QUARTERLY NEWSLETTER
THIRD QUARTER

2018

ELEMENT
INVESTMENT MANAGERS

administered by Sanlam

ELEMENT

Contents

administered by Sanlam

A few words from our Chairman

Dr Anwah Nagia
Chairman
DTech Publ Man (hc)

Dear Fellow Investors

The current investment environment is full of pitfalls and headwinds, and we believe that the best way to navigate these is to be actively positioned for the long-term in order to weather volatility across all asset classes, both within our instrument selection and our asset allocation. **Element's long-term performance track-record highlights this to be both a prudent and rewarding approach for investors, given that all of Element's SA Unit Trusts are ranked in the top quartile by performance relative to our peers (in their respective Unit Trust categories) over the three years ending September 2018.** (Note that all performances are calculated net of fees.)

In our main Investment Commentary, portfolio manager Jeleze Hattingh delves a bit deeper into Element's Asset Allocation Unit Trusts, their drivers of performance and the factors that make them fairly unique investment options for SA investors. We believe that **active management combined with prudent asset allocation will result in going a long way to finding a safe haven for your investments.**

In a market where share price valuations are wide-ranging, active instrument selection not only protects against potential individual company downside risk, but also provides important diversification and protection potential against downside risk for equity markets in general. This is done by avoiding expensive heavyweight shares and by insisting on only buying companies where share prices are trading below their estimated intrinsic values, allowing for an adequate margin of safety.

In our second article, portfolio manager Andrew Bishop delves into one such an investment opportunity. He reviews the investment case for Afrox – a company that Element has been invested in since early 2017. We believe that the business continues to offer attractive valuations relative to an expensive market and this is supported by defensive earnings, a strong balance sheet and a successful restructure of the business over the past three years. **Afrox might not be the most exciting company listed on the JSE, but it is still "cooking with gas!"**

As always we publish our quarterly voting track record in this newsletter and our long-term voting track record may be viewed on our website **(www.elementim.co.za)** as we have shown since 2001.

We welcome any feedback you may have on our newsletter or any other aspect of our business. Please e-mail us at **info@elementim.co.za** or call **021-426 1313** if you have any comments, suggestions or questions.

We thank you for your continued support.

Finding value (and safe havens) across asset classes

Jeleze Hattingh
Portfolio Manager
M Sc (Cum Laude), CFA, CMT

The third quarter of 2018 (3Q2018) saw a continuation of low returns across the majority of asset classes, coupled with "landmines" inflicting damage to former equity market darlings. Companies such as Aspen and MTN, amongst others, lost c. 30% in value (market capitalisation) within a matter of weeks. At the time of writing, the South African listed behemoth, Naspers, had tumbled down c.-35% from its all-time high share price of 409000c (21 November 2017) to 265698c (10 October 2018). To put this loss in perspective:

- Naspers lost cR630bn in value over this period (less than a year!)
- The value lost by Naspers was more than the combined value of SA's two largest banks, Firstrand and Standard Bank!

As an aside, Element had (and has) zero exposure to Naspers in any of our Unit Trusts and portfolios – a position we have held for a number of years based on our valuation and corporate governance concerns.

To make matters worse, there appear to be a number of potential global investment "speedbumps" seemingly heading investors' way. Examples include the escalating trade war between China and the US, the instability in emerging market currencies (including the Rand), and the current faceoff between the Italian government and the European Commission on Italy's budget deficit.

In light of the above, one of the questions that we are asked most frequently is *"where can one still find value in these markets and how do we protect our investments?"* We believe that active management combined with prudent asset allocation will result in going some way to answering these questions. We contend that appropriate **asset allocation is one of the most critical investment decisions – and even more so in the current low return environment.**

In this article we are going to delve a bit deeper into Element's Asset Allocation Unit Trusts, their drivers of performance and the factors that make them fairly unique investment options for SA investors.

Firstly looking at asset class performances to the end of 3Q2018:

The quarter to the end of September 2018 saw pretty dismal performances coming from the majority of the local asset classes, with negative returns from the major FTSE/ JSE indices as follows:

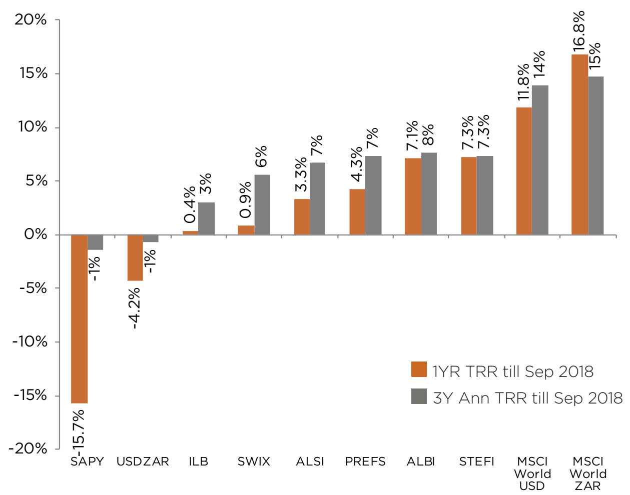
- JSE All Share Index (ALSI) down -2.2%;
- JSE Property Index (SAPY) down -1.0;
- JSE All Bond Index (ALBI) down -1.1%.

Looking a bit broader and wider at the various asset classes' returns over the past 12 months to the end of September 2018, it is notable that none of the local asset classes outperformed cash (using STEFI as a proxy). The global tech heavyweights continued to drive the MSCI World Index higher, which was the only true outperformer compared to cash over 3Q2018. But even the FAANGS have had a dismal start to 4Q2018, dragging the global equity indices lower during the first 2 weeks of the current quarter.

Per the graph below, it is noteworthy to see the demise of returns from the listed property sector, which are now negative over both a 1 year period and 3 years to end 3Q2018. Bonds were the only local asset class that outperformed cash over the past rolling 3 years, but only marginally at that. The graph below also reveals a number of other trends, for example:

- weak ZAR,
- dismal local equity performance and
- strong global equity performance.

