

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

31 DECEMBER 2019

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# ALLAN GRAY AFRICA EX-SA BOND FUND LIMITED STRATEGY

As at 31 December 2019

## Inception date

27 March 2013

## Portfolio managers

Mark Dunley-Owen, Nick Ndiritu

## Fund description and summary of investment policy

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

## Fund objective and benchmark

The Fund seeks to achieve the maximum US dollar total return while minimising the risk of loss within the context of an African bond fund. The benchmark is the J.P. Morgan GBI-EM Global Diversified Index. The Fund does not seek to mirror the benchmark but instead may deviate meaningfully from this performance benchmark in pursuit of superior returns. To the extent that its investments differ from those in the benchmark, the Fund faces the risk of underperforming the benchmark.

## Suitable for those investors who

- Seek exposure to African (excluding South African) interest bearing assets
- Are comfortable with market and currency fluctuations
- Are prepared to take on the risk of capital loss
- Typically have an investment horizon of more than five years

## Capacity

The Fund currently has no capacity constraints. Allan Gray Bermuda Limited (the 'Investment Manager') may, at its discretion, refuse a subscription or phase a subscription into the Fund over a number of dealing days. The Investment Manager may, at its discretion, limit redemptions to 4% of the Fund per dealing day.

## Commentary

The Fund's weighted average yield is an attractive 10.1%. It is the result of approximately 65% of the Fund being invested in US dollar-denominated bonds, 30% in local

currency bonds and treasury bills, and the remainder in US dollar cash.

The dollar-denominated portion of the Fund is not exposed to African currencies but is exposed to the credit risk of the basket of issuers. About half of these holdings are government issued, notably by Ghana, Kenya, Nigeria, Zambia and Egypt. Each of these countries has challenges and opportunities, and each investment is made by comparing the credit fundamentals of the country with the expected future return.

The other half of the Fund's dollar-denominated holdings are issued by African corporates. The most material of these are Nigerian banks, Seplat Petroleum and Tullow Oil. Despite the noise around Nigerian macroeconomics, the Nigerian banks that the Fund is exposed to are well capitalised and profitable. Seplat has been a pleasing investment for the Fund, and we continue to regard it as one of the few cash-generative African oil and gas companies.

Until recently, we viewed Tullow similarly and expected rising oil production to generate sufficient cashflow to pay down debt. Recent announcements have been disappointing, most notably that Tullow's producing oilfields in Ghana, as well as its anticipated exploration play in Guyana, are less attractive than expected. We have reviewed our investment case following these setbacks. While the margin of safety has reduced, our analysis suggests Tullow has sufficient asset value and cashflow to make its debt attractive at current prices.

The majority of the Fund's local currency holdings are Nigerian government treasury bills. These offer low double-digit yields after hedging the naira currency risk, thereby simulating dollar returns. The other notable local currency exposure is Ghanaian government bonds at a 20% yield. Unfortunately, most of this return has been offset by the steadily depreciating Ghanaian cedi, which lost 15% during 2019, and has depreciated versus the dollar every calendar year for the last 15 years.

Commentary contributed by Mark Dunley-Owen

## ALLAN GRAY AFRICA EX-SA BOND FUND LIMITED STRATEGY

As at 31 December 2019

### Performance in US\$ net of all fees and expenses

| % Returns   | Fund <sup>1</sup> | Benchmark <sup>2</sup> |
|---|-------------------|------------------------|
| <b>Cumulative:</b>  |                   |                        |
| Since inception (27 March 2013)                                   | 63.6              | -1.4                   |
| <b>Annualised:</b>  |                   |                        |
| Since inception (27 March 2013)                                   | 7.6               | -0.2                   |
| Latest 5 years  | 9.0               | 2.8                    |
| Latest 3 years  | 12.5              | 7.0                    |
| Latest 2 years  | 8.0               | 3.2                    |
| Latest 1 year   | 11.9              | 13.5                   |
| <b>Risk measures (since inception, based on month-end prices)</b> |                   |                        |
| Maximum drawdown <sup>3</sup>                                     | -15.8             | -29.3                  |
| Percentage positive months <sup>4</sup>                           | 67.1              | 56.1                   |
| Annualised monthly volatility <sup>5</sup>                        | 6.8               | 11.1                   |
| Highest annual return <sup>6</sup>                                | 28.4              | 17.7                   |
| Lowest annual return <sup>6</sup>                                 | -15.7             | -21.5                  |

- The net of fee return is calculated as the gross of fee return reduced by an investment management fee of 1% per annum, which is accrued monthly in arrears.
- J.P. Morgan GBI-EM Global Diversified Index (source J.P. Morgan), performance as calculated by Allan Gray as at 31 December 2019. Calculation based on the latest available data as supplied by third parties.
- Maximum percentage decline over any period. The maximum drawdown occurred from October 2014 to January 2016 and maximum benchmark drawdown occurred from April 2013 to December 2015. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
- The percentage of calendar months in which the Fund produced a positive monthly return since inception.
- The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
- This is the highest or lowest rolling 12-month return the Fund has experienced since inception. The Fund's highest annual return occurred during the 12 months ended 28 February 2017 and the benchmark's occurred during the 12 months ended 31 January 2018. The Fund's lowest annual return occurred during the 12 months ended 30 September 2015 and the benchmark's occurred during the 12 months ended 31 August 2015. All rolling 12-month figures for the Fund and the benchmark are available from the Allan Gray Service Team on request.

### Fund positioning on 31 December 2019<sup>7</sup>

|                          | Local currency | Foreign currency | % of portfolio |
|--------------------------|----------------|------------------|----------------|
| <b>Governments</b>       | <b>30.2</b>    | <b>31.5</b>      | <b>61.7</b>    |
| Nigeria                  | 23.6           | 5.2              | 28.8           |
| Ghana                    | 5.4            | 8.4              | 13.7           |
| Kenya                    | 0.0            | 8.3              | 8.3            |
| Zambia                   | 0.0            | 4.7              | 4.7            |
| Egypt                    | 1.2            | 3.4              | 4.6            |
| Ivory Coast              | 0.0            | 1.1              | 1.1            |
| Senegal                  | 0.0            | 0.5              | 0.5            |
| <b>Corporates</b>        | <b>1.0</b>     | <b>32.0</b>      | <b>32.9</b>    |
| Nigeria                  | 1.0            | 20.7             | 21.7           |
| Ghana                    | 0.0            | 7.0              | 7.0            |
| Mauritius                | 0.0            | 3.7              | 3.7            |
| Kenya                    | 0.0            | 0.6              | 0.6            |
| <b>Cash<sup>8</sup></b>  | <b>0.0</b>     | <b>5.3</b>       | <b>5.4</b>     |
| <b>Total<sup>9</sup></b> | <b>31.2</b>    | <b>68.8</b>      | <b>100.0</b>   |

- The total Nigerian exposure includes accruals for naira-settled currency forwards, valued at the Nigerian Autonomous Foreign Exchange Rate (NAFEX), that are shown under cash.
- Cash is held in multiple currencies and includes USD treasury bills.
- There may be slight discrepancies in the totals due to rounding.

