QUARTERLY NEWSLETTER
FOURTH QUARTER

2018

ELEMENT

INVESTMENT MANAGERS

administered by Sanlam

Contents

Introduction: A positive start to 2019!

Dr Anwah Nagia
Chairman
DTech Publ Man (hc)

Dear Fellow Investors

May 2019 be a happy, healthy and prosperous year for us all.

To all our investors that were able to use the recent December/January period to take a well-deserved holiday, we trust you had a safe, peaceful time and a relaxing break. For those who may had to work during this period, we trust that your time off to recharge will be soon.

Element wins at Raging Bull Awards

Element is proud to announce that our Element Balanced Sanlam Collective Investments Fund was awarded:

- Certificate for Top Performance as the **Best SA Multi-Asset High Equity Fund for the three-year period to the end of December 2018.**
- This is the largest ASISA Unit Trust category in terms of asset-size and the most competitive with the highest number of funds.
- Element Islamic Balanced Sanlam Collective Investments Fund was the **second best performing fund** in the same category and was one of the three Raging Bull nominees for the award.
- Element, therefore, had the two best performing funds in this category for the three years ending December 2018.
- Element Real Income Sanlam Collective Investments Fund was the **second best performing fund** in the **SA Multi-Asset Low Equity Fund** category for the three-year period to the end of December 2018 and was one of the three Raging Bull nominees for this award.

Equity markets produced losses in 2018

2018 saw volatility and losses return to Equity markets. An indication of the increase in volatility is the fact that the US Equity Market (S&P 500) experienced a weekly change of either >+2% or <-2% for 10 weeks in 2018 but not once (zero times) during 2017! This volatility was largely driven by a combination of the global bull market leader group of US and Chinese Tech heavyweight shares missing forecasts and geopolitical and economic tensions escalating with US President Trump being the main architect thereof. Trump's ongoing trade/tariff war with China is but one example of this. As a result, poor performances were recorded from most of the major world stock markets, with market indices returning losses such as c-11% (Japan's NIKKEI) and c-18% (Germany's DAX) for calendar year 2018. This negativity was echoed in our markets with the All Share Index down -8.5% for calendar year 2018.

With the backdrop of investor losses in mind, Terence Craig, our Chief Investment Officer, covers the poor equity returns and our investment outlook in his commentary titled: "Fallen Angels" and Investment Returns. Terence refers to the fact that SA Equities, as measured by the performance of the All Share Index (ALSI), have underperformed money market (cash) returns for all rolling 1, 2, 3, 4 and 5 years to end 2018! The "Fallen Angels" section emphasizes that investors should not forget that investments move in cycles and that as the investment cycle turns, former Market Darlings can easily become Fallen Angels, leaving investors that remained shareholders with material losses – usually in a much shorter time period than previously would have been thought possible. A reminder that investors should never be "married" to a certain share or sector as the cyclicality of the markets dictate that every company/sector will have its time to shine, but will then rotate (eventually in some cases) and have its time to fall.

Element outperforms

With this article in mind it is pleasing to communicate that Element has outperformed its SA Equity benchmarks, Cash and its Peers materially over the last 3 years to end December 2018. Even more rewarding for Element, our exceptional returns were achieved at lower than average risk.

Our investors were fortunate to receive the best of both worlds – higher returns, particularly relative to our peers, but achieved at lower risk! For those investors who remained invested with Element and believed in our investment philosophy – we thank you for your patience.

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

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.

"Fallen Angels" and Investment Returns

Terence Craig
Chief Investment Officer
B Bus Sc (Hons), CA (SA), CFA

Times have been tough!

The last 5 years have proved difficult and disappointing for the majority of investors as returns, in general, were poor. 2018 turned out to be the worst year for Global and SA investors since the Global Financial Crisis year of 2008 – a decade ago. Multiple Equity markets declined in 2018, including the USA and SA, resulting in losses for investors for the year. 2018 saw losses incurred by the majority of Multi-Asset (Balanced) funds as well, with negative equity returns outweighing any positive contributions from other asset classes. For many, portfolio diversification only mitigated, but did not prevent outright losses for the year.

Even the heavyweight and formerly "bulletproof" Equity Bull market leaders, Naspers in SA and Apple in the US, experienced share price declines over 2018, with both companies underperforming their respective Equity markets for the calendar year.

Investors will have reviewed their investment, policy, RA, endowment, unit trust and other such statements dated 31 December 2018 and wonder what happened as they see losses in value, or miniscule growth at best, for their hard-earned savings. Many will be asking – where to now?

We don't have all the answers at Element (no-one does), nor do we pretend to have all the answers (as some might claim)! However, Element's portfolios, both Equity and Balanced Funds, performed much better than most in 2018 and have performed much better than most over the last 3 years (despite holding a few shares that turned out to be "shockers"). More importantly this outperformance was achieved at lower than market/peer risk. Thus, our performance did not come at the expense of "prudence".

Timing cyclical rotations and inflection points for markets and shares are always difficult. However, it is worth reviewing our words of caution about changing market dynamics from our 1Q2018 Quarterly report *("I'll be Back" by Jeleze Hattingh, Portfolio Manager)*, 9 months prior to this one (highlights have been added below to our original commentary):

"The **importance of including an active, value-driven investment style appears to be making its return** after years of low volatility, and over-priced "(Market) Darlings" grinding the market higher. At Element, we believe that in this environment of heightened volatility and overvalued markets, **it is prudent to continue to position our portfolios to protect, but also to grow our investors' wealth,** despite all our notes of caution as per the above. **Markets are cyclical, and stock-picking and fundamentals will start to play an ever-increasing role again** – an opportune market for value managers".

