QUARTERLY NEWSLETTER

FIRST QUARTER

2019

ELEMENT
INVESTMENT MANAGERS

administered by Sanlam

Contents

Introduction: A positive start to 2019!

Dr Anwah Nagia
Chairman
DTech Publ Man (hc)

Dear Fellow investors

Domestic news over the first quarter of 2019 has been tough, examples include the State Capture Enquiry, Stage 4 load shedding by Eskom, union strikes in the Platinum and Gold industry, to name but a few.

Despite this bad news, the FTSE/JSE All Share Index (ALSI) returned a strong +8% over the quarter and claimed back a large portion of its losses from calendar year 2018, when the ALSI was down -8.5%.

In this quarter's newsletter, Andrew Bishop, one of our portfolio managers, investigates this dislocation between the negative local news and the good returns produced by the ALSI. His findings show that the ALSI is not indicative of the local South African economy. This apparent anomaly is due to the large number of global stocks that are listed on the JSE and form a material weight in the composition of the ALSI, but have little exposure to the South African economy. A concern that flows from this, is that the performance of a small number of stocks (i.e. narrow breadth) is driving the ALSI by virtue of their significant market capitalisation. His article also contrasts the fortunes of the Resources and the Construction sectors. While Resources have had significant outperformance relative to the ALSI we do not believe that this theme has played itself out to completion yet. A consequence of the disproportionate composition of the ALSI weights is that the Small and Mid-Cap sectors can provide investment opportunities relative to the rest of the heavyweight-share dominated index.

We remind investors that SA domestic news is likely to remain biased to the negative during the second quarter of 2019, with increased political rhetoric and posturing in the run up to and aftermath of the SA elections on 8 May. However, as the strong performance of the ALSI showed in the first quarter, negative news-flow does not imply that returns will follow the same negative path.

In the second article of this newsletter, Jeleze Hattingh, another of our portfolio managers, provides research on the investment case for Hammerson Plc, one of our investments in the JSE's property sector. Hammerson is domiciled in the UK. Given the markets' concerns around Brexit* the share, along will the UK listed property sector, has come under pressure, Jeleze's article highlights that Hammerson has a much broader property exposure outside the UK. relative to the average domestic UK property company (notwithstanding its UK listing). As a result, the short-term share price decline in Hammerson presents a potential significant long-term investment opportunity as Hammerson has c.50% of its assets based in the UK with the the other 50% of its assets diversified across Western Europe and Ireland. Hammerson's valuation multiples are also at the cheapest levels seen over the past 20 years!

Changing tack slightly we would like to bring to your attention that another important milestone for Element has been passed in 2019 as we turned 21 years old on 7 April! As we highlighted last year, it has been an eventful, interesting, challenging, inspiring, emotional and fun journey for all of us that have been part of the Element fabric for all or part of the last two decades and one year .

We would like to thank all our stakeholders: Clients, Staff, Shareholders, Advisors, Consultants and Friends who have supported us through the years. We look forward to the next 21 years of our Element journey together.

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.

* **Brexit** (a portmanteau of "British" and "exit") is the withdrawal of the United Kingdom (UK) from the European Union (EU). Following a referendum held on 23 June 2016 in which 51.9 per cent of those voting supported leaving the EU, the Union started a two-year process which was due to conclude with the UK's exit on 29 March 2019, a deadline which was later extended to 12 April 2019.

Bad News but Good Returns

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

Domestic news over the quarter has been tough. Problems at Eskom have escalated and were highlighted in both the State of the Nation Address and Budget Speech in February. President Cyril Rhamaphosa noted, "The unprecedented failure of Eskom's generating capacity over the last few days underlines the severity of the challenges the company faces and the urgency of measures to address them." Walking into dark malls and seeing shops closed on a busy public holiday, we consider the impact this has had, not only on our personal lives but also the business environment.