### Total expense ratio ('TER') and Transaction costs

The annual management fee charged is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one- and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns. Transaction costs are disclosed separately.

| <b>TER and Transaction costs breakdown for the 1- and 3-year period ending 31 December 2019</b> | 1yr %       | 3yr %       |
|---|-------------|-------------|
| <b>Total expense ratio</b>  | <b>1.20</b> | <b>1.18</b> |
| Management fee  | 1.00        | 1.00        |
| Custody fees  | 0.11        | 0.11        |
| Other costs excluding transaction costs   | 0.09        | 0.07        |
| <b>Transaction costs</b>  | <b>0.00</b> | <b>0.00</b> |
| <b>Total investment charge</b>  | <b>1.20</b> | <b>1.18</b> |

## SCHEDULE OF NET ASSETS

As at 31 December 2019

| Number held   | Instrument (ranked by sector)                  | Market value<br>US\$ | % of Fund     |
|---------------|--|----------------------|---------------|
|               | <b>GOVERNMENT</b>                              | 265 740 783          | 61.6%         |
|               | Nigerian Treasury bills                        | 101 911 228          | 23.6%         |
| 26 800 000    | Kenya 7.25% 2028 Eurobond                      | 29 848 312           | 6.9%          |
| 9 945 000     | Ghana 10.75% 2030 Eurobond                     | 12 978 619           | 3.0%          |
| 17 380 000    | Zambia 8.5% 2024 Eurobond                      | 12 347 619           | 2.9%          |
| 11 300 000    | Nigeria 7.696% 2038 Eurobond                   | 11 672 200           | 2.7%          |
| 64 300 000    | Ghana 19% 2026                                 | 10 665 003           | 2.5%          |
| 9 250 000     | Ghana 7.625% 2029 Eurobond                     | 9 528 717            | 2.2%          |
| 8 000 000     | Egypt 6.588% 2028                              | 8 536 214            | 2.0%          |
| 8 000 000     | Ghana 8.125% 2032 Eurobond                     | 8 280 424            | 1.9%          |
| 10 700 000    | Zambia 8.97% 2027 Eurobond                     | 7 803 510            | 1.8%          |
| 6 000 000     | Nigeria 8.747% 2031 Eurobond                   | 6 871 820            | 1.6%          |
| 31 000 000    | Ghana 19.5% July 2024                          | 5 665 581            | 1.3%          |
| 5 000 000     | Ghana 8.95% 2051 Eurobond                      | 5 237 529            | 1.2%          |
| 78 890 000    | Egypt 12.45% 2020                              | 5 168 176            | 1.2%          |
| 4 500 000     | Egypt 7.6003% 2029 Eurobond                    | 5 039 858            | 1.2%          |
| 4 500 000     | Kenya 8.00% 2032 Eurobond                      | 4 952 932            | 1.1%          |
| 4 500 000     | Ivory Coast 6.125% 2033 Eurobond               | 4 560 534            | 1.1%          |
|               | Holdings less than 1%                          | 14 672 507           | 3.4%          |
|               | <b>CORPORATES</b>                              | 141 930 473          | 33.0%         |
| 43 135 000    | Seplat 9.25% 2023 Eurobond                     | 45 615 468           | 10.6%         |
| 33 300 000    | Tullow 7.00% 2025                              | 29 040 517           | 6.7%          |
| 21 000 000    | Stanbic IBTC 5.00% Discounted Commercial Paper | 20 924 400           | 4.9%          |
| 13 000 000    | MTN 6.5% 2026 Eurobond                         | 14 583 862           | 3.4%          |
| 11 956 000    | Access Bank Senior 10.5% 2021 Eurobond         | 13 569 517           | 3.1%          |
| 6 801 000     | Ecobank 9.5% 2024 Eurobond                     | 7 761 922            | 1.8%          |
| 1 487 034 149 | Nigeria - Initial margin                       | 4 144 073            | 1.0%          |
|               | Holdings less than 1%                          | 6 290 714            | 1.5%          |
|               | <b>CASH AND ACCRUALS</b>                       | 23 251 675           | 5.4%          |
|               | <b>NET ASSETS</b>                              | <b>430 922 931</b>   | <b>100.0%</b> |

**APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2019

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 2019 and its financial performance and cash flows for the year ended 31 December 2019, are set out on pages 9 to 33 and have been approved by the directors of the Fund and are signed on its behalf by:



Renée Oliveira  
Director  
27 March 2020



Craig Bodenstab  
Director  
27 March 2020

## INDEPENDENT AUDITOR'S REPORT

### The board of directors of Allan Gray Africa ex-SA Bond Fund Limited

#### Report on the audit of the financial statements

##### Opinion

We have audited the financial statements of Allan Gray Africa ex-SA Bond Fund Limited (the 'Fund') which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in net assets attributable to holders of redeemable shares and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs'). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities of the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

##### Risk:

##### Valuation of financial assets at fair value through profit or loss

The valuation of the Fund's financial assets at fair value through profit or loss is a key audit matter because it significantly impacts the Fund's performance and net asset value and is quantitatively significant to the Fund. We have thus assessed the Fund's investments in financial assets as an area of higher risk of material misstatement due to the complexity in determining the fair value.

As of 31 December 2019, the Fund's financial assets at fair value through profit or loss amounted to US\$ 390,077,808. Financial assets include forward contracts, money market instruments and gilts and semi-gilts. As disclosed in Notes 1.3.7 and 7.2 to the financial statements the Fund records its investments in financial assets carried at fair value through profit or loss 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.

## INDEPENDENT AUDITOR'S REPORT

### **Our response to the risk:**

We evaluated management's valuation methodology applied to determine the fair value of the Fund's financial assets and performed the following procedures, among others.