After the losses for many in 2018, followed by a bounce in January 2019, there is much to analyse and discuss. As a result, this will be the only Investment commentary for our 4Q2018 Quarterly report and will read slightly longer than usual.

SA Equities: Lousy returns for the last 5 years in a row

South African Equity markets have delivered miserable returns for investors over the last five years measured to the end of 2018, as set out in the table below. It is worth highlighting that **SA Equity, as an asset class, has underperformed Cash over all of the rolling 1, 2, 3, 4 and 5-year periods ending 31 December 2018.** The All Share Index (ALSI) and Shareholder Weighted Index (SWIX), the two primary SA Equity benchmarks, **underperformed** the STEFI composite (a Cash proxy) over all the rolling 1 to 5-year periods shown in the table below.

To 31 December 2018	Performance as % p.a. return				
Index	**1 year**	**2 years**	**3 years**	**4 years**	**5 years**
ALSI (Equity)	**-8.5**	5.2	4.3	4.5	5.8
SWIX (Equity)	**-11.7**	3.5	3.7	2.8	5.9
SA Listed Property	**-25.3**	**-6.4**	**-1.2**	1.0	5.7
All Bond	7.7	9.0	11.1	7.1	7.7
STEFI (Cash)	7.3	7.4	7.4	7.2	6.9

Source: Factset, SBG Securities

Investors would have been better off leaving their "money in the bank" (i.e. in cash) over the last 5 years than being invested in the SA Equity market, as the returns in the table confirm. Bonds were the best performing asset class over the last 5 years, followed by Cash. The wipe-out of SA Listed Property returns in 2018 **(-25.3%)** has resulted in **negative** SA Property returns extending over the last 3 years (-1.2% p.a.). **SA Listed Property has underperformed Cash** as well over every 1 to 5 year period over the last 5 years. The performance of SA Listed Property in 2018, where a quarter of its value was lost in one year, serves as a reminder to all of us, that asset class investment returns are cyclical and can change very quickly and materially – the good times never last forever!

Given that Cash has outperformed SA Equities for 5 years in a row, investors need to consider if now is the best time to reduce investment risk by increasing their allocation to Bonds/Cash or whether they should rather tilt portfolios more in favour of Equities.

From Market Darlings to "Fallen Angels"

Investment performance moves in cycles – and cycles rotate.

One of the greatest risks we make as investors is forgetting that economies, industries, sectors, companies, share and asset prices move in cycles over the long-term. There are times when all goes well for investors, "the trend is your friend" - when the trend is up! However, there will always be a change in the cycle at some point and then things do not go so well for a while. This is the irrefutable nature of investment cycles and it pays us as investors, **never to forget this fact.** Sometimes the cycle is short and sometimes it is long. Long up-trending cycles where asset prices rise over a long period of time can be the most dangerous and costly for investors, particularly as the cycle nears its end and rotation begins.

Longer cycles (some approaching a decade or more) affect both the collective sentiment and memory of investors. Bear in mind that, globally, there are hundreds of thousands of analysts, traders, portfolio managers, bankers, advisors, consultants and others working in the investment industry, that entered the industry after mid-2009 and did not experience the speed/materiality of losses, bank failures, panic and fear of the 2008 Global Financial Crisis ("GFC") first-hand. Those that entered the investment industry in the last decade, after the market trough in March 2009, had only experienced positive (and easy) returns for almost a decade as a result of one of the longest bull markets in history – until 2018, that is. For them the GFC of 2008 is an academic historical event (and not "real") – much like the Wall Street crash of 1929 and the SA market crash of 1969 is for the rest of us!

When Bull markets continue for so long and their returns are so good, any possible rotation to "bad times" as part of an investment cycle can be forgotten easily by older investors and dismissed as "impossible" by newer entrants into the investment industry as they have never had any first-hand experience of material losses on their investments. When this happens, investors take on more risk and ignore historical measures of overvaluation of asset prices as being irrelevant. At these points in investment cycles, we at Element become more cautious in our investment outlook and in the construction of our client portfolios.

Over the last few years and at the beginning of 2018, in particular, many investors had thrown caution to the wind, had forgotten about or dismissed investment cycle rotation, its impact on future returns/risks and that the good times don't last forever. As a result, a number of investors suffered severe losses by holding onto (former) "Market Darlings" that turned into "Fallen Angels" quickly - when their share prices dropped materially in a very short period of time. This rapid fall from grace for a number of companies was experienced globally - we were not alone in SA in trying to avoid the falling angels and their potential negative impact on portfolio returns.

Fallen Angels

In the table below, we selected a sample of 8 SA Fallen Angels at random (there were many more), but ensured we included companies from each of the major JSE Sectors (Resources, Financials & Industrials), as well as representing a wide spread of sub-sectors of the JSE. Fallen Angels were not sector-specific in 2018!

Steinhoff was excluded from this selection of Fallen Angels as it was covered in detail in our 4Q2017 Quarterly Report ("Steinhoff: Passive Managers in Glass Houses…!") and the company has been covered widely (and will continue to be) by the investment industry and financial media as more and more facts emerge. It is doubtful whether Steinhoff deserves even to be classed as a Fallen Angel given the news flow to date. "Dodgy Devil" may be more appropriate.

