NIGERIAN NAIRA (NGN)	ZAMBIAN KWACHA (ZMW)
Monetary financial assets	2 473 018	1 703 170	993 252	1 119 707	950 665	8 088 863	1 520 044
+5%	123 651	85 158	49 663	55 985	47 533	404 443	76 002
+10%	247 302	170 316	99 326	111 970	95 066	808 886	152 004
+20%	494 604	340 632	198 652	223 940	190 132	1 617 772	304 008

The closing foreign exchange rates at the reporting date are as follows:

USD: CAD	USD: GHS	USD: KES	USD: MWK	USD: NAD	USD: NGN	USD: ZMW
1.06	2.37	86.45	430.00	10.51	159.45	5.51

### 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.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the period ended 31 December 2013

The table below 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 S&P credit ratings and where unavailable, Fitch ratings have been used. Ratings are presented in ascending order of credit risk.

CREDIT RATING	% OF DEBT SECURITIES
AAA	5.2
B	54.5
B+	9.2
BB-	2.6
BBB	3.2
UNRATED	22.0

Note that the balance (3.3% of the Fund's assets) comprises cash and cash equivalents which have been excluded from the table above.

### 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 2013	
COUNTRY	% OF FUND
Nigeria	36.0
Canada	11.0
Ghana	10.2
Zambia	9.5
Rwanda	6.6
Tanzania	5.5
Malawi	3.8
Mozambique	3.5
Kenya	3.4
Namibia	3.2
BRVM*	2.3
Zimbabwe	1.7
Cash	3.3
<b>TOTAL<sup>1</sup></b>	<b>100.0</b>

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

\* Bourse Régionale des Valeurs Mobilières SA

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the period ended 31 December 2013

### 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 each 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.

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 thereof 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 2013.

MATURITIES	US\$				
	LESS THAN 1 YEAR	1 TO 3 YEARS	3 TO 7 YEARS	GREATER THAN 7 YEARS	TOTAL
<b>FINANCIAL ASSETS</b>					29 280 849
Cash and cash equivalents	963 586	-	-	-	963 586
Money market instruments	9 182 581	-	-	-	9 182 581
Gilts and semi-gilts	9 519	666 534	10 900 395	7 090 834	18 667 282
Preference shares	-	-	467 400	-	467 400
<b>FINANCIAL LIABILITIES</b>					(29 280 849)
Net assets attributable to holders of redeemable shares	(29 268 755)	-	-	-	(29 268 755)
Accounts payable	(12 094)	-	-	-	(12 094)

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the period ended 31 December 2013

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### 5.2 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).

When fair values of instruments, at the reporting date, are based on quoted market prices or binding dealer price quotations, the instruments are included within Level 1 of the hierarchy. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and

those prices represent actual and regularly occurring market transactions on an arm's length basis. The Fund holds investments in debt instruments that are not 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 in the same instrument. The inputs are considered observable since they are developed using market data about actual events or transactions and reflect the assumption that market participants would use when pricing the asset and are provided by independent sources that are actively involved in the relevant market. The Fund classifies the fair value of these investments as Level 1.

Level 2 inputs include quoted prices (in non-active markets or in active markets for similar assets or liabilities), observable inputs other than quoted prices and inputs that are not directly observable but are corroborated by observable market data.

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 investments 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.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the period ended 31 December 2013

The table below analyses financial instruments, measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	US\$			
	QUOTED MARKET PRICES	OBSERVABLE INPUTS	SIGNIFICANT UNOBSERVABLE INPUTS	TOTAL
	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)	
Cash and cash equivalents	-	963 586	-	963 586
Money market instruments	6 832 182	2 350 399	-	9 182 581
Preference shares	-	467 400	-	467 400
Gilts and semi-gilts	16 723 365	1 943 917	-	18 667 282

There were no transfers between Levels 1, 2 and 3 during the period.

### DERIVATIVE INSTRUMENTS

There were no derivative transactions for the financial period ended 31 December 2013.

## 6. 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 2013 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.



## CHARACTERISTICS

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**STRUCTURE:** Open-ended investment company.

**MINIMUM INITIAL INVESTMENT:** US\$100 000 or the equivalent in any major currency.

**DEALING DAY:** Weekly, each Thursday.

**CUT-OFF TIMES:** For subscriptions, a properly completed application form, together with the corresponding payment, must be received by the Fund's Registrar by 5pm (South Africa time).

For redemptions, a properly completed application form must be received by the Fund's Registrar by 12pm (South Africa time).

**PRICES AVAILABLE FROM:** The latest weekly price of the Fund is normally calculated each Friday. The price may be obtained:

- by telephoning Allan Gray,
- by emailing [africanfund@allangray.co.za](mailto:africanfund@allangray.co.za), and
- from Bloomberg.

**REGULATION:** The Fund is regulated by the Bermuda Monetary Authority.

**DIRECTORS:** Craig Bodenstab  
John C R Collis  
Andrew Lapping  
Tapologo Motshubi

**INVESTMENT ADVISOR:** Allan Gray Proprietary Limited

**PRIMARY CUSTODIAN:** Standard Chartered Bank (Mauritius) Limited

## CHARACTERISTICS

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If you have any enquiries, please do not hesitate to contact the appropriate party indicated below:

### **ALLAN GRAY PROPRIETARY LIMITED (THE 'REGISTRAR')**

**MAILING ADDRESS:**

P.O. Box 51318  
V & A Waterfront  
8002  
South Africa

**OFFICE ADDRESS:**

1 Silo Square  
V & A Waterfront  
Cape Town 8001  
South Africa

Telephone: +27 (21) 415 2300

Facsimile: +27 (21) 415 2413

Attention: Allan Gray Africa Administration Team

Email: [africainstructions@allangray.co.za](mailto:africainstructions@allangray.co.za)

Please contact the Registrar to notify a change in your address or with questions regarding

- how to subscribe to the Fund,
- how to redeem, transfer or exchange Shares or
- transaction confirmations.

Please contact the Investment Manager with requests for copies of this report or with questions regarding the Fund or other investment related matters. Questions regarding taxation, estate planning or other legal matters are best answered by a professional advisor.

### **ALLAN GRAY INTERNATIONAL PROPRIETARY LIMITED (THE 'INVESTMENT MANAGER')**

**MAILING ADDRESS:**

P.O. Box 51318  
V & A Waterfront  
8002  
South Africa

**OFFICE ADDRESS:**

1 Silo Square  
V & A Waterfront  
Cape Town 8001  
South Africa

Telephone: +27 (21) 415 2300

Facsimile: +27 (21) 415 2413

Attention: Allan Gray Africa Service Team

Email: [africafund@allangray.co.za](mailto:africafund@allangray.co.za)