Merchant West SCI Dividend Equity Fund

Quarterly Report
Quarter ending 31 March 2026

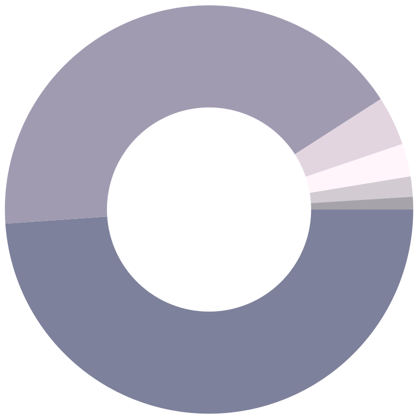
FUND DETAILS

Benchmark	ASISA Category	Portfolio Managers	Suitable Investor
Peer Group Average of the SA General Equity Sector	SA Equity General	Raymond Shapiro	The Merchant West SCI Dividend Equity Fund is suitable for investors seeking long-term capital growth in excess of inflation through a portfolio of high-quality, lucrative businesses. Investors have an aggressive risk profile and are comfortable with a relatively high level of volatility, especially in the short term. Investors are prepared to invest for seven years and longer.

Top 10 Holdings

Top 10 Holdings	%
FirstRand Limited	5.7
Bid Corporation Ltd	3.9
Bidvest Group Ltd	3.9
Standard Bank Group Ltd	3.9
British American Tobacco Plc	3.4
AVI Limited	3.4
Tencent Holdings Ltd	3.3
Shoprite Holdings Ltd	3.2
ADvTECH	3.2
TotalEnergies	2.7

Asset Allocation: *Portfolio Date: 31/03/2026*



Asset Allocation	%
SA Equity	48.9
Global Equity	42.0
SA Fixed Income	0.0
SA Property	3.9
SA Cash	2.6
Global Cash	1.6
Global Property	1.0
Total	**100**

Performance

Performance	Fund %	Benchmark %
3 months	-1.0	-1.0
1 year	11.2	25.2
3 years	12.7	15.0
5 years	11.8	12.6
10 years	6.9	8.5
Since Inception (December 2012)	7.8	9.2

Annualised after one year

Highest and Lowest Annual Returns

Highest and Lowest Annual Returns	%
Highest annual return	26.0
Lowest annual return	-11.8

By calendar year

PERFORMANCE REVIEW

The Fund returned -1.0% over the quarter, while its benchmark, the ASISA South African General Equity peer group, also returned -1.0% over the period. Over the past year, the Fund returned 11.2% which translates into an absolute return of CPI +8%.

The Fund's offshore component (43% of Fund) was a contributor to returns over the period, while the "SA Inc." portion of the Fund marginally lagged. Significant stock specific contributors (in ZAR) over the period included Exxon (+46%), Marubeni (+36%), Advtech (+13%) and JSE Ltd (+11%). Detractors included SAP SE (-28%) and We Buy Cars (-17%).

MANAGEMENT ACTIONS

In the South African-listed section of the portfolio we exited our position in We Buy Cars. The business has been a stellar performer for the Fund; however, we remain cautious on the deflationary dynamics of the used car landscape in South Africa. Following the rapid entrants from Chinese vehicles and the fuel price shock, our assessment of fair value narrowed.

Over the quarter we initiated a new position in Clicks. We have admired the business over the years, but the valuation provided a stumbling block to initiate a position. Clicks is a high-quality business with exceptionally high returns on capital and free cash conversion. While the business faces headwinds from Dischem's renewed loyalty strategy, we are confident in Clicks' management team to navigate the environment.

In the offshore portion of the Fund, we initiated a new position in Schneider Electric. The business offers a way to compound through multi-decade secular tailwinds in electrification, energy efficiency, grid modernisation, industrial digitalisation and data center power demand, with a portfolio positioned across four end markets and an end-to-end electrical and automation offering that can capture spend from design through build, operate and optimise. Its large installed base supports recurring services and software attach, strengthening resilience and visibility as demand rotates through cycles. Financially, Schneider has a track record of strong profitability and cash generation, with disciplined execution and capital allocation supporting consistent returns and reinvestment capacity.

