

ANNUAL REPORT **ALLAN GRAY AFRICA EQUITY FUND LIMITED**

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ALLAN**GRAY**

TABLE OF CONTENTS

1	ALLAN GRAY AFRICA EQUITY FUND LIMITED STRATEGY	9	STATEMENT OF CHANGES IN NET ASSETS
4	SCHEDULE OF NET ASSETS		ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES
5	APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS	10	STATEMENT OF CASH FLOWS
6	INDEPENDENT AUDITORS' REPORT	11	NOTES TO THE ANNUAL FINANCIAL STATEMENTS
7	STATEMENT OF FINANCIAL POSITION	28	IMPORTANT NOTES FOR INVESTORS
8	STATEMENT OF COMPREHENSIVE INCOME	31	CHARACTERISTICS AND DIRECTORY

ALLAN GRAY AFRICA EQUITY FUND LIMITED STRATEGY

as at 31 December 2016

PORTFOLIO MANAGER

Andrew Lapping

FUND DESCRIPTION AND SUMMARY OF INVESTMENT POLICY

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

FUND OBJECTIVE AND BENCHMARK

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

SUITABLE FOR THOSE INVESTORS WHO

- Seek exposure to African equities
- Are comfortable with stock market and currency fluctuations
- Are prepared to take on the risk of capital loss
- Typically have an investment horizon of more than five years

COMMENTARY

Most African equity markets had a difficult 2016, generating negative dollar returns. The worst performers were Egypt and Nigeria, which fell 47% and 41% respectively, while the standout performer was Morocco, returning 26%. Kenya and South Africa, the other large, liquid markets, fell 9% and rose 13%, respectively.

After trying to plug the dyke for over a year, the Egyptian authorities finally let the pound float in early November. The magnitude of the move surprised most; including us (we were using a rate

of EGP13.20/US\$ to value the portfolio just before the devaluation). The Egyptian pound lost 52% of its value in eight weeks, moving from EGP8.88/US\$ to EGP18.52/US\$. The local equity market rallied 37% over the same period, for a net US\$ loss of 35% for equity investors.

Close observers of the Fund's price series would have seen little price movement from the above volatility as by November we had already devalued the Egyptian pound rate used to value the Fund assets, so the subsequent stock market and currency moves more-or-less offset one another.

We think the Egyptian pound is undervalued and may well recover somewhat, especially if the government adopts some sensible policies and cuts back on money printing. We are not net buyers of Egyptian equities, as there is less value after the rally. Our preferred exposure is still Eastern Tobacco. The Egyptian opportunity currently appears to be in local currency, fixed interest and cheap holidays.

The Fund is a buyer of Nigerian banks, as these businesses look undervalued despite substantial risks. The Nigerian bank investments detracted 5.6% from returns over the past year.

Nigerian consumer businesses are beginning to move into our valuation range, but we are not yet substantial buyers.

It would have been nice if, rather than investing in Nigerian banks, the Fund had the equivalent sum invested in Moroccan equities – unfortunately this was not the case. We had zero exposure to Morocco over the year and, despite lots of looking, we have not found any businesses that we think are substantially undervalued.

The Fund's exposure to Kenyan equities is fairly modest despite the financial companies trading on

ALLAN GRAY AFRICA EQUITY FUND LIMITED STRATEGY

as at 31 December 2016

depressed valuations. The Kenyan shilling is cause for concern. The shilling traded in a remarkably tight range around KES101/US\$ over the past 18 months, despite a rapidly increasing fiscal deficit (now 10% of GDP) and a current account deficit of 6% of GDP. Private sector credit expansion has slowed recently, but a pegged currency and large twin deficits do not usually end well.

Unfortunately, the reason for the sharp rally in Zimbabwean equities over the past six months was not an improving economic situation, but rather a deteriorating one. The government has introduced so called "bond notes" in an attempt to solve the chronic dollar shortage, which could be the harbinger of another bout of money printing. It is very difficult to get dollars out of Zimbabwe, so investors with cash balances are looking to buy real assets, driving up equity valuations. In pricing the Fund, we have devalued the Zimbabwean securities by 20% to reflect this anomaly.

Certain South African industrial companies performed very poorly in 2016. We have begun to buy select stocks, but generally do not find much value in the sector as, despite the price decline, valuations are still high.

Falling African equity prices and valuations over the past 30 months have laid the groundwork for better returns ahead. The Fund owns a collection of undervalued equities that should reward long-term investors with pleasing real returns in the years to come.