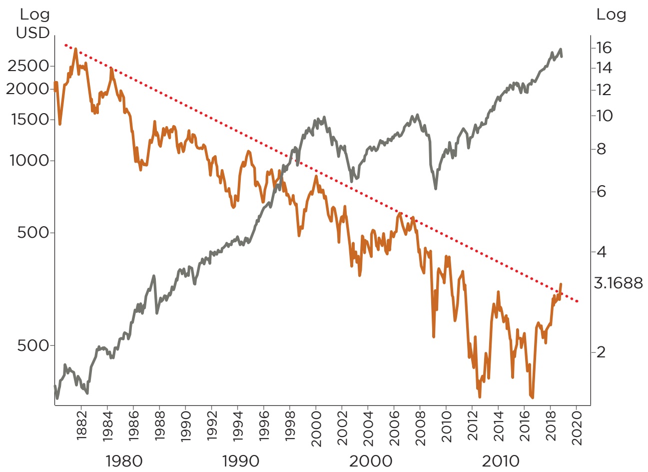
SA Total Returns p.a. for 3 years ending 30 June 2018



Data: Reuters, 30 September 2018

The graph below shows the US 10 year Treasury yield (Bond) in brown (this yield is used by investors as the benchmark "risk-free rate" for pricing assets globally), versus the S&P500 Index (Equities) in grey. Typically we would expect the two lines to move in opposite directions to each other as an increasing bond yield (brown line) indicates higher risk.

S&P500 (LHS) vs US 10 Year Treasury Yield (RHS)



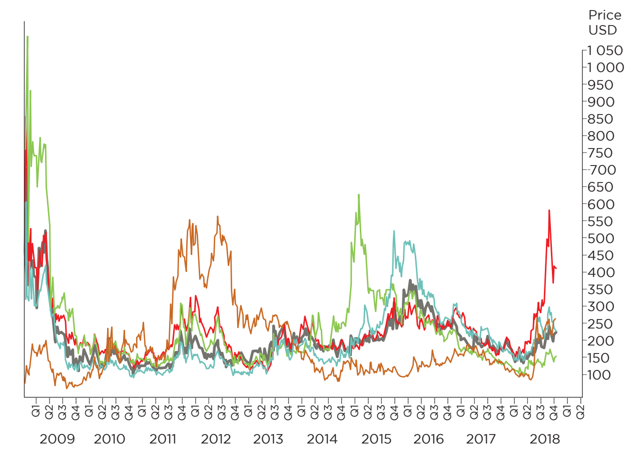
Source: Reuters, 12 October 2018

Warning lights are however also flashing for the global equity markets, as the surge in US Bond yields (brown line) has led to a breakout of the 30-year Bond bull market trend line (brown dotted line). Previously when this trend line was reached/breached (2000 and 2008), it was an early warning signal ahead of significant sell-offs in the equity markets (whether due to a rotation out of equities into bonds, the cost of debt/funding escalating which led to lower earnings expectations, or a number of other fundamental reasons).

Furthermore, the instability in Emerging Market ("EM") currencies could continue to affect our local performance. One of the warning flags that we watch is EM 5 year Credit Default Swaps (CDS) spreads, which are usually a good proxy for increased volatility and instability of the respective EM's currencies. Typically when EM risk is elevated (albeit owing to geo-political, country-specific, or a generic risk-off scenario) the EM CDS spreads rise. This typically implies that the cost for investors to "insure" against a country's potential credit default has increased (i.e. insurance has become more expensive).

As shown below, the Turkish CDS (in red) increased by c400bp in 3Q2018, leading to a corresponding (albeit much smaller) knock-on effect in the CDS spreads of South Africa (in grey), Brazil (in teal) and Russia (in green). It is further notable how the Italian CDS spreads (in brown) sold-off by almost 180bp and are indicating further uncertainty and risk. Looking back to the 2009 experience (as well as the PIIGS (Portugal, Ireland, Italy, Greece and Spain) crisis where the Italian CDS spreads traded above 550bp in 2012), it is easy to see that not only are these blow-outs extremely sudden and violent in nature, but also that the current levels for emerging markets are still materially lower than where CDS spreads increased to during the 2009 Global Financial Crisis (GFC) or even the end of 2015. This will imply that if there is another EM sell-off, it is easy to see SA bonds trading at yields 130bp higher than where they are today (e.g. SA 10 year Government Bond could easily blow out to trade above 10.50%, or if conditions deteriorate to those of 2009, SA bonds could trade at yields above 12% again).

Emerging Market 5 Year Credit Default Swaps



Source: Reuters, 11 October 2018

The importance of active instrument selection:

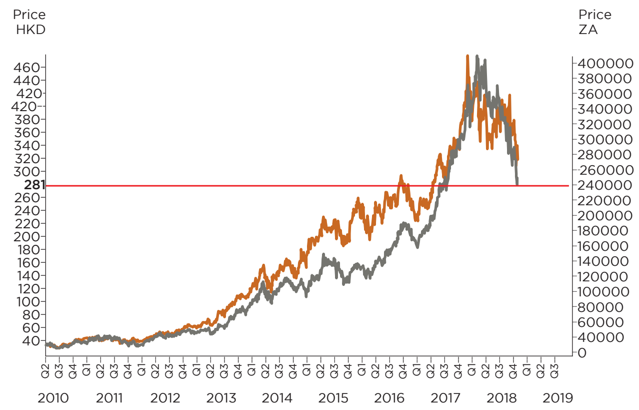
Asset Allocation is one of the most important investment decisions, if not the most important, for any Multi-Asset (Balanced) Fund. Complementary to Asset Allocation is instrument selection, especially in markets where volatility is high or increasing and performance outcomes can be wide-ranging. In the current environment, where the breadth of global Equity markets is deteriorating (i.e. where the majority of the global Equity rally, as measured by the Equity Indices, has been driven by a few Tech company heavyweights, rather than by the broader market as a whole), any speedbump can have extreme consequences for a specific asset class's performance.

A classic example playing out in 2018 has been the SA Property Sector, where the sell-off in the Resilient stable of companies, which combined represented 42% of the SAPY Index at the start of 2018, has dragged the Property sector down -22% for the 9 months to September 2018 (Resilient down -53%, Fortress B down -61 %, NepiRockcastle down -35%)[1]. Investing passively in the SAPY index has been a very costly affair in 2018 – and this is coming on the back of the Property Sector being the market darling for the five years to the end of Dec 2017, when the sector outperformed all other SA asset classes.

As the Property sector's reversal of fortune in 2018 shows, investment and sector returns are cyclical and when the cycle turns, it can be frighteningly fast and devastating for investors.