To 31 March 2019	Performance as % p.a.			
Index	**3 Month**	**1 year**	**3 years**	**5 years**
ALSI (Equity)	8.0%	5.0%	5.7%	6.5%
SWIX (Equity)	6.0%	0.4%	3.7%	6.2%
SA Listed Property	1.5%	-5.7%	-3.8%	5.6%
All Bond	3.8%	3.5%	10.1%	8.3%
STEFI	1.7%	7.3%	7.4%	7.0%

Source: Reuters, 31 March 2019

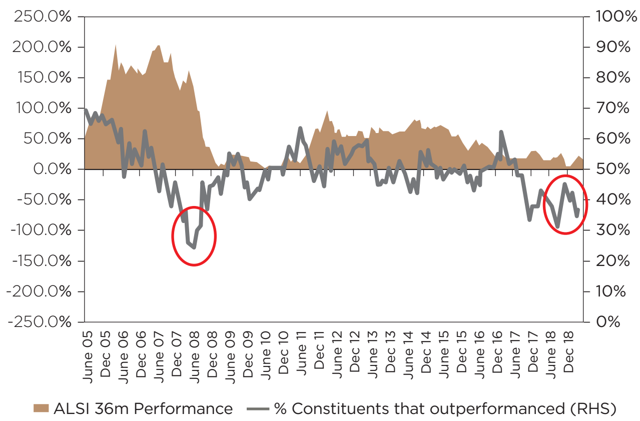
Despite this bad news, the JSE All Share Index (ALSI) returned a strong return of +8% over the quarter and claimed back a large proportion of losses in calendar year 2018, when the ALSI was down -8.5%.

The dislocation between the negative local news and good returns is understandable as the five largest contributors to this return over the quarter were either **large global consumer** companies or **large global mining** companies with little exposure to South Africa. Per the table below, the performance of the ALSI would have been negative if the contribution from Naspers, BHP, Anglo American, Richemont and British American Tobacco was excluded.

The ALSI is not indicative of the local South African economy given the large number of global stocks that are listed on the ALSI but have little exposure to the South African economy. The five shares noted in the previous paragraph make up more than 40% of the weight in the ALSI due to the size of their market capitalisation.

What is concerning is that only 35% of the shares in the index, by number, outperformed over the past quarter (i.e. the majority of stocks underperformed the index). Thus, a **small number of large global stocks** have performed well while a **large number of smaller domestic** companies have performed poorly. This trend, of a large proportion of shares underperforming the index is consistent over longer time periods. The graph showing the 36 month time period is noted in the graph below. We become concerned when the market is held up by a fewer number of shares. This was the case in 2008 prior to the Global Financial Crisis (GFC).

Proportion of shares outperforming the ALSI over 36m



Source: Element/Reuters, 31 March 2019

ALSI 3m Return: 8.0%	1	2	3	4	5	6	7	8	9	10
Share	NPN	BHP	AGL	CFR	BTI	SOL	IMP	AMS	CPI	BID
Weight	18.1%	9.3%	4.7%	7.0%	1.7%	3.5%	0.4%	0.5%	0.9%	1.3%
Relative Performance	10.8%	21.1%	14.1%	3.8%	21.5%	-0.6%	58.3%	30.3%	12.8%	5.7%
ALSI Performance Without	**5.6%**	**2.6%**	**1.2%**	**0.0%**	**-0.9%**	**-1.4%**	**-1.8%**	**-2.2%**	**-2.5%**	**-2.9%**

Source: Element/Reuters, 31 March 2019

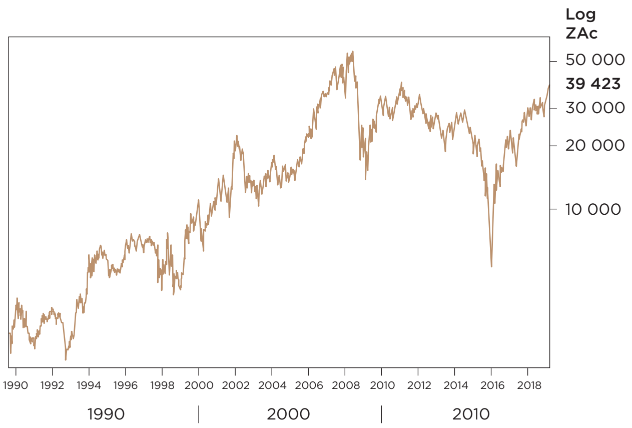
[1] Howard Marks (founder of Oaktree Capital Management), "You Can't Predict. You can Prepare", 20 November 2001

