

QUARTERLY NEWSLETTER
THIRD QUARTER

2011

ELE  ENT

INVESTMENT MANAGERS

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Ian Jones
B Bus Sc (Hons), FIA

Dear Fellow Investors

Domestically and globally, equity and bond markets were extremely volatile during the third quarter of 2011, with investor sentiment swinging wildly on the back of mainly macro events. A couple of standout examples include the S&P's downgrade of US Treasuries (based partly on the perceived willingness of the US to repay its debt), the non-event of the Fed's latest interference in the market in the form of "Operation Twist", and the intensifying European debt debacle that has spilled over from the sovereign balance sheets to the European banks.

In a continued effort to try and stem market fears, German Chancellor Merkel and French President Sarkozy have promised to unveil new measures aimed at resolving the Greek crisis, recapitalising the flailing banks and accelerating economic co-ordination in the Eurozone. The possibilities of haircuts in excess of 50% on Greek debt and closer fiscal unity in the EU are all spilling over into market sentiment.

In our previous quarterly newsletter we spoke about our concerns relating to the stubbornly high US unemployment levels, and the continued worries over the sustainability of the Chinese growth story. Unfortunately, there has been no positive material news on either front, and as a result we are still focusing on the possible impact of these factors on our portfolios.

In this quarter's Investment Commentary, Matthew Kreeve, one of our portfolio managers, argues that the underlying fundamentals have continued to be weak, and that only "rule changes" implemented by governments and central bankers have compelled markets higher. He also points out that it seems as if markets have now begun to factor in the downside that these weak fundamentals require to make for attractive investments, or at least bring them closer to fair value.

Another of our portfolio managers, Mohamed Shafee Loonat, discusses in more detail how platinum share prices have now corrected to levels where our research suggests that the long-term risk-reward relationship once again favours having some platinum share exposure in our portfolios.

We always welcome any feedback you may have on our newsletter or any other aspect of our business. Please email me at ian@elementim.co.za or call 021 426 1313 if you have any comments or questions.

Thank you for your continued support. 🏠

Chartered Financial Analysts

The Chartered Financial Analyst (CFA) programme is regarded globally as the premier qualification for investment analysts. An individual who completes the three levels of the examinations and meets certain professional requirements becomes a CFA charterholder. The professional requirements include four years of relevant work experience.

The curriculum for the three levels covers Ethics, Quantitative Methods, Economics, Corporate Finance, Financial Reporting and Analysis, Security Analysis, as well as Portfolio Management. The programme is very challenging with average pass rates over the last 10 years for the three levels ranging from 40% for Level 1 to 58% for Level 3.

At Element, we encourage all new entrants into our investment team to study towards the CFA. The course provides an excellent technical grounding while reinforcing the CFA Code of Ethics and Standards of Professional Conduct on which our company has modelled our policies and procedures. We provide staff with financial assistance for the CFA course as well as study leave to ensure individuals are well prepared for the examinations. It is a material investment in our staff that we believe will ultimately reward our clients.

Congratulations to four members of our investment team who recently passed their final Level 3 examination. With these successes, we now boast eight CFA charterholders in our investment team of 15. The four new CFAs are Andrew Bishop, Warrick Erlank, René Prinsloo and Graeme Ronne. In addition, Steven Barber has completed all the examinations and will be fulfilling the work experience requirements in the next few quarters - increasing the number of CFAs at Element Investment Managers to nine, which represents 60% of our investment team staff complement.

We believe that the increasing qualifications and quality of our staff, combined with the staff stability over the last few years, holds us in good stead for future years.

Staff Shareholding

Following a recent share buy-back and subsequent offer of shares for purchase to staff members, it is pleasing that we have been able to increase the majority shareholding of the firm's staff as well as broaden the number of staff members who own equity in Element.

We now have a majority of staff members - 19 out of our staff complement of 35 - being shareholders of Element. We believe that this helps to ensure business sustainability and continuity for both Element and our investors over the long term. 🏠

MISSING THE FUNDAMENTALS FOR THE RULE MUTATIONS



Matthew Kreeve
B Com (Hons)

Our last investment commentary highlighted the developed market malaise that has followed in the wake of the global debt crisis. It focused on the way that the modern political systems continue to choose **avoidance over adjustment**. We ended by saying “with the second round of Quantitative Easing now ‘officially’ ending on 30 June 2011, the can is now in front of policy makers again and while they may opt for another round, we would argue that policy normalisation will at some point have to take place. The removal of excess liquidity from markets should provide attractive entry points into certain risk assets. Until such time – or until valuations more accurately reflect downside risks – we remain cautiously positioned both within our equity stock selection and our asset allocation for our multi-asset class funds.”

Those who were not cautious earlier in the year have quickly become so, and markets have continued to weaken, especially in August. Europe suffered the worst losses – Germany and France were down 25% from their July highs as at the end of September. Some Emerging Markets (EM), such as Brazil and India, dropped half as much in the same period, as did the broader US markets. At -8%, SA fared slightly better, although at its worst, the FTSE/JSE All Share Index was down 12%. Defensive companies obviously fare better in weak markets and SA’s relative stability in terms of EM helped SA avoid more downside. The Element funds’ defensive positioning came through, as evidenced by our quarterly numbers. This performance was boosted by rand weakness, which supported our heavily rand-hedged picks, as well as benefiting our offshore US dollar allocation in the multi-asset class funds.