SA FALLEN ANGELS (a sample)

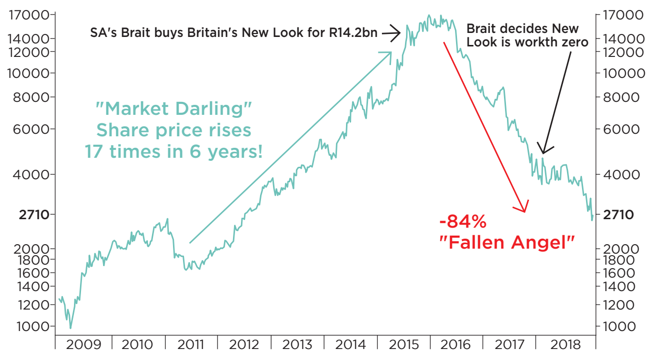
No.	Company	Sector	All Time High (ATH)		Share Price [c]		% Change to 31 Dec 2018	
			Date	Price [c]	31 Dec 17	31 Dec 18	ATH	CY 2018
1	Aspen	Pharma	27/01/2015	44868	27750	13482	-70%	-51%
2	MTN	Mobile Telco	08/09/2014	26344	13660	8900	-66%	-35%
3	Resilient	Real Estate	02/01/2018	15350	15116	5700	-63%	-62%
4	Brait	Inv. Services	28/12/2015	17400	4166	3000	-83%	-28%
5	Coronation	Asset Manager	02/01/2015	11520	7390	4135	-64%	-44%
6	Woolworths	Retailer	05/11/2015	10800	6531	5509	-49%	-16%
7	Medi-Clinic	Healthcare	30/06/2016	21803	10638	6013	-72%	-43%
8	Sibanye-Stillwater	Gold/Platinum	05/08/2016	7248	1582	1002	-86%	-37%

Source: Element Investment Managers, Iress

Brait

A perfect example of a Market Darling turned Fallen Angel (graph below).

BRAIT: SHARE PRICE (10 Years to 31 December 2018)



Source: Element Investment Managers, Iress

- Its share price rose 17 times in 6 years from 2011 to 2016. An incredible return and outperformance in a relatively short time period.
- Christo Wiese, regarded at the time as having the "Midas Touch", had sold a 37% shareholding in Pepkor to Brait for R4bn in early 2011, paid for in Brait shares, resulting in Wiese becoming the company's largest shareholder.
- The Pepkor shareholding was later sold to Steinhoff in Feb 2015, at an eye-watering PE Ratio of >30 times and Brait received R15bn in cash and 200m Steinhoff shares, which were later sold in October 2015 for R16bn.
- Therefore, Brait received R31bn in cash from selling its Pepkor holding in 2015, making an exceptional **c.8 times its money in only 4 years** having bought Pepkor for R4bn in early 2011. A "Midas Touch" transaction without a doubt and, as a result, in 2015 investors rated Brait as a Market Darling that could do no wrong.
- Investors paid up for Brait shares in anticipation of it generating sustainable and superior future NAV growth, as it had demonstrated with its Pepkor purchase and sale, relative to the future SA Equity market return and relative to similar listed SA Investment Trusts', future growth prospects, in particular (e.g. Remgro).
- Brait's CEO (John Gnodde), had told investors at the time, that Brait would not pay a special dividend out of the R31bn received for its Pepkor holding, but **"would deploy the capital in other high-performing businesses".**
- That Brait was not going to "bank some profits for shareholders" by paying a special dividend was a concern for Element at the time.
- Deals such as Pepkor, with returns so exponential and so quick, are exceptionally rare and seldom repeatable – ask anyone who bought Bitcoin in December 2017! The probability of a Pepkor-type return from any future transaction was extremely low.
- Listed Investment Trusts (such as Brait) usually trade at a discount to their Net Asset Value (NAV) over the long-term. Yet in 2015, Brait's share price was trading at more than a **50% premium** to its NAV.
- Element questioned why investors would pay more than a **50% premium** to NAV for Brait (an Investment Trust), when they could buy Remgro (another Investment Trust) which was trading at a **-15% discount** to its own NAV at the time. Particularly as Remgro had a four-decade long-term track record of delivering superior NAV growth that had outperformed the market.
- We asked ourselves if the Brait executives really could be so much better than the Remgro executives, in generating future returns for shareholders, to warrant a Brait share price that traded at a 65% premium to Remgro when compared with each company's own NAV?

- At that rating, Brait appeared to be trading at a "margin of high risk" rather than at a "margin of safety" relative to Element's estimate of fair value.
- In a "game-changing" transaction, Brait bought 81% of UK fashion retailer New Look for R14.4bn in June 2015 and, immediately thereafter, bought 70% of Virgin Active for R12.7bn in July 2015. Brait spent R27bn (87%) of its R31bn Pepkor proceeds on 2 material transactions in less than a month. Going Big when they should have been going Home!
- The absolute disaster of Brait's New Look acquisition has been well documented, but its destruction of value for shareholders has continued into 2019, so the final cost for Brait shareholders is still to be determined,
- It took only 2 years and 3 months from buying New Look in June 2015 for Brait to **write off its entire investment in New Look (i.e. 100%)** in September 2017. A write off of the entire R14.4bn it had spent only 2 years before!
- New Look's woes continued to destroy value for Brait in early 2019, with a further write-off of cR1bn for Brait on its New Look Bond holdings and a proposed debt-for-equity swap that could result in Brait's shareholding in New Look dropping from 81% to a holding in the range of 18%-31% depending on the take-up of the debt-for-equity swap by other bond holders.
- Brait's share price collapsed, dropping more than **-80%** over the 3 years ending 2018, decimating shareholder value,
- A Fallen Angel!