Resources to the Rescue

Resources have performed superbly over the past 3 years (+22% p.a.) and have outperformed both the Industrial (+1% p.a.) and Financial sectors (+2.8% p.a.). The performance of stocks such as Anglo American, which returned +459% between 31 December 2015 and 31 March 2019, has been remarkable. We noted the possibility of the resources sector outperforming in our 4Q2015 quarterly report "Given that the Resources index as a percentage of the ALSI is close to its lowest level ever, the breadth of the market is as stretched as before the Global Financial Crisis and the difference in performance between the Industrial index and Resources index always reverts – we believe that we are close to an inflection point in the market". Element's performance over the past three years has benefited from switching into the Resources sector in 2015.

One must not forget that the sector underperformed materially between June 2008 and December 2015 (7.5 years) with Anglo American losing 90% of its value over the period. As shown in the graph below, Anglo remains below its all-time high of 2008.

Anglo American share price



Source: Reuters, 3 April 2019

The commodity sector is a good illustration of cycles. The high prices achieved in 2008 indicate that boom period while the lows achieved in 2015 indicate the bust period. Howard Marks reminds us that, "trees don't grow to the sky, and few things go to zero"[1].

But (unfortunately) some things do go to Zero

Rules are there to be broken and the construction sector is an unfortunate example that some companies can go to zero. This sector has been decimated with three large listed players (Group Five, Basil Read and Esor) going into business rescue, Murray and Roberts exiting their South African construction business and Aveng trading at a fraction of their former market capitalization. Overall the sector has declined from a market capitalization of R78bn in September 2007 (estimated peak) to R25bn in March 2019-a c.70% decline!

South Africa Construction Sector Market Capitalisation (Rm)			
Name	**30 Sep 07**	**31 Mar 19**	**% change**
Murray & Roberts Holdings Ltd	26 820	5 875	-78%
PPC Ltd	17 032	7 551	-56%
Aveng Ltd	9 281	582	-94%
Wilson Bayly Holmes - Ovcon Ltd	7 854	6 476	-18%
Group Five Ltd	6 562	83	-99%
Raubex Group Ltd	5 188	3 726	-28%
Stefanutti Stocks Holdings Ltd	3 361	399	-88%
Esor Ltd	1 131	-	-100%
Basil Read Holdings Ltd	1 030	-	-100%
Total	**78 259**	**24 692**	**-68%**

Source: Reuters, 31 Mar 2019

The South African government has frequently been blamed for the sectors weak performance since 2007, but offshore adventures have cost this sector dearly. Group Five's large project in Ghana, Basil Read's airport in Saint Helena and Aveng's loss making contracts in Australia being the main architects of these companies' downfall.

The construction sector proves to us that certain companies can go zero and this shows the importance of determining whether a share price decline is due to cyclical factors (i.e. resources) or structural factors (i.e. construction).

[1] Howard Marks (founder of Oaktree Capital Management), "You Can't Predict. You can Prepare", 20 November 2001.

Mid and Small Cap Opportunities:

The table below details the Mid and Small-Cap sector's underperformance relative to both the larger sectors and the ALSI over the past three years. This sector is made up of a large number of smaller domestic companies.