As we all know, news flow over the last three months has been frantic, and volatility a constant. This arose from two specific developments in the Northern Hemisphere, which troubled asset markets around the world – firstly S&P’s downgrade of US Treasuries, and then, on top of that, the continuing saga in European debt markets. These developments are complex and intricately involve both political and economic decision makers, with the policy makers at the centre of the storm being the central bankers. Their often opaque realm – sandwiched between the harsh realities of economics and the more flexible world of politics – continues to be the focus for markets.

Markets rely heavily on “the ground rules” and thus tend to react sharply to changes in these. This explains the heightened focus on the central banks and their seemingly constant stream of announcements as they navigate the twists and turns of the crisis. Markets reward visibility and predictability. These allow for more reliable forecasting in a world that has an already sufficiently high degree of uncertainty. By adding “rule changes” or mutations, the problem of low visibility is only magnified. When central banks and elected officials (the rule makers) are at odds, the degree of uncertainty can be extreme.

Rule mutations tend to be negative surprises and, of late, it has been much easier to find such examples – look only three degrees north to see the effects of Zanu-PF’s policies on investment in Zimbabwe, or the reaction in Australian markets to the news of a Resources supertax. New regulation is also often a negative structural response to prior crises – the upcoming Basel 3 is a perfect example. As per this regulation, global banks will be required to hold more (and higher) quality capital to back their loans. Even the Competition Commission fines levied in SA could be considered to be mutations, though in truth the change is one of renewed enforcement rather than new regulation. But in whatever form, the ground rules dictate the economics of business models. Thus, when they change, so do the valuations of the relevant players.

Much as markets devalue more regulation, they reward deregulation or positive adjustments in the ground rules. If we consider this more positive side, over the last three years, it has primarily been US Fed Chairman Bernanke's proclamations that have shifted markets upwards. Indeed, his now famous August 2010 announcement of a second round of Quantitative Easing (QE2) shot markets higher as the Fed promised to continue to buy problem assets and Treasuries, freeing bank balance sheets and helping them secure their positions. The idea was that this would translate, or multiply, into the economy as the banks took advantage of the new rules and, from their stabilised position, passed on the favour to consumers. While this worked on sentiment at home in the US, the vast majority of the easing flowed into other assets, such as EM countries or EM-focused companies, and commodity prices. For US taxpayers that may well be considered to be an unintended consequence or even an unfortunate one because, despite QE, many of the US banks are now trading at their 2009 relative lows again. Markets have not signalled their renewed confidence in the US banking balance sheets.

Furthermore, the bailed-out banks continue to shrink their loan books rather than passing this monetary ease on to consumers. So rather than the brisk upward response to the new rules (QE2) we saw last year, markets have lurched and staggered to their lower levels today. It is clear that, despite Bernanke's belief in policy mutation as a panacea, the fundamentals still play the pivotal long-run role. To revisit those from our previous newsletters, these are simply that, despite the positive reaction of Wall Street, economic growth and re-employment happen on Main Street. Over-capacity in the finance, manufacturing or services economy must be priced into company margins and the expectations for those companies' earnings, as captured in their share prices and valuation metrics. The markets' jubilant reaction to the new QE2 rules assumed new rules were enough. Ironically, the new rules and the implications they bring have had an unintended consequence. The proliferation of easing and the monumental debt levels that accompany the QE policy brought the harsh light of credit-(un)worthiness to bear on the US.

In early August 2011, we saw the rating agency S&P downgrade US sovereign debt. This kicked off a veritable storm in US politics as well as global risk aversion. Risk assets suffered while safe havens – gold, US Treasuries and the Swiss franc – earned a premium. A fundamental pillar or “rule” of finance had shifted with the downgrade; the unassailable quality of US debt had been brought into question. Consequently, the volatile market reaction saw most markets sharply lower. It is important to note that the blame should not be placed only on the downgrades. Markets work by confluence and it is the weaker economic fundamentals unmasked by the lack of confidence that have brought markets lower. The slow recovery in US and EU employment and housing prices – the core wealth-effect drivers for the mighty US consumer and their ageing EU counterparts – is not yet underway.

We have argued (some might say ad nauseum) that the underlying fundamentals have been weak; only mutations have compelled markets higher. Perhaps now that its bluff has been called, even the Fed is finally tilting its view. In his 29 September address, Bernanke described the 45% of unemployed people, who have been so for six months or more, as a “national crisis”. He emphasised how these workers were losing their “attachment to the labour force”. He ended with a very telling plea to the politicians: “Monetary policy is not a panacea,” he said. “There are certainly some areas where other policy makers could contribute.” Perhaps rule changing only works until it doesn't, and then, and maybe only then, do the economic and political decision makers buckle down. We certainly hope so. At least markets have now begun to factor in the downside that the weak fundamentals require to make for attractive investments, or at least bring them closer to fair value.

Clearly Europe is also grappling with this prime difference between mutation and real adjustment. Considered in the same context, it was rule changes that brought about the Eurozone. The economic area was formed on the back of the 1992 Maastricht Treaty in which the various participants agreed to certain rules. Indeed, while newspapers have made a lot of noise about the “revelation” that Greece had, with the help of Goldman Sachs, been using derivatives to help it reach its Eurozone compliance targets, reviewing statements out of Brussels since 2002 make it clear that European leaders have long known about these structures. Furthermore, while allowing the rule bending, these leaders have long requested Greece to de-gear. Thus, the fault must lie with the European leadership that allowed the structure to play the letter rather than the spirit of the agreement. Only this week, Chancellor Merkel made the statement that investors “yearning for a single gesture that can end Europe's sovereign debt crisis now will be disappointed”. She continued “that

the time of living above our means is over once and for all” and that debt reduction will stretch over “many years”. She also seems to accept that simple policy shifts cannot negate risks that went bad or debts that are not likely to be repaid. We feel it unlikely that Greece can avoid default and that, in order to be able to defend the EU structure – Italy, Spain, France included – the pain of letting Greece fail to secure the rest, is the workable solution.

