

ALLAN GRAY AFRICA EQUITY FUND

Fund manager: Andrew Lapping Inception date: 1 July 1998 Registration number: 23261

Fund description and summary of investment policy

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).

How we aim to achieve the Fund's objective

We invest in shares that we believe offer superior fundamental value while taking into account risk and return. We research companies and assess their intrinsic value based on long-term fundamentals; we then invest in businesses where our assessment of intrinsic value exceeds the share price by a margin of safety. This approach allows us to identify shares that may be out of favour with the market because of poor near-term prospects, but offer good value over the long term. The Fund's holdings will deviate meaningfully from those in the index both in terms of individual holdings and sector exposure.

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

The Fund is not available to South African residents.

Minimum investment amounts

Minimum initial investment	US\$50 000
Minimum subsequent investment	US\$1 000

Subscription and redemption charge

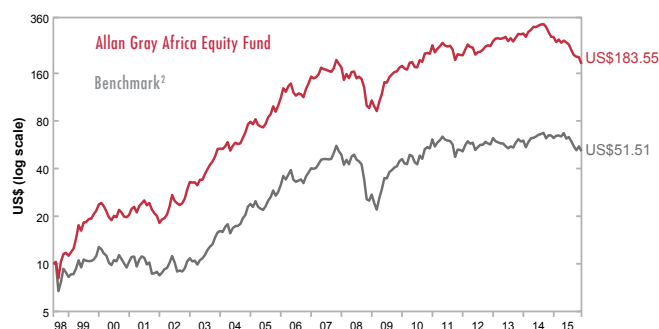
Investors are charged 0.5% when subscribing for Fund shares. Investors may be charged 0.5% when redeeming Fund shares in the case of significant redemptions. These charges are paid into the Fund to offset the costs associated with the transactions that are borne by the Fund. Allan Gray International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

Fund information on 30 November 2015

Fund currency	US\$ ¹
Fund size	US\$174m
Fund price	US\$132.50
Number of share holdings	42
Dealing day	Weekly (Thursday)
Class	A

Performance in US\$ net of all fees and expenses

Value of US\$10 invested at inception with all distributions reinvested



% Returns	Fund	Benchmark ²
Unannualised:		
Since inception	1 735.5	415.1
Annualised:		
Since inception	18.2	9.9
Latest 10 years	6.2	6.1
Latest 5 years	-2.9	-0.8
Latest 3 years	-8.3	-3.2
Latest 2 years	-19.3	-6.8
Latest 1 year	-32.7	-20.4
Year-to-date (unannualised)	-32.3	-17.3
Risk measures (since inception, based on month-end prices)		
Maximum drawdown ³	-52.5	-60.5
Percentage positive months ⁴	57.9	57.4
Annualised monthly volatility ⁵	25.7	26.8

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 30 November 2015 (source: Bloomberg). Calculation based on the latest available data as supplied by third parties.
3. Maximum percentage decline over any period. The maximum drawdown occurred from October 2007 to February 2009 and maximum benchmark drawdown occurred from October 2007 to February 2009. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.

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Income distributions for the last 12 months

The Fund has not distributed income in the last 12 months.

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: $1.5\% + (20\% - 15\%) / 25 = 1.7\%$.

Total expense ratio (TER)

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 12-month period. Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns.

TER breakdown for the year ending 30 September 2015	%
Fee for benchmark performance	1.50
Performance fees	0.41
Brokerage and custody fees	0.27
Other costs	0.06
Total expense ratio	2.23

Country of primary listing on 30 November 2015

Country	% of Equities	Benchmark ⁶
Egypt	22.9	2.0
Nigeria	21.8	3.9
South Africa	17.8	88.3
Zimbabwe	17.4	0.0
Kenya	4.8	1.6
France	4.2	0.0
Uganda	4.1	0.0
United Kingdom	2.5	0.0
Australia	1.8	0.0
BRVM	1.0	0.2
Tanzania	1.0	0.0
Canada	0.7	0.0
Morocco	0.0	2.1
Malta	0.0	1.3
Mauritius	0.0	0.4
Tunisia	0.0	0.2
Total⁷	100.0	100.0

Sector allocation on 30 November 2015

Sector	% of Fund	Benchmark ⁶
Oil & gas	11.7	0.3
Basic materials	8.9	9.8
Industrials	3.0	7.9
Consumer goods	32.0	8.3
Healthcare	0.0	5.5
Consumer services	0.8	28.9
Telecommunications	7.6	8.9
Utilities	5.8	0.0
Financials	25.5	30.5
Fixed interest/Liquidity	4.8	0.0
Total⁷	100.0	100.0

6. MSCI EFM Africa Index (total returns) (source: Bloomberg). Calculation based on the latest available data as supplied by third parties.

