Allan Gray Africa ex-SA Equity Fund

ALLAN GRAY

Fund manager:	Andrew Lapping, Nick Ndiritu
Inception date:	1 January 2012
Class:	A

Fund description

The Fund invests in a focused portfolio of companies with significant business interests in Africa (excluding South 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 Standard Bank Africa Total Return Index.

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

Minimum investment amounts

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

Annual management fee

The management fee consists of a fixed fee and a performance fee component. The fixed fee is charged at a rate of 1% per year. The performance fee is 20% of the extent to which the Fund outperforms the benchmark, after the fixed fee is deducted and subject to the Fund exceeding the 'high watermark'. The high watermark is the maximum ratio the Fund's net asset value per share, including distributions, has achieved relative to the benchmark since the Fund's inception.

Subscription and redemption charge

Investors are charged 1% when transacting in Fund shares, both on subscription and redemption. This is paid into the Fund to offset the costs associated with the transaction that are borne by the Fund. Allan Gray International Proprietary Limited may waive this charge in the case of significant offsetting flows.

Capacity

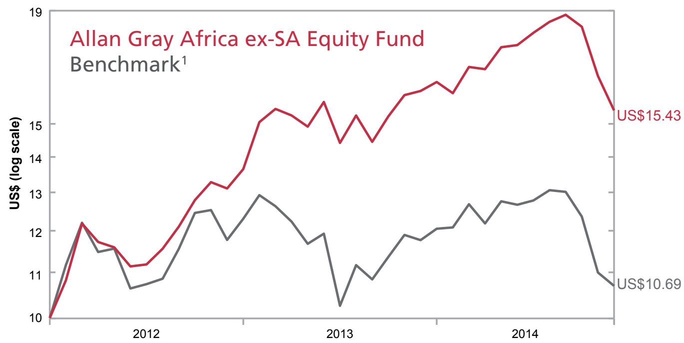
The Fund currently has limited capacity. The Investment Manager may, at its discretion, refuse a subscription or phase a subscription into the Fund over a number of dealing days. The Investment Manager may at its discretion limit redemptions to US$5m or 2.5% of the Fund (whichever is less) per dealing day.

Fund information on 30 November 2014

Fund currency:	US$
Fund size:	US$226m
Fund price:	US$154.27
Number of share holdings:	56
Dealing day:	Weekly (Thursday)

Performance in US$ net of all fees and expenses

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



% Returns	Fund	Benchmark[1]
Unannualised:		
Since inception	54.3	6.9
Annualised:		
Since inception	16.0	2.3
Latest 2 years	8.5	-4.7
Latest 1 year	-4.0	-9.1
Year-to-date (unannualised)	-5.8	-11.3
Risk measures (since inception, based on month-end prices)		
Maximum drawdown[2]	-18.1	-20.6
Percentage positive months[3]	62.9	57.1
Annualised monthly volatility[4]	17.3	19.7

Relative to benchmark return required to reach high watermark: 6.0%.

1. Standard Bank Africa Total Return Index (source: Standard Bank), performance as calculated by Allan Gray as at 30 November 2014. Calculation based on the latest available data as supplied by third parties.
2. Maximum percentage decline over any period. The maximum drawdown occurred from August 2014 to November 2014 and maximum benchmark drawdown occurred from January 2013 to June 2013. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
3. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
4. 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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Fund manager quarterly commentary as at 30 September 2014

Fourteen percent of the Fund is invested in oil companies. These positions detracted from performance over the past quarter, falling 10% on average. However, over the life of the Fund, the oil company investments have added value. All the oil companies we own are production rather than exploration companies. This bias has served us well, as many of the exploration companies have struggled.

