ALLAN GRAY

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 regardless of the location of the stock exchange listing (excluding South Africa). 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 (excluding South 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

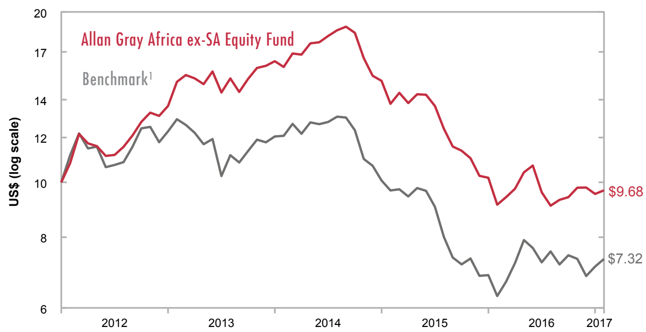
Investors are charged 1% when subscribing for Fund shares. Investors may be charged 1% when redeeming Fund shares in the case of significant redemptions. These charges are paid into the Fund to offset the costs associated with the transactions that are borne by the Fund. The Investment Manager may waive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

Fund information on 31 January 2017

Fund currency	**US$**
Fund size	**US$235m**
Number of shares	**2 310 287**
Price (net asset value per share)	**US$90.30**
Number of share holdings	**56**
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]
Cumulative:		
Since inception	-3.2	-26.8
Annualised:		
Since inception	-0.6	-5.9
Latest 5 years	-2.2	-8.1
Latest 3 years	-15.4	-15.4
Latest 2 years	-16.1	-13.0
Latest 1 year	6.0	16.3
Year-to-date (not annualised)	1.5	3.1
Risk measures (since inception, based on month-end prices)		
Maximum drawdown[2]	-51.7	-51.8
Percentage positive months[3]	54.1	50.8
Annualised monthly volatility[4]	17.9	19.5
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: 30.3%.

1. Standard Bank Africa Total Return Index (source: Standard Bank), performance as calculated by Allan Gray as at 31 January 2017. 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 July 2016 and maximum benchmark drawdown occurred from July 2014 to January 2016. 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.

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. Since inception the Fund has outperformed its benchmark by a significant margin. The maximum drawdown and lowest annual return numbers, in the 'Performance in US$ net of all fees and expenses' table, show that the Fund has not experienced more downside than its benchmark in periods of negative market returns. Unfortunately the Fund has not generated positive absolute returns since inception. We believe our philosophy of buying undervalued equities should generate positive absolute returns over time and we are disappointed not to have achieved this outcome over the past five years.

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.	31 Dec 2016
Dollars per unit	**4.4719**

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.

The Investment Manager's Board has resolved to waive the fixed fee component of 1% per year with effect from 16 September 2016. This will be effective until the high watermark has been achieved or an alternative fee structure has been implemented. For further details please refer to the Fund manager's September 2016 quarterly commentary.

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 31 December 2016	%
Total expense ratio	**2.94**
Fixed fee	0.90
Performance fees	1.35
Custody fees	0.30
Other costs excluding transaction costs	0.07
VAT	0.32
Transaction costs (including VAT)	**0.49**
Total investment charge	**3.43**

Country of primary listing on 31 January 2017

Country	% of Equities	Benchmark[6]
Nigeria	28.9	16.5
Zimbabwe	19.4	0.9
Egypt	15.5	10.6
United Kingdom	8.5	13.3
Kenya	6.0	11.9
BRVM	3.7	2.1
Uganda	3.6	0.2
Australia	3.6	0.4
France	3.1	3.0
Rwanda	2.4	0.0
Malawi	1.5	0.0
Netherlands	1.3	0.0
Zambia	1.1	0.0
Canada	0.7	27.5
Tanzania	0.6	0.7
Ghana	0.0	0.0
Morocco	0.0	6.9
Tunisia	0.0	2.8
Mauritius	0.0	2.7
Botswana	0.0	0.3
United States	0.0	0.3
Total[7]	**100.0**	**100.0**

Sector allocation on 31 January 2017

Sector	% of Fund	Benchmark[6]
Oil & gas	13.3	12.3
Basic materials	8.4	31.8
Industrials	0.2	1.5
Consumer goods	26.3	8.4
Consumer services	2.3	0.3
Telecommunications	10.9	10.7
Utilities	3.6	0.2
Financials	30.4	34.6
Fixed interest/Liquidity	4.5	0.3
Total[7]	**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.

