ALLAN GRAY

ANNUAL REPORT ALLAN GRAY AFRICA EQUITY FUND LIMITED

31 DECEMBER 2018

Contents

ALLAN GRAY AFRICA EQUITY FUND LIMITED STRATEGY

As at 31 December 2018

Inception date

1 July 1998

Portfolio manager

Andrew Lapping

Fund description and summary of investment policy

Allan Gray Africa Equity Fund Limited (the 'Fund') invests in a focused portfolio of companies with significant business interests in Africa, regardless of the location of the stock exchange listing. The Fund price is reported in US dollars but the underlying holdings are denominated in various currencies. Returns are likely to be volatile.

Fund objective and benchmark

The Fund aims to outperform African equity markets over the long term without taking on greater risk of loss. The Fund's benchmark is the MSCI Emerging and Frontier Markets (EFM) Africa Index (total returns).

Suitable for those investors who

- Seek exposure to African equities
- Are comfortable with stock 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 has limited capacity and thus may restrict inflows. Redemptions may be limited to US$5m or 2.5% of the Fund (whichever is less) per dealing day.

Commentary

Africa's equity markets delivered disappointing returns in 2018. The MSCI Africa index was down -24%, while the MSCI Africa ex-SA index was down -13%. None of the continent's largest markets provided a safe refuge, with respective MSCI country indices posting negative US dollar returns: South Africa -25%, Egypt -14%, Nigeria -14%, Kenya -13%, and Morocco -10%.

After the strong positive performance in 2017, a significant pull-back in 2018 reinforces the common perception that African markets are volatile and prone to risks lurking in the background. These risks include exchange rates overshooting, unpredictable regulatory regimes, commodity cycles, disputed elections, autocratic leaders, endemic corruption and erratic weather patterns.

As it turns out, excess market volatility is not unique to Africa's financial markets. The fundamental approach for determining the fair value of an asset entails estimating the present discounted value of future cash flows. Unfortunately, forecasting the future is an imperfect tango with uncertainty. The aggregate of investors' estimates, reflected in stock prices, can vary wildly from a fair value trend line based on "perfect foresight". In essence, the long-run trajectory based on underlying value drivers is more stable than the market thinks.

The Fund's exposure remains concentrated in bottom-up opportunities where we believe the long-run value drivers remain intact despite recent market volatility and depressed valuations. In Nigeria, investor sentiment has turned more bearish over the past year, but top tier banks are: steadily growing their base of cheap deposits, ramping-up transactional volumes and related fees, and adopting digital distribution channels. Banks' profitability measures have recovered after the 2014 oil slump and they have boosted provisioning buffers. The perennial concern is the lack of a diversified base of credit-worthy borrowers. The short-term respite is that banks are generating attractive yields on government securities, currently above 17%. Long term, there will be eventual winners and losers; successful management teams are deftly balancing loan growth with asset quality risks. Despite the anomalies in Nigeria, the banking sector appears cheap. The country's top seven banks by market capitalisation are trading at average multiples of 4.8x price-to-earnings and 6.5% dividend yield.

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The Fund also has a material holding in Seplat, a Nigerian oil producer. Forecasting the trajectory of oil prices isn't our forte. However, Seplat is increasingly a key gas supplier to the growing demand for gas-powered electricity generation. The present discounted value of this stream of cash flows is far less volatile than the oil price swings.

In Zimbabwe, early optimism has been replaced by the hard reality of digging out of the post-Mugabe rubble. The implied discount rate for a dollar in Zimbabwe increased from 36% in January 2018 to 80% at the end of December 2018. This suggests that rampant money creation continued well after Mugabe's exit, further worsened by a directive in October to split foreign currency accounts into those carrying real US dollars and those for electronic dollars. Ultimately, the new administration needs to curb fiscal excesses. We have no better insights on how the future unfolds, but our core holdings in Econet and Delta are real assets which can preserve or even increase in value – despite the challenging macroeconomic conditions.

We have been underweight Egyptian and Kenyan equities, but the correction in asset prices is increasingly discounting our concerns. In addition, during the fourth quarter, we added modestly to the Fund's exposure in the West African regional stock exchange.

Periods of volatility are unnerving, but can present long-term investors with attractive buying opportunities. Patient capital and maintaining a focus on fundamental value drivers trumps paying attention to short-term market fluctuations. In the 20 years since we launched our pan-African Fund, this investment approach has yielded 17.5% in US dollars, compared to 8.7% benchmark returns.

Commentary contributed by Nick Ndiritu

Performance in US$ net of all fees and expenses[1]

% Returns	Fund	Benchmark[2]
Cumulative:		
Since inception (1 July 1998)	2633.0	453.5
Annualised:		
Since inception (1 July 1998)	17.5	8.7
Latest 10 years	9.7	7.3
Latest 5 years	-0.9	-1.6
Latest 3 years	14.9	5.7
Latest 2 years	23.2	1.4
Latest 1 year	-7.2	-23.7
Risk measures (since inception, based on month-end prices)		
Maximum drawdown[3]	-52.5	-60.5
Percentage positive months[4]	58.5	56.5
Annualised monthly volatility[5]	24.6	26.0

Relative to benchmark return required to reach high watermark: 8.4%.

