AFRICA ALPHA FUND

June 2016

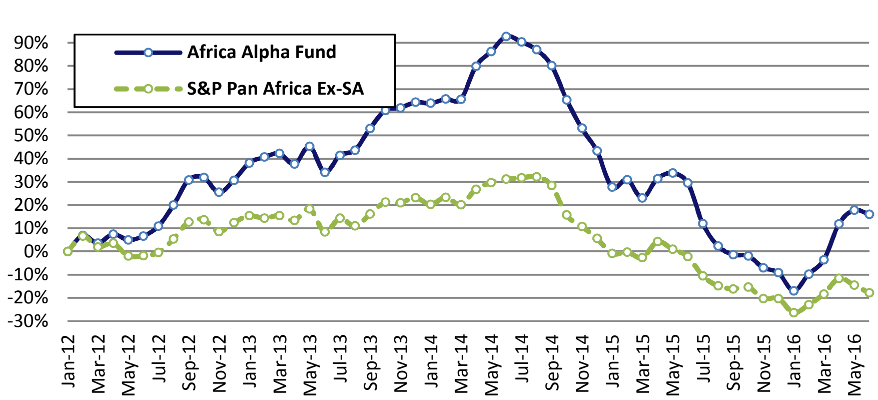
Fund Description

The Africa Alpha Fund invests in African listed equities (ex-South Africa). The fund aims to outperform the African markets using bottom-up research process with an emphasis on detailed, company-specific due diligence. Buy-sell discipline is led by valuation using a long-term investment time horizon. Stock selection is informed by fundamental research conducted in-situ in Africa.

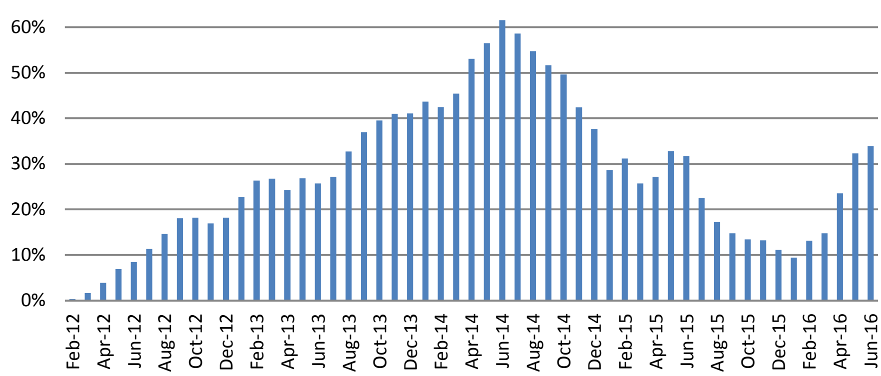
Fund Information

Launch date:	February 1, 2012
Fund AUM:	USD 79.6m
Firm AUM:	USD 112.1m
Structure:	Open-ended, Expert Fund
Domicile:	Mauritius
Regulator:	FSC Mauritius
Fund Manager:	Sustainable Capital Ltd
Administrator:	Apex Fund Services MU)
Global Custodian:	HSBC Bank Ltd (MU)
Auditor:	Ernst & Young
Dealing frequency:	Monthly
Bloomberg:	SUCAFAA MP Equity
ISIN:	MU0343S00014
GIIN:	KDIPCD.99999.SL.480
Reporting currency:	USD
Base Fee:	1.5%
Performance Fee:	20% above hurdle
Total Fee cap:	4.0%
Hurdle:	SPPAXSCN Index
High water mark:	Perpetual
Crystallisation:	Annual
Contact:	info@sustainablecapital.mu

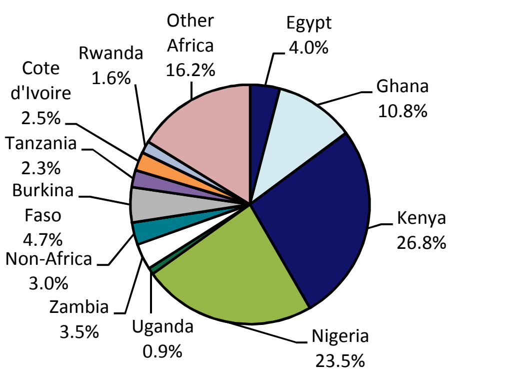
Fund Performance (USD, GIPS*, Since inception)



Cumulative Relative Performance (USD, GIPS*, Since Inception)



Geographic Spread (% Economic Footprint)