Commentary contributed by Andrew Lapping

PERFORMANCE IN US\$¹ NET OF ALL FEES AND EXPENSES

% Returns	Fund	Benchmark ²
Cumulative:		
Since inception	1 701.2	437.9
Annualised:		
Since inception	16.9	9.5
Latest 10 years	1.7	3.0
Latest 5 years	-2.8	0.9
Latest 3 years	-14.2	-3.6
Latest 2 years	-18.5	-7.1
Latest 1 year	0.1	14.8
Risk measures (since inception, based on month-end prices)		
Maximum drawdown ³	-52.5	-60.5
Percentage positive months ⁴	57.2	57.2
Annualised monthly volatility ⁵	25.3	26.7

1. The Fund is currently priced in US dollars. From inception to 30 April 2012 the Fund was priced in South African rands.
2. The current benchmark is the MSCI EFM Africa Index (total returns). From inception to 30 April 2012 the benchmark was the FTSE/JSE All Share Index including income. Performance as calculated by Allan Gray as at 31 December 2016 (source: Bloomberg). Calculation based on the latest available data as supplied by third parties.
3. Maximum percentage decline over any period. The maximum drawdown occurred from October 2007 to February 2009 and maximum benchmark drawdown occurred from October 2007 to February 2009. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.

ALLAN GRAY AFRICA EQUITY FUND LIMITED STRATEGY

as at 31 December 2016

INCOME DISTRIBUTION FOR THE LAST 12 MONTHS

To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus.	31 Dec 2016
Dollars per unit	4.0861

TOTAL EXPENSE RATIO ('TER') AND TRANSACTION COSTS

The annual management fee charged is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a 3-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns. Transaction costs are disclosed separately.

TER and Transaction costs breakdown for the 3-year period ending 31 December 2016	%
Total expense ratio	2.06
Fee for benchmark performance	1.50
Performance fees	0.29
Custody fees	0.21
Other costs excluding transaction costs	0.06
Transaction costs	0.22
Total investment charge	2.28

SECTOR ALLOCATION AS AT 31 DECEMBER 2016

Sector	% of Equities	Benchmark ²
Financials	28.7	31.2
Consumer goods	24.4	8.3
Basic materials	14.5	11.2
Telecommunications	10.8	8.9
Oil & gas	9.8	0.1
Consumer services	5.5	30.6
Utilities	4.3	0.1
Industrials	2.0	5.7
Healthcare	-	3.9
Total⁶	100.0	100.0

COUNTRY OF PRIMARY LISTING AS AT 31 DECEMBER 2016

Country	% of Equities	Benchmark ²
South Africa	27.0	88.4
Zimbabwe	19.7	-
Nigeria	18.0	2.3
Egypt	18.0	1.8
Kenya	4.5	1.4
United Kingdom	3.6	-
Australia	3.0	-
France	3.0	-
Uganda	2.9	-
Canada	0.5	-
Morocco	-	2.8
Mauritius	-	0.9
Romania	-	0.9
Malta	-	0.7
BRVM	-	0.5
Tunisia	-	0.2
Total⁶	100.0	100.0

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

SCHEDULE OF NET ASSETS

as at 31 December 2016

NUMBER HELD	INSTRUMENT (RANKED BY SECTOR)	MARKET VALUE US\$	% OF FUND	MSCI EFM AFRICA INDEX (TOTAL RETURNS) (%)
	FINANCIALS	47 402 950	29.0%	31.2%
969 931	Standard Bank	10 713 394	6.6%	
451 515 149	Access Bank	8 698 372	5.3%	
125 694 672	Zenith Bank	6 084 662	3.7%	
4 527 233	CFC Stanbic	3 114 765	1.9%	
277 807 403	First Bank of Nigeria Holdings	3 054 331	1.9%	
1 504 000	MMI	2 582 458	1.6%	
1 029 617	Old Mutual	2 581 050	1.6%	
141 814	Nedbank	2 458 050	1.5%	
183 357	Barclays Africa	2 251 357	1.4%	
6 776 650	Kenya Commercial Bank	1 901 324	1.2%	
	Positions less than 1%	3 963 187	2.3%	
	CONSUMER GOODS	40 342 690	24.7%	8.3%
1 378 411	Eastern Tobacco	21 127 019	12.9%	
20 950 000	Delta Corporation	14 832 600	9.1%	
10 526 667	Innscore Africa	4 042 240	2.5%	
	Positions less than 1%	340 831	0.2%	
	BASIC MATERIALS	23 917 968	14.6%	11.2%
486 899	Sasol	14 137 104	8.7%	
1 161 660	Zimplats	5 029 524	3.1%	
2 824 000	Caledonia Mining	2 897 022	1.8%	
	Positions less than 1%	1 854 318	1.0%	
	TELECOMMUNICATIONS	17 784 380	10.9%	8.9%
49 424 796	Econet Wireless Zimbabwe	11 861 950	7.3%	
12 136 011	Global Telecom	5 022 436	3.1%	
	Positions less than 1%	899 994	0.5%	
	OIL & GAS	16 083 659	9.8%	0.1%
10 586 313	SEPLAT Petroleum Development Co	10 496 888	6.4%	
1 098 509	Maurel Et Prom	4 876 300	3.0%	
	Positions less than 1%	710 471	0.4%	
	CONSUMER SERVICES	9 123 765	5.6%	30.6%
41 300	Naspers	6 054 614	3.7%	
	Positions less than 1%	3 069 151	1.9%	
	UTILITIES	7 072 227	4.3%	0.1%
37 624 545	Umeme	5 095 884	3.1%	
24 848 575	Kenya Power & Lighting	1 976 343	1.2%	
	INDUSTRIALS	3 367 916	2.1%	5.7%
	Positions less than 1%	3 367 916	2.1%	
	CASH AND ACCRUALS	-1 672 080	-1.0%	-
	NET ASSETS	163 423 475	100.0%	