The African continent has attracted lots of attention as a new oil exploration frontier over the past few years. Some exploration companies have found success and created value for shareholders. The problem for investors is that it is very difficult to identify which exploration companies will be successful and which will fail. Successful explorers are easy to identify in hindsight (look at the share price), but they are difficult to find before the fact, and unfortunately most fail. Even once a company has made a discovery it can be difficult to value. Some of the reasons for this are that the capital required for development is usually unknown, the tax regime is often not disclosed and the timeline to production can vary wildly. In the meantime, these companies have heavy overhead structures and ongoing exploration programmes which require funding.

We prefer to stick to businesses with cash flow that we can value and management teams which have substantial equity holdings, meaning they share in the upside, as well as the downside, of the company's success and failures. If management teams don't share in the downside they are often willing to overpay for assets to grow the business at the expense of shareholder value.

The Fund's largest oil and gas investment is in Seplat, a Nigerian onshore oil producer. We first came across Seplat through our investment in MPI, which owned 45% of the company and has since sold down to 22%. What we like about both MPI and Seplat is the substantial insider ownership: 25% in the case of MPI and 28% for Seplat. MPI helped Seplat fund Seplat's acquisition of three onshore Nigerian oilfields from Shell in 2010. Seplat management has done an excellent job of developing the fields – close on tripling oil production – and developing a gas strategy. It also negotiated a five-year tax holiday with the government.

Seplat raised US$500m in April 2013 to participate in further divestments of Nigerian assets by international oil companies. Since this time Seplat has missed a few deals as other bidders have been willing to pay more. In our view, this demonstrates capital discipline, an important attribute in a capital-heavy industry like oil, and is the benefit of insider ownership.

Seplat should generate close to the share price of US$3.75 in free cash flow over the next three years, the tax holiday period, and continue to generate strong cash flows thereafter. The US$500m capital raise has left the company with a net cash position of US$1 per share.

Commentary contributed by Andrew Lapping

Country of primary listing on 30 November 2014

Country	% of Equities	Benchmark[1]
Nigeria	26.5	15.0
Zimbabwe	23.7	1.3
Egypt	16.0	20.0
France	5.5	0.7
United Kingdom	5.4	17.6
Canada	4.1	13.3
Kenya	3.8	14.7
Australia	3.3	5.9
BRVM	3.2	0.9
Uganda	1.8	0.2
Rwanda	1.7	0.1
Malawi	1.7	0.0
Zambia	1.4	0.1
Botswana	1.2	0.5
Mauritius	0.6	2.0
Ghana	0.0	0.2
Morocco	0.0	6.2
Tunisia	0.0	1.1
United States	0.0	0.3
Total[2]	**100.0**	**100.0**

Sector allocation on 30 November 2014

Sector	% of Fund	Benchmark[1]
Oil & gas	13.7	12.2
Basic materials	7.3	28.4
Industrials	2.0	3.2
Consumer goods	25.8	7.7
Healthcare	0.0	0.0
Consumer services	1.5	1.5
Telecommunications	12.5	10.9
Utilities	2.5	0.5
Financials	27.7	35.6
Technology	0.0	0.1
Fixed interest/Liquidity	7.0	0.0
Total[2]	**100.0**	**100.0**

1. Standard Bank Africa Total Return Index (source: Standard Bank). Calculation based on the latest available data as supplied by third parties.
2. There may be slight discrepancies in the totals due to rounding.

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Fees
A schedule of fees, charges and maximum commissions is available on request from Allan Gray. Commission and incentives may be paid and if so, would be included in the overall costs.

Share price
Share prices are calculated on a net asset value basis, which calculation is made by dividing the value of the net assets of the Fund attributable to the shares by the number of shares in issue. The weekly price of the Fund is normally calculated each Friday based on the prices of the underlying investments prevailing at 5:30pm Bermuda time on the previous business day. Purchase requests must be received by the Registrar of the Fund (being Citi Fund Services (Bermuda), Ltd.) by 5:00pm 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 noon Bermuda time, on the particular dealing day on which shares are to be redeemed to receive that week's price.

Performance
Investments in Collective Investment Schemes 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 the future. Performance figures are from Allan Gray International Proprietary Limited and are for lump sum investments with income distributions reinvested.