

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.

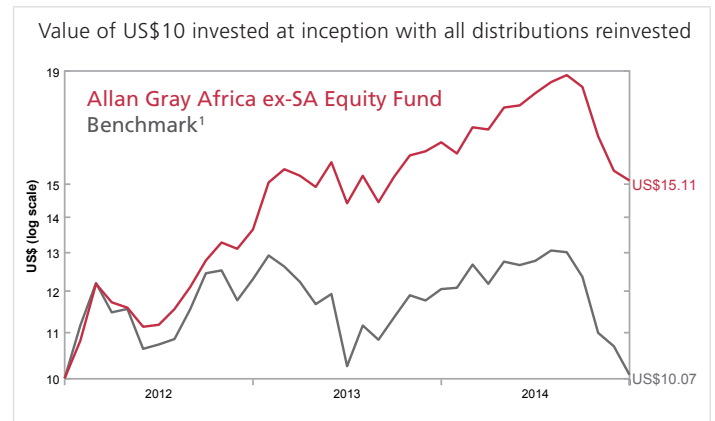
Capacity

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 31 December 2014

Fund currency: US\$
Fund size: US\$235m
Fund price: US\$151.14
Number of share holdings: 55
Dealing day: Weekly (Thursday)

Performance in US\$ net of all fees and expenses



% Returns	Fund	Benchmark ¹
<i>Unannualised:</i>		
Since inception	51.1	0.7
<i>Annualised:</i>		
Since inception	14.8	0.2
Latest 3 years	14.8	0.2
Latest 2 years	5.2	-9.5
Latest 1 year	-7.7	-16.4
Risk measures (since inception, based on month-end prices)		
Maximum drawdown ²	-19.8	-22.9
Percentage positive months ³	61.1	55.6
Annualised monthly volatility ⁴	17.2	19.8

Relative to benchmark return required to reach high watermark: 1.9%.

1. Standard Bank Africa Total Return Index (source: Standard Bank), performance as calculated by Allan Gray as at 31 December 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 December 2014 and maximum benchmark drawdown occurred from July 2014 to December 2014. 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.

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 31 December 2014

Country	% of Equities	Benchmark ¹
Nigeria	24.4	14.6
Zimbabwe	23.0	1.2
Egypt	17.7	20.1
United Kingdom	6.2	17.6
France	5.3	0.7
Canada	4.9	13.1
Kenya	3.8	15.6
Australia	3.2	5.5
BRVM	3.1	1.0
Uganda	1.8	0.2
Malawi	1.7	0.0
Rwanda	1.7	0.1
Zambia	1.3	0.1
Botswana	1.2	0.5
Mauritius	0.6	2.0
Ghana	0.0	0.2
Morocco	0.0	6.1
Tunisia	0.0	1.2
United States	0.0	0.3
Total²	100.0	100.0

Sector allocation on 31 December 2014

Sector	% of Fund	Benchmark ¹
Oil & gas	15.1	12.1
Basic materials	7.4	27.6
Industrials	2.0	3.3
Consumer goods	28.0	8.0
Healthcare	0.0	0.0
Consumer services	1.7	1.5
Telecommunications	11.7	11.5
Utilities	2.4	0.5
Financials	23.8	35.4
Technology	0.0	0.1
Fixed interest/Liquidity	8.0	0.0
Total²	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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Disclaimer

Shares are traded at ruling prices. The Fund may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. 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. Allan Gray International Proprietary Limited, an authorised financial services provider, is the appointed investment manager of the Fund. The Fund is incorporated and registered under the laws of Bermuda and is supervised by the Bermudan Monetary Authority. The Fund is also listed on, and regulated by, the Bermuda Stock Exchange. 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 on the terms and conditions and subject to the restrictions set out in the Prospectus. The offering of shares in the Fund is restricted in certain jurisdictions. Please contact the Fund to confirm if there are any restrictions applicable to you.

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.