Perhaps in Merkel’s judgment, the unintended consequence of solving a debt crisis with more debt (like it has for the US) only serves to expose the panacea monetary policy is not. The voting and tax paying population from Berlin to London, Athens to Wall Street, seems more and more aware that there are few mutations that can dissolve bad debts, and that they will be expected to pay for the necessary austerity.

Our positioning has, up to now, sought to be closely aligned to assets that correctly price the underlying economic environment. The fundamental weaknesses in the local and global economies have been sufficiently unmasked in selected asset valuations for us to have begun to find entry points into sectors which we have long avoided. However, avoiding assets which rely wholly on the next mutation to justify their valuation, remains just as important a step. We expect markets to remain volatile and, thus, the frequency with which we rotate exposure may increase, as it has over the last 6 months. 📌

DIGGING DEEPER FOR VALUE: THE CASE FOR PLATINUM



Mohamed Shafee Loonat

B Com (Eco), B Compt & Advanced Tax (Hons),
CA (SA), CFA, PG Dip (Islamic Banking and Insurance)

The recent market volatility, which has been dominating the news, has created an opportunity for us to take a position in the platinum sector at prices where we believe the long-term risk-reward relationship to be attractive for our clients. Our investment philosophy of being long-term, contrarian investors means that we would traditionally be buyers when shares are out of favour, but the **long-term** fundamentals for returns remain in place and the majority of other market participants are selling usually as a result of **short-term** negative news flow. The recent sell-off in the platinum sector appears to offer us such an opportunity.

At Element Investment Managers we separate the investment case of a stock from its business case. The platinum group of metals offers attractive long-term demand and supply fundamentals (as discussed below), but to benefit from this, an investor must buy into the opportunity at the right price. The biggest determining factor of return on investment is the price one pays. In this article we take a closer look at the fundamentals for platinum and platinum shares and how we view the investment case.

Driving Up Demand

The primary driver of the strong demand for platinum has been the increasing utilisation of this unique group of metals that arose from the introduction of automobile emission standards, first in Europe, and then progressively across the rest of the world. Other sources of platinum demand have been for industrial use, jewellery and, more recently, investment Exchange Traded Funds (ETFs).

Each new version of emissions legislation required automobile companies to ensure that the levels of harmful gases emitted by engines were reduced to below certain minimum levels. This was made possible by using a catalyst (a substance that causes or accelerates a chemical reaction without itself being affected). The chemical properties of the platinum group of metals makes it the ideal catalyst to convert harmful hydrocarbons, carbon monoxide and oxides of nitrogen emitted from engines into less harmful carbon dioxide, nitrogen and water vapour. The legislation is also moving towards including a wider range of machinery, such as construction and mining equipment and waterborne vessels.

New generation fuel cells also use platinum catalysts. These work by converting the chemical energy from a fuel into electricity through a chemical reaction with oxygen or other oxidising agents. Hydrogen is the most common fuel, but hydrocarbons, such as natural gas and alcohols, such as methanol, are sometimes used. In addition to producing electricity, fuel cells produce water, heat and, depending on the fuel source, very small amounts of nitrogen dioxide and other emissions. These environmental considerations should support platinum group metals demand growth of 3-4% over the long term.

Platinum is, however, a commodity and behaves accordingly. When the global economy is doing well and GDP growth is buoyant, the demand for platinum is strong and prices are well supported. When the cycle turns, and global GDP slows (as is the case currently), demand is weaker and, as a result, prices are softer. The monetary authorities attempt to smooth out these cycles, but that has proven to be one of the more difficult tasks.

Supply and South Africa

Platinum (and the platinum group of metals, which include palladium, rhodium and iridium) is among the rarest and most expensive metals in the world. Contrary to other commodities, 80% of the world's known platinum reserves are concentrated in a small region in South Africa, with some of it extending into our northern neighbour, Zimbabwe. The challenges facing the South African mining sector in terms of depths of mining, skills shortages, labour difficulties, water and electricity issues have been well publicised. The Southern African platinum sector is currently producing only 4.8m ounces compared to 5.5m ounces in 2006. Production is expected to recover, but only to 5.3m ounces over the next five years. Another increasing source of supply is from the recycling of used auto catalysts, which is expected to contribute around 16-18% of supply. Jewellery and investment demand is smaller, but is essentially the swing factor that determines the final price to keep the market's demand and supply in balance.