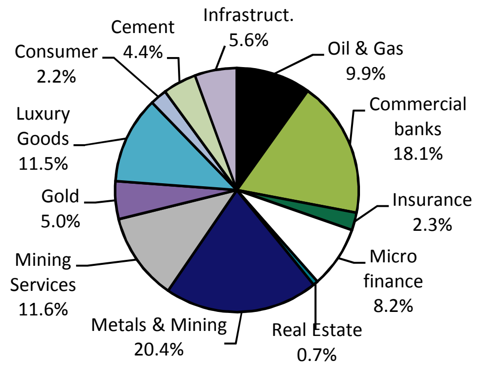
Monthly Performance (%, USD, GIPS*)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Calendar
2012		6.9	-3.1	3.7	-2.3	1.5	4.0	8.2	9.0	0.8	-4.8	4.2	30.7
2013	5.6	1.9	1.1	-3.2	5.5	-7.7	5.5	1.6	6.5	5.0	0.7	1.5	25.7
2014	-0.2	1.1	-0.1	8.6	3.5	3.5	-1.2	-1.8	-3.6	-8.2	-7.4	-6.4	-12.8
2015	-10.9	2.5	-6.0	6.7	1.8	-3.2	-13.6	-8.6	-3.6	-0.6	-5.1	-2.3	-36.6
2016	-8.6	8.6	6.9	16.0	5.3	-1.5							27.8

Annualized Performance (%, USD, GIPS*)

	-1 yr	-3 yr	-5 yr	Since Inception
Africa Alpha	-10.4	-4.7	na	3.4
S&P Pan Africa Ex-SA	-16.0	-8.8	na	-4.4
Relative Perf.	5.6	4.1	na	7.8

Sector Spread



Relative Risk and Return (USD, GIPS*, Since Inception)

Benchmark	S&P Pan Africa ex-SA Capped
Portfolio Beta	0.98
Correlation	0.68
Tracking Error	12.0%
Information Ratio	0.65
Relative Downside Std. Deviation	7.1%
Sortino Ratio	1.10

Fund Manager Comments

The fund continued its outperformance of the African equity market over the month. The overall African market lost 3.9% in USD terms during June (benchmark return for S&P Africa ex-SA index) and the domestic-listed market was down 11.3% (MSCI Africa ex-SA index return, which excludes foreign-listed Africa-dominant stocks).

Exchange rate movements of the Nigerian Naira (a 29% currency loss on 24% of portfolio) and the British Pound (an 8% currency loss on 22% of portfolio) had a disproportionate negative impact on the performance of the fund during June. Despite the short-term translation effects of these currency moves, in this note we explain why both devaluations bode well for future fund returns.

Nigerian Naira: During the month, the Central Bank of Nigeria (CBN) shifted the Naira from a pegged currency to a market-based, floating currency regime, resulting in a translation loss of 29% for Naira-denominated assets in USD terms. Naira-based stocks (and other Nigerian assets) therefore require a return of 41% in order to 'break-even' in USD terms, a process which had already begun in anticipation of the inevitable devaluation (reflected by the S&P Nigeria Index return of 34% since January 2016). The fund's Naira asset exposure prior to the devaluation was 24.0%. The direct translation impact of the Naira devaluation therefore detracted 7.0% from fund performance for the month.

We expect the rerating of our Nigerian holdings to continue, especially in the case of selected commercial banks that continue to trade at significant discounts to their book values (despite their position as local currency hedges). Particular banks are likely to enjoy material earnings tailwinds due to their net long positions in US Dollars and their roles as intermediaries in a country where economic activity is due to recover from severe foreign currency shortages (devaluation bringing relief), sovereign budget approval delays (now implemented) and Brent crude oil prices below $28/bbl (up 85% from January lows). Following the devaluation, liquidity in the Nigerian stock market has accelerated to a multiple of its previous levels and local businesses that have been hamstrung by a shortage of foreign currency are beginning a return to normal trade.

Although the Naira currency move came as no surprise, the CBN exceeded our expectations by completely reforming the structure of the domestic forex market, doing away with preferential parallel rates entirely (which were previously prone to abuse) and thereby ultimately rendering the black market rate redundant. Along with other key structural reforms that have been implemented under the new government's leadership, this is an important milestone for long-term investors in Nigeria (including foreign direct investors in fixed assets, portfolio investors in bonds and equities and Nigerians remitting capital from abroad). Our view on the Nigerian companies in which we are invested remains steadfast: Based on our fair value estimates, the returns that we expect on these positions over the next few years far outweigh the negative currency impact of the devaluation.

British Pound: On the day before the Brexit vote, 22.0% of the fund was listed in London and therefore denominated in GBP. However, all of the fund's London-listed companies conduct their business in USD and have no direct economic exposure to the British economy or its currency. In a perfectly efficient market, our London-listed holdings should theoretically have rerated by 9-10% in order to restore parity on the morning after the Brexit vote. Instead, we have seen the opposite effect as the tide of negative 'Brexit' sentiment has carried all boats down. This has presented the fortuitous opportunity to increase our share of Africa-dominant, USD-based companies that are listed in London, as their discounts to fair value have widened further in the midst of the Brexit-induced panic, making the investment case for these companies even more compelling. The paranoia surrounding 'Brexit' has also had the welcome side effect of propelling our gold mining/drilling holdings (17.0% of portfolio at month end) toward their fair values.