A second, and for South African Equity investors an even more important example, is the effect of the elephant in the room, Naspers, on South African Equity Indices. At the end of September 2018, Naspers had a weight of 18% in the ALSI and 23% in the SWIX. The graph below shows the spectacular performance since 2009 of Naspers (in brown) primarily on the back of the performance of its investment in Chinese Tech giant, Tencent (in grey) and then highlights the sell-off that has happened in lockstep across the two stocks – Naspers is down >30% from its all-time high.

Naspers (RHS) vs Tencent (LHS)



Source: Reuters, 12 October 2018

The Naspers effect, combined with other share heavyweights that have been hit by "landmines" over the past 12 months (e.g. MTN – 36% from its January 2018 high, Aspen –47% from its October 2017 high, not to mention Steinhoff), has dragged the SA Equity indices' performances substantially lower. This is where the importance of active instrument selection for investment returns come into play.

In a market where share price valuations are wide-ranging[2], active instrument selection not only protects against potential individual company downside risk, but also provides important diversification and protection potential against downside risk for equity markets in general. This is done by avoiding owning expensive heavyweight shares and by insisting on only buying companies where share prices are trading below their estimated intrinsic values, allowing for an adequate margin of safety. **The portfolio diversification and downside protection potential from active instrument selection cannot be replicated by a Passive investment holding (or an Index-tracking ETF).**

By way of example (using our Element Earth Equity SCI Fund as a proxy for the Equity positions held in our Asset Allocation Funds), we compare Element's Equity positioning (as at 30 September 2018) on both an absolute as well as relative basis to the ALSI below:

Earth Equity: Top10 holdings	% Fund	ALSI: Top10 holdings	% Index
Anglogold	10.4%	Naspers -N	18.2%
Afrox	6.9%	**BHP Billiton**	**9.0%**
Glencore	6.6%	Richemont	8.3%
BHP Billiton	**6.1%**	Anglo American	4.4%
ABInbev	5.7%	**Sasol**	**4.1%**
Sasol	**4.9%**	Standard Bank	3.1%
British Am. Tobacco	**4.8%**	Firstrand	3.0%
Impala Platinum	4.3%	**British Am. Tobacco**	**2.4%**
ABSA	4.2%	MTN	2.2%
Huge Group	3.4%	Old Mutual	2.0%
Total Top 10	**57.3%**	**Total Top 10**	**56.8%**
% Fund: overlap Top10 holdings	15.8%	% Index: overlap Top10 holdings	15.4%

Source: Element Investment Managers, Reuters, 30 September 2018

The above highlights that Element's Equity positions are materially different from the Equity market as a whole (as measured by ALSI Index weights). There are only 3 shares in Element's Top 10 holdings that overlap with the ALSI Top 10 holdings and as mentioned, all of Element's Funds have zero exposure (0%) to Naspers, the big driver of SA Equity Index performance.

As a result, our active, value driven investment style has led to the Element Earth Equity SCI Fund outperforming both the ALSI as well as SWIX over 2018 to date.

[1] It should be noted that Element's Asset Allocation Unit Trusts had only a minor exposure to the Resilient stable of companies over the last year through our holding in Fortress A (FFA) – held as a proxy for inflation linked bonds. In contrast to the rest of the Resilient stable, the FFA shares were flat for the 9 months to end September 2018.

[2] Wide-ranging valuations refer to the current market conditions where heavyweight company share prices appear expensive, resulting in the Equity indices they impact appearing expensive. However, the breadth of companies in the index appears much cheaper on a relative basis.

Performance Start	2015/09/30						
Performance End	2018/09/30						
Fund	**Category**	**3y TRR**	**Avg Perf**	**3y Ann Rel Perf**	**Rank**	**# Funds**	**% Rank**
Earth Equity	ASISA South Africa Equity General	8.4%	2.9%	5.6%	16	183	9%
Flexible	ASISA Multi-Asset Flexible	9.7%	4.4%	5.3%	4	77	5%
Balanced	ASISA Multi-Asset High Equity	11.5%	4.0%	7.5%	1	197	1%
Real Income	ASISA Multi-Asset Low Equity	9.2%	5.2%	4.0%	3	153	2%
Specialist Income	ASISA Multi-Asset Income	8.7%	7.4%	1.3%	11	82	13%
Fund	**Category**		**Avg Perf**		**Rank**	**# Funds**	**% Rank**
Islamic Equity	ASISA South Africa Equity General	10.1%	2.9%	7.3%	6	183	3%
Islamic Balanced	ASISA Multi-Asset High Equity	11.3%	4.0%	7.2%	2	197	1%

Data: Moneymate / Longbeach Analytics, 30 September 2018

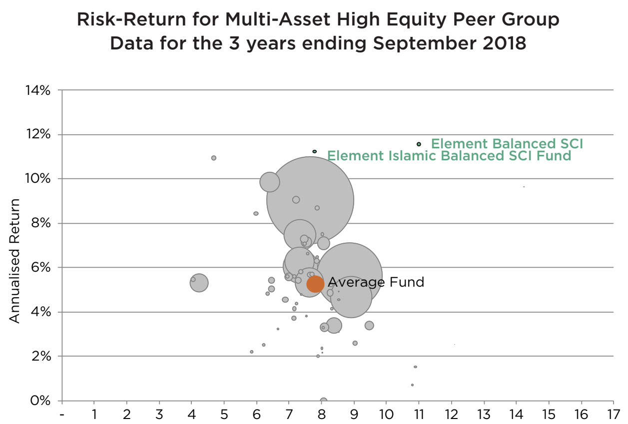
**Note that all performances are calculated net of fees.*

Element Unit Trusts' Performance

Not only did the Element Earth Equity SCI Fund outperform its benchmark, but in addition all of Element's SA Unit Trusts are ranked in the top quartile by performance relative to our peers (in their respective Unit Trust categories) over the three years ending September 2018, as demonstrated above.

1.) Element Balanced SCI Fund[3]

It is sometimes easier to see relative performances on a graphical basis. For example, the chart below shows the Element Balanced SCI Fund ranked as the top performing Unit Trust in its category (ASISA Multi-Asset High Equity) for the three years ending Sept 2018 with the Element Islamic Balanced SCI Fund a close second.



- Bubble size represents relative current Fund size.
- Includes all funds in ASISA Multi-Asset High Equity Group (excl. Fund of Funds).
- Average Fund: Bubble size is the avg Fund size, against the avg Risk Return Profile.