Investment Case

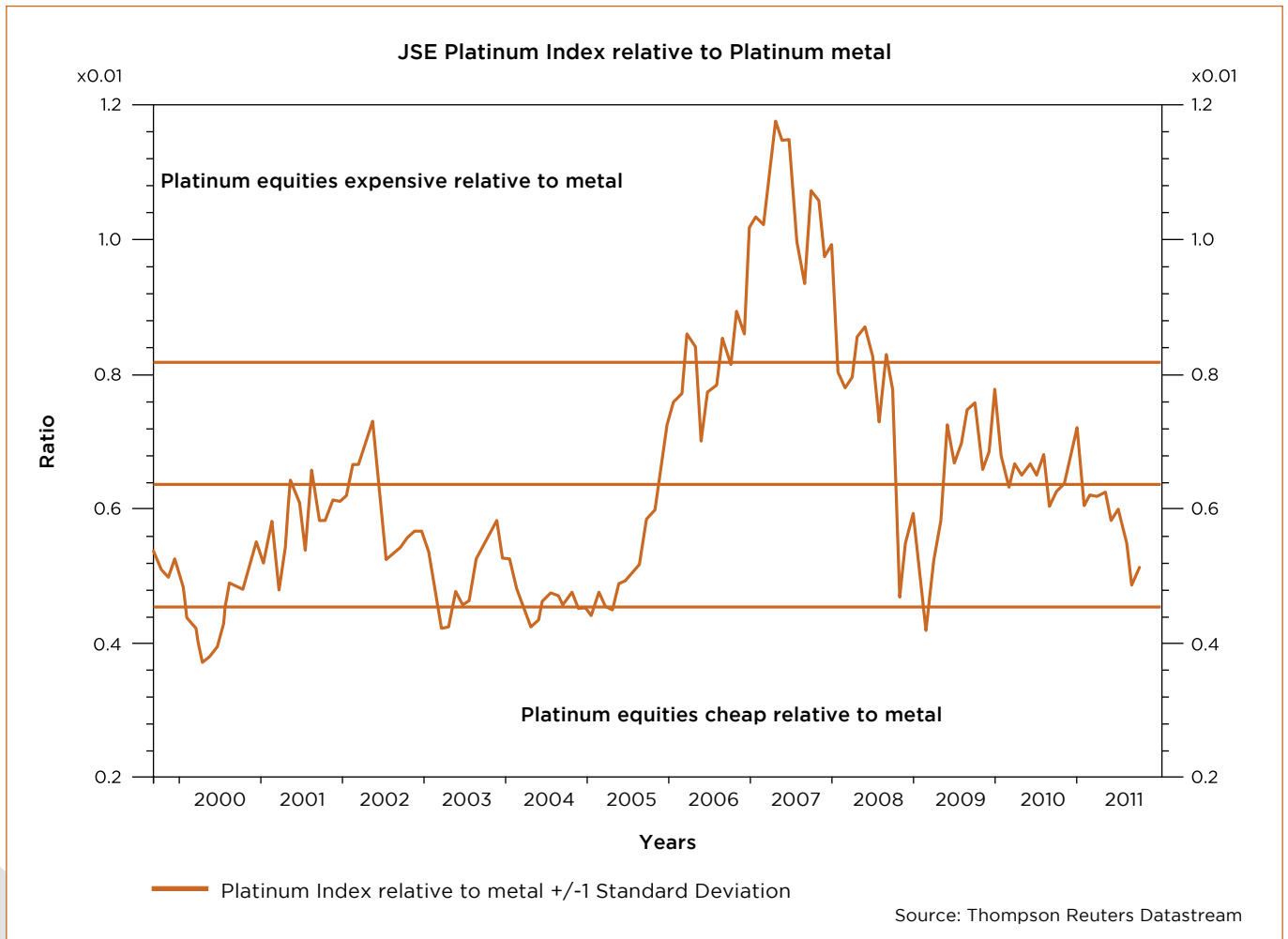
Once we have determined how much is needed (demand) and how much will be produced (supply), we focus on the selling prices and the cost of production, which determines the profits that can be earned and the dividends that can be paid out to investors. Ultimately we must decide on what we would be willing to pay for this opportunity and what margin of safety we would be comfortable with. With a single commodity like platinum, costs are reasonably consistent in a rising channel and it is ultimately the metal price that determines the profitability of the platinum mining companies. There are, therefore, three key decisions that need to be made.

✦ *Is the metal price at a reasonably sustainable level?*

When we consider platinum relative to other metals in terms of its demand and supply fundamentals by geography and industry, platinum ranks very high on a relative basis using price levels in September 2011. Current cost structures in the platinum sector also indicate that prices are supportive at these levels over the long term. Prices any lower will not induce new investment and may, in fact, result in some higher cost mines closing. This will limit supply and, as a result, push prices higher. Our research indicates, therefore, that the **long-term** fundamentals are supportive of current price levels in USD, with potential upside for South African investors from a depreciating rand.

✦ *What is being priced into the equities?*

The following graph reflects the relationship between the JSE Platinum Index and the price of the platinum metal. When the line is rising, it means that the share prices are rising faster than the metal prices, and vice versa when the line is falling. There are, therefore, times when the share prices reflect too much optimism or too much pessimism and we would want to take advantage of these opportunities. At the time of writing this article, platinum group metal prices have been more or less flat to higher in rand terms, while the share prices have fallen significantly, to the point where the risk-reward relationship appears to support long-term platinum share investments.



How would this opportunity rank relative to other potential investment opportunities?