Note: The Fund's returns shown above are all A class.

1. The Fund is currently priced in US dollars. From inception to 30 April 2012 the Fund was priced in South African rands.
2. The current benchmark is the MSCI EFM Africa Index (total returns). From inception to 30 April 2012 the benchmark was the FTSE/JSE All Share Index including income. Performance as calculated by Allan Gray as at 31 December 2018 (source: Bloomberg). Calculation based on the latest available data as supplied by third parties.
3. Maximum percentage decline over any period. The maximum drawdown occurred from October 2007 to February 2009 and maximum benchmark drawdown occurred from October 2007 to February 2009. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. 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.

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Annual management fee

The management fee consists of a base fee of 1% and a performance component. The fee rate is calculated weekly by comparing the Fund's total performance for the week, after the base fee is deducted, to that of the benchmark.

Fee for performance equal to the Fund's benchmark: 1.00% p.a.

For each percentage point above or below the benchmark we add or deduct 0.2%. This means that Allan Gray shares in approximately 20% of the performance relative to the benchmark.

The fee is capped at 5% over any 12 month rolling period and can decrease to a minimum of 0%. If the fee would have been negative, the negative fee will be carried forward to reduce the next week's fee (and all subsequent weeks until the underperformance is recovered).

Total expense ratio ('TER') and Transaction costs[6]

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	**3.28**	**1.87**
Fee for benchmark performance[7]	1.00	1.26
Performance fees	1.87	0.27
Custody fees	0.34	0.28
Other costs excluding transaction costs	0.07	0.06
Transaction costs	**0.23**	**0.24**
Total investment charge	**3.51**	**2.11**

Note: The fees, TERs and Transaction costs provided are for Class A only. The fees, TERs and transaction costs for all other classes are available from the Allan Gray service team.

6. The Fund's annual management fee was amended on 1 September 2017.
7. The fee for benchmark performance was previously 1.5% p.a. up until 31 August 2017. Effective 1 September 2017, when we implemented the new investment management fee, the fee for benchmark performance changed to 1% p.a. The fee for benchmark performance reflected is the average fee charged over the respective period.

Sector allocation as at 31 December 2018

Sector	% of Fund	Benchmark[8]
Oil and gas	9.7	0.2
Basic materials	16.6	10.8
Industrials	1.5	4.6
Consumer goods	18.6	2.4
Healthcare	0.0	2.4
Consumer services	6.3	36.8
Telecommunications	9.1	7.0
Utilities	2.3	0.1
Financials	27.9	35.7
Technology	6.0	0.0
Money market and bank deposits	1.9	0.0
Total[10]	**100.0**	**100.0**

Country of primary listing as at 31 December 2018

Country	% of Equities	Benchmark[8]
Nigeria	27.8	2.3
Zimbabwe[9]	24.5	0.0
South Africa	23.2	88.2
Egypt	10.3	1.8
United Kingdom	4.0	0.8
Jersey	2.5	0.0
Kenya	2.5	1.6
Australia	2.1	0.0
Uganda	1.9	0.0
BRVM	0.7	0.4
Canada	0.5	0.0
Morocco	0.0	2.7
Romania	0.0	0.9
Luxembourg	0.0	0.7
Mauritius	0.0	0.6
Tunisia	0.0	0.2
Total[10]	**100.0**	**100.0**

8. MSCI EFM Africa Index (total returns) (source: Bloomberg). Calculation based on the latest available data as supplied by third parties.
9. Zimbabwe assets are currently being fair valued in accordance with the board's fair value pricing policies.
10. There may be slight discrepancies in the totals due to rounding.