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

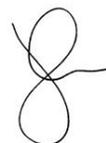
The directors of the Fund are responsible for the preparation of the annual financial statements and related financial information included in this report.

The annual financial statements, which comprise the financial position as at 31 December 2016 and its financial performance and cash flows for the year ended 31 December 2016, are set out on pages 7 to 27 and have been approved by the board of directors of the Fund and are signed on its behalf by:



John CR Collis
Director

15 March 2017



Craig Bodenstab
Director

15 March 2017

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND MEMBERS OF ALLAN GRAY AFRICA EQUITY FUND LIMITED (THE 'FUND')

We have audited the accompanying financial statements of the Fund, which comprise the statement of financial position as at 31 December 2016 and the statements of comprehensive income, changes in net assets attributable to holders of redeemable shares and cash flows for the year ended 31 December 2016, and a summary of significant accounting policies and other explanatory information on pages 7 to 27.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINION

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

15 March 2017
Toronto, Canada

STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

	NOTE	2016 US\$	2015 US\$
ASSETS			
Financial assets at fair value through profit or loss	2	165 095 555	162 844 482
Cash and cash equivalents	3	4 126 480	7 670 720
Trade and other receivables	4	65 474	67 002
TOTAL ASSETS		169 287 509	170 582 204
LIABILITIES			
Trade and other payables	5	376 121	393 959
Distribution payable	8	5 487 913	5 548 329
TOTAL LIABILITIES, EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES		5 864 034	5 942 288
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES		163 423 475	164 639 916

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTE	2016 US\$	2015 US\$
NET INVESTMENT GAINS / (LOSSES)		3 054 211	(84 713 897)
Dividends		8 076 065	11 898 698
Interest		255	48
Realised gains / (losses) on disposal of investments		1 719 636	(2 456 915)
Unrealised losses on investments		(5 838 345)	(93 241 563)
Foreign exchange losses		(903 737)	(947 598)
Other income		337	33 433
OPERATING EXPENSES		(2 588 680)	(6 391 372)
Management fees		(1 293 647)	(3 825 187)
Audit fees		(39 451)	(41 951)
Custodian fees		(310 509)	(506 293)
Transaction fees		(11 462)	(14 349)
Administration fees		(43 710)	(62 091)
Withholding taxes		(866 024)	(1 907 687)
Other expenses		(23 877)	(33 814)
TOTAL COMPREHENSIVE INCOME / (LOSS) BEFORE FINANCE COSTS		465 531	(91 105 269)
Finance cost - distribution to holders of redeemable shares	8	(5 487 913)	(5 548 329)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(5 022 382)	(96 653 598)

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

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

For the year ended 31 December 2016

	NOTE	NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES US\$	NUMBER OF SHARES	NET ASSET VALUE PER SHARE US\$
BALANCE AT 31 DECEMBER 2014		274 928 193	1 405 523	195.61
Total comprehensive loss for the year		(96 653 598)		
Net capital withdrawals		(13 634 679)	(95 253)	
BALANCE AT 31 DECEMBER 2015		164 639 916	1 310 270	125.65
Total comprehensive loss for the year		(5 022 382)		
Net capital contributions		3 805 941	32 799	
BALANCE AT 31 DECEMBER 2016	8	163 423 475	1 343 069	121.68