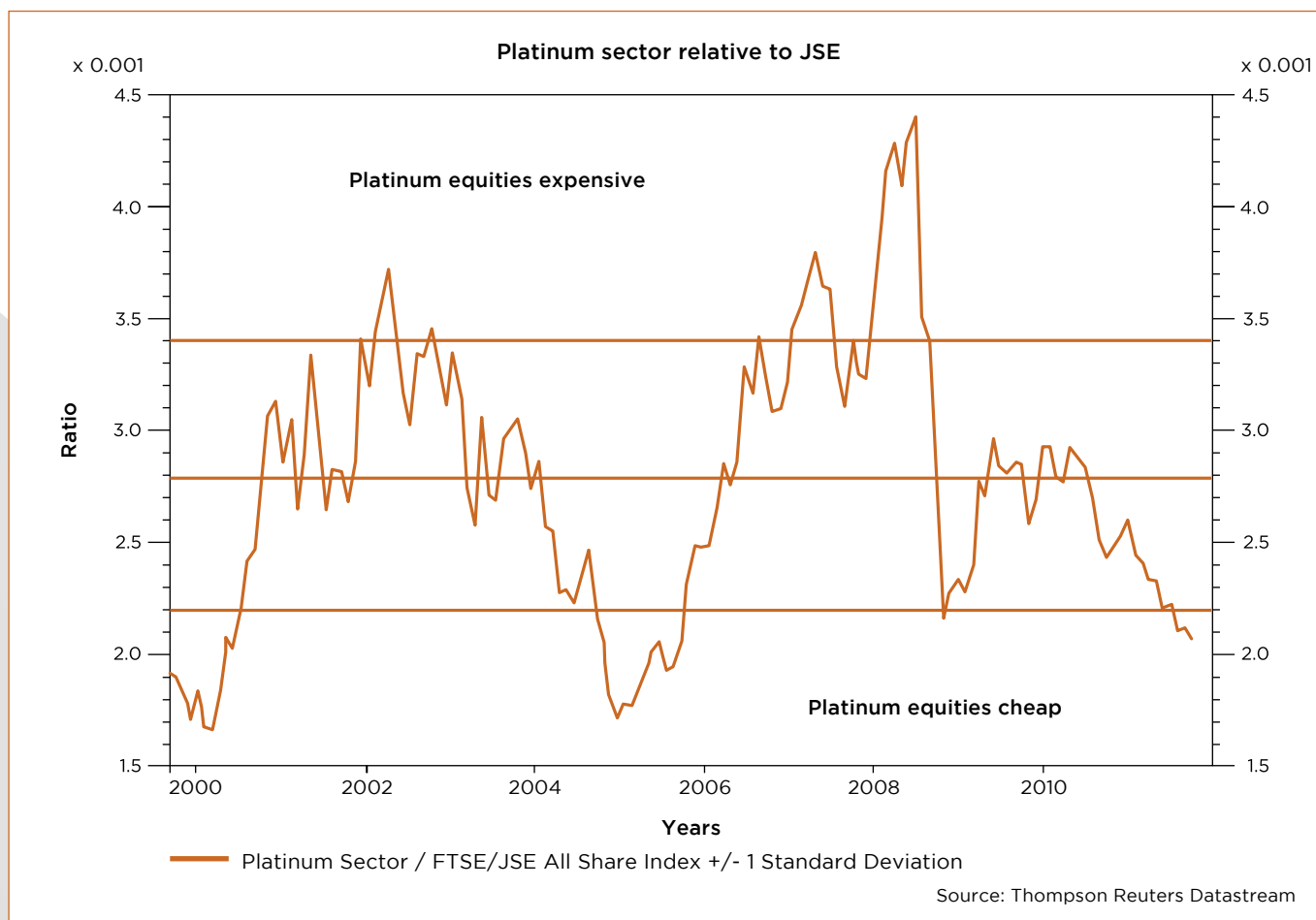
The recent volatility has meant that many sectors and companies have seen their share prices decline – some more materially than others. The next graph shows how the JSE platinum sector has performed relative to the market, as represented by the FTSE/JSE All Share Index. When the line is rising, it highlights that the platinum shares are outperforming the market and conversely, when the line is falling, the platinum shares are underperforming the market. History shows that buying at or below one standard deviation from the average has proven to be an attractive entry point for buying platinum shares relative to the ALSI over the long term. We are, currently, at one of these points and, in addition, current prices reflect a lower entry point than that of November 2008 (post the global financial crisis sell-off of commodities). The platinum index has underperformed the FTSE/JSE All Share Index by 22% to date for 2011 and is off more than 53% on a relative basis from the June 2008 peak. We understand that share prices could well drift lower on an absolute and relative basis in the short term, but over the **long term** this looks an attractive enough entry point for us to start building portfolio positions in certain platinum shares.

Stock Selection

Within the universe of platinum sector shares, our preference has been, initially, for Lonmin and Royal Bafokeng Platinum, where operations are focused on a single area, depths are relatively shallow and there is a clear and reliable path for growing ounces of production. Lonmin was the most aggressive in cutting high-cost production during the last recession and also reduced their cost base, which included moving their head office from London to Johannesburg. The company's production is expected to grow from 720 000 ounces to 950 000 ounces over the next four years in an area that is within their current operations, is well understood and will not require any additional infrastructure.