- For the Fund's investments in money market instruments and gilts and semi-gilts, we compared the values recorded by the Fund to independently quoted prices, observable trades and/or vendor prices.
- For financial instruments not based on quoted market prices, we assessed the reasonableness of management's valuation methodology and compared data inputs used by management to independent sources.
- For the Fund's investment in forward contracts, we compared the assumptions and data inputs used by the Directors to value these financial assets to third party data.
- We independently recalculated the fair value of all financial instruments at fair value through profit or loss which we compared to the Fund's recorded fair value.

### **Other information included in the Fund's 2019 Annual Report**

Other information consists of the information included in the Annual Report, other than the financial statements and our auditors' report thereon. Management is responsible for the other information.

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

### **Responsibilities of management and the board of directors for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is 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 management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The board of directors is responsible for overseeing the Fund's financial reporting process.



## INDEPENDENT AUDITOR'S REPORT

### **Auditors' responsibilities for the audit of the financial statements**

This report is made solely to the board of directors, as a body. Our audit work has been undertaken so that we might state to the board of directors those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the board of directors as a body, for our audit work, for this report, or for the opinions we have formed.

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

As part of an audit in accordance with ISAs, we exercise professional 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 management.
- Conclude on the appropriateness of management's 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 auditors' 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 auditors' 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 board of 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.

**INDEPENDENT AUDITOR'S REPORT**

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditors' report is Jessel Mendes.

*Ernst & Young Ltd*

Hamilton, Bermuda  
27 March 2020

**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2019

|   | Note | 2019<br>US\$ | 2018<br>US\$ |
|---|------|--------------|--------------|
| <b>NET INVESTMENT INCOME</b>  |      | 56 623 724   | 21 472 647   |
| Interest income   |      | 45 662 652   | 48 805 176   |
| Realised gains on disposal of financial assets at fair value through profit or loss |      | 1 056 547    | 6 884 859    |
| Unrealised gains/(losses) on financial assets at fair value through profit or loss  |      | 9 904 525    | (34 266 155) |
| Other income  |      | -            | 48 767       |
| <b>EXPENSES</b>   |      | (2 896 952)  | (2 123 197)  |
| Custodian fees  |      | (457 346)    | (500 696)    |
| Management fees   |      | (190 026)    | (112 511)    |
| Audit fees  |      | (12 909)     | (15 393)     |
| Directors' fees   |      | (18 000)     | (18 000)     |
| Bank charges  |      | (52 843)     | (51 565)     |
| Withholding taxes   |      | (1 887 845)  | (1 339 226)  |
| Other expenses  |      | (277 983)    | (85 806)     |
| <b>CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES</b>           |      | 53 726 772   | 19 349 450   |

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

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

|   | Note | 2019<br>US\$       | 2018<br>US\$       |
|---|------|--------------------|--------------------|
| <b>ASSETS</b>   |      |                    |                    |
| Financial assets at fair value through profit or loss                                       | 2    | 394 155 226        | 397 094 814        |
| Trade and other receivables   | 3    | 14 821 395         | 17 070 504         |
| Cash and cash equivalents   |      | 22 063 173         | 23 289 841         |
| <b>TOTAL ASSETS</b>   |      | <b>431 039 794</b> | <b>437 455 159</b> |
| <b>LIABILITIES</b>  |      |                    |                    |
| Trade and other payables  | 4    | 116 863            | 87 548             |
| <b>TOTAL LIABILITIES, EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES</b> |      | <b>116 863</b>     | <b>87 548</b>      |
| <b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES</b>                              |      | <b>430 922 931</b> | <b>437 367 611</b> |

The above Statement of financial position 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 2019

|   | Net assets attributable to holders of redeemable shares US\$ | Number of shares in issue |
|---|--|---------------------------|
| <b>BALANCE AT 31 DECEMBER 2017</b>  | 337 179 120  | 2 697 536                 |
| Increase in net assets attributable to holders of redeemable shares from transactions in shares | 80 839 041   | 628 939                   |
| Increase in net assets attributable to holders of redeemable shares from operations             | 19 349 450   |                           |
| <b>BALANCE AT 31 DECEMBER 2018</b>  | 437 367 611  | 3 326 475                 |
| Decrease in net assets attributable to holders of redeemable shares from transactions in shares | (60 171 452)   | (416 736)                 |
| Increase in net assets attributable to holders of redeemable shares from operations             | 53 726 772   |                           |
| <b>BALANCE AT 31 DECEMBER 2019</b>  | 430 922 931  | 2 909 739                 |

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 2019

|   | Note | 2019<br>US\$        | 2018<br>US\$         |
|---|------|---------------------|----------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                      |      |                     |                      |
| Net cash outflow from operations before working capital changes | 5.1  | (1 009 107)         | (735 204)            |
| Working capital changes   | 5.2  | (475 909)           | (1 557 975)          |
| Interest received, net of withholding tax                       |      | 46 502 496          | 44 587 959           |
| <b>NET CASH GENERATED BY OPERATING ACTIVITIES</b>               |      | <b>45 017 480</b>   | <b>42 294 780</b>    |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>                      |      |                     |                      |
| Acquisition of investments                                      |      | (264 969 084)       | (340 176 654)        |
| Proceeds from sale of investments                               |      | 278 896 388         | 227 561 582          |
| <b>NET CASH UTILISED IN INVESTING ACTIVITIES</b>                |      | <b>13 927 304</b>   | <b>(112 615 072)</b> |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                      |      |                     |                      |
| Proceeds from issue of redeemable shares                        |      | 12 955 958          | 97 709 531           |
| Redemption of redeemable shares                                 |      | (73 127 410)        | (16 870 490)         |
| <b>NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>          |      | <b>(60 171 452)</b> | <b>80 839 041</b>    |
| Net (decrease)/increase in cash and cash equivalents            |      | (1 226 668)         | 10 518 749           |
| Cash and cash equivalents at the beginning of the year          |      | 23 289 841          | 12 771 092           |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>         |      | <b>22 063 173</b>   | <b>23 289 841</b>    |

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

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2019

**Corporate information**

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

The financial statements of the Fund were authorised for issue by the directors of the Fund on 27 March 2020.

**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 2019.

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:<br>Years beginning<br>on/after | Impact             |
|---|--|--------------------|
| IFRIC 23   Uncertainty over Income Tax Treatments | 1 January 2019                                 | No material impact |

IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. IFRIC 23 does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether the Fund considers uncertain tax treatments separately;
- The assumptions the Fund makes about the examination of tax treatments by taxation authorities;
- How the Fund determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How the Fund considers changes in facts and circumstances.