Data: Moneymate / Longbeach Analytics, 30 September 2018

Fund track record of outperformance of its benchmarks.

The Element Real Income SCI Fund was launched 16 years ago (in October 2002) and the Element Flexible SCI Fund was launched 17 years ago (October 2001).

Both the Element Flexible and Element Real Income SCI Funds have outperformed their benchmarks over the long-term on an annualised basis since inception.

- **Real Income returned 10.2% p.a. vs Benchmark 8.3% p.a. (CPI+3% p.a.)**
- **Flexible returned 12.3% p.a. vs Benchmark 10.8% p.a. (CPI+5% p.a.)**

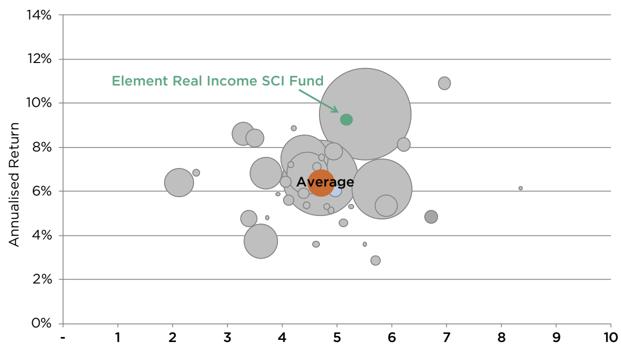
This outperformance is no mean feat given two stock market crashes, a number of ZAR (Rand) blow-outs as well as various asset class and interest rate cycles over the past 16/17 years!

Looking at the absolute performance over the past three years, the Element Real Income SCI Fund has delivered 9.2% p.a. over the 3 years ending September 2018, equal to inflation (CPI)+4% and in a similar vein the Element Flexible SCI Fund delivered 9.7% (CPI+4.5%) over the same period. In both cases, these Funds have significantly outperformed both inflation at 5.2% and cash (STEFI) at 7.3%.

Furthermore, both the Element Flexible SCI Fund and Element Real Income SCI Fund have also performed very well on a relative basis to Element's peer group, as can be seen from the graph below that compares the Element Real Income SCI Fund with its peers.

[3] All performance numbers shown are calculated net of fees. Also note that past performances are not necessarily a guide to future performances, and that the value of investments may go down as well as up.

Risk-Return for Multi-Asset Low Equity Peer Group
Data for the 3 years ending September 2018



- Bubble size represents relative current Fund size
- Includes all funds with AUM > R100m in ASISA Multi-Asset Low Equity Group
- Excludes Fund of Funds
- Average Fund: Bubble size is the avg Fund size, against the avg Risk Return Profile.

Data: Moneymate / Longbeach Analytics, 30 September 2018

3.) Element Specialist Income SCI Fund.

The Element Specialist Income SCI Fund, the most recent addition to our Unit Trust suite, will reach its five year track record in December 2018. It is a true income asset allocation fund, utilising all income classes to deliver performance through various cycles.

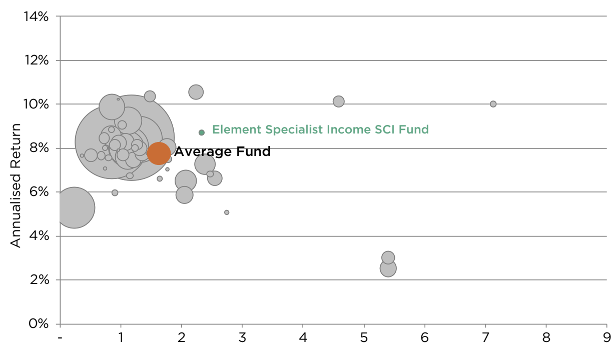
Comparing the Fund on both an absolute as well as relative view, the graph below shows the Element Specialist Income SCI Fund's monthly performance, as well as cumulative performance, over the past three years. This is compared further to its benchmark (110% STEFI) as well as the average of its peers in the ASISA Multi-Asset Income category. What is clear is that, despite slightly higher volatility, **our active asset allocation decisions, as well as sticking to our value philosophy when it comes to instrument selection, assisted the Fund in not only outperforming its benchmark, but also the majority of its peers.**

The funds outperformance was driven by the following factors:

- The Fund's exposure to preference shares (the JSE Preference Share Index was up 2.5%), as well as its indirect exposure to offshore assets through mostly UK based property shares, provided some relief with the USDZAR weakening by 3% during the quarter.

- The Fund's short duration position (i.e. relative underweight bond position) as well as stock specific recoveries:
    - Examples are African Phoenix Investment Preference Shares (AXLP), which recovered 26% post a Board proposal to buy back all the outstanding preference shares at a price of R37, as well as Grit Real Estate Income Group (GTR) which also rallied by 19% post its successful listing on the LSE on 31 July 2018.

Risk-Return for Multi-Asset Income Peer Group
Data for the 3 years ending September 2018



- Bubble size represents relative current Fund size
- Includes all funds in ASISA Multi-Asset IncomeGroup (excl. Fund of Funds).
- Average Fund: Bubble size is the avg Fund size, against the avg Risk Return Profile.

Data: Moneymate / Longbeach Analytics, 30 September 2018

In summary, the current investment environment is full of pitfalls and landmines, and we believe that the best way to navigate these is to be **actively positioned for the long-term to weather volatility across all asset classes, both within our instrument selection and our asset allocation.**

Our active investment selection process ensures that we take as much of the risk factors into account as possible and safeguards against downside risk by applying an adequate margin of safety. As billionaire investor, Seth Klarman, stated:

"A margin of safety is achieved when securities are purchased at prices sufficiently below underlying value to allow for human error, bad luck, or extreme volatility in a complex, unpredictable and rapidly changing world."

Element's long-term performance track-record highlights this to be both a prudent and rewarding approach for investors.