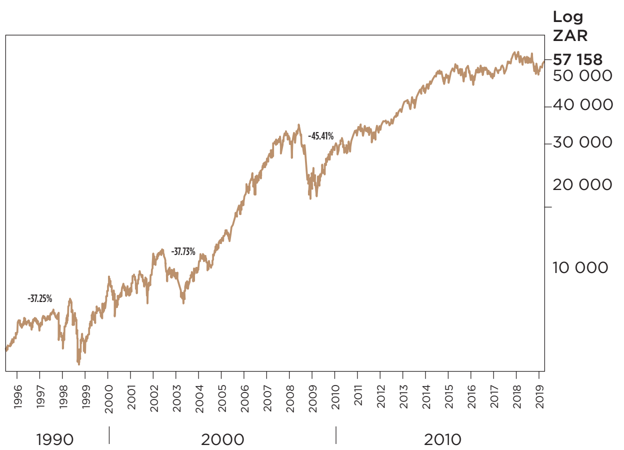
To 31 March 2019	Performance as % p.a.			
Index	3 Month	1 year	3 years	5 years
Small Cap	-3.4%	-16.4%	-2.7%	2.6%
Mid Cap	2.8%	-3.7%	2.1%	6.5%
ALSI	8.0%	5.0%	5.7%	6.5%
Top 40	8.5%	6.1%	5.9%	6.2%

Source: Element/Reuters, 31 Mar 2019

This underperformance is more pronounced when one considers that the average constituent in this sector is down -46% from its peak (based on Reuters data between 2007 and 2 April 2019) with 16 constituents declining more than -90%. This compares to the ALSI and TOP40 which are both down c.8% from their peak.

With the ALSI down only -8% from its peak levels, we do not appear to have gone through a major market correction or bear market. We have seen larger corrections in the past with the market declining more than 35% from its peak in 1998, 2002 and 2008 – this is illustrated in the graph below.

All Share Index (ALSI)



Source: Reuters, 3 April 2019

We wrote about "SA Fallen Angels" in our previous quarterly newsletter. The sample included eight former "market darlings" who had fallen significantly from their highs. We can add a number of Small and Mid-Cap shares to this list, which have experienced a significant decline from their highs. These out of favour sectors presents us at Element with opportunities to invest in due to our boutique size.

Conclusions:

The ALSI is down 8% from its peak. Despite the relatively low single digit returns experienced by the ALSI over the past 5 years the market has not seen a major decline as experienced in previous bear markets. We are further concerned that this performance is being driven by a small number of stocks with the majority of stocks in the index underperforming.

The Small and Mid-cap sector has underperformed the larger companies. The companies in these sectors tend to have a larger domestic exposure and are therefore are a better reflection of the South African business environment. On average these sectors' constituents are down 46% from their peak. This indicates a bear market for this sector and the average South African business.

The ALSI on the other hand is a poor reflection of the South African economy and we should not necessarily be surprised by dislocations between the weak domestic economic news and strong stock market performance.

Hammerson – beaten down but not out for the count

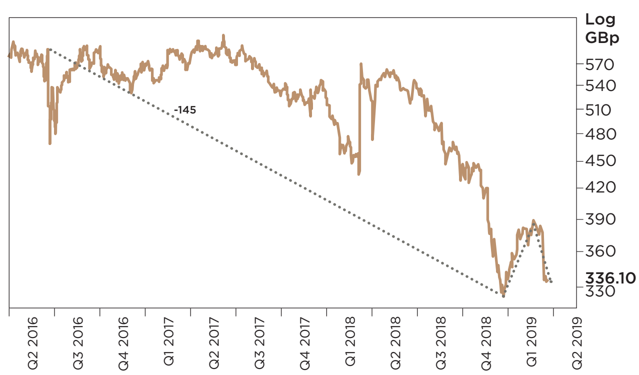
Jeleze Hattingh
Portfolio Manager
M Sc (Cum Laude), CFA, CMT

In numerous previous publications and presentations, we made the point that markets and companies move in cycles. It is typically at a low point in the cycle when the majority of the investor base becomes despondent and exits the investment – which potentially provides an opportunity to acquire an investment at an attractive price.

We believe that price action in Hammerson Plc presents such an opportunity. Hammerson is a property company domiciled in the UK, but with only c.50% of its assets based in the UK. The rest of its assets are diversified across Western Europe and Ireland. Notwithstanding this asset mix its share price has declined (undeservedly, we believe) alongside its UK only retail peers. This share price action seems especially harsh if one considers its underlying fundamentals and property details.