Conclusion

Our long-term clients will remember that we sold out of the platinum sector, in total, in the last quarter of 2007 when we believed the equities, as well as the metal were over-priced. We re-entered the sector in the last quarter of 2008 after the steep price correction, but we only held that position for nine months, after which we sold out when we, once again, thought share prices had become expensive. Although the stocks continued higher from that point onwards, they have now corrected to levels where our research suggests that the long-term risk-reward relationship favours having some platinum share exposure in our portfolios. 🏠



FUND REPORTS

30 September 2011

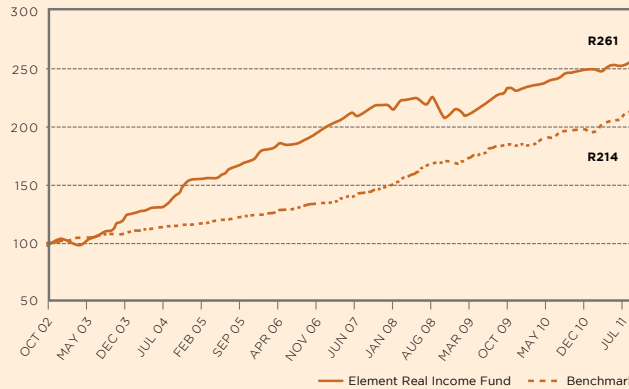
ELEMENT REAL INCOME FUND

FUND MANAGERS: Terence Craig and Matthew Kreeve

ASSET ALLOCATION

Net Equity	20%
Hedged Equity	4%
Listed Property	4%
Nominal Bonds	4%
Inflation-linked Bonds	16%
Money Market incl. Cash	25%
Foreign Equity	12%
Foreign Income	15%

Value of R100 invested at inception (income reinvested)



TOP TEN SHARE HOLDINGS

(% of equities, EXCL pref shares)

SHARE	% OF EQUITY
GRAND PARADE	11.7
MTN GROUP	6.4
ANGLOGOLD	5.7
OLD MUTUAL PLC	5.3
SASOL	5.0
GOLD FIELDS	3.9
ALTRON PREFS	3.6
TONGAAT	3.5
REINET	3.3
REMGRO	3.3
TOTAL	51.7

INCOME DISTRIBUTION (Last 12 months) cents per unit (cpu)

Date	Distribution	Dividend	Local interest	Foreign interest
December 10	1.07	0.07	0.95	0.05
March 11	1.19	0.29	0.82	0.08
June 11	1.33	0.23	1.03	0.07
September 11	1.56	0.31	1.06	0.19

PERFORMANCE (Net of fees)

	Fund	Benchmark
Since inception (un-annualised)	160.6%	113.6%
Since inception (annualised)	11.3%	8.9%
5 year (annualised)	6.5%	9.9%
3 year (annualised)	5.9%	8.0%
Last 12 months	6.0%	8.7%

CLASSIFICATION

Domestic Asset Allocation - Targeted Absolute and Real Return

FUND SIZE

R332 million

TOTAL EXPENSE RATIO

1.40%

INCEPTION DATE

October 2002

BENCHMARK

CPI+3%

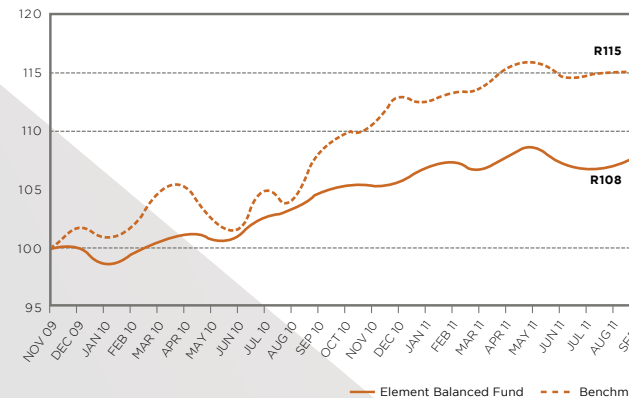
ELEMENT BALANCED FUND

FUND MANAGERS: Terence Craig and Matthew Kreeve

ASSET ALLOCATION

Net Equity	42%
Hedged Equity	6%
Listed Property	3%
Nominal Bonds	1%
Inflation-linked Bonds	8%
Money Market incl. Cash	18%
Foreign Equity	16%
Foreign Income	6%

Value of R100 invested at inception (income reinvested)



TOP TEN SHARE HOLDINGS

(% of equities, EXCL pref shares)

SHARE	% OF EQUITY
MTN GROUP	6.9
ANGLOGOLD	6.3
OLD MUTUAL PLC	6.1
SASOL	5.7
GOLD FIELDS	5.0
TONGAAT	4.9
REINET	4.2
NAMPAK	4.1
GRAND PARADE	4.0
BIDVEST	3.5
TOTAL	50.7

INCOME DISTRIBUTION (Last 12 months) cents per unit (cpu)

Date	Distribution	Dividend	Local interest	Foreign interest
March 11	0.59	0.22	0.34	0.03
September 11	0.94	0.35	0.52	0.07

PERFORMANCE (Net of fees)

	Fund	Benchmark
Since inception (un-annualised)	7.8%	15.5%
Since inception (annualised)	4.2%	8.2%
Last 12 months	3.2%	6.8%