MARKET OVERVIEW

Global equity markets began the year on a cautiously optimistic note despite questions around AI disruption and elevated valuations before the joint US-Israeli military campaign against Iran, launched on 28 February, transformed the investment landscape. Iran's subsequent closure of the Strait of Hormuz – though which roughly 20% of global oil and a fifth of the world's LNG is transported – triggered the largest supply disruption in modern oil market history. Brent crude surged from the mid-$60s to above US $110 per barrel by late March, injecting acute stagflationary risk into an already uncertain macro environment.

Global equities declined broadly, with the MSCI World Index returning -3.6% in US dollar terms for the quarter. The S&P 500 fell 4.3%, led lower by mega-cap technology stocks (-7.0% for the Nasdaq Composite Index) that were already under pressure from AI disruption concerns. A sharp rotation from growth to value defined the period, with dividend-yielding, cash flow-secure businesses strongly outperforming. Energy (MSCI World Energy: +36.9%) was the standout sector globally, while the technology, consumer discretionary and growth-oriented sectors bore the brunt of the sell-off.

Emerging markets entered the quarter with positive momentum, supported by AI-related enthusiasm in Taiwan and Korea and ongoing policy stimulus in China. However, Asia's outsized dependence on Middle Eastern energy – over 80% of oil and gas through the Strait of Hormuz is destined for Asian markets – created acute vulnerability in emerging markets with the MSCI Emerging Markets Index shedding 13.1% in March in US dollars. The steep drop was cushioned by the solid gains seen in January (+8.9%) and February (+5.5%), resulting in a negative return of just 0.2% for the quarter, in US dollar terms. Emerging Markets ex-China (+3.2% in USD) significantly outperformed, while the MSCI China Index fell -8.3% in HKD terms as the energy shock compounded concerns about China's dependence on imported hydrocarbons.

The US economy entered 2026 with moderate momentum. GDP growth estimates for Q1 were revised down from around 3.0% at the start of the year to approximately 2.0% by quarter-end, as the energy shock weighed on activity. The labour market showed signs of cooling as the unemployment rate rose modestly to 4.4%. Consumer spending continued, supported by the wealth effect from strong 2025 equity returns and solid wage growth, though with less vigour as fuel costs climbed.

Inflation, which had been grinding steadily towards the Fed's 2% target, saw renewed upside risk. CPI ran at 2.4% year-on-year in both January and February, with core CPI holding at 2.5%. However, the oil shock threatened to push these readings higher in the coming months. Against this backdrop, the Federal Reserve held rates steady at 3.50–3.75% at both its January and March meetings, adopting a "wait and see" posture after delivering three consecutive 25 basis point cuts in late 2025. Market expectations for further rate cuts were significantly scaled back, with 10-year US Treasury yields climbing to over 4.3% at quarter end, after dipping to below 4% before the Iran conflict started.

In Europe, the first two months of the quarter saw a continuation of the European equity rally that had been building since Germany's historic fiscal pivot in early 2025. The €500 billion infrastructure fund, exemption of defence spending from the constitutional debt brake, and broader European rearmament spending continued to support sentiment, particularly for industrials, defence and materials stocks. However, the Iran conflict and European gas price spike rattled markets in March. The MSCI Europe ex-UK Index fell by 2.4% in euro terms for the quarter as elevated energy costs revived concerns about the region's growth outlook. The ECB left rates unchanged at its March meeting but signalled the possibility of hikes, with updated staff projections showing headline inflation reaching 3.1% year-on-year in Q2 2026 even before accounting for the peak in energy prices.

South Africa entered 2026 with improving economic fundamentals: inflation had moderated significantly, reaching the SARB's 3% target by February; the economy had expanded for four consecutive quarters – the longest unbroken growth phase since 2018; and the rand had appreciated over 13% against the dollar through 2025. Eskom's improved performance and an S&P credit rating upgrade in November 2025 had bolstered investor confidence.

The SARB held the repo rate at 6.75% at both its January and March meetings. The January hold was not unanimous (four members voted to hold, two preferred a cut), reflecting the benign inflation backdrop and scope for further easing. However, the Iran conflict fundamentally altered the monetary policy calculus. At the March meeting, the decision was unanimous to hold, with the SARB raising its 2026 inflation forecast to 3.7% (from 3.3%) and projecting fuel inflation exceeding 18% in Q2. The central bank now projects only one rate cut in 2026, down from two previously, and presented adverse scenarios where inflation rises above 5% under a prolonged conflict.

