ELEMENT INVESTMENT MANAGERS

5 January 2026

LETTER TO ELEMENT INVESTORS

Looking back on 2025, it was a year of extremes. From the market's sharp tariff-induced sell-off at the start of the year to the rally that followed thereafter, from the stark geopolitical differences across regions in the world that are pulling away from each other, from old-world industries trying to adapt to a post-COVID, AI-infused future to the new-world hyperscalers pushing AI in every direction, sometimes irrespective of the questionable economics.

We have navigated our portfolios through this turbulent sea of changes carefully and, in some cases, have been too conservative. In other cases, the conservatism was appropriate, and, in a couple cases, we took some calculated risks that worked wonderfully. And, yet, in other cases—like Aspen Pharmacare at the start of the year and Mr Price towards the end of the year—things just went wrong (which is why we still and always manage portfolios to be well diversified).

In this way, 2025 was actually just a "normal" year: some investments will do poorly, some will do spectacularly, and most will do alright-to-average.

The problem is that we are never sure *which* investments will fall into which categories and, thus, diversification and active management remain a core part of our investment process.

But this is all backward-looking, and we must remain forward-looking to best manage your capital across our funds. And, in looking to the future, we can look even further back to the dusty origins of our civilisation and the ever-present market through the history of mankind to see what *never* changes.

Over the course of 2025, I read Chester G. Starr's "*A History of the Ancient World*". While a difficult and dry read, I highly recommend it to anyone who has a serious interest in real, objective history and where "all of this" comes from.

In it, as the Near East rises and falls, Greece rises and falls, Rome rises and falls (and rises and falls again!), and then modern Europe begins to take root in the Dark Ages, there are some economic things that never change:

- **Permanence of trade**: Ever since mankind invented civilisation, irrespective of the barter or monetary system in place, trade has flowed. Sometimes far, sometimes close, but ever flowing to meet our ever-growing requirements for utility. Perhaps the USA-China trade flows are being upended, but will that mean that global trade grinds to a halt? We do not believe so.
- **Fluidity of trade**: Trade—like capital—flows towards efficiency and stability, and away from bureaucracy, costs and volatility. Who is making it easier to trade with themselves, and who is making it harder to? Who facilitates this change? Who benefits from this change, and who is hedged against this uncertain outcome?
- **Change is part of growth**: Not always linear, not always nice and not even always positive, but change is as inevitable as time. Who will become obsolete and who will become the new standard bearer? Who will help the world change, and who will benefit the most from this? Our world is always changing and those who change with it benefit.

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We both do not dismiss the size and relevance of the USA economy to the world, *and* are sceptical on the long-term positive outcome of "Trump-onomics" and tariffs in this region.

We both acknowledge the risks and problems in South Africa and its economy *and* see the slow, steady, exciting progress the GNU has achieved since its formation that offers an increasingly positive regional prospect.

We both are worried about the vast sums of capital being invested into AI, datacentres and chips that may never yield a return, *and* believe that there will be some clear winners here over time in both the utility, implementation and commodity spaces.

We also believe that somethings never change: society wants goods and services that are of good-quality, value-for-money and easy to purchase while businesses want growth (more sales) and better efficiency (less costs). These are desired by all parties irrespective of the regime, sovereignty or even period in history since ancient times to modern and future times, and investing in these spaces is comparatively lower risk than some other parts of the market.

Finally, we still believe that the best outcomes come from combining the above with an investment philosophy where we try to invest with excellent businesses (i.e. **quality-bias**), not overpay for investments (i.e. **value-sensitive**), adapt to change (i.e. **active management**) in portfolios that are resilient (i.e. **diversified**).

Instead of using this letter to try to forecast 2026, I hope I have used it to assure you that we apply our minds and your capital in the same consistent, same prudent and same logical manner that we always have.

No matter what 2026 throws at us.

As always, I am available if anyone wishes to discuss our funds or underlying investments.

Kind regards,

Keith McLachlan CA (SA)
Fund Manager & Chief Executive Officer