Allan Gray Africa ex-SA Equity Fund

ALLANGRAY

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

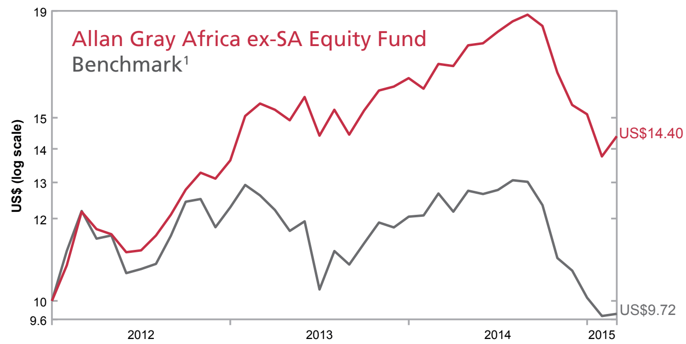
The Fund currently has limited capacity. The Investment Manager may, at its discretion, refuse a subscription or phase a subscription into the Fund over a number of dealing days. The Investment Manager may at its discretion limit redemptions to US$5m or 2.5% of the Fund (whichever is less) per dealing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

Fund information on 28 February 2015

Fund currency:	US$
Fund size:	US$239m
Fund price:	US$143.95
Number of share holdings:	55
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	44.0	-2.8
Annualised:		
Since inception	12.2	-0.9
Latest 3 years	5.7	-7.3
Latest 2 years	-3.6	-12.3
Latest 1 year	-14.8	-23.4
Year-to-date (unannualised)	-4.8	-3.5
Risk measures (since inception, based on month-end prices)		
Maximum drawdown[2]	-26.9	-25.9
Percentage positive months[3]	60.5	55.3
Annualised monthly volatility[4]	17.8	19.4

Relative to benchmark return required to reach high watermark: 3.2%.

1. Standard Bank Africa Total Return Index (source: Standard Bank), performance as calculated by Allan Gray as at 28 February 2015. 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 January 2015 and maximum benchmark drawdown occurred from July 2014 to January 2015. 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.

Allan Gray Africa ex-SA Equity Fund

Fund manager quarterly commentary as at 31 December 2014

The Fund had a good start to the year but unfortunately a very poor second half. The biggest detractors were the oil companies I discussed in September and our Nigerian bank exposure. These shares have halved in price over the past six months. The decline in the oil price from US$110 per barrel (bbl) to the current US$57/bbl is clearly the underlying reason.

In our valuations we estimate the normal oil price to be US$85/bbl, below the US$105/bbl that prevailed in the early part of the year, but well above current levels. Market commentators have turned very negative on the outlook for oil as demand has disappointed and production growth surprised on the upside. Forecasts are for supply to increase further into the first half of 2015. Fortunately, financial markets being what they are, this oversupply situation is likely already in the price. We focus on the long-term price outlook rather than attempting to make short-term predictions. Our assumption is that a price below US$85/bbl will discourage capital investment to a point where supply and demand move back into balance.

At over US$100/bbl, the oil price of the past three years has encouraged the oil industry to make huge capital investments. Most companies have spent all their cash flow and have borrowed to fund projects. The lower oil price will reduce both the operating cash flows that are available for investment and the willingness of lenders to fund projects. Despite the oil price having been below US$80/bbl for only a few weeks, the major oil companies have already announced cuts to their capital budgets.

We are comfortable that at current oil prices, let alone our normal estimate of US$85/bbl, the oil companies we own offer compelling value. The Nigerian economy is a more complex proposition. Oil revenues account for almost all government revenue and exports receipts. As these receipts decline the economic situation will become very difficult for Nigerian corporates. There is huge uncertainty regarding how this will play out for the banks, which lend to these companies and the oil industry. The market is pricing in these risks and most of the banks are trading well below book value and at between three and five times historic earnings. The banks are well capitalised and have survived very difficult periods in the past. On a risk-adjusted basis they look to offer very good value at these levels.

Commentary contributed by Andrew Lapping

Country of primary listing on 28 February 2015

Country	% of Equities	Benchmark[1]
Zimbabwe	25.0	1.3
Nigeria	23.7	12.1
Egypt	16.8	19.1
France	5.5	0.7
United Kingdom	5.4	18.4
Kenya	4.2	17.3
Canada	3.7	13.5
BRVM	3.5	0.9
Australia	2.9	5.7
Uganda	2.0	0.2
Rwanda	2.0	0.1
Malawi	1.8	0.0
Zambia	1.4	0.1
Botswana	1.3	0.5
Mauritius	0.7	2.0
Ghana	0.0	0.2
Morocco	0.0	6.5
Tunisia	0.0	1.2
United States	0.0	0.3
Total[2]	**100.0**	**100.0**

Sector allocation on 28 February 2015

Sector	% of Fund	Benchmark[1]
Oil & gas	15.2	11.5
Basic materials	7.0	29.3
Industrials	1.2	3.2
Consumer goods	29.1	7.3
Healthcare	0.0	0.0
Consumer services	1.8	1.3
Telecommunications	12.7	12.0
Utilities	2.7	0.6
Financials	22.5	34.2
Technology	0.0	0.1
Fixed interest/Liquidity	7.8	0.5
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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