The graph below of Hammerson's ("HMSO") price in GBP pence demonstrates the impact of the negative sentiment and consumer strain post the Brexit referendum, with the price down 45% since the original vote. In addition, the enclosed table details some of the various corporate activities resulting in the hightened price volatility.

Hammerson ("HMSO") price in GBP pence

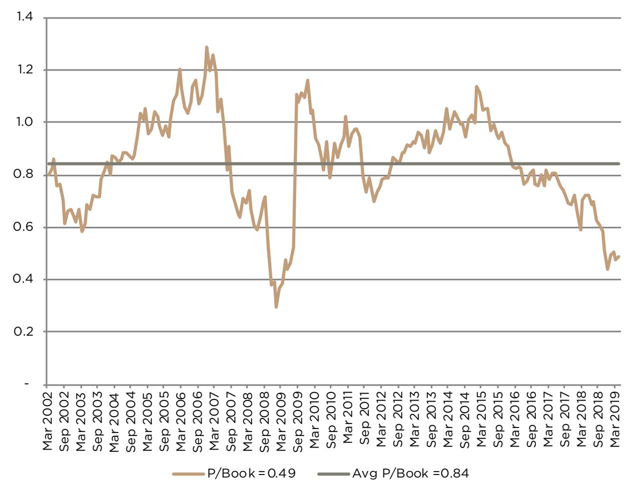


Source: Element Investment Managers, Reuters, 1 April 2019

There are a number of points to consider when evaluating a property company, whether in the South African or global markets. We will consider the below as a basis to our investment thesis:

- Price to Net Asset Value ("P/NAV"), also called Price to Book
  - This is the main metric used to evaluate UK property companies. Typically if a company is expecting little to no growth in its book value and paying a very low dividend yield, it will trade at a P/NAV discount of 15-20%.
  - Since 2001, Hammerson has traded at an average discount of 16% to its NAV. Hammerson is currently trading at a 53% discount to its book value, the second cheapest entry over the past 20 years.
  - To put it differently, an investor is essentially buying all of the properties at a 53% discount to its book value – close to the historical lows seen during the 2008 Global Financial Crisis.

Hammerson Price/Book



Source: Element Investment Managers, Reuters, 1 April 2019

06-Dec-17	16-Mar-18	19-Mar-18	04-Apr-18	10-Apr-18	17-Apr-18	05-Oct-18	29-Nov-18
HMSO formal bid for INTU	Klepierre informal bid 615p for HMSO	HMSO rejects Klepierre's 1st bid	Klepierre informal bid 635p for HMSO	HMSO rejects Klepierre's 2ndbid	HMSO withdrew formal INTU bid	Consortium bid for INTU	Consortium withdrew bid for INTU

[1] REITS stand for Real Estate Investment Trusts.