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2019

The Fund must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

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:<br>Years beginning<br>on/after | Expected impact    |
|-----------|---|--|--------------------|
| IAS 1     | Presentation of Financial Statements                            | 1 January 2020                                 | No material impact |
| IAS 8     | Accounting Policies, Changes in Accounting Estimates and Errors | 1 January 2020                                 | No material impact |

A number of other changes, that are effective for accounting periods ended after 31 December 2019, have been issued by the IASB and IFRIC. However, these are not considered relevant to the Fund's operations.

### 1.3 Accounting policies

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

#### 1.3.1 Net investment income

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

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

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

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

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 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.



**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2019

**1.3.3 Distributions to holders of redeemable shares**

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

**1.3.4 Taxation**

There is no income tax, corporation tax, profits tax, withholding tax, capital gains tax, capital transfer tax, estate or stamp duty, or inheritance tax payable in Bermuda by the Fund or its members in respect of shares in the Fund. The government of Bermuda has undertaken that in the event that any income, profit, 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.

IFRIC 23 Uncertainty over Income Tax Treatments clarifies the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 in the Fund's financial statements. The Fund evaluates such tax positions to determine whether, for all tax years still subject to assessment or challenge by the relevant taxation authorities, the tax positions are probable to be accepted on examination by the relevant tax authorities. If it is probable that the Fund's tax positions are accepted, the taxable profit/tax loss should be consistent with the Fund's tax filings. If not probable, the Fund must reflect the effect of the uncertainty in determining its taxable profit/tax loss. The effect of the uncertain tax treatment is determined by applying either the expected value method or the most likely method.

The Fund has analysed its tax positions and has concluded that no asset/liability for unrecognised tax benefits/obligations should be recorded relating to uncertain tax positions for the year ended 31 December 2019. Currently, the only taxes recorded by the Fund are withholding taxes applicable to certain income. For the year ended 31 December 2019, no other income tax liability or expense has been recorded in the accompanying financial statements.

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

**1.3.5 Expenses**

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

**1.3.6 Income adjustments**

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

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2019

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

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

***Financial assets at fair value through profit or loss***

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

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

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

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

***Financial assets at amortised cost***

The Fund classifies financial assets at amortised cost when:

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

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

**Financial liabilities**

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

***Financial liabilities at fair value through profit or loss***

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2019

### ***Financial liabilities at amortised cost***

Trade and other payables, including amounts due to brokers and distributions payable, are classified as financial liabilities at amortised cost which are measured at amortised cost. Amortised cost approximates fair value due to the short-term nature of the financial liabilities.

### **Recognition**

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

### **Measurement**

#### **Financial assets and financial liabilities at fair value through profit or loss**

##### ***Initial measurement***

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

##### ***Subsequent measurement***

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

#### **Financial assets and financial liabilities at amortised cost**

##### ***Initial measurement***

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

##### ***Subsequent measurement***

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2019

### **Derecognition of financial assets and liabilities**

A financial asset is derecognised where:

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

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

### **Impairment of financial assets**

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

### ***Assets carried at amortised cost***

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

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

### **Determination of fair value**

Financial instruments carried at fair value are valued based on a quoted market price. For all financial instruments that are not valued based on a quoted market price, the fair value is determined by using appropriate valuation techniques. An analysis of fair values of financial instruments and further details as to how they are measured, are provided in note 7.2.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2019

### Offsetting financial instruments

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

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

### 1.3.8 Cash and cash equivalents

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

### 1.3.9 Amounts due from and 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. Details about the Fund's impairment policies and ECL allowance are provided in note 1.3.7.

### 1.3.10 Foreign currencies

#### Functional and presentation currency

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

#### Foreign currency translation

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

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 1.3.11 Redeemable shares and net assets attributable to holders of redeemable shares

The Fund's redeemable shares are not the most subordinate class of shares. Therefore, these are classified as financial liabilities in the Statement of financial position and disclosed as net assets attributable to holders of redeemable shares. Net assets attributable to holders are designated at fair value through profit or loss upon initial recognition.

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

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

The Fund's assets are valued primarily on the basis of closing market quotations or official closing prices on each valuation day. If closing market quotations or official closing prices are not readily available or do not accurately reflect the fair value of the Fund asset, or if the value of the Fund asset has been materially affected by events occurring before the Fund's pricing time, but after the close of the exchange or market on which the asset is principally traded, that asset will be valued by another method that the directors believe accurately reflects fair value in accordance with the valuation methodology described in the Fund's Prospectus.

### 1.3.12 Critical judgement in applying the Fund's accounting policies

#### Fair value of financial instruments

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

### 1.3.13 Financial results

The results of operations for the year are prepared in terms of IFRS and are set out in the accompanying Statement of comprehensive income and Statement of cash flows for the year ended 31 December 2019 as well as the Statement of financial position as at 31 December 2019.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2019

**1.3.14 Events subsequent to year end**

Since the start of January 2020, the outbreak of COVID-19, which is a rapidly evolving situation, has adversely impacted global commercial activities. The rapid development and fluidity of this situation precludes any prediction as to its ultimate impact, which may have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. At this stage we cannot predict with any great degree of confidence the longer term impact on the operating results of the Fund. Management does not believe there is any financial impact to the financial statements as at 31 December 2019 as a result of this subsequent event.

|  | 2019<br>US\$ | 2018<br>US\$ |
|--|--------------|--------------|
|--|--------------|--------------|

**2. Financial assets at fair value through profit or loss****Designated at fair value through profit or loss**

|   |                    |                    |
|---|--------------------|--------------------|
| Money market instruments                                | 116 153 108        | 111 931 373        |
| Gilts and semi-gilts                                    | 273 931 333        | 278 955 987        |
| Cash and cash equivalents for investment purposes       | 4 077 418          | 6 292 953          |
| <b>Mandatorily at fair value through profit or loss</b> |                    |                    |
| Forward contracts                                       | (6 633)            | (85 499)           |
| <b>TOTAL</b>  | <b>394 155 226</b> | <b>397 094 814</b> |

**3. Trade and other receivables**

|                          |                   |                   |
|--------------------------|-------------------|-------------------|
| Interest receivable      | 13 509 482        | 16 237 171        |
| Amounts due from brokers | 1 311 913         | 833 333           |
| <b>TOTAL</b>             | <b>14 821 395</b> | <b>17 070 504</b> |