CLASSIFICATION

Domestic Asset Allocation Prudential Variable Equity

FUND SIZE

R56 million

TOTAL EXPENSE RATIO

1.81%

INCEPTION DATE

November 2009

BENCHMARK

Average total return of the Prudential Variable Equity category

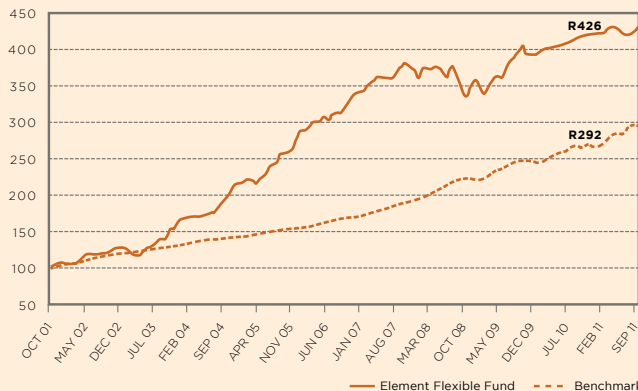
ELEMENT FLEXIBLE FUND

FUND MANAGERS: Terence Craig and Matthew Kreeve

ASSET ALLOCATION

Net Equity	45%
Hedged Equity	8%
Listed Property	5%
Nominal Bonds	1%
Inflation-linked Bonds	8%
Money Market incl. Cash	4%
Foreign Equity	21%
Foreign Income	8%

Value of R100 invested at inception (income reinvested)



TOP TEN SHARE HOLDINGS

(% of equities, EXCL pref shares)

SHARE	% OF EQUITY
MTN GROUP	7.6
ANGLOGOLD	6.4
OLD MUTUAL PLC	5.8
SASOL	5.2
GOLD FIELDS	4.8
TONGAAT	4.7
GRAND PARADE	4.4
REINET	4.1
NAMPAK	3.8
BIDVEST	3.3
TOTAL	50.1

INCOME DISTRIBUTION (Last 12 months) cents per unit (cpu)

Date	Distribution	Dividend	Local interest	Foreign interest
March 11	1.51	0.72	0.67	0.12
September 11	2.54	1.24	1.08	0.22

CLASSIFICATION

Domestic Asset Allocation Flexible

FUND SIZE

R452 million

TOTAL EXPENSE RATIO

1.72%

PERFORMANCE (Net of fees)

	Fund	Benchmark
Since inception (un-annualised)	325.6%	191.2%
Since inception (annualised)	15.7%	11.4%
5 year (annualised)	6.3%	11.9%
3 year (annualised)	6.2%	10.0%
Last 12 months	3.1%	10.7%

INCEPTION DATE

October 2001

BENCHMARK

CPI+5%

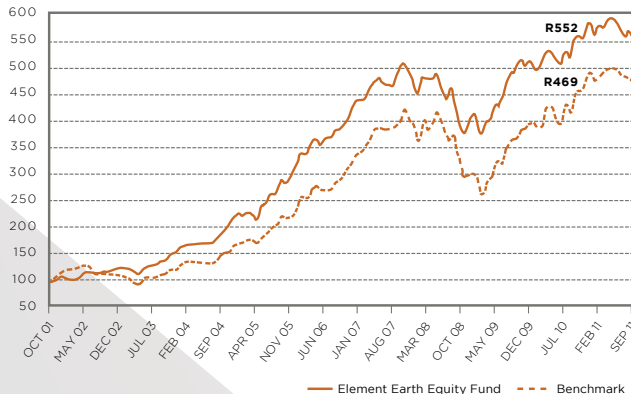
ELEMENT EARTH EQUITY FUND

FUND MANAGERS: Terence Craig and Johny Lambridis

ASSET ALLOCATION

Equity	96%
Cash	4%

Value of R100 invested at inception (income reinvested)



TOP TEN SHARE HOLDINGS

(% of equities, EXCL pref shares)

SHARE	% OF EQUITY
MTN GROUP	8.0
ANGLOGOLD	7.2
OLD MUTUAL PLC	6.0
SASOL	5.5
GOLD FIELDS	5.0
TONGAAT	4.8
REINET	4.7
NAMPAK	3.9
BIDVEST	3.4
ALTRON PREFS	3.3
TOTAL	51.8

INCOME DISTRIBUTION (Last 12 months) cents per unit (cpu)

Date	Distribution	Dividend	Interest
March 11	1.26	1.12	0.14
September 11	2.92	2.64	0.28

CLASSIFICATION

Domestic General Equity

FUND SIZE

R462 million

TOTAL EXPENSE RATIO

1.73%

PERFORMANCE (Net of fees)

	Fund	Benchmark
Since inception (un-annualised)	451.6%	369.2%
Since inception (annualised)	18.8%	16.9%
5 year (annualised)	7.5%	9.7%
3 year (annualised)	9.4%	12.0%
Last 12 months	0.4%	4.1%

INCEPTION DATE

October 2001

BENCHMARK

FTSE/JSE All Share Index with 50% down-weighting applied to resources

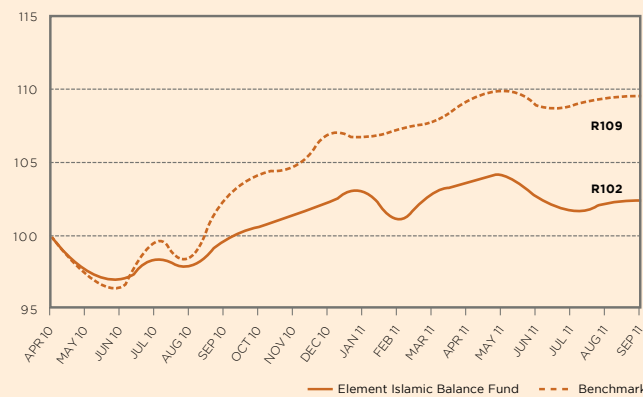
ELEMENT ISLAMIC BALANCED FUND

FUND MANAGER: Mohamed Shafee Loonat

ASSET ALLOCATION

Equity	40%
Shari'ah Compliant Fixed Income	33%
Cash	4%
Foreign Equity	14%
Foreign Cash	9%

