

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

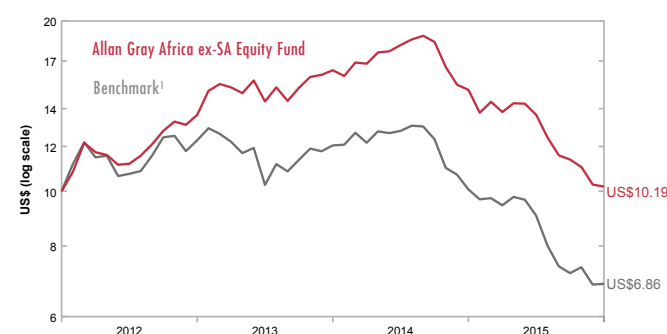
Investors are charged 1% when subscribing for Fund shares. Investors may be charged 1% when redeeming Fund shares in the case of significant redemptions. These charges are paid into the Fund to offset the costs associated with the transactions that are borne by the Fund. The Investment Manager may waive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

Fund information on 31 December 2015

| | |
|-----------------------------------|-------------------|
| Fund currency | US\$ |
| Fund size | US\$199m |
| Number of shares | 1 784 028 |
| Price (net asset value per share) | US\$101.89 |
| 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 ¹ |
|---|-------|------------------------|
| Unannualised: | | |
| Since inception | 1.9 | -31.4 |
| Annualised: | | |
| Since inception | 0.5 | -9.0 |
| Latest 3 years | -9.3 | -17.7 |
| Latest 2 years | -21.1 | -24.6 |
| Latest 1 year | -32.6 | -31.9 |
| Year-to-date (unannualised) | -32.6 | -31.9 |
| Risk measures (since inception, based on month-end prices) | | |
| Maximum drawdown ² | -45.9 | -47.7 |
| Percentage positive months ³ | 50.0 | 50.0 |
| Annualised monthly volatility ⁴ | 17.9 | 19.3 |
| Highest annual return ⁵ | 41.0 | 24.6 |
| Lowest annual return ⁵ | -38.6 | -43.4 |

Relative to benchmark return required to reach high watermark: 8.1%.

1. Standard Bank Africa Total Return Index (source: Standard Bank), performance as calculated by Allan Gray as at 31 December 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 December 2015 and maximum benchmark drawdown occurred from July 2014 to November 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.
5. This is the highest or lowest rolling 12-month return the Fund has experienced since inception. The Fund's highest annual return occurred during the 12 months ended 31 May 2013 and the benchmark's occurred during the 12 months ended 30 June 2014. The Fund's lowest annual return occurred during the 12 months ended 31 August 2015 and the benchmark's occurred during the 12 months ended 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 September 2015 | % |
|---|-------------|
| Fixed fee | 1.00 |
| Performance fees | 1.90 |
| Brokerage and custody fees | 0.60 |
| Other costs | 0.11 |
| VAT | 0.41 |
| Total expense ratio | 4.01 |

Country of primary listing on 31 December 2015

| Country | % of Equities | Benchmark ⁶ |
|--------------------------|---------------|------------------------|
| Nigeria | 27.7 | 15.6 |
| Zimbabwe | 21.1 | 0.7 |
| Egypt | 16.2 | 15.3 |
| United Kingdom | 5.5 | 14.9 |
| Kenya | 5.5 | 13.3 |
| BRVM | 5.1 | 2.4 |
| Rwanda | 4.5 | 0.1 |
| France | 4.4 | 2.2 |
| Uganda | 3.9 | 0.2 |
| Australia | 2.4 | 3.8 |
| Malawi | 1.6 | 0.0 |
| Zambia | 1.2 | 0.0 |
| Canada | 1.0 | 12.8 |
| Ghana | 0.0 | 0.0 |
| Morocco | 0.0 | 6.5 |
| United States | 0.0 | 4.2 |
| Tunisia | 0.0 | 3.1 |
| Mauritius | 0.0 | 2.5 |
| Tanzania | 0.0 | 1.7 |
| Botswana | 0.0 | 0.6 |
| Total⁷ | 100.0 | 100.0 |

Sector allocation on 31 December 2015

| Sector | % of Fund | Benchmark ⁶ |
|--------------------------|--------------|------------------------|
| Oil & gas | 13.4 | 12.6 |
| Basic materials | 4.0 | 23.7 |
| Industrials | 0.8 | 3.2 |
| Consumer goods | 24.5 | 13.1 |
| Healthcare | 0.0 | 0.0 |
| Consumer services | 2.8 | 1.2 |
| Technology | 0.0 | 0.0 |
| Telecommunications | 15.9 | 10.8 |
| Utilities | 3.7 | 0.5 |
| Financials | 30.3 | 34.1 |
| Fixed interest/Liquidity | 4.7 | 0.9 |
| Total⁷ | 100.0 | 100.0 |

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 31 December 2015

The Africa ex-SA Equity Fund performed poorly in 2015, losing 32.6% over the year. What is encouraging is the exceptional value we find in our investments.

We have not changed our view on any of the shares that detracted significantly from returns. In fact we are still buyers of each of the top five detractors. Our worst performing investment was Zimbabwean telecommunications group Econet Wireless, which fell from US\$0.60 to US\$0.21. The country's difficult economic situation and tough regulation are pressuring Econet's profits. That said, the company is gaining voice revenue share and growing its ancillary money transfer business. Econet generates strong cash flow which can be put towards highly accretive share buybacks and debt reduction. The market capitalisation is currently US\$344m and Econet bought back US\$23m worth of shares during the six months to September.

The share price of Eastern Tobacco, the Fund's largest holding, fell from EGP220 to EGP175 per share. Eastern is an Egyptian, state controlled, monopoly cigarette producer. Its operations performed well above our expectations in 2015, with earnings before interest, tax, depreciation and amortisation (EBITDA) growing 36% and net cash rising to EGP30 per share. The company trades on an historic enterprise value to EBITDA multiple of three and under six times forward earnings: an exceptional opportunity.

The biggest uncertainty for the year ahead is the potential devaluation of the Nigerian naira. The Fund has a 20.8% exposure to domestic Nigerian companies (this excludes oil and gas companies). In a perfect world we would wait for the naira to weaken and only then invest at the new, lower US dollar prices. We largely agree with the widely expected view that a naira devaluation is likely. However, we believe this view is already discounted in Nigerian equity valuations. We have chosen to invest now in what we think are extremely cheap shares rather than wait on the side-lines for a potentially cheaper entry point.

I wrote about our opposition to the merger of oil companies MPI and Maurel & Prom (MAU) in the September commentary. Unfortunately shareholders approved the merger, which passed with the required majority, if only just. The terms were improved from two MPI shares and a EURO.45 dividend for each MAU share to 1.5 MPI shares and the dividend for each MAU share, but we were still against the deal. Amazingly for such a drastic change in the nature of the business, only 61% of shareholders saw fit to vote their shares.

We believe the Fund is invested in a portfolio of very attractively priced shares which should yield good returns for investors in the years to come.

Commentary contributed by Andrew Lapping

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 399 Park Avenue, 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 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 Citibank International Limited, 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.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 +3 531 622 4716 or by email at AGclientservice@citi.com.