SCHEDULE OF NET ASSETS

As at 31 December 2018

Number held	Instrument (ranked by sector)	Market value US$	% of Fund	MSCI EFM Africa index (total returns) (%)
	FINANCIALS	70 066 346	27.9%	35.7%
348 944 542	Zenith Bank	22 085 704	8.8%	
875 303 558	Access Bank	16 343 743	6.5%	
780 383	Standard Bank	9 721 555	3.9%	
242 219 505	First Bank of Nigeria	5 287 619	2.1%	
5 680 033	Stanbic Holdings	5 058 518	2.0%	
609 415 678	Diamond Bank	3 647 993	1.5%	
521 862	Investec	2 890 350	1.1%	
	Positions less than 1%	5 030 864	2.0%	
	CONSUMER GOODS	46 804 791	18.6%	2.4%
27 369 385	Eastern Tobacco	24 847 917	9.9%	
22 845 170	Delta Corporation*	18 276 136	7.3%	
10 224 273	Innscor Africa*	3 680 738	1.5%	
	BASIC MATERIALS	41 732 750	16.6%	10.8%
648 982	Sasol	19 215 767	7.6%	
1 659 500	Glencore	6 193 484	2.5%	
1 161 660	Zimplats	5 082 298	2.0%	
807 464	Caledonia Mining	4 515 617	1.8%	
1 215 754	Impala	3 106 785	1.2%	
	Positions less than 1%	3 618 799	1.4%	
	OIL AND GAS	24 372 546	9.7%	0.2%
13 670 686	Seplat Petroleum Development Co	21 167 106	8.4%	
	Positions less than 1%	3 205 440	1.3%	
	TELECOMMUNICATIONS	23 000 071	9.1%	7.0%
94 890 614	Econet Wireless*	21 255 498	8.5%	
	Positions less than 1%	1 744 573	0.7%	
	CONSUMER SERVICES	15 925 518	6.3%	36.8%
73 068	Naspers	14 723 199	5.9%	
	Positions less than 1%	1 202 319	0.5%	
	TECHNOLOGY	15 124 615	6.0%	0.0%
73 065 773	Cassava Smartech*	15 124 615	6.0%	
	UTILITIES	5 760 087	2.3%	0.1%
55 659 279	Umeme	4 802 504	1.9%	
	Positions less than 1%	957 583	0.4%	
	INDUSTRIALS	3 806 290	1.5%	4.6%
22 140 882	Sephaku Holdings	2 776 538	1.1%	
	Positions less than 1%	1 029 752	0.4%	
	CASH AND ACCRUALS	4 815 875	1.9%	-
	NET ASSETS	**251 408 889**	**100.0%**	

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

*The Investment Manager adopted and used a fair value methodology utilising unobservable inputs to estimate the fair value of Zimbabwean financial assets at 31 December 2018 and 31 December 2017. This valuation process is subjective and the results may vary according to the inputs and process applied.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

As at 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 8 to 29 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 Equity Fund Limited (the ‘Fund’):

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the Fund, 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 on pages 8 to 29.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (‘IFRS’).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors of the Fund are responsible for the other information. The other information comprises:

- The information, other than the financial statements and our auditor’s report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not express 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.

We obtained the Annual Report prior to the date of this auditor’s report. 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 in this auditor’s report. 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 IFRS, 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 has no realistic alternative but to do so.

The directors are responsible for overseeing the Fund's financial reporting process.

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 Canadian generally accepted auditing standards 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 Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism 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 LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Canada
26 March 2019

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	247 779 650	262 490 994
Cash and cash equivalents	3	2 966 856	8 448 838
Trade and other receivables	4	807 502	498 154
TOTAL ASSETS		251 554 008	271 437 986
LIABILITIES			
Trade and other payables	5	145 119	952 582
TOTAL LIABILITIES, EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES		145 119	952 582
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES		251 408 889	270 485 404

The above Statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 US$	2017 US$
NET INVESTMENT (LOSS) / INCOME		(8 424 414)	108 390 925
Dividends		18 148 646	9 570 899
Interest		63 461	44 259
Realised gains / (losses) on disposal of investments		16 101 261	688 343
Unrealised (losses) / gains on investments		(42 461 633)	97 925 723
Foreign exchange (losses) / gains		(283 417)	143 515
Other income		7 268	18 186
OPERATING EXPENSES		(11 050 606)	(2 530 852)
Management fees	1.3.2	(8 133 224)	(752 763)
Audit fees		(42 739)	1 690
Custodian fees		(951 518)	(535 025)
Directors' fees		(18 000)	(18 000)
Transaction fees		(20 164)	(25 185)
Administration fees		(101 961)	(52 967)
Withholding taxes		(1 741 349)	(1 123 410)
Other expenses		(41 651)	(25 192)
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		(19 475 020)	105 860 073

The above Statement of comprehensive income should be read in conjunction with the accompanying notes.

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

For the year ended 31 December 2018

	Note	Net assets attributable to holders of redeemable shares US$	Number of shares	Net asset value per share US$
BALANCE AT 31 DECEMBER 2016		163 423 475	1 343 069	121.68
Total comprehensive income for the year		105 860 073		
Net capital contributions		1 201 856	16 940	
BALANCE AT 31 DECEMBER 2017		270 485 404	1 360 009	198.89
Total comprehensive loss for the year		(19 475 020)		
Net capital contributions		398 505	1 528	
BALANCE AT 31 DECEMBER 2018	8	251 408 889	1 361 537	184.65

The above Statement of changes in net assets attributable to holders of redeemable shares should be read in conjunction with the accompanying notes.