Value of R100 invested at inception (income reinvested)



TOP TEN SHARE HOLDINGS (% of equities, EXCL pref shares)

SHARE	% OF EQUITY
MTN GROUP	10.2
ANGLOGOLD	9.3
SASOL	8.0
TONGAAT	6.5
GOLD FIELDS	6.0
ALTRON	5.3
BHP BILLITON	4.4
LIFE HEALTHCARE	4.4
ANGLOS	4.1
LONMIN	3.5
TOTAL	61.7

INCOME DISTRIBUTION (Last 12 months) cents per unit (cpu)

Date	Distribution	Dividend
March 11	0.00	0.00
September 11	0.00	0.00

CLASSIFICATION Domestic Asset Allocation Prudential Variable Equity

FUND SIZE R84 million

TOTAL EXPENSE RATIO 1.87%

PERFORMANCE (Net of fees)

	Fund	Benchmark
Since inception (un-annualised)	2.4%	9.4%
Since inception (annualised)	1.6%	6.2%
Last 12 months	2.7%	6.8%

INCEPTION DATE April 2010

BENCHMARK Average total return of the Prudential Variable Equity category

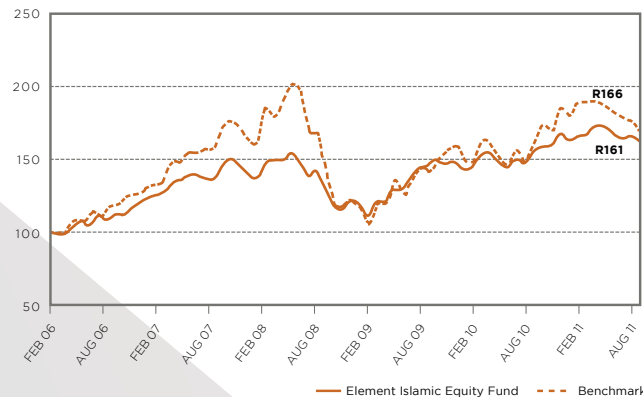
ELEMENT ISLAMIC EQUITY FUND

FUND MANAGER: Mohamed Shafee Loonat

ASSET ALLOCATION

Equity	97%
Cash	3%

Value of R100 invested at inception (income reinvested)



TOP TEN SHARE HOLDINGS (% of equities, EXCL pref shares)

SHARE	% OF EQUITY
MTN GROUP	9.5
ANGLOGOLD	9.2
SASOL	8.3
TONGAAT	6.3
GOLD FIELDS	5.8
ALTRON	5.3
LIFE HEALTHCARE	4.5
BHP BILLITON	4.3
ANGLOS	4.2
ALTECH	3.9
TOTAL	61.3

INCOME DISTRIBUTION (Last 12 months) cents per unit (cpu)

Date	Distribution	Dividend	Interest
March 11	0.07	0.07	
September 11	1.04	1.03	0.01

CLASSIFICATION Domestic General Equity

FUND SIZE R179 million

TOTAL EXPENSE RATIO 1.80%

PERFORMANCE (Net of fees)

	Fund	Benchmark
Since inception (un-annualised)	60.6%	66.1%
Since inception (annualised)	8.7%	9.4%
5 year (annualised)	7.3%	6.9%
3 year (annualised)	7.2%	6.5%
Last 12 months	3.3%	3.1%

INCEPTION DATE February 2006

BENCHMARK FTSE/JSE Shari'ah All Share Index

The distribution amount disclosed as interest is Shari'ah compliant income which is deemed to be interest for Income Tax purposes.

Figures quoted are from Element Investment Managers (Pty) Limited for the period ended September 2011, for a lump sum investment, using NAV-NAV with income distributions reinvested. Collective Investment Schemes in Securities (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. CIS prices are calculated on a Net Asset Value (NAV) basis, which is the total value of all assets in the portfolio including any income accruals and less all permissible deductions from the portfolio. CIS are traded at ruling prices and can engage in borrowing and scrip lending, except for the Element Islamic Funds. Different classes of participatory interests apply to these portfolios and are subject to different fees and charges. A schedule of fees and charges and maximum commissions is available on request from the company/scheme. Commission and incentives may be paid and if so, would be included in the overall costs. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Forward pricing is used. The funds are valued daily at 15h00. The portfolios may be closed. Element Unit Trusts Limited is a full member of the Association for Savings and Investment SA (ASISA).

The TERs are calculated for Class A for the period 1 July 2010 to 30 June 2011. A higher TER does not necessarily imply a poor return nor does a low TER imply a good return. The current TERs cannot be regarded as an indication of future TERs.



Independent Active Investors

8TH FLOOR 125 BUITENGRACHT ST CAPE TOWN 8001
PO BOX 13 CAPE TOWN 8000 REPUBLIC OF SOUTH AFRICA
TEL +27 21 426 1313 FAX +27 21 426 0999 www.elementim.co.za

ELEMENT INVESTMENT MANAGERS (PTY) LTD REG. NO. 1998/006727/07
AUTHORISED FINANCIAL SERVICES PROVIDER (LICENCE NUMBER 663)
DIRECTORS: DR A NAGIA (CHAIRMAN), TR CRAIG, IA JONES, Y MOHAMED*
J NAIDOO*, LL XATE* (*NON EXECUTIVE)