

## 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

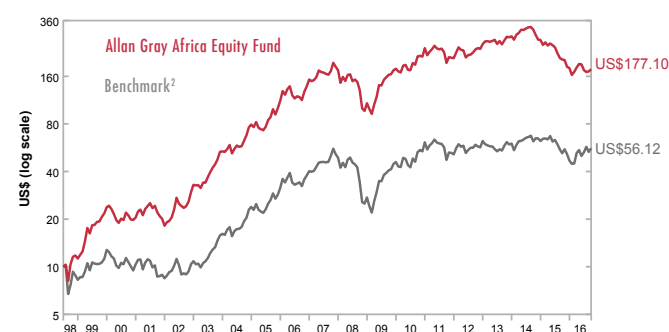
Investors are charged 0.5% when subscribing for Fund shares. Investors may be charged 0.5% when redeeming Fund shares in the case of significant redemptions. These charges are paid into the Fund to offset the costs associated with the transactions that are borne by the Fund. Allan Gray International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

### Fund information on 30 September 2016

Fund currency	US\$ <sup>1</sup>
Fund size	US\$167m
Fund price	US\$123.67
Number of share holdings	51
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>2</sup>
<b>Cumulative:</b>		
Since inception	1671.0	461.2
<b>Annualised:</b>		
Since inception	17.1	9.9
Latest 10 years	4.6	5.7
Latest 5 years	-1.8	3.5
Latest 3 years	-13.1	-1.2
Latest 2 years	-25.0	-4.9
Latest 1 year	-13.2	7.6
Year-to-date (not annualised)	-1.6	19.8
<b>Risk measures (since inception, based on month-end prices)</b>		
Maximum drawdown <sup>3</sup>	-52.5	-60.5
Percentage positive months <sup>4</sup>	57.5	57.5
Annualised monthly volatility <sup>5</sup>	25.5	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 September 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.

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### Income distributions 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.	<b>31 Dec 2015</b>
<b>Dollars per unit</b>	<b>4.2344</b>

### 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) 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 (refer to page 4 for further information). Transaction costs are disclosed separately.

TER and Transaction costs breakdown for the 3-year period ending 30 June 2016	%
<b>Total expense ratio</b>	<b>2.33</b>
Fee for benchmark performance	1.50
Performance fees	0.56
Custody fees	0.21
Other costs excluding transaction costs	0.06
<b>Transaction costs</b>	<b>0.21</b>
<b>Total investment charge</b>	<b>2.54</b>

### Country of primary listing on 30 September 2016

Country	% of Equities	Benchmark <sup>6</sup>
South Africa	26.6	83.3
Egypt	20.5	2.3
Nigeria	17.0	2.3
Zimbabwe	16.1	0.0
United Kingdom	4.8	0.0
Kenya	4.7	1.5
Uganda	3.3	0.0
Australia	3.3	0.0
France	3.1	0.0
Canada	0.5	0.0
Netherlands	0.0	5.2
Morocco	0.0	2.5
Mauritius	0.0	0.9
Malta	0.0	0.9
Romania	0.0	0.8
Tunisia	0.0	0.2
BRVM	0.0	0.1
<b>Total<sup>7</sup></b>	<b>100.0</b>	<b>100.0</b>

### Sector allocation on 30 September 2016

Sector	% of Fund	Benchmark <sup>6</sup>
Oil & gas	10.2	0.1
Basic materials	13.3	12.2
Industrials	2.4	5.1
Consumer goods	24.0	8.5
Healthcare	0.0	3.9
Consumer services	4.0	33.1
Telecommunications	8.9	7.9
Utilities	4.8	0.0
Financials	29.9	29.1
Fixed interest/Liquidity	2.5	0.0
<b>Total<sup>7</sup></b>	<b>100.0</b>	<b>100.0</b>

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.

### Asset allocation on 30 September 2016

Asset Class	Total
Net equity	97.5
Hedged equity	0.0
Property	0.0
Commodity-linked	0.0
Bonds	0.0
Money market and bank deposits	2.5
<b>Total (%)</b>	<b>100.0</b>

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## ALLAN GRAY AFRICA EQUITY FUND

### Fund manager quarterly commentary as at 30 September 2016

#### **Negative sentiment presents buying opportunities in Africa**

The Fund experienced a difficult period over the past two years as our Zimbabwean, Nigerian and oil investments underperformed. We have bought additional shares in most of the underperforming investments, as in some cases we think the underlying value is unchanged but the share price is lower, while in other cases the value of the underlying business has declined, but the share price has fallen to a far greater extent.

#### **Potential repricing for Egyptian pound**

Egypt has a managed exchange rate. The Egyptian Central Bank moved the peg to EGP8.88/US\$ in March 2016 from EGP7.83/US\$ previously. The peg is not working, as the demand for foreign currency far exceeds supply. It is not possible to repatriate money from Egypt, as any dollar supply is allocated to food and energy imports rather than financial flows. The government is well aware of the dysfunctional nature of the peg and is expected to reprice the currency before the end of the year.

The relative prices of the large dual-listed shares can be used to gauge where the exchange rate should be. Commercial International Bank (CIB) is listed on both the London Stock Exchange (LSE) and the Egyptian Exchange (EGX). The CIB share price on the LSE relative to the EGX price suggests an exchange rate of EGP12.18/US\$, 37% weaker than the official rate, while Global Telecom's price suggests an exchange rate of EGP10.70/US\$. The black market rate in Cairo is EGP13.00/US\$.

We have decided to use the EGP/US\$ three-month forward rate to price the Fund's Egyptian holdings. This was EGP11.48/US\$ at month end – 29% weaker than the spot rate. 20% of the Fund's assets are priced in Egyptian pounds. If we used the official spot rate rather than the forward rate, the Fund price would be 5.8% higher.

#### **Our investment outlook**

The positive sentiment of many towards investing in Africa given the 'Africa Rising' and other themes has been beaten out of them over the past two years. The stock markets in Egypt, Kenya and Nigeria are down 35%, 30% and 64% respectively in US dollars from their peaks.

We think the negative sentiment towards African markets presents an excellent opportunity in a world where the prices of many assets have been inflated by cheap money and investors searching for stability.

We are happy with the Fund's investments – the majority of which are trading on low valuations on below normal earnings. If the earnings or ratings recovery takes longer than expected, investors should be compensated through dividends. The average dividend yield of the Fund's holdings is 4.5%.

*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 390 Greenwich Street, 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. Where annualised performance is mentioned, this refers to the average return per year over the period. 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 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](http://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 total expense ratio (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, Securities Transfer Tax [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 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 prospectus, application forms and the annual report, free of charge, by contacting the Allan Gray service team, at +353 1 622 4716 or by email at [AGclientservice@citi.com](mailto:AGclientservice@citi.com).