- Dividend Yield ("DY")
  - DY is usually not that important in the UK market, but a much more important metric used to evaluate the South African and other high inflation Emerging Markets' property counters. However, due to the recent sell-off in price, Hammerson is currently trading at a substantial 7.7% dividend yield (in GBP) – which implies a 6.7% spread to the UK 10year Government Bond at 1.0%! So in other words, investors are being paid 7.7% to wait for the recovery in the share price – a similar yield to the previous highs in March 2009.
  - It is notable that UK REITS[1] have to pay out at least 75% of their income in dividends, in order to avoid punitive taxation charges or the loss of their REIT status. In Hammerson's case, even if they do reduce the dividend to the lower 75% pay-out ratio, it will still imply a healthy dividend of 5.8%, along with further strengthening of the balance sheet.
- Gearing levels and strength of the balance sheet
  - Hammerson's current Loan to Value ("LTV") levels of 38% and gearing of 63% is well within their covenant ranges (eg. gearing internal target of < 85% and covenant limit of 150%) and at the lower end of their peer group. In a down cycle it is however prudent to strengthen the balance sheet as much as possible, as well as keep some powder dry for bargain hunting.
  - To this end, one of Hammerson's strategic targets is to sell a further £500m in non-core properties (as well as exit the lower quality retail parks in totality through time), which will be used to reduce the debt down to £3bn (c.35% LTV and c.54% gearing at current prices).
  - In addition, the above will come on top of the £2.5bn of properties that Hammerson has recycled since 2011 at an average 2% discount to Book.
- Expected future growth (in both dividends as well as NAV)
  - On a negative point, Hammerson's outlook for FYE19 is for no growth in dividends, reflecting the difficult UK consumer environment and Brexit uncertainty.
  - Furthermore, even though the UK flagship assets were written down by 11% over the past year and the UK retail parks by 13%, there is still the potential to see further write-downs of c.10% of the UK retail portfolio valuations if the negative sentiment prevails.
- And lastly in the case of a dual listing like Hammerson, where 100% of the company's income and assets are in foreign currency, the potential currency impact must be considered.
  - A number of South African listed REITS have all expanded into foreign jurisdictions to take advantage of the relatively cheaper funding levels. However, the majority of these SA REITS have geared the underlying foreign assets 100%, which negates any long term potential upside from the currency effect. This is obviously not the case for Hammerson.
  - Even though it is extremely difficult to pinpoint the fair value for a currency pair, it is easier to point to relatively cheap or expensive points in the cycle as well as comparative valuations to other currency pairs. With the Brexit uncertainty weighing down on the Pound ("GBP"), GBPZAR is currently trading at relatively cheap levels[2] compared to the other benchmark foreign currency pairs of USDZAR and EURZAR. Having direct exposure to GBPZAR adds to the longer term potential upside of the investment from a South African viewpoint.

Is Hammerson's Net Asset Value a true reflection?

Given that P/ NAV is such an important metric, it begs the obvious question of whether Hammerson's NAV is a fair reflection of the underlying holdings.

As background, the retail market in the UK has been under tremendous pressure over the past couple of years, due in part to:

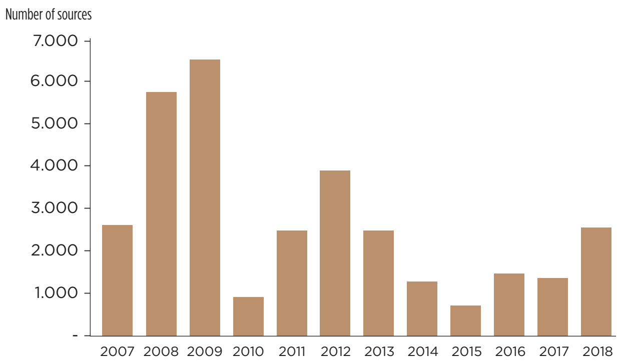
- Longer term structural changes in the retail landscape, as specifically reflected by the move towards online shopping and omni-channel retail, and simultaneously away from high street fashion and department stores.
- Shorter term cyclical changes, with Brexit uncertainty just being the cherry on top of pressure on the consumer.

The combination has led to a substantial increase in retail failures and Company Voluntary Arrangements ("CVA")[3], specifically from general fashion retailers and department stores, which had a direct impact on the rental income from these tenants. (As an aside, think of it as if Stuttafords, instead of closing its non-performing doors, kept trading but without having to pay rent… and there is nothing the landlords can do about it!)

[2] Based on simplistic Purchasing Power Parity models
[3] CVAs are used in terms of UK law by financially distressed businesses to come to an agreement with unsecured creditors and are often able to secure more favourable rental agreements.

The chart below shows the number of national retail failures in the UK, clearly demonstrating the pressure on the retail sector over the past couple of years.

National retail failures by store numbers



Source: Centre for Retail Research, INTU FYE18 Annual Result Presentation, February 2019

These structural and cyclical changes have not only led to very weak sentiment towards property companies in the UK, and more pertinently retail landlords, but also to a reduction in the valuations of the retail properties. However, the above is not signaling the death of retail malls. It does however require landlords to be agile, reposition their centers and prepare for the future of retail, where the quality flagship centers with active managers should prevail. As an example, even in the tough current conditions, Hammerson is seeing continued demand for their space, with occupancy across their portfolio at 97.2% and new leases signed ahead of Estimated Rental Values. Furthermore, Hammerson's Irish flagship stores (10% of Fund) grew their Net Rental Income by 1.6% and Premium Outlets by 5.2% (25% of Fund).