**4. Trade and other payables**

|                        |                |               |
|------------------------|----------------|---------------|
| Other payables         | 90 219         | 87 548        |
| Amounts due to brokers | 26 644         | -             |
| <b>TOTAL</b>           | <b>116 863</b> | <b>87 548</b> |

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

|   |                    |                  |
|---|--------------------|------------------|
| Profit for the year   | 53 726 772         | 19 349 450       |
| <b>ADJUSTMENTS</b>  |                    |                  |
| Interest income, net of withholding tax   | (43 774 807)       | (47 465 950)     |
| Realised gains on disposal of financial assets at fair value through profit or loss | (1 056 547)        | (6 884 859)      |
| Unrealised (gains)/losses on financial assets at fair value through profit or loss  | (9 904 525)        | 34 266 155       |
| <b>TOTAL</b>  | <b>(1 009 107)</b> | <b>(735 204)</b> |

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2019

**5.2 Working capital changes**

|   |                  |                    |
|---|------------------|--------------------|
| Increase in amounts due from brokers            | (478 580)        | (814 327)          |
| Increase/(decrease) in trade and other payables | 2 671            | (743 648)          |
| <b>TOTAL</b>                                    | <b>(475 909)</b> | <b>(1 557 975)</b> |

**6. Related party transactions**

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

The directors of the Investment Manager and the directors of the Fund held no shares, directly or indirectly in the Fund at 31 December 2019 and 31 December 2018.

Allan Gray Life Limited, a fellow subsidiary of the Investment Manager, held 404 378 shares in the Fund (2018: 536 474 shares).

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

At 31 December 2019, the Allan Gray Unit Trust Funds and the Allan Gray Namibia Unit Trust Funds held 2 087 714 shares in the Fund (2018: 2 382 544 shares).

The directors of the Fund received total fees of US\$18 000 from the Fund (2018: US\$18 000).

During the financial year ended 31 December 2019, one of the directors waived his fee of US\$6 000 and Orbis Investment Management Limited waived any fees due in respect of company secretarial services rendered to the Fund.

The Investment Manager's fee is 1% per annum, which is accrued monthly in arrears. Affiliates of the Investment Manager within the Allan Gray Group manage global asset portfolios for their clients as well as a number of Allan Gray's institutional asset pools and collective investment schemes (collectively the 'Institutional Clients'). To avoid the layering of fees, applicable Institutional Clients are invested in the Class B shares and are not charged a fee in the Fund.

**7. Financial instruments**

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



**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2019

**7.1 Financial risk management policies and objectives**

The directors of the Fund have defined that the Fund's investment portfolio may comprise interest bearing securities, cash and cash equivalents, government and corporate debt, convertible bonds, securitised debt, preference shares and derivative instruments where the underlying asset is a debt security. The Fund may invest in listed and unlisted securities as well as unrated securities and these securities may be denominated in local or foreign currency. The Fund invests in a focused portfolio of assets that are selected for their perceived superior fundamental value and expected risk and return profile. The Fund seeks to take advantage of opportunities that arise and may invest a substantial portion of the assets in a single country or region rather than a diversified portfolio of assets with exposure to a basket of African countries. The Fund defines 'African securities' as securities issued by entities that are African but not South African in nature. The Fund's asset allocation will be flexible amongst the various fixed income asset classes. The Fund's investing activities expose holders of Fund shares to various types of risk that are associated with the financial instruments and markets in which the Fund invests.

**Market risk**

Market risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and includes interest rate, foreign currency and other price risks.

**Interest rate risk**

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

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

The Fund does not hedge interest rate risk. Instead, the Investment Manager tries to mitigate interest rate risk by monitoring the duration and term of the Fund compared to its benchmark, and relative to the long-term outlook on interest rate levels. Interest rate risk is linked to foreign currency risk, as currency weakness typically results in inflationary pressure which in turn poses significant upside risk to the outlook for interest rates. Where the Investment Manager believes there is an outlook for higher interest rates, the Investment Manager would look to manage this through lowering the duration in the portfolio.

The following tables illustrate the effect of reasonably possible changes in prevailing interest rates, with all other variables held constant. This analysis ignores operating bank accounts in the underlying Fund. Modified duration is used to estimate the change in the net assets attributable to holders of redeemable shares as a result of a change in interest rates. The actual results may differ from the sensitivity analysis and the difference could be material. The disclosure provides information on the risks to which holders of redeemable shares are exposed and is not indicative of future performance.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2019

| 2019                            | Sensitivity to changes in interest rates<br>US\$ |              |              |
|---------------------------------|--|--------------|--------------|
|                                 | Investment value                                 | + or - 0.50% | + or - 1.00% |
| <b>MONEY MARKET INSTRUMENTS</b> | 116 153 108                                      | 246 191      | 492 382      |
| Denominated in US dollar        | 20 221 306                                       | 42 860       | 85 720       |
| Denominated in Nigerian naira   | 95 931 802                                       | 203 331      | 406 662      |
| <b>GILTS AND SEMI-GILTS</b>     | 273 931 333                                      | 6 591 777    | 13 183 553   |
| Denominated in Egyptian pound   | 4 918 350  | 118 353      | 236 707      |
| Denominated in Ghanaian cedi    | 21 876 846                                       | 526 436      | 1 052 872    |
| Denominated in US dollar        | 247 136 137                                      | 5 946 987    | 11 893 975   |

Coupon rates on bonds range between 4.8% and 24.8% (2018: 6.0% and 21.4%).