Asset allocation on 31 January 2017

Asset Class	Total
Net equity	95.5
Hedged equity	0.0
Property	0.0
Commodity-linked	0.0
Bonds	0.0
Money market and bank deposits	4.5
Total (%)	**100.0**

Fund manager quarterly commentary as at 31 December 2016

Most African equity markets had a difficult 2016, generating negative dollar returns. The worst performers were Egypt and Nigeria, which fell 47% and 41% respectively, while the standout performer was Morocco, returning 26%. Kenya, the other large, liquid market, fell 9%.

After trying to plug the dyke for over a year, the Egyptian authorities finally let the pound float in early November. The magnitude of the move surprised most; including us (we were using a rate of EGP13.20/US$ to value the portfolio just before the devaluation). The Egyptian pound lost 52% of its value in eight weeks, moving from EGP8.88/US$ to EGP18.52/US$. The local equity market rallied 37% over the same period, for a net US$ loss of 35% for equity investors.

Close observers of the Allan Gray Africa ex-SA Equity Fund's price series would have seen little price movement from the above volatility as by November we had already devalued the Egyptian pound rate used to value the Fund assets, so the subsequent stock market and currency moves more-or-less offset one another.

We think the Egyptian pound is undervalued and may well recover somewhat, especially if the government adopts some sensible policies and cuts back on money printing. We are not net buyers of Egyptian equities, as there is less value after the rally. Our preferred exposure is still Eastern Tobacco. The Egyptian opportunity currently appears to be in local currency, fixed interest and cheap holidays.

The Fund is a buyer of Nigerian banks, as these businesses look undervalued despite substantial risks. The Nigerian bank investments detracted 8.9% from returns over the past year. Nigerian consumer businesses are beginning to move into our valuation range, but we are not yet substantial buyers.

It would have been nice if rather than investing in Nigerian banks the Fund had the equivalent sum invested in Moroccan equities – unfortunately this was not the case. We had zero exposure to Morocco over the year and, despite lots of looking, we have not found any businesses that we think are substantially undervalued.

The Fund's exposure to Kenyan equities is fairly modest despite the financial companies trading on depressed valuations. The Kenyan shilling is cause for concern. The shilling traded in a remarkably tight range around KES101/US$ over the past 18 months, despite a rapidly increasing fiscal deficit (now 10% of GDP) and a current account deficit of 6% of GDP. Private sector credit expansion has slowed recently, but a pegged currency and large twin deficits do not usually end well.

Unfortunately, the reason for the sharp rally in Zimbabwean equites over the past six months was not an improving economic situation, but rather a deteriorating one. The government has introduced so called "bond notes" in an attempt to solve the chronic dollar shortage, which could be the harbinger of another bout of money printing. It is very difficult to get dollars out of Zimbabwe, so investors with cash balances are looking to buy real assets, driving up equity valuations. In pricing the Fund, we have devalued the Zimbabwean securities by 20% to reflect this anomaly.

The Fund is still not charging a fee as we work on improving the fee structure. (Please refer to the previous factsheet for more information.)

Falling African equity prices and valuations over the past 30 months have laid the groundwork for better returns ahead. The Fund owns a collection of undervalued equities that should reward long-term investors with pleasing real returns in the years to come.

The Fund bought small positions in Kenyan banks, added to the position in Nigerian banks and sold Global Telecom, Safaricom and Credit Agricole Egypt.

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 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. 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, 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 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.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) 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), VAT and other expenses like audit fees. Transaction trading costs (including brokerage, Securities Transfer Tax [STT] and investor protection levies and VAT thereon 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.