In light of the above weak consumer sentiment, one can easily argue that even though Hammerson wrote down the value of their UK flagship properties by over 10% in FYE2018, it is still possible for further write downs due to the repercussion from the non-resolved Brexit. One counterargument would be that in FYE18, Hammerson has disposed of £570m of UK properties at an average 7% discount to FYE17 book values (ie prior to the 10-13% write-downs), which does justify their property valuations with actual concluded transactions to a wide array of buyers. However, it's better to err on the more conservative side, and thus if one assumes a further 10% write down across all of Hammerson's direct retail properties[4], there is still a substantial margin of safety in the current entry point (P/NAV will go from a 53% discount to a still substantial 47% discount and LTV from 38% to 42%).

In summary, we believe that at the current levels, Hammerson provides long term investors with a relatively cheap entry point into a well-managed property company with quality assets, along with offshore diversification from a South African viewpoint. While we expect short-term volatility due to Brexit uncertainty, we remain of the view that long-term investors will be more than adequately compensated for this.

[4] All properties excluding Premium Outlets, which are seeing significant growth in turnover and footfall and increased valuations.

Fund Reports

31 MARCH 2019

	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	12.2%	14.8%	12.1%	10.7%	10.0%	8.3%
Annualised 15 Year	10.7%	15.3%	10.5%	10.9%	9.4%	8.8%
Annualised 10 Year	6.6%	14.0%	7.7%	10.19%	8.3%	8.19%
Annualised 5 Year	1.4%	6.5%	4.5%	9.93%	5.9%	7.93%
Annualised 3 Year	6.1%	5.7%	7.5%	9.78%	7.8%	7.78%
1 Year	5.3%	5.0%	9.3%	9.6%	9.3%	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	7.2%	8.8%	6.3%	7.7%	15.4%	18.6%
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	5.6%	5.2%	6.2%	7.7%	10.7%	14.4%
Annualised 3 Year	9.3%	3.7%	8.0%	8.2%	6.0%	10.4%
1 Year	9.0%	5.6%	6.5%	8.0%	20.6%	27.9%
	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, 31 March 2019

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	6.4%	7.9%	5.9%	8.7%	12.3%	18.7%
Annualised 15 Year	No 15 year performance yet		No 15 year performance yet		No 15 year performance yet	
Annualised 10 Year	6.5%	9.7%	No 10 year performance yet		No 10 year performance yet	
Annualised 5 Year	2.7%	3.5%	5.6%	5.5%	8.8%	14.5%
Annualised 3 Year	8.6%	3.7%	9.4%	4.8%	0.9%	11.5%
1 Year	10.1%	5.1%	10.2%	7.1%	16.4%	28.3%
	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 March 2019

Figures quoted are from Element Investment Managers (Pty) Limited, for the period ended March 2019, 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 – First Quarter 2019

Element's Voting Record: 1Q2019		
No. of meetings voted at during 1Q2019	5	100%
Voted against/abstained on at least 1 res.	**5**	**100%**
Meetings attended	**0**	**0%**
Number of resolutions	**95**	**100%**
Voted **FOR** management	51	54%
Voted **AGAINST** management	43	45%
Abstentions	1	1%
Withdrawn resolutions	0	0%

Voting Against – Selected Examples 1Q2019		
African Phoenix	Loans and other financial assistance to related parties	Concerned with proposed BFM's high fee structure, lock in period, experience and track record. Would prefer to see company returning cash to shareholders.
Reunert	Remuneration Policy	Short-term and long-term incentives based on EPS and not returns based metrics.
Netcare	Directors	Voted against the appointment of Jammine and Weltman as directors as they have served on board for more than ten years.

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
Independent Active Investors

PO BOX 13 CAPE TOWN 8000 REPUBLIC OF SOUTH AFRICA
TEL +27 21 426 1313 FAX +27 21 426 0999 www.elementim.co.za

administered by Sanlam