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	6.1	(8 897 576)	(1 858 788)
Working capital changes	6.2	(765 153)	534 151
Interest received		2 622	(3)
Dividends received, net of withholding tax		16 116 478	8 101 381
NET CASH GENERATED BY OPERATING ACTIVITIES		6 456 371	6 776 741
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of investments		(109 367 539)	(93 001 802)
Proceeds from sale of investments		97 314 098	94 689 962
NET CASH (UTILISED) / GENERATED BY INVESTING ACTIVITIES		(12 053 441)	1 688 160
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of redeemable shares		1 678 415	53 629 790
Redemption of redeemable shares		(1 279 910)	(57 915 848)
NET CASH FLOWS GENERATED / (UTILISED) BY FINANCING ACTIVITIES		398 505	(4 286 058)
Net (decrease) / increase in cash and cash equivalents		(5 198 565)	4 178 843
Cash and cash equivalents at the beginning of the year		8 448 838	4 126 480
Effect of exchange rate changes on cash and cash equivalents		(283 417)	143 515
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		2 966 856	8 448 838

The above Statement of cash flows should be read in conjunction with the accompanying notes.

Corporate information

Allan Gray Africa Equity Fund Limited (the 'Fund') was incorporated on 22 April 1997 and is a limited liability company of unlimited duration. The Fund was launched to the public on 1 July 1998 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 Adviser to the Fund.

The financial statements of the Fund were authorised for issue by the directors 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 1.3.6
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

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, dividend income, other income and realised and unrealised gains and losses on investments.

Interest income

Interest is recognised in the Statement of comprehensive income using the effective interest method.

Dividend income

Dividends 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.

Other income

Investors are charged 0.5% when subscribing for Fund shares. Investors may be charged 0.5% when redeeming Fund shares in the case of significant redemptions. These charges are paid into the Fund to offset the costs associated with the transactions that are borne by the Fund. The Investment Manager may waive these charges if transactions substantially offset one another.

Investment gains and losses

Changes in the fair value of financial assets held at fair value through profit or loss, and gains or losses made on the disposal of these financial assets, calculated using the average cost method, are recognised in profit or loss.

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 Expenses

All expenses are recognised on an accrual basis in profit or loss.

1.3.4 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.

1.3.5 Taxation

There is no income tax, corporation tax, profits tax, withholding tax, capital gains tax, capital transfer tax, estate or stamp duty or inheritance tax in Bermuda payable 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 and capital gains on the Fund's investments, however, may be subject to taxes in certain countries.

1.3.6 Financial instruments: Financial assets and liabilities

Transition

The Fund adopted IFRS 9, 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, which approximates fair value. 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.
- 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.

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	498 154
Cash and cash equivalents	8 448 838
TOTAL	8 946 992

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 investment in equity instruments, related derivatives and money market instruments as financial assets at fair value through profit or loss.

The Fund's investments in equity instruments 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 risk management and investment strategies of the Fund, as set out in the Fund's offering document. Derivatives are categorised as held for trading and are not designated as effective hedging instruments in terms of IFRS 9. When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

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 dividends receivable and amounts due from brokers, which are short-term in nature.

Loans and receivables – 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 dividends 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 amortised cost

The Fund classifies its trade and other payables and any distribution payable as financial liabilities at amortised cost, which are measured at amortised cost. Trade and other payables include accrued expenses and amounts due to brokers, which are short-term in nature. Amortised cost approximates fair value due to the short-term nature of the financial liabilities.

Recognition and measurement

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.

Financial instruments are recognised on the trade date at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs. The Fund determines the classification of its financial instruments on initial recognition, when the Fund becomes a party to the contract governing the instrument.

Financial assets at fair value through profit or loss

Financial assets designated as at fair value through profit or loss are measured at fair value. Subsequent to initial recognition, investments at fair value through profit or loss are marked to market on a daily basis with changes in fair value taken through profit or loss as gains and losses. Attributable transaction costs are recognised in profit or loss as incurred.

Financial assets and financial liabilities at amortised cost

Financial assets and financial liabilities at amortised cost are measured initially at fair value plus any directly attributable transaction costs. 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. Amortised cost approximates fair value due to the short-term nature of financial assets and financial liabilities.

Gains and losses are recognised in profit or loss when financial assets and financial liabilities at amortised cost 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.

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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 applies a 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 impact of which has been considered 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.

Determination of fair value

Financial instruments carried at fair value are valued based on a quoted price in an active market. The fair value of Zimbabwean based financial assets carried at a discount to their quoted prices and financial instruments not traded in an active market, is determined 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.

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 are short-term highly liquid investments that are readily convertible to known amounts of cash, and are subject to insignificant risk of changes in value. Balances held for the purposes of meeting short-term cash commitments, rather than for investment or other purposes, are current assets and disclosed separately on the face of the Statement of financial position.

Subsequent to initial recognition, cash and cash equivalents, accounts receivable and accounts payable are measured at amortised cost using the effective interest rate method.

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 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.