Governor Kganyago noted that before the war, conditions had been favourable for inflation to settle around the 3% target quickly, but the negative shock would delay that process. The Eskom tariff hike of 8.76% for direct customers, effective 1 April, added a further domestic inflation headwind.

The FTSE/JSE All Bond Index declined -3.4% for the quarter, with March representing the second-worst month in the Index's 25-year history at -6.8%. South Africa's 10-year government bond yield spiked 120 basis points to 9.3% during March.

The rand was the worst-performing major currency in March, including amongst emerging markets, falling 5.9% against the US dollar over the month as investors fled to the perceived safety of the dollar. For the quarter, the rand depreciated 2.2% against the dollar, erasing its gains from earlier in the year.

The FTSE/JSE All Share Index returned -0.6% in ZAR for Q1 2026, a number that masks significant intra-quarter volatility. Following an incredibly strong 2025 and a strong start to 2026, the Index was upended in March, falling 10.4% in the month and narrowly avoiding its deepest monthly drawdown since the global financial crisis.

Precious metal miners, the largest driver of Index returns in 2025, were the largest detractors in March, with gold miners falling 18% and platinum miners 25% month-on-month, contributing more than six percentage points to the JSE's March drawdown as precious metals prices corrected sharply. The pain was broad-based as SA economy centric equities, including banking stocks, fell10% in March, erasing year-to-date gains, leaving the group down 1% for the quarter. The JSE Financials Index returned -0.2% for the quarter, SA Listed Property fell -4.9%, and the All Share Industrials Index declined -8.4%, with index heavyweights Naspers and Prosus falling 22% and 25% respectively over the quarter.

Despite March weakness the Resources Index gained 8.1% for the quarter – buoyed by the oil price surge and industrial metals, as well as strength in gold and platinum stocks before the March sell off.

PORTFOLIO STRATEGY

The first quarter of 2026 laid bare a truth that has defined every major market dislocation: the future is always uncertain. The joint US-Israeli military campaign against Iran and the subsequent closure of the Strait of Hormuz has triggered the most significant disruption to global energy markets since the 1970s oil embargo, with crude prices nearly doubling in a matter of weeks. This has injected acute stagflationary risk into an economic backdrop already contending with shifting trade policies.

At such moments, the temptation is to make large, politically driven directional bets – to position entirely for a prolonged conflict, or conversely, to assume a swift resolution. History suggests neither approach serves long-term investors well. The challenge is not to predict the unpredictable, but to own businesses that can endure and compound through whatever comes.

Maintaining valuation discipline is paramount, and we remain prepared to act counter-cyclically, deploying capital into fear-driven sell-offs that periodically create the most attractive risk-adjusted entry points. Importantly, we insist on conservative balance sheets across the portfolio. We avoid businesses where the debt structure could impair the equity value in a downturn.

While the Fund marginally underperformed the benchmark over the quarter, the outcome reflects our disciplined bias in favour of robust, quality-oriented exposures over uncertain higher risk assets, such as gold and platinum equities. Our approach of holding a diversified group of enduring, high-quality businesses at attractive valuations, provided stability across the quarter. Furthermore, we believe the portfolio is appropriately constructed to weather any further stress in a volatile geopolitical environment.

We are monitoring the investment landscape across domestic and globally listed businesses for the opportunities that present themselves during uncertain times. Our preference remains for strong franchises, able to take control of their own destiny, adapt to changes and grow market share, while creating value, even in challenging environments. While we can't predict how the rest of 2026 will unfold, we constantly engage in rigorous investment analysis and debate, focusing on applying fundamental business analysis and long-term valuation principles, while building a robustly diversified portfolio. We are active managers applying a diversified, bottom-up approach to stock selection. Our objective is to hold the highest-quality businesses available at the most attractive valuations. We believe our approach – patient, disciplined, and anchored in business quality rather than macro forecasting – remains the most reliable path to attractive long-term returns.

Raymond Shapiro
Portfolio Manager