The 8 Fallen Angels had the following in common:

1. All Time High ("ATH") share price was set during the 5 years to end 2018.

2. All 8 share prices had fallen more than **-50%** (some more than -80%) from their ATH to end December 2018 (OK – Woolies fell -49%)!
   a. All 8 share prices declined in Calendar 2018, realising further losses for shareholders and all underperformed the ALSI (-8.5%) and SWIX (-11.7%) Equity benchmarks in Calendar 2018 as well.

3. "Market Darling" investor perception for many years prior to the ATH price.
   a. Descriptions such as: "Quality company/we are prepared to pay up for Quality"; "World class CEO/ Management team"; "they always deliver"; "a core share in any portfolio"; "management/executives have 'skin in the game' and their incentives are aligned with shareholders" etc.
   b. Investors were prepared to pay up for (the illusion of superior earnings) "growth" shown by the company (usually acquisition-driven).
   c. PE multiples re-rated higher – as investors were prepared to pay for "Quality" and market-beating "Earnings Growth".
   d. Notably, PE multiples increased at a faster rate usually than the underlying earnings "growth" rate.
   e. Those questioning management's strategy were (usually) treated aggressively or as outcasts who "didn't get it".

4. Six out of the eight Fallen Angels made one or more very material ("game-changing") acquisitions – often over a very short time period – that contributed to their downfall (MTN and Coronation were the exceptions). Element covered a number of these and similar misguided acquisitions in our 1Q2018 Quarterly report ("Offshore Misadventures" by Andrew Bishop, Investment Analyst)
   a. With the benefit of hindsight, all 6 Fallen Angels overpaid materially. This would lead us to question the quality of the due diligence processes conducted by the companies.
   b. The majority of these acquisitions were funded by a combination of Debt and Equity (e.g. rights issues, placements, as part payment in shares) – Brait was the exception as outlined above. The Debt and Equity raised for the acquisitions have since become problematic for the companies.
      i. Debt was raised at lower interest rates and with interest rates having risen, rolling over debt will likely be more expensive with stricter covenants.
      ii. Debt covenants have been or are close to being breached (e.g. Aspen, Sibanye-Stillwater) forcing the companies to sell assets at lower than consensus valuations (Aspen) or raise capital by alternative means (Sibanye – Stillwater offtake agreement) in order to prevent their bankers from calling in their debt loaned to the company.
      iii. All management teams that used Debt funding appear to have ignored their company's own cycle as adding material financial leverage on top of their high company operating leverage increases company risk materially when their earnings cycle turns down.
      iv. All the Equity Capital raises were made at higher share prices than the current share price – meaning all shareholders that followed their rights, bought in private placements or book offers, have made losses on those shares to date.

v. Further Equity capital raising is unlikely to be supported while current shareholders are showing losses from previous equity raises.

5. Examples of other misguided acquisitions that destroyed shareholder value:
   i. Medi-Clinic bought Al Noor in the UAE only to see its operating margin of 20% drop to 10% once it had been taken over. Similarly, a misreading of the sector trends for its 29.9% purchase in Spire in the UK.
   ii. Sibanye made multiple acquisitions of Gold and Platinum companies (currently in process of buying Lonmin), debt levels sky-rocketed forcing a cut of their dividend (the company's stated differentiator) and entered into a streaming off-take contract at Stillwater (US platinum/palladium acquisition) capping part of any future upside, safety records dropped to a level where the company accounted for 50% of all mining-related deaths in SA over a 6 month period in 2018.

6. In the share price run up to the ATH, shareholders forgot or dismissed the cyclical nature of investing – and that superior earnings and growth rates don't last forever.
   a. Competition, technology disruption, regulation/laws, taxes/tariffs/fines (e.g. MTN), overpaying for/making poor acquisitions, debt burdens, hubris/complacency, misreading changing/evolving/foreign customer bases, unwinding of aggressive accounting policies etc. are but a few of multiple reasons why "superior" growth rates prove unsustainable over the long-term.
   b. "It's different this time" – usually described as the four most dangerous words in investing. For good reason!

7. As a result of all of the above points, the "Market Darling" was bought up to its ATH share price.
   a. At this point the company traded at or close to its peak rating (highest PE multiple), usually on peak (top-of-cycle) earnings.
   b. Buying any company at its peak rating on peak (top of cycle) earnings usually leads to material losses for investors.
   c. As soon as the company's earnings cycle turns (or normalises) and investor perception of "sustainable superior earnings growth" disappears with it, the PE multiple de-rates (usually quickly) as investors start selling.
   d. The "paying up for growth" theme, PE rating and company valuation all become irrational when the outlook is for low or no earnings growth over the foreseeable future. Selling out ensues.
   e. Reality soon sets in and investors will only pay a more "realistic" PE multiple based on a more realistic assessment of the company's future cash flows. The share price drops to the "realistic" PE rating, before the share finds buyer support again - a "Fallen Angel". See Aspen graph below as an example.

8. As the "earnings growth" theme shows signs of faltering, many investors remain as shareholders as they are reluctant, at first, to change their minds about a "Market Darling's" prospects after only the first "wobble of bad news" (i.e. where actual results were worse than management forecasts).