1.3.9 Foreign currencies

The Fund's functional currency is the US dollar, which is the currency in which the performance of the Fund is evaluated and its liquidity is managed. Foreign currency items are recorded at the exchange rate ruling on the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated to US dollars at rates of exchange ruling at the Statement of financial position date or when settled. Gains and losses arising from the translation of these monetary assets and liabilities are recognised in profit or loss.

Realised and unrealised foreign currency gains or losses on investments measured at fair value through profit or loss are included in the Statement of comprehensive income in realised gains / (losses) on disposal of investments and unrealised gains or losses on investments, respectively. Realised and unrealised foreign currency gains or losses on all other financial instruments denominated in foreign currencies are included in the Statement of comprehensive income in foreign exchange gains or losses.

1.3.10 Net assets attributable to holders of redeemable shares

Shares issued by the Fund are classified as financial liabilities and disclosed as net assets attributable to holders of redeemable shares. The value of net assets attributable to holders is what is commonly known as the capital value of the Fund. This financial liability (as defined by IAS 32) represents the holders' right to a residual interest in the Fund's net assets.

1.3.11 Critical judgement in applying the Fund's accounting policies

The preparation of the Fund's financial statements requires the directors to make judgements, estimates and assumptions that affect the amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

When the fair value of financial assets and liabilities recorded in the Statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. Refer to note 7.2.

1.3.12 Events subsequent to year-end

There were no significant events subsequent to year-end up to the date of approval of these financial statements.

	2018 US$	2017 US$

2. Financial assets at fair value through profit or loss

Gilts and semi-gilts	1 186 637	1 186 637
Equities	246 593 013	261 304 357
TOTAL	247 779 650	262 490 994

3. Cash and cash equivalents

Cash held at banks	2 966 856	8 448 838
TOTAL	2 966 856	8 448 838

4. Trade and other receivables

Interest receivable	105 101	44 262
Dividends receivable	702 401	411 582
Amounts due from brokers	-	42 310
TOTAL	807 502	498 154

5. Trade and other payables

Other payables	145 119	137 927
Amounts due to brokers	-	814 655
TOTAL	145 119	952 582

6. Notes to the statement of cash flows

6.1 Net cash outflow from operations before working capital changes

	2018 US$	2017 US$
Total comprehensive (loss) / income for the year	(19 475 020)	105 860 073
Adjustments:		
Realised (gains) / losses on disposal of investments	(16 101 261)	(688 343)
Unrealised losses / (gains) on investments	42 866 046	(98 395 255)
Foreign exchange losses / (gains)	283 417	(143 515)
Interest income	(63 461)	(44 259)
Dividend income, net of withholding tax	(16 407 297)	(8 447 489)
TOTAL	(8 897 576)	(1 858 788)

6.2 Working capital changes

Decrease / (increase) in trade and other receivables	42 310	(42 310)
(Decrease) / increase in trade and other payables	(807 463)	576 461
TOTAL	(765 153)	534 151

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.

Categorisation of financial instruments at 31 December 2018

	Financial assets measured at amortised cost US$	Financial assets measured at fair value US$	Financial liabilities measured at amortised cost US$	Total US$
ASSETS				
Financial assets at fair value through profit or loss	-	247 779 650	-	247 779 650
Cash and cash equivalents	2 966 856	-	-	2 966 856
Trade and other receivables	807 502	-	-	807 502
TOTAL ASSETS	3 774 358	247 779 650	-	251 554 008
LIABILITIES				
Trade and other payables	-	-	145 119	145 119
TOTAL LIABILITIES	-	-	145 119	145 119

Categorisation of financial instruments at 31 December 2017

	Loans and receivables measured at amortised cost US$	Financial assets measured at fair value US$	Financial liabilities measured at amortised cost US$	Total US$
ASSETS				
Financial assets at fair value through profit or loss	-	262 490 994	-	262 490 994
Cash and cash equivalents	8 448 838	-	-	8 448 838
Trade and other receivables	498 154	-	-	498 154
TOTAL ASSETS	8 946 992	262 490 994	-	271 437 986
LIABILITIES				
Trade and other payables	-	-	952 582	952 582
TOTAL LIABILITIES	-	-	952 582	952 582

7.1 Financial risk management policies and objectives

The Fund's investment portfolio may comprise equities, equity-linked securities, interest-bearing non-equity linked securities and cash and cash equivalents. The Fund may invest in listed and unlisted 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 Equities' as equities in companies with significant business interests in Africa, regardless of the location of the stock exchange listing. The Fund's investing activities expose holders of Fund shares to various types of risks that are associated with the financial instruments and markets in which the Fund invests.

Market risk

The Fund's investing activities expose the holders of Fund shares to various types of risks 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.

The following table shows the Fund's exposure to price and interest rate risks, split into the different types of financial instruments held by the Fund at year-end. The analysis only relates to instruments subject to those specific risks.