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

### Foreign currency risk

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

The Fund hedges foreign currency risk. The Investment Manager's primary concern in managing the Fund is the risk of permanent capital loss. As such the Investment Manager is cognisant of all macro and political risks, including any currency devaluation risk. This risk is incorporated in the assessment of the attractiveness of the securities the Fund invests in. As part of the investment research, the Investment Manager also determines what is believed to be the long-term fair value of each currency in which the Fund invests. As part of this analysis, the Investment Manager looks at which markets are in a period of currency weakness or strength alongside what level of currency risk the markets are pricing in relative to history. For long-term investors, the ability to find cheap assets in discounted macro-weak environments can help to mitigate the currency risk.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2019

The following tables indicate the currencies to which the Fund had exposure at 31 December 2019 and 31 December 2018 on its monetary financial assets and liabilities. It illustrates the effect of reasonably possible changes in exchange rates, with all other variables held constant. The actual results may differ from the sensitivity analysis and the difference could be material. The disclosure provides information on the risks to which holders of redeemable shares are exposed and is not indicative of future performance. A positive number indicates a decrease in net assets attributable to holders of redeemable shares where the US dollar strengthens against the relevant currency. For a weakening of the US dollar against the relevant currency, there would be an equal and opposite impact on the net assets attributable to holders of redeemable shares, and the balances below would be negative.

| 2019                             | Currency impact in US\$ |                      |                     |                       |                       |                      |                      |
|----------------------------------|-------------------------|----------------------|---------------------|-----------------------|-----------------------|----------------------|----------------------|
|                                  | Canadian dollar (CAD)   | Egyptian pound (EGP) | Ghanaian cedi (GHS) | Kenyan shilling (KES) | Malawian kwacha (MWK) | Nigerian naira (NGN) | Zambian kwacha (ZMW) |
| <b>MONETARY FINANCIAL ASSETS</b> | 36                      | 4 927 411            | 21 938 474          | 5 075                 | 6 634                 | 100 127 307          | 366                  |
| +/-5%                            | 2                       | 246 371              | 1 096 924           | 254                   | 332                   | 5 006 365            | 18                   |
| +/-10%                           | 4                       | 492 741              | 2 193 847           | 508                   | 663                   | 10 012 731           | 37                   |
| +/-20%                           | 7                       | 985 482              | 4 387 694           | 1 015                 | 1 327                 | 20 025 461           | 73                   |

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

The closing foreign exchange rates at 31 December 2019 and 31 December 2018 are as follows:

|          | 2019   | 2018   |
|----------|--------|--------|
| USD: CAD | 1.30   | 1.36   |
| USD: EGP | 16.03  | 17.93  |
| USD: GHS | 5.68   | 4.83   |
| USD: KES | 101.36 | 101.85 |
| USD: MWK | 736.92 | 729.39 |
| USD: NGN | 364.83 | 364.30 |
| USD: ZMW | 14.10  | 11.92  |

**Credit risk**

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

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2019

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

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

The following table provides an analysis of the credit quality of the Fund's debt securities at reporting date by rating agency category. The credit quality has been assessed by reference to Fitch credit ratings and, where unavailable, Moody's ratings have been used. Ratings are presented in ascending order of credit risk.

| Credit rating | 2019<br>% of debt securities | 2018<br>% of debt securities |
|---------------|------------------------------|------------------------------|
| AA-           | 3.7                          | -                            |
| A             | 5.4                          | 6.8                          |
| BB+           | -                            | 6.3                          |
| B+            | 30.4                         | 6.2                          |
| B             | 44.3                         | 60.4                         |
| B-            | 10.6                         | 15.7                         |
| CCC+          | -                            | 3.1                          |
| C             | 4.7                          | -                            |
| UNRATED       | 0.9                          | 1.5                          |
|               | 100.0                        | 100.0                        |

**Risk concentrations of the maximum exposure to credit risk**

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

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

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2019

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 | 2019<br>% of Fund | 2018<br>% of Fund |
|----------------------------------|-------------------|-------------------|
| Nigeria                          | 50.4              | 50.5              |
| Ghana                            | 20.7              | 17.0              |
| Kenya                            | 8.9               | 3.2               |
| Zambia                           | 4.7               | 5.7               |
| Egypt                            | 4.6               | 12.6              |
| Mauritius                        | 3.7               | 4.1               |
| Ivory Coast                      | 1.1               | 1.4               |
| Senegal                          | 0.5               | -                 |
| Cash and accruals                | 5.4               | 5.5               |
| <b>TOTAL</b>                     | <b>100.0</b>      | <b>100.0</b>      |

**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 as soon as practically possible. The Investment Manager's compliance department monitors compliance with the applicable requirements.

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

- Where total members' redemptions on any dealing day are more than 4% of the total number of issued redeemable shares, the Investment Manager may, at its discretion, redeem only 4% of the total number of issued redeemable shares of the Fund, on a pro-rata basis, per dealing day.
- If any redemption requests are not satisfied in full, the balance will be carried forward to the following dealing day, subject to the same 4% restriction.

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2019

The following table analyses the contractual maturities of the Fund's financial assets and financial liabilities as at 31 December 2019.

| Maturities  | US\$          |                  |              |              |                      |               |
|---|---------------|------------------|--------------|--------------|----------------------|---------------|
|   | On demand     | Less than 1 year | 1 to 3 years | 3 to 7 years | Greater than 7 years | Total         |
| <b>FINANCIAL ASSETS</b>                                 |               |                  |              |              |                      | 431 039 794   |
| Cash and cash equivalents                               | 22 063 173    | -                | -            | -            | -                    | 22 063 173    |
| Cash and cash equivalents for investment purposes       | -             | 4 077 418        | -            | -            | -                    | 4 077 418     |
| Forward contracts                                       | -             | (6 633)          | -            | -            | -                    | (6 633)       |
| Money market instruments                                | -             | 116 153 108      | -            | -            | -                    | 116 153 108   |
| Gilts and semi-gilts                                    | -             | 4 929 172        | 21 250 820   | 127 175 718  | 120 575 623          | 273 931 333   |
| Trade and other receivables                             | -             | 14 821 395       | -            | -            | -                    | 14 821 395    |
| <b>FINANCIAL LIABILITIES</b>                            |               |                  |              |              |                      | (431 039 794) |
| Net assets attributable to holders of redeemable shares | (430 922 931) | -                | -            | -            | -                    | (430 922 931) |
| Trade and other payables                                | -             | (116 863)        | -            | -            | -                    | (116 863)     |

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

The following table analyses the contractual maturities of the Fund's financial assets and financial liabilities as at 31 December 2018.

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

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 7.2 Fair value

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

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

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

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

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

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

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

The fair value of cash and cash equivalents is generally considered to be the amount held on deposit at the relevant institution. When considered necessary a credit spread will be applied. This is considered a level 2 valuation. In terms of exchange requirements, margin deposits are pledged as collateral for derivatives in cash and cash equivalents for investment purposes. Where no credit spread is applied, the carrying amount approximates fair value.