Filling up on (Handi) gas

Andrew Bishop
Investment Analyst
B Bus Sc, CA (SA), CFA

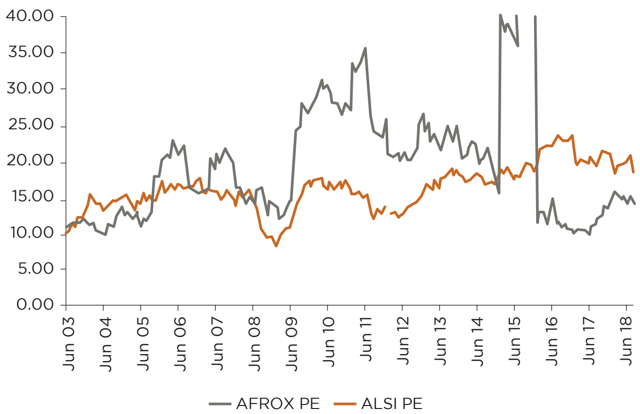
Afrox Handigas is a well-known LPG (Liquid Petroleum Gas) brand within South Africa with a leading market share above 30%. LPG is the gas we use as energy for stoves, heaters and gas braai's. This source of energy has been gaining popularity in South Africa partly due to the increased cost and problematic supply of electricity from Eskom. We have also seen that gas stoves are gaining popularity relative to electronic stoves due to their instant and more consistent heat. Similar trends are consistent across both the gas heater and gas braai market. As a leading supplier of LPG, Afrox is expected to benefit from these trends in the market.

Afrox has a long history that dates back over 90 years in South Africa with its listing on the JSE dating back over 50 years. The business today operates in two major sectors being the atmospheric gases and LPG market. The Atmospheric Gases and LPG businesses contribute 45% and 24% to earnings respectively with the smaller Africa and Hard Goods divisions contributing the remainder. The Hard Goods division supplies complementary products such as welding gear and protective equipment.

The Atmospheric Gases (argon, carbon dioxide, helium, nitrogen and oxygen) division is the largest contributor to the company's earnings. Revenue for this division is generated by the sale of these specialised gases to industrial customers such as hospitals, mining companies, etc. This market is characterized by a small number of large players. This concentration of suppliers is driven by the technological knowledge and economies of scale required to operate in the market. Globally the market is dominated by four large players being Linde, Praxis, Air Products and Air Liquide. Afrox's largest shareholder is Linde, which owns 51% of the company. This is positive for Afrox as it has a strong global partner to support it with technical skills and global trends within the market.

Afrox is one of our largest holdings in the Earth Equity fund. We believe that Afrox is attractively valued relative to an expensive market trading at 14x PE relative to a market PE of 19x. We believe this relative rating undervalues Afrox's defensive earnings qualities and strong balance sheet in a low growth and volatile domestic economy.

AFX PE vs ALSI PE



Source: Reuters and Company Results, October 2018

Defensive Earnings

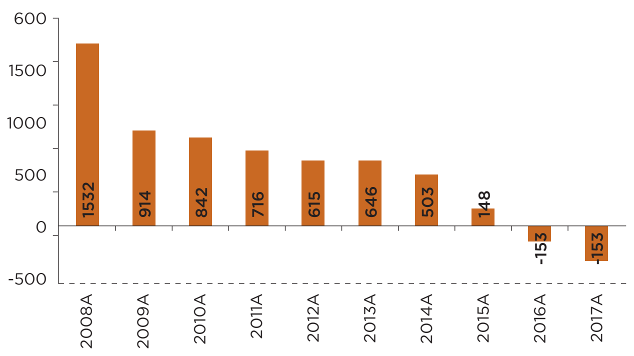
Defensive earnings or a defensive stock is understood to be a company that displays less volatility in its dividend and earnings stream than the cyclical economy. This stability is driven by the stable nature of demand for their products through various phases of the business cycle. Defensive companies tend to trade at a premium to the market due to the predictability of their earnings.

Atmospheric gas suppliers tend to exhibit these characteristics as they require specialist skills and scale to operate in the market. This lends it to a small number of large players, which limits new entrants into the market.

Afrox was able to deliver earnings growth of 13% in the first 6 months of 2018 (6 months to 30 June 2018) despite the weak and volatile domestic economy. This was encouraging and supported our opinion that Afrox's earnings are relatively defensive. In comparison, Woolworths and Shoprite's earnings both declined by -19% over a similar 6 month period.

Strong Balance Sheet

A strong balance sheet provides the business some comfort during periods of uncertainty. We have seen Afrox reduce its borrowings since 2008 and it is currently in a net cash position (no debt) – see chart below. The business does not require significant capital expenditure to grow at this point as capacity utilization remains low. Management estimate that capacity utilization is about 65% relative to international peers that can operate at over 80% utilization levels. An improvement in capacity utilization should have a positive impact on both margins and asset returns.



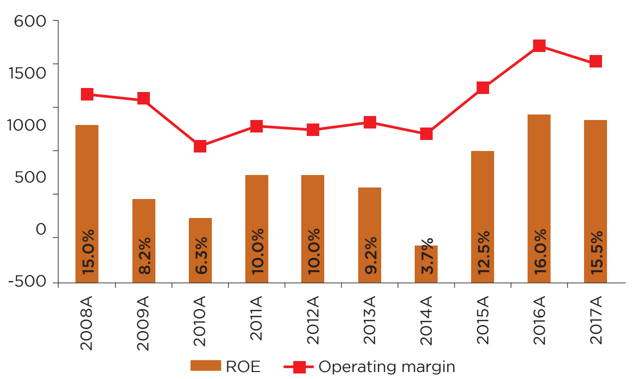
Source: Company Results

Turnaround

Managing Directors of Afrox			
Name	**Start**	**End**	**Years**
Tjaart Kruger	1 April 2007	31 August 2011	4.4
Brett Kimber	1 January 2012	12 January 2015	3.0
Schalk Venter	18 May 2015	30 September 2018	3.4

As indicated by the above table, there have been three Managing Directors at Afrox over the past 10 years. The first two tenures were characterized by periods of low and reducing returns. Afrox largely underperformed expectations over this period. This resulted in a strategic turnaround plan being initiated in 2014 to rectify the underperformance of the business.

Schalk Venter was appointed in 2015 to implement this strategy and the goals of the turnaround strategy were largely achieved by FY2017 with margins increasing from 14% to 21% over the period as well as cost savings of R606m being realised. The current management team has put the business in a better position to capitalize on market opportunities and weather difficult market conditions than three years ago. This improvement in fortunes is illustrated in the graph below that shows a rising operating margin which is leading to an improving return on equity (ROE).