9. However, as the bad news keeps repeating, management forecasts keep being cut back and delivery time periods are extended, die-hard shareholders realise that the company is actually "mere-mortal" with no "superior growth" and they sell out.

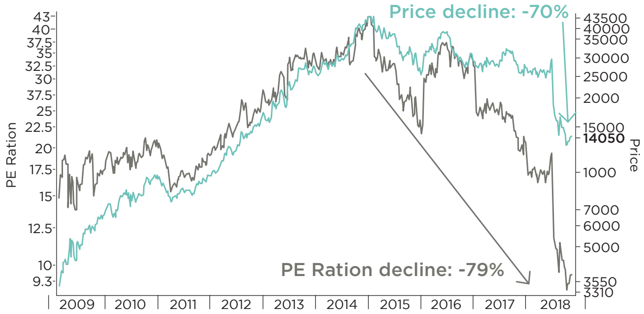
Aspen is another example of a Market Darling turned Fallen Angel - easily illustrated by the (log scale) graph below showing the last decade of Aspen's share price (in teal; right hand axis) and Aspen's PE Ratio (in grey; left hand axis).

- Aspen's share price rose almost 14 times (c3300c to 44868c) in a little over 6 years from 2009 to its ATH in January 2015.
- The "superior" earnings growth over this period was largely achieved through continued multiple acquisitions funded by increasing debt and increasing its shares in issue.
- Investors were prepared to pay up for this "growth" theme and ignored possible future debt repayment problems and the increasing dilution from issuing shares.
- As a result investors bid up Aspen's PE ratio from c15 PE in 2009 to a c43 PE at Aspen's ATH (c44868c) in January 2015.
- A Peak PE rating on Peak earnings.
- Some of Aspen's acquisitions did not perform as well as management expected and with lower cash flows, servicing debt levels started becoming a problem.
- Shareholders that remained unemotional and rational in their analysis of Aspen's prospects at this point began to sell out of their positions.
- "Die-hard" shareholders that believed in the "Market Darling" status of Aspen stayed invested.
- Ultimately, Aspen's debt-servicing levels could not be funded out of its cash flows and it was forced to sell off underlying businesses in order to reduce its debt. One of these, its Chinese infant milk formula business, had been

touted as a future growth engine for Aspen, was sold for less than the market consensus value for the business.

- The "growth" theme for Aspen disappeared, its share price collapsed – another Fallen Angel.

ASPEN: SHARE PRICE & PE RATIO (10 Years to 31 December 2018)



Source: Element Investment Managers, Iress

Element Funds outperformed materially over the last 3 years

The last 3 years, 2018 in particular, proved very difficult and disappointing for SA investors, given the low returns provided by SA Equities, which affected investment performance across all SA Multi-Asset Funds.

However, despite this challenging investment environment, which included multiple Falling Angels, Element was able to generate **material outperformance for all our SA Unit Trusts, over 1 and 3 years to end Dec 2018, including our Equity, Multi-Asset and Islamic Funds.**

Equity Fund Performance:

The Element Earth Equity Sanlam Collective Investments Fund - a SA Equity-only fund with zero global equity exposure - **outperformed its peers, benchmark and cash materially over the last 3 years** and outperformed its peers and benchmark materially over the 2018 calendar year as well.

As highlighted in the table below, Element Earth Equity Sanlam Collective Investments Fund returned **+9.3% p.a. (after fees)** over the 3 years ending 31 December 2018 – **outperforming the ALSI by +5.0% p.a., SWIX by +5.6% p.a.** and Cash by +1.9% p.a. Similar returns and outperformance over the last 1 and 3 years was shown by the Element Islamic Equity Sanlam Collective Investments Fund. Material outperformance by both Element Funds in the "SA-Equity-General Funds" Unit Trust classification during a difficult 3 year period for SA Equities.

Element: Equity Performance To 31 December 2018	Return (% p.a.)	
	1 year	3 years
Element Earth Equity* (SA Equity-only)*	-3.9	9.3
ALSI - Element's Benchmark	-8.5	4.3
SWIX	-11.7	3.7
Element outperformance of ALSI p.a.**	**4.6**	**5.0**
Element outperformance of SWIX p.a.**	**7.8**	**5.6**
STEFI (Cash)	7.3	7.4
Element out/(under) performance of Cash p.a.*	-11.2	**1.9**

Source: Moneymate, Element Investment Managers, January 2019
* Element Earth Equity Sanlam Collective Investments Fund - Performance is net of (after) fees
** Element Earth Equity anlam Collective Investment Fundis a SA Equity-only Unit Trust (zero global equity exposure

Balanced Fund Performance:

The Element Balanced Sanlam Collective Investments Fund **was the top-performing Unit Trust for the 3 years ending December 2018** in the "SA-Multi Asset-High Equity Funds" Unit Trust classification (the largest Unit Trust classification by size/value). In addition, the **Element Islamic Balanced Sanlam Collective Investments Fund was the second best performing Unit Trust,** for the 3 years ending December 2018 in the same Unit Trust classification.

As highlighted in the table below, **Element Balanced Sanlam Collective Investments Fund returned +9.9% p.a. (after fees) over the 3 years ending 31 December 2018 – outperforming its benchmark (Average return of the "SA-Multi Asset-High Equity Funds") by +7.5% p.a.** and Cash by +2.5% p.a. Similar returns and outperformance over the last 1 and 3 years was shown by the Element Islamic Balanced Sanlam Collective Investments Fund.