Exposure	2018 US$	2017 US$
SUBJECT TO PRICE RISK		
Equities	246 593 013	261 304 357
SUBJECT TO INTEREST RATE RISK		
Cash and cash equivalents	2 966 856	8 448 838
Gilts and semi-gilts	1 186 637	1 186 637

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether the changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market. Holders of redeemable shares are exposed to changes in the market values of the individual investments underlying the Fund. Exposure to price risk is mainly through listed instruments.

As a result of the nature of the Fund's underlying investments, there will be significant price fluctuations in the pursuit of superior long-term returns, and there will be periods when the equities in the Fund underperform its benchmark and/or generate negative absolute returns. Short-term performance can be volatile, and investors are encouraged to focus on long-term returns when evaluating the Fund's performance, as the Investment Manager takes a long-term view when making investment decisions.

The Fund's portfolio is constructed based on proprietary investment research. This research is intended to enable the Fund to be invested in equities which offer superior fundamental value. Whether an equity offers superior fundamental value is determined by comparing the share price with an assessment of the equity's intrinsic value. Price risk is not managed in the Fund. Shares are typically bought when research and analysis indicates that the intrinsic value of the company far exceeds its market price, in anticipation of the price rising to its intrinsic value and it is believed there is a margin of safety. The lower the price of a share when compared to its assessed intrinsic value, the more attractive the equity's fundamental value is considered to be.

There has been no change to the Fund's exposure to price risk or the manner in which it manages and measures the risk. The following analysis indicates the possible impact on net assets attributable to holders of redeemable shares to price risk, until such time as the investments are sold. The following table also illustrates the effect of possible changes in fair value of investments for price risk, assuming that all other variables remain constant. The disclosure provides information on the risks to which holders of redeemable shares are exposed and is not indicative of future performance.

	2018 US$	2017 US$
INVESTMENTS SUBJECT TO PRICE RISK		
EQUITIES		
Effect on net assets attributable to holders of redeemable shares		
Gross exposure	246 593 013	261 304 357
+-5%	12 329 651	13 065 218
+-10%	24 659 301	26 130 436
+-20%	49 318 603	52 260 871

Concentration of equity price risk

The following table analyses the Fund's concentration of equity price risk in the Fund's equity portfolio by sector allocation:

% of equity securities	2018 %	2017 %
Financials	28.4	33.1
Consumer goods	18.9	23.1
Basic materials	16.9	14.5
Oil and gas	9.9	8.6
Telecommunications	9.4	12.3
Consumer services	6.4	3.4
Technology	6.1	-
Utilities	2.4	3.1
Industrials	1.6	0.9
Healthcare	-	1.0
TOTAL	100.0	100.0

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 through its exposure to holding cash and cash equivalents and gilts and semi-gilts. The Investment Manager manages the Fund's exposure to interest rates in accordance with the Fund's investment objectives and policies.

The following table illustrates the effect of reasonably possible changes in prevailing interest 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.

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	2018 US$	2017 US$
INVESTMENTS SUBJECT TO INTEREST RATE RISK		
CASH AND CASH EQUIVALENTS	2 966 856	8 448 838
Effect on net assets attributable to holders of redeemable shares		
+- 0.5%	14 834	42 244
+- 1.0%	29 669	84 488
GILTS AND SEMI-GILTS	1 186 637	1 186 637
Effect on net assets attributable to holders of redeemable shares		
+- 0.5%	5 933	5 933
+- 1.0%	11 866	11 866

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 is therefore exposed to the effects of exchange rate fluctuations.

The following tables indicate the currencies to which the Fund had exposure at 31 December 2018 and 31 December 2017 on its financial assets and liabilities.

A positive number indicates an increase in net assets attributable to holders of redeemable shares where the US dollar weakens against the relevant currency. For a strengthening 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 US$		
EFFECT ON NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES AS AT 31 DECEMBER 2018					
CURRENCY		**FINANCIAL ASSET US$**	**-/+5%**	**-/+10%**	**-/+20%**
Canadian dollar	CAD	1 247 160	62 358	124 716	249 432
Australian dollar	AUD	5 100 637	255 032	510 064	1 020 127
South African rand	ZAR	66 027 391	3 301 370	6 602 739	13 205 478
Euro	EUA	72 089	3 604	7 209	14 418
British pound	GBA	21 141 177	1 057 059	2 114 118	4 228 236
Egyptian pound	EGP	25 856 271	1 292 814	2 585 627	5 171 254
Kenyan shilling	KES	6 051 427	302 571	605 143	1 210 285
Ugandan shilling	UGX	4 929 291	246 465	492 929	985 858
West African franc	XOF	1 744 573	87 229	174 457	348 915
Nigerian naira	NGN	54 875 868	2 743 793	5 487 587	10 975 174
			9 352 295	18 704 589	37 409 177