Source: Company Results

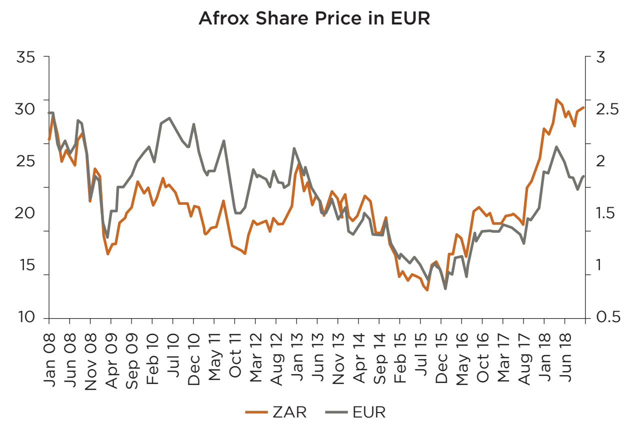
Global Comparison

The international market is dominated by four large global players. Afrox's valuation appears attractive trading on a lower PE and higher dividend yield relative to this peer group. Afrox remains small relative to this peer group with a market cap of $700m, less than 2% of Linde's market capitalization. The global market continues to see further consolidation with the potential merger of Praxis with Linde. This merger was initiated in June 2017 but the progress has been slow due to global anti-trust regulators.

			PE		DY	
	Share Price (LC)	**Mkt Cap (USD)**	**Historic**	**NTM**	**Historic**	**NTM**
Atmospheric Gases						
Air Liquide SA	112	55 103	20.7	19.8	2.37	2.56
Praxair Inc	164	47 252	26.7	22.7	2.01	2.09
Linde AG	177	37 785	23.8	18.8	2.21	2.47
Air Products and Chemicals Inc	169	37 118	22.2	20.6	2.60	2.66
African Oxygen Ltd	2 978	692	14.1	15.3	3.56	

Source: Reuters, 8 October 2018
Note: NTM = Next 12 months

The Rand has come under renewed pressure in 2018 due to a weak economic environment, political concerns and a selloff in emerging markets. This gives Linde an opportunity to increase their shareholding in Afrox at attractive Euro price levels. As shown by the chart below, the Afrox share price in Euros remains below its 10 year peak despite a turnaround in the business and an improved balance sheet.



Source: Reuters, 30 September 2018

Element has been invested in Afrox since early 2017 and we continue to hold the share in both our Earth Equity and Islamic Equity fund. We believe that the business offers attractive valuations relative to an expensive market and this is supported by defensive earnings, a strong balance sheet and a successful restructure of the business over the past three years. There is an opportunity for Linde to take advantage of the weak Rand and increase their position in Afrox with the comfort that the strategic turnaround has been achieved and the balance sheet has improved. This increase in shareholding could be beneficial to minority shareholders.

Fund Reports

30 SEPTEMBER 2018

	Element Earth Equity Sanlam Collective Investments Fund		Element Flexible Sanlam Collective Investments Fund		Element Real Income Sanlam Collective Investments Fund	
Portfolio Manager	Terence Craig Andrew Bishop*		Terence Craig Jeléze Hattingh		Terence Craig Jeléze Hattingh	
Inception date	October 2001		October 2001		October 2002	
Classification	SA General Equity		SA Multi-Asset Flexible		SA Multi-Asset Low Equity	
Benchmark	FTSE/JSE All Share Index		CPI+5%		CPI+3%	
TER	1.91%		2.07%		1.70%	
Performance (Net of fees)[1]	**FUND**	**BENCHMARK**	**FUND[2]**	**BENCHMARK**	**FUND[2]**	**BENCHMARK**
Since inception (un-annualised)	606.0%	985.2%	611.2%	465.4%	370.5%	257.9%
Annualised since inception	12.3%	15.1%	12.3%	10.8%	10.2%	8.3%
10 year (annualised)	5.3%	12.1%	7.2%	10.3%	7.8%	8.3%
5 year (annualised)	1.8%	8.0%	5.6%	10.2%	6.8%	8.2%
3 year (annualised)	8.4%	6.7%	9.8%	10.2%	9.4%	8.2%
1 Year	-0.2%	3.3%	2.7%	9.6%	4.0%	7.6%
	HIGH	**LOW**	**HIGH**	**LOW**	**HIGH**	**LOW**
12m rolling total rate of return	37.4%	-17.1%	23.2%	4.9%	15.1%	-2.2%

	Element Balanced Sanlam Collective Investments Fund[2]		Element Specialist Income Sanlam Collective Investments Fund[2]		Element Global Equity Sanlam Collective Investments Fund	
Portfolio Manager	Terence Craig Jeléze Hattingh		Terence Craig Jeléze Hattingh		Terence Craig	
Inception date	November 2009		December 2013		February 2011	
Classification	SA Multi-Asset High Equity		South African Multi-Asset Income		Global General Equity	
Benchmark	Average of total return of Multi-Asset High Equity category		110% STEFI		MSCI World Index Total Return (in ZAR)	
TER	3.10%		1.00%		2.33%	
Performance (Net of fees)[1]	**FUND**	**BENCHMARK**	**FUND**	**BENCHMARK**	**FUND**	**BENCHMARK**
Since inception (un-annualised)	86.6%	119.1%	35.7%	42.3%	222.7%	302.5%
Annualised since inception	7.3%	9.2%	6.6%	7.7%	16.6%	20.0%
10 year (annualised)	No 10 year performance yet		No 10 year performance yet		No 10 year performance yet	
5 year (annualised)	6.6%	6.5%	No 5 year performance yet		12.9%	17.7%
3 year (annualised)	11.6%	5.0%	9.0%	8.1%	10.1%	15.0%
1 Year	1.9%	2.9%	3.8%	8.0%	12.6%	16.9%
	HIGH	**LOW**	**HIGH**	**LOW**	**HIGH**	**LOW**
12m rolling total rate of return	21.1%	-3.3%	12.3%	0.9%	61.3%	-11.4%

[1]Performance figures for Class A except Global Equity for Class B.
[2]Performance figures include weighted ABIL Retention Fund performance.