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 2016

	NOTE	2016 US\$	2015 US\$
CASH FLOW FROM OPERATING ACTIVITIES			
Net cash outflow from operations before working capital changes	6.1	(1 722 319)	(4 450 252)
Working capital changes	6.2	(16 310)	(276 908)
Interest received		255	48
Dividends received, net of withholding tax		7 210 041	9 991 011
NET CASH GENERATED BY OPERATING ACTIVITIES		5 471 667	5 263 899
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of investments		(41 786 598)	(59 741 290)
Proceeds from sale of investments		35 416 817	67 781 905
NET CASH UTILISED BY INVESTING ACTIVITIES		(6 369 781)	8 040 615
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of redeemable shares		67 455	4 084 807
Redemption of redeemable shares		(1 809 844)	(17 719 486)
NET CASH FLOWS UTILISED BY FINANCING ACTIVITIES		(1 742 389)	(13 634 679)
Net decrease in cash and cash equivalents		(2 640 503)	(330 165)
Cash and cash equivalents at the beginning of the year		7 670 720	8 948 483
Effect of exchange rate changes on cash and cash equivalents		(903 737)	(947 598)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		4 126 480	7 670 720
SUPPLEMENTAL INFORMATION:			
Actual interest received		255	48
Actual dividends received, net of withholding tax		7 211 569	10 044 093

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

CORPORATE INFORMATION

Allan Gray Africa Equity Fund Limited (the 'Fund') was incorporated on 22 April 1997 and is a limited liability company of unlimited duration. The Fund was launched to the public on 1 July 1998 and is a Bermuda exempted Mutual Fund Company. The investment manager of the Fund is Allan Gray International Proprietary Limited (the 'Investment Manager'). Allan Gray Proprietary Limited is the investment advisor to the Fund.

The financial statements of the Fund were authorised for issue by the board of directors on 15 March 2017.

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 of the IASB that are relevant to its operations and effective for the annual accounting period ended 31 December 2016.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

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

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

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

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

1.3 ACCOUNTING POLICIES

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

1.3.1 NET INVESTMENT INCOME

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

INTEREST INCOME

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

DIVIDEND INCOME

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

OTHER INCOME

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

INVESTMENT GAINS AND LOSSES

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

1.3.2 ANNUAL MANAGEMENT FEE

The annual management fee ranges from 0.5% to 2.5% depending on the relative return of the Fund to the benchmark, before fees. The fee is calculated on a base of 1.5% plus one twenty-fifth of the cumulative three-year relative performance, subject to a floor of 0.5% and cap of 2.5%. For example if the cumulative three year performance of the fund is 20% and that of the benchmark is 15%, the fee rate is: $1.5\% + (20\% - 15\%) / 25 = 1.7\%$.

1.3.3 EXPENSES

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

1.3.4 DISTRIBUTIONS TO HOLDERS OF REDEEMABLE SHARES

Distributions from the Fund will be automatically reinvested in additional redeemable shares unless a holder of redeemable shares requests in writing that any dividends be paid to them.

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

Distributions to holders of redeemable shares are recognised in the Statement of comprehensive income as finance costs.

1.3.5 TAXATION

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

Income and capital gains on the Fund's investments, however, may be subject to taxes in certain countries.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1.3.6 FINANCIAL INSTRUMENTS: FINANCIAL ASSETS AND LIABILITIES

CLASSIFICATION

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Fund's investments in equity instruments are designated upon initial recognition on the basis that they are part of a group of financial assets that are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Fund, as set out in the Fund's offering document. Derivatives are categorised as held for trading and are not designated as effective hedging instruments in terms of IAS 39. When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

LOANS AND RECEIVABLES

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

FINANCIAL LIABILITIES AT AMORTISED COST

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

RECOGNITION AND MEASUREMENT

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

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

LOANS AND RECEIVABLES AND FINANCIAL LIABILITIES AT AMORTISED COST

Loans and receivables and financial liabilities at amortised cost are measured initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables and financial liabilities at amortised cost are measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost approximates fair value due to the short term nature of loans and receivables and financial liabilities.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Gains and losses are recognised in profit or loss when loans and receivables and financial liabilities at amortised cost are derecognised or impaired, and through the amortisation process.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset is derecognised where:

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

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.

DETERMINATION OF FAIR VALUE

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

An analysis of fair values of financial instruments and further details as to how they are measured, are provided in note 7.

OFFSETTING FINANCIAL INSTRUMENTS

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

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

1.3.7 CASH AND CASH EQUIVALENTS

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

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

1.3.8 AMOUNTS DUE FROM AND DUE TO BROKERS

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

1.3.9 FOREIGN CURRENCIES

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

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

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

1.3.10 NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES

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

1.3.11 CRITICAL JUDGEMENT IN APPLYING THE FUND'S ACCOUNTING POLICIES

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

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

1.3.12 EVENTS SUBSEQUENT TO YEAR-END

There were no significant events subsequent to year-end.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 US\$	2015 US\$
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2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Equities	1 65 095 555	1 62 844 482
TOTAL	1 65 095 555	1 62 844 482

3. CASH AND CASH EQUIVALENTS

Cash held at banks	4 126 480	7 670 720
TOTAL	4 126 480	7 670 720

4. TRADE AND OTHER RECEIVABLES

Dividends receivable	65 474	67 002
TOTAL	65 474	67 002

5. TRADE AND OTHER PAYABLES

Management fees	206 370	235 095
Other expenses	169 751	158 864
TOTAL	376 121	393 959