Element: Balanced Performance To 31 December 2018	Return (% p.a.)	
	1 year	3 years
Element Balanced Sanlam Collective Investments Fund*	0.8	9.9
Ave return: "SA-Multi Asset-High Equity Funds"**	-3.6	2.4
Element outperformance of (Peer) Benchmark p.a.*	**4.4**	**7.5**
STEFI (Cash)	7.3	7.4
Element out/(under) performance of Cash p.a.*	-6.6	**2.5**

Source: Moneymate, Element Investment Managers, January 2019
* Element Balanced Sanlam Collective Investments Fund - Performance is net of (after) fees
** Element Balanced's benchmark

Element wins at Raging Bull Awards

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Element's 3 year outperformance achieved at lower risk

Actuarial consultants, RisCura, produce monthly SA investment industry reports which include the performance and risk/return statistics of all SA Investment Managers included (and that qualify for inclusion) in each survey. The major difference between the actuarial consultant reports and those showing Unit Trust returns is that the RisCura reports are based on the returns of composite funds, which include all client funds with the same mandate/benchmark, managed by the investment managers. As an example, the SA Equity report, from RisCura, shows the returns for all the individual managers' SA Equity Composites, which include/combine all the SA Equity funds, both Unit Trust and Segregated funds (retail and institutional), managed by each investment manager.

RisCura calculate certain rolling 3 year Risk and Risk/Return statistics for all the Composite Funds' monthly.

Element's Equity and Balanced Composite Risk and Risk/Return statistics (Downside Risk; Information Ratio and Sharpe Ratio) for the 3 years to end 31 December 2018 are shown in the tables below.

Element ranked in the top quartile for its Downside Risk, Information Ratio and Sharpe Ratio, out of all investment manager composites for both RisCura reports (54 Funds in SA Equity and 33 Funds in Global Balanced). Element had the highest Sharpe Ratio out of all Funds in both the SA Equity and Global Balanced reports for December 2018. The Sharpe ratio is an indication of return per unit of risk - the higher the ratio the better.

RisCura Survey	SA Equity Funds		
3 years to 31 December 2018	Downside Risk	Information Ratio	Sharpe Ratio
Element Equity	4.1%	0.74	0.39
Element Ranking	4	9	1
No. of Composites	54	54	54
Element Ranking (%)	7%	17%	2%
Quartile	1st	1st	1st

Source: RisCura

RisCura Survey	Global Balanced Composites		
3 years to 31 December 2018	Downside Risk	Information Ratio	Sharpe Ratio
Element Balanced	2.9%	0.67	0.42
Element Ranking	4	3	1
No. of Composites	33	33	33
Element Ranking (%)	12%	9%	3%
Quartile	1st	1st	1st

Source: RisCura

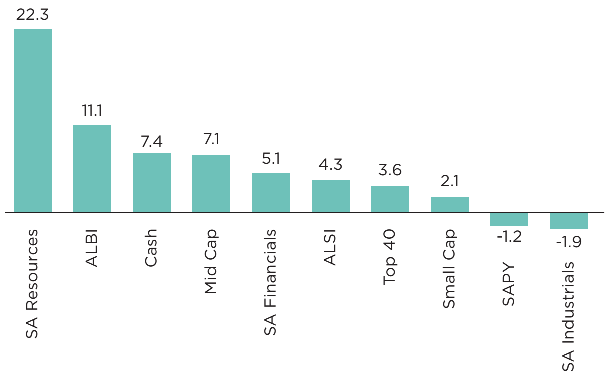
JSE Equity sectors generated divergent returns over the last 3 years

Falling Angels were only part of the reason for poor SA Equity returns, as the major reason for the poor overall SA Equity performance, over the last 3 years and in calendar 2018, was a cyclical rotation in performance from the previously outperforming heavyweight Industrial and Property shares to Resources shares.

Investment Managers that rotated into Resources and were underweight Industrials and Property outperformed over the last 3 years and in calendar 2018 - those that avoided Resources and remained overweight Industrials and Property, underperformed. The charts below highlight this cyclical rotation showing the material differences in JSE sector performance over 3 years and 1 year to 31 December 2018:

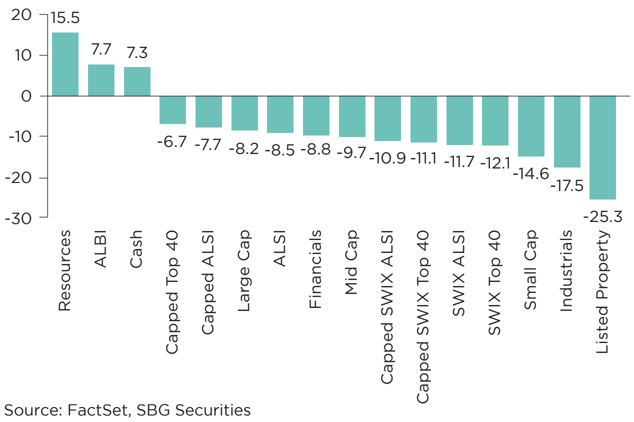
- **Resources: +22.3% p.a. over 3 years (+15.5% in 2018).**
- **Industrials: -1.9% p.a. over 3 years (-17.5% in 2018).**
- **Property: -1.2% p.a. over 3 years (-25.3% in 2018).**
- **Financials: +5.1% p.a. over 3 years (-8.8% in 2018).**