Source and Date: MoneyMate, 30 September 2018

	Element Islamic Equity Sanlam Collective Investments Fund		Element Islamic Balanced Sanlam Collective Investments Fund		Element Islamic Global Equity Sanlam Collective Investments Fund	
Portfolio Manager	Shamier Khan		Shamier Khan		Shamier Khan	
Inception date	February 2006		April 2010		October 2012	
Classification	SA General Equity		SA Multi-Asset High Equity		Global General Equity	
Benchmark	Average of Shari'ah General Equity Funds with a 1 year track record		Average of Shari'ah Balanced Equity Funds with a 1 year track record		Dow Jones Islamic Market World Index Total Return (in ZAR)	
TER	2.03%		2.08%		2.30%	
Performance (Net of fees)	**FUND**	**BENCHMARK**	**FUND**	**BENCHMARK**	**FUND**	**BENCHMARK**
Since inception (un-annualised)	116.5%	176.0%	59.1%	110.4%	124.4%	201.1%
Annualised since Inception	6.3%	8.3%	5.7%	9.2%	14.6%	20.4%
10 year (annualised)	5.2%	7.9%	No 10 year performance yet		No 10 year performance yet	
5 year (annualised)	3.5%	5.7%	6.1%	6.8%	11.9%	17.7%
3 year (annualised)	10.1%	6.7%	10.7%	7.5%	7.2%	16.3%
1 Year	2.5%	4.6%	3.3%	5.8%	10.4%	17.5%
	HIGH	**LOW**	**HIGH**	**LOW**	**HIGH**	**LOW**
12m rolling total rate of return	21.5%	-13.3%	15.6%	-5.5%	39.9%	-10.8%

[1] Performance figures for Class A
* Under supervision

Source and Date: MoneyMate, 30 September 2018

Figures quoted are from Element Investment Managers (Pty) Limited, for the period ended September 2018, for a lump sum investment, using NAV-NAV figures net of fees with income distributions reinvested on the ex-dividend date.

The Total Expense Ratios (TERs) are calculated for the most expensive Retail classes, and for the period 1 April 2017 to 31 March 2018. A higher TER does not necessarily imply a poor return nor does a low TER imply a good return. The current TERs cannot be regarded as indicative of future TERs.

An annualised rate of return is the average rate of return per year, measured over a period either longer or shorter than one year, such as a month, or two years, annualised for comparison with a one-year return.

The highest and lowest 12-month returns are based on a 12-month rolling period over 10 years or since inception where the performance history does not exist for 10 years.

More performance related information is available from the Manager, or alternatively on the publically available Minimum Disclosure Documents. This includes cumulative performance figures, as well as the highest and lowest annual figures over a rolling 12 month period.

Shari'ah Investment Track Record

2000

Element awarded Futuregrowth Pure Equity Fund Mandate

- In June 2000 Element becomes the investment manager of the Futuregrowth Pure Equity Fund (currently named the Old Mutual Albaraka Equity Fund - a unit trust with a restricted mandate based on Islamic principles). Element was the investment manager of this fund until March 2005.

2003

Element establishes a joint venture with Futuregrowth and Albaraka Bank

- In June 2003 Element established a joint venture with Futuregrowth, Albaraka Bank and Channel Islam to market the newly named Futuregrowth Albaraka Equity Fund to the SA Islamic community.

2004

Element wins 3 Raging Bull Awards in the Unit Trust General Equity Sector

- In January 2004 the Futuregrowth Albaraka Equity Fund managed by Element was awarded the ACI/Personal Finance Raging Bull Awards for the three years ending 31 December 2003 in the General Equity sector:
- Top Performing Fund
- Most Consistent Performing Fund
- Best Sortino Risk-Adjusted Performing Fund

2005

- Element earns a further Raging Bull Award and establishes SA's first Sukuk

- In February 2005 the Futuregrowth Albaraka Equity Fund managed by Element was awarded the ACI/Personal Finance Raging Bull Award for Most Consistent Performing Fund in the General Equity Sector for the three years ending 31 December 2004.
- Futuregrowth decides to manage the Futuregrowth Albaraka Equity Fund internally from April 2005.
- Element Establishes an Independent Shari'ah Supervisory Board ("SSB") and Internal Head of Shari'ah
- Mufti Mohammed Ali (Chairman)
  Senior Lecturer: Darul Uloom Zakariyya
- Mufti Ashraf Qureshi
  Member of the SA Board of Muftis
- Mufti Ahmed Suliman
  Aalim & Ifta' completed at Darul Uloom Zakariyya
- Mufti Yusuf Suliman (Internal)
  CSAA (AAOIFI) and Head of Markaz Al Noor
- Element co-founds the first SA Institutional Islamic Balanced Fund - both Reg 28 and Shari'ah compliant
- Element becomes the First SA Investment Manager to launch a Murabaha Sukuk (a Shari'ah compliant cash investment product) in conjunction with Nedbank.

2006

Element establishes its Islamic Equity Unit Trust

- Element launches its Islamic Equity Unit Trust Fund in February 2006.

2007

Element awarded Full AAOIFI Membership

- Element becomes the first SA Investment Manager to be awarded Full Membership of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

2010

Element establishes its Islamic Balanced Unit Trust

- Element launches its Islamic Balanced Fund (Reg 28 compliant) in April 2010.

2012

Element establishes its Islamic Global Equity Unit Trust

- Element launches its Islamic Global Equity Fund in October 2012.

2013

- Shamier Khan becomes Shari'ah Portfolio Manager in October 2013.

2014

- We invested in South Africa's inaugural global US dollar-based sukuk based on an attractive valuation and in order to diversify portfolio risk.
- We entered into our first Shari'ah compliant forward exchange contract (FEC) in order to reduce currency risk.

2015

- Element rated by PMR Africa as the best "asset management company" in the Shari'ah sector.

2016

- Best performing Shari'ah Balanced Fund for the year.

2017

- Best performing Shari'ah Balanced Fund for the year.
- Best performing Shari'ah Equity Fund for the year.

Full details and basis of the awards are available from the Manager.

Responsible Investment – Third Quarter 2018

Element's Voting Record: 3Q2018		
No. of meetings voted at during 3Q2018	10	100%
Voted against/abstained on at least 1 res.	**7**	**70%**
Meetings attended	**1**	**10%**
Number of resolutions	**169**	**100%**
Voted **FOR** management	124	73%
Voted **AGAINST** management	42	25%
Abstentions	3	2%
Withdrawn resolutions	0	0%

Voting Against – Selected Examples 3Q2018		
Pick n Pay	Remuneration Policy	Binary share option scheme was due to vest in 5 years on 14 Nov 2017. It was extended by 1 year with no adjustment to the price.
Altron	Directors appointment	We voted against five directors as the had been on the board for more than 10 years.
Tongaat	Issue of shares	Voted against the issue of shares. Do not believe it is in shareholders best interest to issue shares at the current share price level.