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 US\$	2015 US\$
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6. NOTES TO THE STATEMENTS OF CASH FLOWS

6.1 NET CASH OUTFLOW FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES

Total comprehensive loss for the year	(5 022 382)	(96 653 598)
Adjustments:		
Realised (gains) / losses on disposal of investments	(1 719 636)	2 456 915
Unrealised losses on investments	5 838 345	93 241 563
Foreign exchange losses	903 737	947 598
Interest income	(255)	(48)
Dividend income, net of withholding tax	(7 210 041)	(9 991 011)
Finance cost - distribution to holders of redeemable shares	5 487 913	5 548 329
TOTAL	(1 722 319)	(4 450 252)

6.2 WORKING CAPITAL CHANGES

Decrease in trade and other receivables	1 528	53 082
Decrease in trade and other payables	(17 838)	(329 990)
TOTAL	(16 310)	(276 908)

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

CATEGORISATION OF FINANCIAL INSTRUMENTS AT 31 DECEMBER 2016

	LOANS AND RECEIVABLES US\$	FINANCIAL ASSETS MEASURED AT FAIR VALUE US\$	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST US\$	TOTAL US\$
ASSETS				
Financial assets at fair value through profit or loss	-	165 095 555	-	165 095 555
Cash and cash equivalents	4 126 480	-	-	4 126 480
Trade and other receivables	65 474	-	-	65 474
TOTAL ASSETS	4 191 954	165 095 555	-	169 287 509
LIABILITIES				
Trade and other payables	-	-	376 121	376 121
Distribution payable	-	-	5 487 913	5 487 913
TOTAL LIABILITIES	-	-	5 864 034	5 864 034

CATEGORISATION OF FINANCIAL INSTRUMENTS AT 31 DECEMBER 2015

	LOANS AND RECEIVABLES US\$	FINANCIAL ASSETS MEASURED AT FAIR VALUE US\$	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST US\$	TOTAL US\$
ASSETS				
Financial assets at fair value through profit or loss	-	162 844 482	-	162 844 482
Cash and cash equivalents	7 670 720	-	-	7 670 720
Trade and other receivables	67 002	-	-	67 002
TOTAL ASSETS	7 737 722	162 844 482	-	170 582 204
LIABILITIES				
Trade and other payables	-	-	393 959	393 959
Distribution payable	-	-	5 548 329	5 548 329
TOTAL LIABILITIES	-	-	5 942 288	5 942 288

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

7.1 FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Fund's investment portfolio may comprise equities, equity-linked securities, interest-bearing non-equity linked securities and cash and cash equivalents. The Fund may invest in listed and unlisted securities and these securities may be denominated in local or foreign currency.

The Fund invests in a focused portfolio of assets that are selected for their perceived superior fundamental value and expected risk and return profile. The Fund seeks to take advantage of opportunities that arise and may invest a substantial portion of the assets in a single country or region rather than a diversified portfolio of assets with exposure to a basket of African countries.

The Fund defines 'African securities' as equities in companies with significant business interests in Africa, regardless of the location of the stock exchange listing.

MARKET RISK

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

The following table shows the Funds exposure to price and interest rate risks, split into the different types of financial instruments held by the Fund at 31 December 2016. The analysis only relates to instruments subject to those specific risks.

EXPOSURE	2016 US\$	2015 US\$
SUBJECT TO PRICE RISK		
Equities	165 095 555	162 844 482
SUBJECT TO INTEREST RATE RISK		
Cash and cash equivalents	4 126 480	7 670 720

PRICE RISK

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

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

	2016 US\$	2015 US\$
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INVESTMENTS SUBJECT TO PRICE RISK

EQUITIES		
Effect on net assets attributable to holder of redeemable shares		
Gross exposure	165 095 555	162 844 482
+5%	8 254 778	8 142 224
+10%	16 509 556	16 284 448
+20%	33 019 111	32 568 896

CONCENTRATION OF EQUITY PRICE RISK

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

% OF EQUITY SECURITIES	2016	2015
Financials	28.7	26.8
Consumer goods	24.4	33.1
Basic materials	14.5	9.6
Telecommunications	10.8	9.3
Oil & gas	9.8	11.5
Consumer services	5.5	1.0
Utilities	4.3	5.9
Industrials	2.0	2.8
TOTAL	100.0	100.0

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund is exposed to interest rate risk through its exposure to holding cash and cash equivalents. The Investment Manager manages the Fund's exposure to interest rates in accordance with the Fund's investment objectives and policies.