3 Year Performance (p.a.) to 31 December 2018



Source: FactSet, SBG Securities

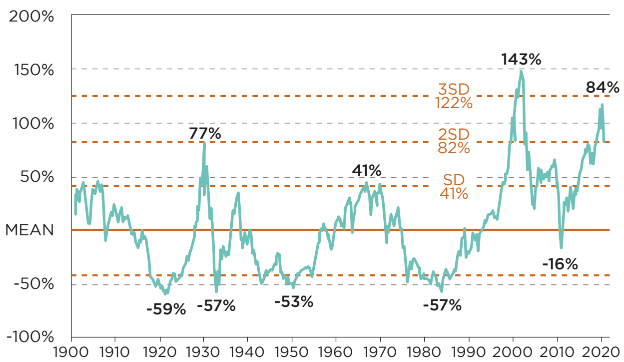
1 Year Performance to 31 December 2018



Source: FactSet, SBG Securities

What is the outlook for returns from here?

Average of the four valuation indicators



Crestmont P/E from its Arithmetic Mean	113%
Cyclicial P/E 10 from its Arithmetic Mean	70%
Q Ratio from its Arithmetic Mean	55%
S&P Composite from its Regression	97%
Average of the Four	84%

Source: Dshort.com, 31 December 2018

Expensive Global Equity Valuations warrant continued investor caution

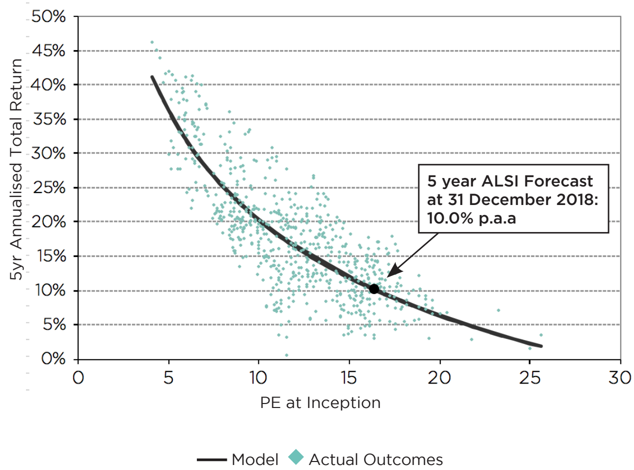
Globally investors appear overly complacent given expensive asset valuation levels (still), deteriorating global political stability and changing central bank action with respect to raising interest rates, amongst many other material issues. The average of the 4 Valuation indicators for the S&P 500 (as shown in the chart above) showed that US Equities were 84% overvalued at the end of 2018 (2 standard deviations above the mean), despite the 4Q2018 pullback in US Equities. US Equity valuation levels remain at the second highest valuation level ever, with only the 1999/2000 dotcom bubble levels being higher, and higher than the 1929 valuation peak.

SA Equities appear more reasonably priced than Global Equities

5 Year ALSI Total Return Forecast vs Actual				
Start of 5 Year Period		5 Year Total Return p.a.		Difference p.a.
Date	ALSI PE	Forecast*	Actual	% Return
30-Apr-03	9.0	24.3%	36.1%	11.8%
31-May-08	16.0	10.6%	8.9%	-1.7%
28-Feb-09	8.2	24.6%	24.1%	-0.5%
31-Dec-13	18.6	7.8%	5.7%	-2.1%
31-Dec-18	16.4	10.1%		

Source: Element Investment Managers, Iress
*Based on ALSI PE Ratio at start of 5 year period

5 Year ALSI Total return vs Starting PE



Source: Element Investment Managers, Reuters/IRESS, 31 December 2018

The chart above highlights the expected 5 year Total Return (incl. Dividends) for the JSE ALSI based on the ALSI PE Ratio at the starting point for the 5 year forecast period. The dots represent all the actual 5 year total returns of the ALSI since 1960, given the ALSI PE at the start of each 5 year period and the solid line is the trend line of these returns based on all the actual results. This is a basic forecast tool that is both intuitive and easy to understand. The starting valuation (i.e. the buying price using the ALSI PE) of the SA Equity Market is (generally) the most critical determinant of future investment returns over the longer term. Simply put:

- High valuation (ALSI PE) at start implies lower 5 year returns
- Low valuation (ALSI PE) at start implies higher 5 year returns

The Table above the chart shows the **forecast vs actual** 5 year ALSI returns over 4 different 5 year periods, as well as the current forecast from end December 2018 for the next 5 years. Two of these forecasts were at very low starting points after major equity declines – where the ALSI PE was <10 at the start of the 5 year period (at end April 2003 and end Feb 2009). Owing to the low valuations as starting points, the 5 year return forecasts were extremely bullish for the ALSI (>24% p.a.). The actual outcomes (in line and higher than the two forecasts) highlighted that being bullish and overweight SA equities was the correct call to have been made based on the forecast returns at the start of both 5 year periods. The other two 5 year periods (starting end May 2008 and end December 2013) had moderate to low forecast returns for the ALSI and the actual 5 year returns reflected the forecast outcomes (although both actual returns were c-2% p.a. lower than what had been forecast).

The **5 year Total Return forecast for the ALSI at 31 December 2018,** based on the starting ALSI PE of 16.4, is **10% p.a.**

It should be emphasised that this is a basic forecasting model for ALSI returns over a 5 year period, that has better predictability when starting at extremes (a very low or very high starting ALSI PE), but should not be used in isolation as it is only one of many valuation and return measures for SA Equities and does not apply to the other asset classes.