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

The Fund has determined that transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2019

The table below analyses financial instruments, measured at fair value at 31 December 2019, by the level in the fair value hierarchy into which the fair value measurement is categorised.

|   | US\$                           |                             |   |             |
|---|--------------------------------|-----------------------------|---|-------------|
|   | Quoted market prices (Level 1) | Observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total       |
| <b>FINANCIAL ASSETS</b>                                 |                                |                             |   |             |
| Money market instruments                                | 95 931 802                     | 20 221 306                  | -   | 116 153 108 |
| Gilts and semi-gilts                                    | 146 153 379                    | 127 777 954                 | -   | 273 931 333 |
| Forward contracts                                       | -                              | (6 633)                     | -   | (6 633)     |
|   | 242 085 181                    | 147 992 627                 | -   | 390 077 808 |
| <b>FINANCIAL LIABILITIES</b>                            |                                |                             |   |             |
| Net assets attributable to holders of redeemable shares | -                              | 430 922 931                 | -   | 430 922 931 |
|   | -                              | 430 922 931                 | -   | 430 922 931 |

There were transfers between levels during the year ended 31 December 2019.

During the year ended 31 December 2019, certain gilts held by the Fund were assessed to be thinly traded due to relatively low trading volumes. These gilts are valued at quoted prices for identical or similar assets in markets that are not active. This resulted in a transfer of US\$112 369 690 out of level 1 into level 2 at the beginning of the reporting period.

During the year ended 31 December 2017, the drop in oil price negatively impacted the issuing company of a semi-gilt and as a result, the company had not kept up with the scheduled repayments. The valuation of the semi-gilt was adjusted to take into account the expected recovery of the nominal value, which resulted in a transfer from level 2 to level 3. The semi-gilt was restructured. The valuation was adjusted to take into account the full recovery of the nominal value, which resulted in a transfer from level 3 to level 2 at the beginning of the reporting period.

The table below analyses financial instruments, measured at fair value at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised.

|   | US\$                           |                             |   |             |
|---|--------------------------------|-----------------------------|---|-------------|
|   | Quoted market prices (Level 1) | Observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total       |
| <b>FINANCIAL ASSETS</b>                                 |                                |                             |   |             |
| Money market instruments                                | 111 931 373                    | -                           | -   | 111 931 373 |
| Gilts and semi-gilts                                    | 273 716 749                    | 4 166 617                   | 1 072 621                                 | 278 955 987 |
| Forward contracts                                       | -                              | (85 499)                    | -   | (85 499)    |
|   | 385 648 122                    | 4 081 118                   | 1 072 621                                 | 390 801 861 |
| <b>FINANCIAL LIABILITIES</b>                            |                                |                             |   |             |
| Net assets attributable to holders of redeemable shares | -                              | 437 367 611                 | -   | 437 367 611 |
|   | -                              | 437 367 611                 | -   | 437 367 611 |

There were no transfers between levels 1, 2 and 3 during the year ended 31 December 2018.



**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2019

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:

|  | 2019<br>US\$ | 2018<br>US\$ |
|--|--------------|--------------|
| Opening balance                        | 1 072 621    | 1 829 306    |
| Transfer out of level 3                | (1 072 621)  | -            |
| Purchases at cost                      | -            | 571 367      |
| Disposal of gilts and semi-gilts       | -            | (1 972 291)  |
| Net gains recognised in profit or loss | -            | 644 239      |
| <b>TOTAL</b>                           | -            | 1 072 621    |

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

|   | 2019<br>US\$ | 2018<br>US\$ |
|---|--------------|--------------|
| Unrealised gains recognised in profit or loss | -            | 70 843       |
| Realised gains recognised in profit or loss   | -            | 573 396      |
| <b>TOTAL</b>                                  | -            | 644 239      |

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

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

| Effect on profit or loss                       |  |         |           |
|--|--|---------|-----------|
| INCREASE/(DECREASE) OF EXPECTED RECOVERY RATE: |  |         |           |
| 2018   |  | GAIN    | LOSS      |
| +/-5%  |  | 53 631  | (53 631)  |
| +/-10%   |  | 107 262 | (107 262) |

No sensitivity analysis for the year ended 31 December 2019 has been presented as the semi-gilt has been transferred from level 3 to level 2.

**7.3 Derivative contracts**

Typically, derivative contracts serve as components of the Fund's investment strategy and are utilised primarily to structure and hedge investments, to enhance performance and reduce risk to the Fund (the Fund does not designate any derivative as a hedging instrument for hedge accounting purposes). The derivative contracts that the Fund holds include forwards. The Fund uses derivative financial instruments to hedge its risks associated primarily with fair value and currency risks relating to debt instruments.

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2019

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

At 31 December 2019 and 31 December 2018, the Fund had positions in the following derivatives:

**Forwards**

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

The Fund has credit exposure to the counterparties of forward contracts. The credit risk related to forward contracts is considered minimal because the contracts are held with institutions of good repute. Forward contracts are settled gross and, therefore, considered to bear a higher liquidity risk than the future contracts which are settled on a net basis. Forward contracts result in market risk exposure. Fair value losses of US\$1 032 828 (2018 - loss of US\$77 663) relating to these contracts were recognised in profit or loss during the year.

Forward contracts held for risk management purposes:

|                                    | 2019<br>US\$ | 2018<br>US\$ |
|------------------------------------|--------------|--------------|
| Forward contracts (total exposure) | (84 659 147) | (78 729 505) |

**8. Share capital****Authorised and issued capital**

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

The Fund's authorised share capital at 31 December 2019 and 31 December 2018 is detailed below.

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

The Fund's issued share capital at 31 December 2019 and 31 December 2018 is detailed below.

| Fund share transactions            | Class A        | Class B          | Total            |
|------------------------------------|----------------|------------------|------------------|
| <b>BALANCE AT 31 DECEMBER 2017</b> | 48 139         | 2 649 397        | 2 697 536        |
| Net increase in shares             | 42 026         | 586 913          | 628 939          |
| <b>BALANCE AT 31 DECEMBER 2018</b> | 90 165         | 3 236 310        | 3 326 475        |
| Net increase/(decrease) in shares  | 75 837         | (492 573)        | (416 736)        |
| <b>BALANCE AT 31 DECEMBER 2019</b> | <b>166 002</b> | <b>2 743 737</b> | <b>2 909 739</b> |

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2019

| <b>Net asset value per share</b> | <b>Class A<br/>US\$</b> | <b>Class B<br/>US\$</b> |
|----------------------------------|-------------------------|-------------------------|
| On 31 December 2018              | 129.32                  | 131.54                  |
| On 31 December 2019              | 144.70                  | 148.30                  |

**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.

During the year ended 31 December 2019, a new share class ('Class C') was authorised, which participates in the Fund's net assets and dividends, and is redeemable and non-voting. No Class C shares were in issue as at 31 December 2019.