			Currency impact US$		
EFFECT ON NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES AS AT 31 DECEMBER 2017					
CURRENCY		**FINANCIAL ASSET US$**	**-/+5%**	**-/+10%**	**-/+20%**
Canadian dollar	CAD	131 101	6 555	13 110	26 220
Australian dollar	AUD	5 911 401	295 570	591 140	1 182 280
South African rand	ZAR	66 443 612	3 322 181	6 644 361	13 288 722
Euro	EUR	75 918	3 796	7 592	15 184
British pound	GBP	20 191 152	1 009 558	2 019 115	4 038 230
Egyptian pound	EGP	44 328 590	2 216 429	4 432 859	8 865 718
Kenyan shilling	KES	9 616 505	480 825	961 650	1 923 301
Ugandan shilling	UGX	5 898 606	294 930	589 861	1 179 721
Nigerian naira	NGN	55 993 155	2 799 658	5 599 316	11 198 631
			10 429 502	20 859 004	41 718 007

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 comprised cash accounts. 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.

The compliance departments of Citibank Europe plc (the 'Administrator') and the Investment Manager monitor compliance with applicable regulations and the investment mandate on a daily basis.

The table below provides an analysis of the credit quality of the Fund's cash and cash equivalents 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.

	2018	2017
CREDIT RATING	**% OF FUND**	**% OF FUND**
A+	1.2%	3.1%
	1.2%	3.1%

Note that the balance (98.8%) of the Fund's net assets (2017: 96.9%) comprises financial assets at fair value through profit or loss, trade and other receivables, accrued expenses and gilts and semi-gilts, which have been excluded from the table above.

Liquidity risk

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

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

The Fund's redeemable shares are redeemable for cash 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 within 90 days. The Investment Manager's compliance department monitors compliance with the applicable requirements.

Where total members' redemptions on any dealing day are more than US$5 000 000 or 2.5% of the total net asset value of the Fund (whichever is less), the Investment Manager may, at its discretion, redeem only 2.5% of the total net asset value of the Fund or US$5 000 000 (whichever is less), on a pro rata basis among the members, per dealing day. If any redemption requests are not satisfied in full, the balance thereof will be carried forward to the following dealing day, subject to the same 2.5% restriction. The Investment Manager retains the right to distribute all or part of the redemption proceeds in specie (in kind).

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.

Trade and other payables are due on demand. Net assets attributable to holders of redeemable shares and distributions payable are settled within 30 days.

7.2 Fair value

The directors of the Fund are of the opinion that the fair value of all financial instruments, other than those measured at fair value through profit or loss, approximates the carrying amount in the Statement of financial position as these balances are due within 30 days. IFRS 7 and IFRS 13 require fair value measurements to be disclosed by the source of inputs, using a three-level hierarchy, as follows:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – those involving inputs that are directly or indirectly observable
- Level 3 – those with inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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

The fair value of financial assets and financial liabilities traded in active liquid markets such as listed equity securities are based on quoted market prices at the close of trading, and are classified within level 1.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Certain investments that are not valued using the quoted market price on the securities exchange can be valued based on other observable market data at the discretion of the Investment Manager. Securities not traded through recognised public securities exchanges can be valued on the valuation date based on other reliable sources, such as quotations by recognised investment dealers, at the discretion of the Investment Manager. Investments not listed on public securities exchanges, or for which reliable quotations are not readily available, are valued using valuation models based on assumptions that may not be supported by observable market inputs. These investments are classified as level 2 or 3.

The following tables show the fair values of instruments at 31 December 2018 and 31 December 2017.

Level 1	2018 US$	2017 US$
FINANCIAL ASSETS		
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Equities	186 162 280	208 424 774

Level 3	2018 US$	2017 US$
FINANCIAL ASSETS		
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Equities	60 430 733	52 879 583
Gilts and semi-gilts	1 186 637	1 186 637
	61 617 370	54 066 220

The Fund has no investments that are classified within level 2.

During the year ended 31 December 2018, the Zimbabwean macroeconomic conditions and currency situation continued to deteriorate with the government continuing to print greater sums of money thus driving up equity prices. As a result the Investment Manager adopted and used a fair value methodology utilising unobservable inputs to estimate the fair value of Zimbabwean financial assets at 31 December 2018 and 31 December 2017. This valuation process is subjective and the results may vary according to the inputs and process applied.