ELEMENT

Minimum Disclosures

STATUTORY INFORMATION

- Collective Investment Schemes in Securities (CIS) prices are calculated on a Net Asset Value (NAV) basis, which is the total value of all assets in the Fund, including any income accrual and less all permissible deductions in terms of the Act, divided by the number of units in issue. Permissible deductions include brokerage, MST, auditor's fees, bank charges, trustee fees and service charges of the manager. Different classes of participatory interests apply to this Fund and are subject to different fees and charges. Performance is shown for the most expensive class of the Fund and individual investor performance may differ as a result of initial fees, actual investment date, date of any subsequent reinvestment and any dividend withholding tax. A schedule of fees, charges and maximum commissions is available on request from the manager. The annual management fee is levied monthly on the daily value of the Fund, and no performance fees are charged. Commission and incentives may be paid and if so, would be included in the overall costs.
- Performance is based on NAV to NAV calculations with income reinvestments done on the ex-div date. Performance is calculated for the portfolio and the individual investor performance may differ as a result of initial fees, actual investment date, date of reinvestment and dividend withholding tax. The manager has the right to close the portfolio to new investors in order to manager it more efficiently in accordance with its mandate. The Manager retains full legal responsibility for the co-brand portfolio.
- CIS are traded at ruling prices and can engage in scrip lending and borrowing (except for the Element Islamic Funds). Transaction cut-off time is at 14h00 daily, and the Fund is valued daily at 15h00 using forward pricing. Fund prices are published each business day at www.elementim.co.za and in select media publications.
- CIS are generally medium- to long-term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. The manager does not provide any guarantee with respect to the capital or the return of the Fund. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down.
- The Minimum Disclosure Documents are available both on Element Investment Managers' website (www.elementim.co.za) as well as Sanlam Collective Investments' website (www.sanlaminvestments.com). Alternatively investors can contact either Element Investment Managers or Sanlam Collective Investments directly. These documents contain key information which should assist investors in understanding the respective collective investment scheme product.
- Prior to 8 July 2017 the portfolios were administered by Element Unit Trusts Limited.
- Element Investment Managers is committed to handling client complaints in a timely and fair manner and has implemented systems and procedures to satisfy this commitment. The detailed Complaints Handling and Resolution Procedure is available on www.elementim.co.za, or can be requested directly from the manager. Any complaint should be lodged, in writing, with the Compliance Officer at Element Investment Managers at utclientservices@elementim.co.za
- Sanlam Collective Investments' trustee is Standard Bank of South Africa Ltd, Tel: +27 (21) 441-4100, E-mail: Compliance-SANLAM@standardbank.co.za
- Sanlam Collective Investments (RF) (Pty) Ltd is an approved Manager in terms of the Collective Investment Schemes Control Act, 2002.
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  Email: service@sanlaminvestments.com. Website: www.sanlamunittrusts.co.za

GENERAL RISKS

- **Macro-economic risk:** Investments are sensitive to the developments in the economy, such as changes in interest rates, the value of the currency, the inflation rate, government policies, tax rates, and the Reserve Bank's policies, amongst others.
- **Liquidity risk:** The liquidity of a security (whether a share or income instrument) is a function of its trading volume. A compression in the volume of securities available for trade could affect the manager's ability to transact, which in turn, could lead to substantial losses for the fund.
- **Third party operational risk:** The Fund's operations depend on third parties. The operational failure of a third-party may have an adverse effect on investors.

RISKS ASSOCIATED WITH INVESTING IN EQUITIES

- **Non-diversification risk:** The Fund aims at minimising company-specific risks through diversification. However, at times, a particular sector may comprise a sizeable proportion of the Fund's total assets and expose it to the risk of non-diversification.
- **Corporate performance risk:** When determining the intrinsic value of a company, we attribute a certain level of future operational performance for this company.
- However, the company might not perform as per our expectations and this could negatively impact the share price and thus our fund. In the event of a company default, the owners of the company's shares rank last in terms of any financial payment from that company and may receive nothing upon liquidation.
- **Derivatives risk**: The use of derivatives may increase the overall risk in the Fund by multiplying the effect of both gains and losses.

RISKS ASSOCIATED WITH INVESTING IN INCOME INSTRUMENTS

- **Market / interest rate risk:** Fluctuations in the market value of the securities in which this Fund invests may have a negative impact on the fund. The income instruments are likely to be especially sensitive to changes in interest rates or changes in market participants' expectations of how interest rates will change in future.
- **Credit risk:** There is a risk that certain corporate and other counterparties with whom the manager invests or through whom the manager transacts run into financial difficulty, and are unable to honour their commitments in full, which will lead to a potential loss of capital.
- **Loss of purchasing power of capital:** There is a risk that in a high inflation environment, the securities in the Fund may appreciate at a rate lower than the inflation rate, and as such, the purchasing power of an investor's capital may decline.

RISKS ASSOCIATED WITH INVESTING IN INTERNATIONAL MARKETS

- **Foreign currency risk:** This Fund invests a proportion of its capital in stocks, which are priced in foreign currencies, and is thus exposed to the risk of currency movement. Therefore, the value of the fund is affected by any changes in the value of foreign currencies relative to the South African Rand.
- **Country and political risk:** This Fund invests in stocks listed both in developed and emerging markets, across multiple jurisdictions. This gives rise to potential macroeconomic risks, political risks, different tax regime implications, settlement risks and the potential limitation on the availability of market information. There are risks associated with the potential deteriorating relationships between countries, which may lead to the potential of freezing of overseas financial assets and the introduction of extraordinary exchange controls. The risk also exists that a country defaults on its financial obligations to its funders. All of the above could adversely affect the value of the fund.

RISKS ASSOCIATED WITH INVESTING IN SHARI'AH INVESTMENTS

- An investment has to meet certain quantitative and qualitative criteria in order to qualify as a Shari'ah compliant investment. If an investment subsequently fails to meet all these requirements then the fund will be forced to exit this position, notwithstanding the investments' attractiveness relative to our intrinsic value.

RELATIVE PERFORMANCE RISK

- The Funds may from time to time perform significantly differently to their benchmark.

The information contained within this document has been prepared by Element Investment Managers (Pty) Ltd, does not constitute financial advice as contemplated in terms of the Financial Advisory and Intermediary Services Act, and should be read in conjunction with the MDD and Upfront Disclosure Document. Use of or reliance on this information is at own risk. Independent professional financial advice should be sought before making an investment decision.

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