The following table illustrates the effect of reasonably possible changes in prevailing interest rates, with all other variables held constant. The actual results may differ from the sensitivity analysis, and the difference could be material. The disclosure provides information on the risks to which holders of redeemable shares are exposed and is not indicative of future performance.

	2016 US\$	2015 US\$
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INVESTMENTS SUBJECT TO INTEREST RATE RISK

CASH AND CASH EQUIVALENTS	4 126 480	7 670 720
Effect on net assets attributable to holder of redeemable shares		
+/- 0.5%	20 632	38 354
+/- 1.0%	41 265	76 707

FOREIGN CURRENCY RISK

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

The following table indicates the currencies to which the Fund had exposure at 31 December 2016 and 31 December 2015 on its financial assets and liabilities.

A positive number indicates an increase in net assets attributable to holders of redeemable shares where the US dollar weakens against the relevant currency. For a strengthening of the US dollar against the relevant currency, there would be an equal and opposite impact on the net assets attributable to holders of redeemable shares, and the balances below would be negative.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

		CURRENCY IMPACT US\$			
EFFECT ON NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES AS AT 31 DECEMBER 2016					
CURRENCY		FINANCIAL ASSET US\$	-/+5%	-/+10%	-/+20%
Canadian dollar	CAD	888 388	44 419	88 839	177 678
Australian dollar	AUD	5 048 278	252 414	504 828	1 009 656
South African rand	ZAR	47 418 553	2 370 928	4 741 855	9 483 711
Euro	EUR	4 943 670	247 184	494 367	988 734
British pound	GBP	9 633 912	481 696	963 391	1 926 782
Egyptian pound	EGP	30 918 824	1 545 941	3 091 882	6 183 764
Kenyan shilling	KES	7 430 406	371 520	743 041	1 486 081
Ugandan shilling	UGX	4 821 168	241 058	482 117	964 234
Nigerian naira	NGN	22 991 292	1 149 565	2 299 129	4 598 258
			6 704 725	13 409 449	26 818 898

		CURRENCY IMPACT US\$			
EFFECT ON NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES AS AT 31 DECEMBER 2015					
CURRENCY		FINANCIAL ASSET US\$	-/+5%	-/+10%	-/+20%
Canadian dollar	CAD	1 078 179	53 909	107 818	215 636
Australian dollar	AUD	2 803 354	140 168	280 335	560 671
South African rand	ZAR	32 337 091	1 616 855	3 233 709	6 467 418
Euro	EUR	6 019 558	300 978	601 956	1 203 912
British pound	GBP	9 818 815	490 941	981 881	1 963 763
Egyptian pound	EGP	41 884 458	2 094 223	4 188 446	8 376 892
Kenyan shilling	KES	7 943 887	397 194	794 389	1 588 777
Tanzanian shilling	TZS	1 642 519	82 126	164 252	328 504
Ugandan shilling	UGX	6 359 241	317 962	635 924	1 271 848
West African franc	XOF	859 057	42 953	85 906	171 811
Nigerian naira	NGN	26 617 697	1 330 885	2 661 770	5 323 539
			6 868 194	13 736 386	27 472 771

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

CREDIT RISK

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

At year-end, financial assets exposed to credit risk comprised cash accounts. The Investment Manager monitors the creditworthiness of the Fund's counterparties (e.g. brokers, custodians and banks) by reviewing their credit ratings, financial statements and press releases on a regular basis.

The compliance departments of the Administrator and the Investment Manager monitor compliance with applicable regulations and the investment mandate on a daily basis.

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

	2016	2015
CREDIT RATING	% OF FUND	% OF FUND
A+	0.1	4.4
A	2.5	-
BBB-	-	0.3
	2.6	4.7

Note that the balance (97.4% of the Fund's net assets) (31 December 2015: 95.3% of the Fund's net assets) comprises financial assets at fair value through profit or loss, trade and other receivables, distribution payable and accrued expenses, which have been excluded from the table above.

LIQUIDITY RISK

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its

obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

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

The Fund's redeemable shares are redeemable for cash 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.

Where members request redemption of 5% or more of the issued shares of the Fund, the Investment Manager may determine that all or part of the redemption proceeds be paid by transferring an appropriate portion of the property of the Fund to the redeeming members or their nominees. Where members request redemption of more than 8% of the issued shares of the Fund on any dealing day, the Investment Manager may defer redemption of the excess shares over 8% on a pro rata basis among the members requesting redemption to the next following dealing day.

Where total members' redemptions on any dealing day are more than US\$5 000 000 of the total net asset value of the Fund or 2.5% of the total number of issued shares (whichever is less), the Investment Manager may, at its discretion, redeem only 2.5% of the total number of issued shares of the Fund or US\$5 000 000 of the total net asset value of the Fund (whichever is less), on a pro rata basis among the members, per dealing day. If any redemptions

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

requests are not satisfied in full, the balance thereof will be carried forward to the following dealing day, subject to the same 2.5% restriction. Members whose redemptions have been carried forward to the following dealing day shall have preference over subsequent redemption requests received from members. The Investment Manager retains the right to distribute all or part of the redemption proceeds in specie (in kind).

