

## ALLAN GRAY AFRICA EX-SA EQUITY FUND

**Fund managers:** Andrew Lapping, Nick Ndiritu **Inception date:** 1 January 2012 **Registration number:** 45930

### Fund description and summary of investment policy

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. The Fund does not seek to mirror the benchmark but instead may deviate meaningfully from this performance benchmark in pursuit of superior returns. To the extent that its investments differ from those in the benchmark, the Fund faces the risk of underperforming the benchmark.

### 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

### Capacity

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

### Subscription and redemption charge

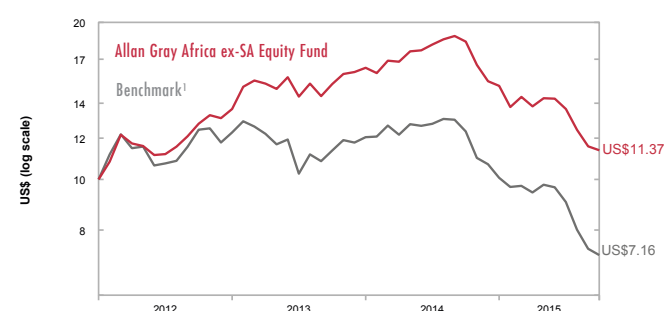
Investors are charged 1% when subscribing for Fund shares. Investors may be charged 1% when redeeming Fund shares in the case of significant redemptions. These charges are paid into the Fund to offset the costs associated with the transactions that are borne by the Fund. The Investment Manager may waive these charges if transactions substantially offset one another.

### Fund information on 30 September 2015

Fund currency	US\$
Fund size	US\$210m
Number of shares	1 701 002
Price (net asset value per share)	US\$113.74
Number of share holdings	48
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 <sup>1</sup>
<b>Unannualised:</b>		
Since inception	13.7	-28.4
<b>Annualised:</b>		
Since inception	3.5	-8.5
Latest 3 years	-3.8	-16.9
Latest 2 years	-13.6	-20.6
Latest 1 year	-38.1	-42.1
Year-to-date (unannualised)	-24.7	-28.9
<b>Risk measures (since inception, based on month-end prices)</b>		
Maximum drawdown <sup>2</sup>	-39.6	-45.2
Percentage positive months <sup>3</sup>	53.3	48.9
Annualised monthly volatility <sup>4</sup>	18.0	19.6
Highest annual return <sup>5</sup>	41.0	12.1
Lowest annual return <sup>5</sup>	-38.6	-43.4

Relative to benchmark return required to reach high watermark: 1.2%.

- Standard Bank Africa Total Return Index (source: Standard Bank), performance as calculated by Allan Gray as at 30 September 2015. Calculation based on the latest available data as supplied by third parties.
- Maximum percentage decline over any period. The maximum drawdown occurred from August 2014 to September 2015 and maximum benchmark drawdown occurred from July 2014 to September 2015. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
- The percentage of calendar months in which the Fund produced a positive monthly return since inception.
- The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
- This is the highest or lowest consecutive 12-month returns the Fund has experienced since inception, along with the benchmark performance for the corresponding period. This is a measure of how much the Fund's returns have varied per rolling 12-month period. The highest annual return occurred from 1 June 2012 to 31 May 2013 and the lowest annual return occurred from 1 September 2014 to 31 August 2015. All rolling 12-month figures for the Fund and the benchmark are available from the Allan Gray service team on request.

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### Meeting the Fund objective

The Fund aims to outperform African equity markets (excluding South Africa) over the long term without taking on greater risk of loss. The Fund experiences periods of underperformance in pursuit of this objective. As the Fund is less than five years old it is too early to tell if it has met its objective. However, since inception the Fund has outperformed its benchmark and we are confident that the Fund will meet its objective over the long term.

### Income distributions for the last 12 months

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

### 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.

### 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 June 2015	%
Fixed fee	1.00
Performance fees	1.26
Brokerage and custody fees	0.64
Other costs	0.11
VAT	0.32
<b>Total expense ratio</b>	<b>3.32</b>

### Country of primary listing on 30 September 2015

Country	% of Equities	Benchmark <sup>6</sup>
Nigeria	28.1	19.7
Zimbabwe	23.3	1.1
Egypt	18.0	16.2
BRVM	5.3	1.6
France	4.8	0.6
Rwanda	4.2	0.0
Uganda	3.3	0.5
Kenya	3.0	12.7
United Kingdom	2.5	14.9
Australia	2.3	4.8
Malawi	1.8	0.0
Canada	1.4	13.5
Botswana	1.1	0.7
Zambia	0.9	0.0
Ghana	0.0	0.0
Morocco	0.0	7.5
Mauritius	0.0	3.5
Tunisia	0.0	1.5
Tanzania	0.0	1.0
United States	0.0	0.3
<b>Total<sup>7</sup></b>	<b>100.0</b>	<b>100.0</b>

### Sector allocation on 30 September 2015

Sector	% of Fund	Benchmark <sup>6</sup>
Oil & gas	11.9	11.0
Basic materials	3.9	23.8
Industrials	0.6	3.8
Consumer goods	29.5	10.4
Healthcare	0.0	0.0
Consumer services	1.8	0.8
Telecommunications	14.8	9.8
Utilities	3.4	1.0
Financials	29.7	37.9
Technology	0.0	0.1
Fixed interest/Liquidity	4.4	1.5
<b>Total<sup>7</sup></b>	<b>100.0</b>	<b>100.0</b>

6. Standard Bank Africa Total Return Index (source: Standard Bank). 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 -16.6%. The detractors were the same positions that have detracted over the past year: our large oil positions, Nigeria's Seplat and MPI, were down over 20%, Zimbabwe's Econet Wireless declined a further 33% and the Nigerian 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 two interesting macroeconomic variables affecting the portfolio at the moment: the further deterioration of the Zimbabwean economy and the uncertainty surrounding the Nigerian naira.

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.

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 Canada. The custodian can be contacted at 123 Front Street West, Toronto, Ontario, Canada, M5J 2M3. 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 Investment Manager has appointed Allan Gray Unit Trust Management (RF) Proprietary Limited (the 'Representative') as its representative for the purpose of approval in terms of the Collective Investment Schemes Control Act 45 of 2002. The Representative is incorporated under the laws of South Africa and is supervised by the Financial Services Board ('FSB').

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. 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.

#### 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, 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 Standard Bank Plc who require that we include the following legal note. The Standard Bank Africa Total Return Index is the proprietary information and registered trademark of Standard Bank Plc. All copyright subsisting in the Standard Bank Africa Total Return Index values and constituent lists vests in Standard Bank Plc. All their rights are reserved.

#### Share price

Share prices are calculated on a net asset value basis, which is the total market value of all assets in the Fund including any income accruals and less any permissible deductions from the Fund divided by the number of shares in issue. Forward pricing is used. The weekly price of the Fund is normally calculated each Friday. Purchase requests must be received by the Registrar of the Fund (being Citi Fund Services (Bermuda), Ltd.) 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.co.za](http://www.allangray.co.za).

#### Fees and charges

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

#### Total expense ratio (TER)

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), VAT 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 +1 905 212 8760 or by email at [AGclientservice@citi.com](mailto:AGclientservice@citi.com).