**Founder shares**

Founder shares do not participate in the Fund's portfolio, are redeemable at par value only after all Fund shares have been redeemed, and carry the right to vote. If the Fund is wound up or dissolved, the Founder shares will participate only to the extent of their par value. All of the authorised Founder shares of the Fund have been issued as fully paid and are held by the Investment Manager. The Founder shares are classified as a trade and other payable in the Statement of financial position.

**Income distributions**

No income distributions were declared by the Fund for the years ended 31 December 2019 and 31 December 2018.

**IMPORTANT NOTES FOR INVESTORS****Fund information**

The Investment Manager has appointed Allan Gray Unit Trust Management (RF) Proprietary Limited (the 'Representative') as its representative for the purpose of approval in terms of the Collective Investment Schemes Control Act 45 of 2002. The Representative is incorporated under the laws of South Africa and is supervised by the Financial Sector Conduct Authority ('FSCA'). The Fund may be closed to new investments at any time to be managed according to its mandate. If you have any questions regarding the status of the Fund, please contact the Registrar. Shares in the Fund are traded at ruling prices and the Fund can engage in borrowing and scrip lending. The Fund may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. This report does not constitute a financial promotion, a recommendation, an offer to sell or a solicitation to buy shares in the Fund. Investments in the Fund are made according to the terms and conditions and subject to the restrictions set out in the prospectus. Certain capitalised terms are defined in the glossary section of the Fund's prospectus, a copy of which is available on request. The offering of shares in the Fund may be restricted in certain jurisdictions. Please contact the Allan Gray service team to confirm if there are any restrictions that apply to you.

**European Union Savings Directive and Directive on Administrative Cooperation**

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

**United Kingdom Reporting Fund Status**

The Fund's application for reporting fund status has been successful. The directors intend to manage the Fund in such a way that it should continue to be certified as a reporting fund.

**Notice to investors in the European Economic Area ('EEA')**

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

**Performance**

Collective Investment Schemes in Securities (unit trusts or mutual funds) are generally medium- to long-term investments. Where annualised performance is mentioned, this refers to the average return per year over the period. The value of shares may go down as well as up and past performance is not necessarily a guide to future performance. Movements in exchange rates may cause the value of underlying international investments to go up or down. Neither the Investment Manager, the Fund nor the Representative provides any guarantee regarding the capital or the performance of the Fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Actual investor performance may differ as a result of the investment date, the date of reinvestment and applicable taxes.

**IMPORTANT NOTES FOR INVESTORS****Benchmark data****J.P. Morgan Indices**

Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval. Copyright 2020, J.P. Morgan Chase & Co. All rights reserved.

**Share price**

Share prices are calculated on a net asset value basis, which is the total market value of all assets in the Fund including any income accruals and less any permissible deductions from the Fund divided by the number of shares in issue. Forward pricing is used. The weekly price of the Fund is normally calculated each Friday. Purchase requests must be received by the Registrar of the Fund by 17:00 South African time on that dealing day to receive that week's price. Redemption requests must be received by the Registrar of the Fund by 17:00 South African time, on the particular dealing day on which shares are to be redeemed to receive that week's price. Share prices are available on [www.allangray.com](http://www.allangray.com).

**Fees and charges**

Permissible deductions from the Fund may include management fees, brokerage, Securities Transfer Tax ('STT'), auditor's fees, bank charges and custody fees. A schedule of fees, charges and maximum commissions is available on request from the Representative.

**Total expense ratio ('TER') and Transaction costs**

The total expense ratio ('TER') is the annualised percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past one- and three-year periods. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged) and other expenses like audit fees. Transaction costs (including brokerage, STT and investor protection levies where applicable) are shown separately. There are no explicit brokerage charges in global bond markets. The broker rather takes an undisclosed spread between the purchase and sale price. The spread (charge) can vary from negligible to substantial depending on the asset and market circumstances. The disclosed transaction charge is therefore zero but in reality there are transaction costs which reflect in the Fund's returns. We aim to minimise costs by keeping our trading activity to a minimum and always seeking out the most favourable price when buying and selling assets. Transaction costs are a necessary cost in administering the Fund and impact Fund returns. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER. Since Fund returns are quoted after the deduction of these expenses, the TER and Transaction costs should not be deducted from published returns. As collective investment scheme expenses vary, the current TER cannot be used as an indication of future TERs. A higher TER 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 securities listed in the Fund's universe of African markets including liquidity risks, sometimes aggravated by rapid and large outflows of 'hot money' and capital flight, concentration risk, currency risks, political and social instability, the possibility of expropriation, confiscatory taxation or nationalisation of assets and the establishment of foreign exchange controls which may include the suspension of the ability to transfer currency from a given country. In many cases, such risks are significantly higher than those in developed markets. Furthermore, African markets often have a more limited number of potential buyers and issuers and may be dependent on revenue from particular commodities or international aid. Additionally, African markets may have less government supervision and regulation, differences in auditing and financial reporting standards, and less developed legal systems. African markets also often have less developed securities settlement 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 factsheet, prospectus and application forms, free of charge, by contacting the Allan Gray service team, at 0860 000 654 or +27 (0)21 415 2301 or by email at [allangraybermuda@allangray.com](mailto:allangraybermuda@allangray.com)

## CHARACTERISTICS AND DIRECTORY

### Domicile and structure

Bermuda open-ended investment company

### Regulation

The Fund is incorporated and registered under the laws of Bermuda and is supervised by the Bermuda Monetary Authority. The Fund is also listed on the Bermuda Stock Exchange.

### Registered Office

Orbis House  
25 Front Street  
Hamilton HM11  
Bermuda

### Company Secretary

Orbis Administration Limited

### Directors

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

### Investment Manager

Allan Gray Bermuda Limited  
Orbis House  
25 Front Street  
Hamilton HM11  
Bermuda

### Investment Adviser

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

### Primary Custodian

Standard Bank of South Africa Limited  
Investor Services 2nd Floor  
25 Pixley Ka Isaka Seme Street  
Johannesburg  
South Africa

### Auditors

Ernst & Young Ltd.  
3 Bermudiana Road  
Hamilton HM 08  
Bermuda

### Administrator & Registrar

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