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

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

7.2 FAIR VALUE

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

- Quoted (unadjusted) market prices in active markets for identical assets or liabilities (level 1);
- Those involving inputs that are directly or indirectly observable (level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

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

The fair value of financial assets and financial liabilities traded in active liquid markets such as listed equity

securities are based on quoted market prices at the close of trading, and are classified within level 1.

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

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

The following tables show the fair values of instruments at 31 December 2016 and 31 December 2015.

LEVEL 1	2016 US\$	2015 US\$
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FINANCIAL ASSETS

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Equities	132 652 412	162 844 482
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LEVEL 3	2016 US\$	2015 US\$
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FINANCIAL ASSETS

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Equities	32 443 143	-
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The Fund has no investments that are classified within level 2.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

During the year ended 31 December 2016, deteriorating macroeconomic conditions in Zimbabwe led to a severe shortage of US dollars. The Zimbabwe government introduced bond notes in an attempt to solve the chronic US dollar shortage in the country. As it is very difficult to get US dollars out of Zimbabwe, investors with cash balances are looking to buy real assets, therefore driving up equity valuations. As a result the fair value was adjusted, which resulted in a transfer from level 1 to level 3.

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

	US\$
Opening balance	-
Transfer into level 3	41 076 817
Disposal of shares	-
Net gains / (losses) recognised in profit or loss	(8 633 674)
CLOSING BALANCE	32 443 143

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

	US\$
Unrealised gains / (losses) recognised in profit or loss	(8 633 674)
Realised losses recognised in profit or loss	-
CLOSING BALANCE	(8 633 674)

The Investment Manager used an unobservable discount rate of 20% to impair the fair value of the Zimbabwe listed shares at 31 December 2016.

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

EFFECT ON PROFIT OR LOSS:

INCREASE / (DECREASE) OF DISCOUNT RATE:

	GAIN	LOSS
+/-5%	2 027 696	(2 027 696)
+/-10%	4 055 393	(4 055 393)

8. SHARE CAPITAL

Notwithstanding that the net assets attributable to holders of redeemable shares are classified as financial liabilities, the directors of the Fund consider these to represent the Fund's capital. The number of shares issued and redeemed during the years is reported below. The Fund is not subject to any externally imposed capital requirements. The Fund's authorised share capital at 31 December 2016 and 31 December 2015 is detailed below. Fund shares are divided into two share classes (Class A and Class B), which participate pro rata in the Fund's net assets and dividends, and are redeemable and non-voting. Founder shares do not participate in the Fund's portfolio, are redeemable at par value only after all Fund shares have been redeemed, and carry the right to vote. If the Fund is wound up or dissolved, the Founder shares will participate only to the extent of their par value. All of the authorised Founder shares of the Fund have been issued as fully paid and are held by Allan Gray International Proprietary Limited. As at 31 December 2016 and 31 December 2015, only Class A shares had been issued.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	ALLAN GRAY AFRICA EQUITY FUND LIMITED	
Fund shares par value (per share)	US\$0.13	
Authorised fund shares	100 million	
Founder shares par value (per share)	US\$0.13	
Authorised and issued founder shares	12 000	
FUND SHARE TRANSACTIONS	2016	2015
Balance at beginning of year	1 310 270	1 405 523
Subscriptions	46 425	22 824
Redemptions	(13 626)	(118 077)
BALANCE AS AT END OF YEAR	1 343 069	1 310 270

There are no options in existence for any capital.

The following income distribution was declared on 31 December 2016 and 31 December 2015 by the Fund:

	2016 US\$	2015 US\$
Total distribution	5 487 913	5 548 329
Distribution per share	4.0861	4.2344

9. COMMITMENTS

The Fund has a daily uncommitted intraday US\$5 million clearing facility, US\$2 million settlement facility and a US\$5 million pre-settlement exposure facility in place to facilitate the settlement of trade instructions. The Fund has no overdraft facilities in place. These facilities expire annually on 31 May and automatically roll over.

10. RELATED PARTY TRANSACTIONS

The Orbis Group of funds ('Orbis funds') are managed by Orbis Investment Management Limited. A related party relationship exists between Orbis Investment Management Limited and Allan Gray International Proprietary Limited, the Investment Manager of the Fund, by virtue of a common ultimate shareholder. At 31 December 2016, Orbis funds and Orbis Investment Management Limited held 1 220 992 shares of the Fund (2015 - 1 179 424 shares).