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	54 066 220	32 443 143
Purchases at cost	15 979 944	11 458 931
Disposal of shares	(7 610 881)	(4 462 162)
Net (losses) / gains recognised in profit or loss	(817 913)	14 626 308
CLOSING BALANCE	61 617 370	54 066 220

Total gains or losses in respect of financial assets in level 3 of the fair value hierarchy included in profit or loss are presented in the Statement of comprehensive income as follows:

	2018 US$	2017 US$
Unrealised (losses) / gains recognised in profit or loss	(4 212 089)	11 586 954
Realised gains / (losses) recognised in profit or loss	3 394 176	3 039 354
CLOSING BALANCE	(817 913)	14 626 308

The Investment Manager adopted and used a fair value methodology utilising unobservable inputs to estimate the fair value of Zimbabwean financial assets at 31 December 2018 and 31 December 2017. 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 discount rate would have the following effect:

Effect on profit or loss		
INCREASE / (DECREASE) OF DISCOUNT RATE:		
2018	**GAIN**	**LOSS**
+-5%	3 080 869	(3 080 869)
+-10%	6 161 737	(6 161 737)
2017	**GAIN**	**LOSS**
+-5%	6 993 725	(6 993 725)
+-10%	13 987 449	(13 987 449)

8. Share capital

Notwithstanding that the net assets attributable to holders of redeemable shares are classified as financial liabilities, the directors of the Fund consider these to represent the Fund's capital. The number of shares issued and redeemed during the years is reported below. The Fund is not subject to any externally imposed capital requirements. The Fund's authorised share capital at 31 December 2018 and 31 December 2017 is detailed below. Fund shares are divided into two share classes (Class A and Class B), which participate pro-rata in the Fund's net assets and dividends, and are redeemable and non-voting. 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. As at 31 December 2018 and 31 December 2017, only Class A shares had been issued.

	Allan Gray Africa Equity Fund Limited
Fund shares par value (per share)	US$0.13
Authorised fund shares	100 million
Founder shares par value (per share)	US$0.13
Authorised and issued founder shares	12 000

Fund share transactions	2018	2017
Balance at beginning of year	1 360 009	1 343 069
Subscriptions	7 939	353 071
Redemptions	(6 411)	(336 131)
BALANCE AS AT END OF YEAR	1 361 537	1 360 009

There are no options in existence for any capital.

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

9. Commitments

The Fund has a daily uncommitted intraday clearing facility of US$9.75 million, a US$3.85 million settlement facility and a US$5 million pre-settlement exposure facility in place to facilitate the settlement of trade instructions. The Fund has no overdraft facilities in place. These facilities expire annually on 31 May and automatically roll over.

10. Related party transactions

The Orbis group of funds ('Orbis funds') are managed by Orbis Investment Management Limited. A related party relationship exists between Orbis Investment Management Limited and Allan Gray Bermuda Limited, the Investment Manager of the Fund, by virtue of a common ultimate shareholder. At 31 December 2018, Orbis funds and Orbis Investment Management Limited held 943 455 shares of the Fund (2017: 938 648 shares).

The directors of the Investment Manager held 33.2 shares indirectly in the Fund at 31 December 2018 (2017: 23.2).

Directors of the Fund held no shares in the Fund at 31 December 2018 and 2017.

During the financial year ended 31 December 2018 the management fee incurred by the Fund was US$8 133 224 (2017 – US$752 763). No management fee was payable by the Fund at 31 December 2018 or 31 December 2017.

IMPORTANT NOTES FOR INVESTORS

Fund information

The Fund is incorporated and registered under the laws of Bermuda and is supervised by the Bermuda Monetary Authority. The Fund is also listed on the Bermuda Stock Exchange. The primary custodian of the Fund is Citibank N.A. The custodian can be contacted at 390 Greenwich Street, New York, New York, USA.

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 believes that the Fund is exempt from the application of the EU Directive on Administrative Cooperation.

United Kingdom Reporting Fund Status

The Fund's application for reporting fund status 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 in the discretion of the Investment Manager and subject to compliance with applicable law. European Investors who are permitted to invest in the Fund will not benefit from any of the protections of the AIFMD to which a European Investor making an investment in a non-European fund would otherwise have, including but without limitation, certain initial disclosure requirements, periodic reporting on illiquid assets and leverage, and certain annual reporting requirements.

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, nor the Fund 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 MSCI who require that we include the following legal notes. Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.

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 (being Citibank Europe plc, Luxembourg Branch) by 17:00 Bermuda time on that dealing day to receive that week's price. Redemption requests must be received by the Registrar of the Fund by 12:00 Bermuda 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 Allan Gray service team.

Total expense ratio ('TER') and Transaction costs

The total expense ratio ('TER') is the annualised percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past one- and three-year periods. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged) and other expenses like audit fees. Transaction costs (including brokerage, Securities Transfer Tax [STT] and investor protection levies where applicable) are shown separately. 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 again from published returns. As collective investment scheme expenses vary, the current TER cannot be used as an indication of future TERs. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. Instead, when investing, the investment objective of the Fund should be aligned with the investor's objective and compared against the performance of the Fund. The TER and other funds' TERs should then be used to evaluate whether the Fund performance offers value for money. The sum of the TER and Transaction costs is shown as the Total investment charge ('TIC').

IMPORTANT NOTES FOR INVESTORS

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 shares 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.

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 utilised 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 +353 1 622 4716 or by email at AGclientservice@citi.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.

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