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

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Fund manager quarterly commentary as at 30 September 2015

The third quarter was disappointing, with the Fund posting a total return of -16.3%. The detractors were the same positions that have detracted over the past year: our large oil positions (Sasol, Nigeria's Seplat and MPI) were down over 20%, Zimbabwe's Econet Wireless declined a further 33% and the Nigerian and South African banks saw additional price weakness. The portfolio has changed very little since last quarter, although we have incrementally added to certain existing positions and completed the sale of the Fund's holding in Egyptian miner Centamin.

There are three interesting macroeconomic variables affecting the portfolio at the moment: the further deterioration of the Zimbabwean economy, the uncertainty surrounding the Nigerian naira and the weakening South African rand.

The Zimbabwean economy is facing difficulties from weaker commodity prices, which reduce government revenue and exacerbate the trade deficit, and the weaker currencies of the surrounding countries, which put Zimbabwe at a competitive disadvantage and result in much lower US dollar remittances.

The Nigerian government is supporting the naira at NGN200/US\$, compared to the black market rate of NGN230/US\$. The Nigerian currency risks are well known and many investors are choosing to avoid the country until after the naira devaluation. We believe the share prices of the Nigerian companies we own sufficiently compensate investors for the currency risk and should hold their real value in the case of a naira devaluation.

The Fund has had relatively little exposure to South African equities for the past two years as we were concerned about valuation levels and the potential for rand weakness. The rand has depreciated 25% over the past year and the equity market has declined. Certain South African industrial and financial companies are beginning to show value and we may well increase our exposure to South Africa in the near future.

Corporate governance risks arise when the interests of management, or certain shareholders, are not aligned with those of all shareholders. Unfortunately, the Fund is exposed to these risks from time to time, as is currently the case with MPI – a top 10 holding. MPI was unbundled from its parent Maurel & Prom (MAU) in late 2011 and has been a core holding since early 2012. MPI holds cash of EUR2.00 per share and Seplat shares worth EUR1.21 per share, at the current Seplat price. However, we think Seplat is extremely cheap. With Seplat at fair value, the MPI value is over EUR4.00 per share.

MAU, which unbundled MPI as a Nigerian pure play, has run into financial difficulties. MAU has net debt of EUR437 million and will breach its debt covenants at the test date of 31 December 2015. Two shareholders who own 31% of both MPI and MAU are looking to merge the two companies, ostensibly to extract synergies but, to our mind, the reason is to use MPI's cash to alleviate MAU's debt problem. The proposed merger ratio values MPI at EUR2.09 – only slightly above the value of the cash, ignoring the 20% holding in Seplat. This is clearly not in the interests of MPI minorities and we are putting maximum effort into protecting value for all MPI shareholders. If the merger is called off, the MPI risk profile is heavily skewed to the upside, as the cash holding protects the downside.

Commentary contributed by Andrew Lapping

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Notes for consideration

Fund information

The Fund is incorporated and registered under the laws of Bermuda and is supervised by the Bermuda Monetary Authority. The Fund is also listed on, and regulated by, the Bermuda Stock Exchange. The primary custodian of the Fund is Citibank N.A. The custodian can be contacted at 399 Park Avenue, New York, New York, USA. The Investment Manager, an authorised Financial Services Provider in terms of the Financial Advisory and Intermediary Services Act 37 of 2002, is the appointed investment manager of the Fund.

The Fund may be closed to new investments at any time to be managed according to its mandate. 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. Shares in the Fund are not offered to South African residents and the offering of shares in the Fund may be restricted in certain other jurisdictions. Please contact the Allan Gray service team to confirm if there are any restrictions that apply to you.

Performance

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

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 International Limited, 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)

The total expense ratio (TER) is the percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past year. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged), trading costs (including brokerage, STT and investor protection levies where applicable) and other expenses. Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns. As collective investment scheme expenses vary, the current TER cannot be used as an indication of future TERs. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. Instead, when investing, the investment objective of the Fund should be aligned with the investor's objective and compared against the performance of the Fund. The TER and other funds' TERs should then be used to evaluate whether the Fund performance offers value for money.

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

Additional information regarding the Fund including copies of the prospectus, application forms and annual report may be obtained by contacting the Allan Gray service team, at +3 531 622 4716 or by email at AGclientservice@citi.com.