Directors of the Fund held no shares in the Fund at 31 December 2016 (2015 - nil shares).

During the financial year ended 31 December 2016 the management fee incurred by the Fund was US\$1 293 647 (2015 - US\$3 825 187). At 31 December 2016, the management fee payable by the Fund, was US\$206 370 (2015 - US\$235 095).

IMPORTANT NOTES FOR INVESTORS

FUND INFORMATION

The Fund is currently open to new investors however the Fund may be closed to new investments at any time to be managed according to its mandate. If you have any questions regarding the status of the Fund, please contact the Registrar. Shares in the Fund are traded at ruling prices and the Fund can engage in borrowing and scrip lending. This report does not constitute a financial promotion, a recommendation, an offer to sell or a solicitation to buy shares in the Fund. Investments in the Fund are made according to the terms and conditions and subject to the restrictions set out in the prospectus. The offering of shares in the Fund may be restricted in certain jurisdictions. Please contact the Allan Gray service team to confirm if there are any restrictions that apply to you.

EUROPEAN UNION SAVINGS DIRECTIVE AND DIRECTIVE ON ADMINISTRATIVE COOPERATION

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

UNITED KINGDOM REPORTING FUND STATUS

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

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

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

PERFORMANCE

Collective Investment Schemes in Securities (unit trusts or mutual funds) are generally medium- to long-term investments. Where annualized performance is mentioned, this refers to the average return per year over the period. The value of shares

IMPORTANT NOTES FOR INVESTORS

may go down as well as up and past performance is not necessarily a guide to future performance. Movements in exchange rates may cause the value of underlying international investments to go up or down. Neither the Investment Manager, the Fund nor the Representative provides any guarantee regarding the capital or the performance of the Fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Actual investor performance may differ as a result of the investment date, the date of reinvestment and applicable taxes.

BENCHMARK DATA

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

SHARE PRICE

Share prices are calculated on a net asset value basis, which is the total market value of all assets in the Fund including any income accruals and less any permissible deductions from the Fund divided by the number of shares in issue. Forward pricing is used. The weekly price of the Fund is normally calculated each Friday. Purchase requests must be received by the Registrar of the Fund (being Citibank Europe plc, Luxembourg Branch) by 17:00 Bermuda

time on that dealing day to receive that week's price. Redemption requests must be received by the Registrar of the Fund by 12:00 Bermuda time, on the particular dealing day on which shares are to be redeemed to receive that week's price. Share prices are available on www.allangray.com.

FEES AND CHARGES

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

TOTAL EXPENSE RATIO ('TER') AND TRANSACTION COSTS

The TER is the annualised percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past three years. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged) and other expenses like audit fees. Transaction costs (including brokerage, STT and investor protection levies where applicable) are shown separately. Transaction costs are a necessary cost in administering the Fund and impacts Fund returns. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER. Since Fund returns are quoted after the deduction of these expenses, the TER and Transaction costs should not be deducted again from published returns. As collective investment scheme expenses vary, the current TER cannot be used as an indication of future TERs. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. Instead, when investing, the investment objective of the Fund should be aligned with the investor's objective and compared against the performance of the Fund. The TER and other

IMPORTANT NOTES FOR INVESTORS

funds' TERs should then be used to evaluate whether the Fund performance offers value for money. The sum of the TER and Transaction costs is shown as the Total investment charge.

FOREIGN EXPOSURE

There are significant risks involved in investing in shares listed in the Fund's universe of emerging and developing countries including liquidity risks, sometimes aggravated by rapid and large outflows of 'hot money' and capital flight, concentration risk, currency risks, political and social instability, the possibility of expropriation, confiscatory taxation or nationalisation of assets and the establishment of foreign exchange controls which may include the suspension of the ability to transfer currency from a given country. The Fund can use derivatives to manage its exposure to 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. Borrowing, leveraging, and trading securities on margin will result in interest charges and, depending

on the amount of trading activity, such charges could be substantial. The low margin deposits normally required in futures and forward trading, which the Fund may utilise, permit a high degree of leverage. As a result, a relatively small price movement in a futures or forward contract may result in immediate and substantial losses to the investor.

ADDITIONAL INFORMATION

You can obtain additional information about the Fund, including copies of the fact sheet, prospectus and application forms, free of charge, by contacting the Allan Gray service team, at +353 1 622 4716 or by email at AGclientservice@citi.com.

CHARACTERISTICS AND DIRECTORY

DOMICILE AND STRUCTURE

Bermuda open-ended investment company

REGULATION

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

REGISTERED OFFICE

Orbis House
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COMPANY SECRETARY

Orbis Administration Limited

DIRECTORS

Craig T Bodenstab
John C R Collis
Tapologo Motshubi

INVESTMENT MANAGER

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

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

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