What cannot be understood from the model is the path of investment returns during the 5 year period (e.g. negative returns in one year followed by positive returns or vice versa). In addition, it provides an estimate for ALSI/SA Equity returns only and not for any underlying sector returns – which as the earlier sector return tables highlighted can be divergent to extremes (e.g. **Resources outperformed Industrials by >24% p.a.** over the 3 years ending December 2018).

However, the 10% p.a. total return forecast for the ALSI over the next 5 years is better, although not materially, than what was forecast (7.8% p.a.) and the actual return (5.7% p.a.) over the last 5 years from end December 2013 to end December 2018. In addition, SA Equities (ALSI) have underperformed Cash (money market returns) over the last 5 years and the probability of this underperformance continuing for the next five years is low (<20%). Please note that this probability does not hold or apply over much shorter time frames – e.g. over calendar 2019.

Combining all of the above starting points, estimates and historical trends, investors who have longer-term horizons of 5 years or more, should **not** abandon SA Equities in favour of Cash as a result of the recent poor equity returns. We are not at a starting point where we would recommend being aggressive and materially overweight SA Equities (only 5 year ALSI forecast returns of >20% p.a. would warrant this), but it is highly probable that SA Equities will outperform Cash returns over the next 5 years. In addition, SA Equities appear to offer materially better value than US and the majority of the other major global equity markets.

We have stuck to our long-term contrarian, value-driven investment philosophy and investment process for **over two decades** at Element and we will continue to do so. We believe this approach is the best way to generate real wealth for our clients over the long-term.

Fund Reports

31 DECEMBER 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	1.89%		2.00%		1.58%	
Performance (Net of fees)[1]	**FUND**	**BENCHMARK**	**FUND[2]**	**BENCHMARK**	**FUND[2]**	**BENCHMARK**
Annualised since Inception	11.8%	14.6%	11.9%	10.8%	9.9%	8.3%
Annualised 15 Year	10.3%	14.7%	10.1%	10.7%	9.1%	8.7%
Annualised 10 Year	5.7%	12.6%	7.0%	10.4%	7.9%	8.4%
Annualised 5 Year	1.5%	5.8%	4.0%	10.4%	5.4%	8.4%
Annualised 3 Year	9.3%	4.3%	7.9%	10.4%	7.7%	8.4%
1 Year	-3.9%	-8.5%	0.5%	9.6%	3.2%	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	3.39%		0.97%		2.38%	
Performance (Net of fees)[1]	**FUND**	**BENCHMARK**	**FUND**	**BENCHMARK**	**FUND**	**BENCHMARK**
Annualised since Inception	6.8%	8.4%	6.3%	7.7%	14.5%	17.2%
Annualised 15 Year	No 15 year performance yet		No 15 year performance yet		No 15 year performance yet	
Annualised 10 Year	No 10 year performance yet		No 10 year performance yet		No 10 year performance yet	
Annualised 5 Year	5.1%	4.6%	6.3%	7.6%	7.9%	11.8%
Annualised 3 Year	10.0%	2.3%	8.7%	8.2%	0.3%	4.0%
1 Year	0.8%	-3.6%	5.2%	8.0%	4.0%	6.3%
	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, 31 December 2018

administered by Sanlam

	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	1.91%		1.98%		2.33%	
Performance (Net of fees)	**FUND**	**BENCHMARK**	**FUND**	**BENCHMARK**	**FUND**	**BENCHMARK**
Annualised since Inception	6.1%	7.7%	5.5%	8.3%	11.4%	16.9%
Annualised 15 Year	No 15 year performance yet		No 15 year performance yet		No 15 year performance yet	
Annualised 10 Year	5.8%	8.6%	No 10 year performance yet		No 10 year performance yet	
Annualised 5 Year	2.8%	3.5%	5.6%	4.9%	7.0%	11.8%
Annualised 3 Year	8.7%	3.6%	9.5%	4.4%	-3.3%	5.0%
1 Year	-0.5%	-2.5%	2.2%	-0.2%	0.2%	6.2%
	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, 31 December 2018

Figures quoted are from Element Investment Managers (Pty) Limited, for the period ended December 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 October 2015 to 30 September 2018. 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.

2018

- Best performing Shari'ah Balanced Fund for the 3 years ended December 2018.

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

Responsible Investment – Fourth Quarter 2018

Element's Voting Record: 4Q2018		
No. of meetings voted at during 4Q2018	11	100%
Voted against/abstained on at least 1 res.	**9**	**82%**
Meetings attended	**1**	**9%**
Number of resolutions	**173**	**100%**
Voted FOR management	120	69%
Voted AGAINST management	49	28%
Abstentions	4	2%
Withdrawn resolutions	0	0%

Voting Against – Selected Examples 4Q2018		
Tsogo Sun	Remuneration Policy	Voted against due to ad hoc payment of R29m paid to outgoing CEO.
Sandown Capital	Auditors	Voted against the appointment of Deloitte as auditors due to their involvement with Steinhoff and African Bank.
Sasol	Remuneration Policy	Voted against as long-term incentives need to match tenure of long-term projects and short-term incentives need to be better linked to factors management can control.

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 Sanlam Collective Investments 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.
  2 Strand Road, Bellville 7530. P.O. Box 30, Sanlamhof, 7532. Tel: +27 (21) 916-1800, Fax: +27 (21) 947-8224
  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.

ELEMENT

INVESTMENT MANAGERS

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