Merchant West
Finance Invest Insure

Merchant West SCI Global Equity Feeder (ZAR) Fund

Quarterly Report
Quarter ending 31 March 2026

FUND DETAILS

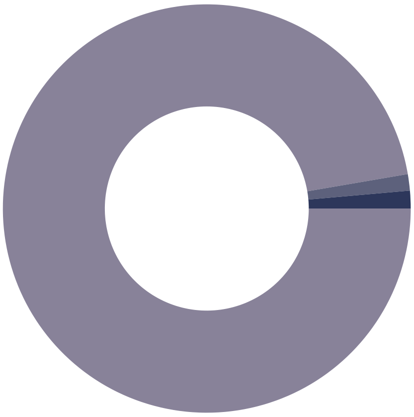
Benchmark	ASISA Category	Portfolio Managers	Suitable Investor
MSCI World Index (ZAR)	Global Equity General	Raymond Shapiro	The Merchant West SCI Global Equity Feeder Fund is suitable for investors seeking long-term capital growth in excess of inflation through a global portfolio of high-quality, lucrative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

Top 10 Holdings*

Top 10 Holdings*	%
Alphabet Inc	5.6
Berkshire Hathaway	5.6
Visa Inc	4.9
Microsoft Corporation	3.8
Amazon	3.6
Union Pacific Corporation	3.6
TotalEnergies	3.5
Meta Platforms Inc	3.1
Booking Holdings Inc	2.9
Taiwan Semiconductor Manufacturing	2.7

* Top 10 Holdings of underlying Fund, i.e., Merchant West Global Equity Fund

Asset Allocation: Portfolio Date: 31/03/2026



Asset Allocation	%
Global Equity	97.3
Global Cash	1.3
SA Cash	1.4
Total	**100**

Performance

Performance	Fund %	Benchmark %
3 months	-5.8	-1.0
1 year	-2.2	10.1
3 years	11.1	15.1
5 years	11.5	13.4
10 years	7.5	13.4
Since inception	6.6	13.1

Annualised after one year

Highest and Lowest Annual Returns

Highest and Lowest Annual Returns	%
Highest annual return	35.7
Lowest annual return	-15.1

By calendar year

PERFORMANCE REVIEW

The Fund returned -5.8% in rand terms (-8.8% in US dollars) over the quarter, while its benchmark, the MSCI World Index (net), declined 1.0% in rand terms (-3.6% in US dollars) over the period. The MSCI All Country World Index fell 3.2% and the MSCI Emerging Markets Index lost 0.2% over the quarter, both in US dollars.

The Merchant West SCI Global Equity Feeder Fund invests solely in the US dollar-denominated Merchant West Global Equity Fund. As such, the commentary below relates to the underlying Merchant West Global Equity Fund USD, and all returns below are quoted in US dollars.

The gains in the MSCI World Index were primarily driven by a strong rally in Energy with the sector up more than 37% over the period. Materials and Industrials also contributed positively, supporting the broader Index. US Consumer Staples offered a modest tailwind, with Costco, Walmart and Coca-Cola all posting gains. On the other side, Information Technology was the notable detractor, weighed down by weakness in Microsoft, Nvidia and Apple amid a broader software sell-off. That same dynamic spilled into Communication Services, where Meta and Alphabet also came under pressure.

Fund performance reflected the quarter's rotation away from software and growth-oriented names and into more cyclical areas of the market. Exposure to energy names, particularly Exxon and TotalEnergies, proved the most significant positive contributor as the sector rallied 48%. Marubeni and Union Pacific added further support from within Industrials. On the other side, Universal Music Group, Booking Holdings, Meta and Visa weighed on returns as the software sell-off and AI-disruption fears took their toll.

MANAGEMENT ACTIONS

We trimmed our position in Exxon and used the proceeds to initiate a position in TotalEnergies, diversifying our energy exposure into what we believe is the highest-quality European integrated major. Of the integrated majors, TotalEnergies is a top-three global LNG producer and top-ten oil producer, with among the deepest proved and probable reserve bases in the industry, at over 32 years for oil and more than 50 years for natural gas. Unlike several European peers, TotalEnergies continues to grow hydrocarbon production, targeting a 40% increase in LNG output by 2030, supported by a disciplined project evaluation framework that requires new developments to break even below $30 per barrel after tax. The company was the only European major to maintain its dividend through COVID-19 and has the strongest long-term per-share growth track record among its European peers across revenue, book value, operating profit and free cash flow. The current shareholder return policy distributes 40% of cash flow from operations to shareholders through a combination of dividends and buybacks. The position also benefits from strong structural tailwinds in LNG demand driven by Asian industrialisation, the coal-to-gas transition and the rapidly growing power requirements of data centres.

During the quarter, we initiated a new position in Schneider Electric, which represented a 1.75% weighting in the Fund at period end. Schneider is a global leader in energy management and industrial automation, functioning as a pick-and-shovel investment across several structural themes, including electrification, energy efficiency, grid modernisation and the accelerating power demands of data centres driven by AI. Importantly, these growth drivers are not perfectly correlated, providing diversification and downside protection should any single theme disappoint. The company's growth has shifted meaningfully away from GDP-linked cyclicality, increasingly underpinned by regulation- and technology-led investment, and it has a strong track record of execution, with attractive margins, robust cash generation and disciplined capital allocation. While valuation is not especially compelling, with a meaningful portion of expected data-centre growth already reflected in the multiple, we believe the quality and structural positioning of the business justifies the initial allocation, and we will look to increase the position should more attractive entry points present themselves.

We established a new 1% position in QXO during the quarter. Led by serial industrial consolidator Brad Jacobs, QXO is the largest publicly traded distributor of roofing, waterproofing and complementary building products in North America, formed through the acquisition of Beacon Roofing in early 2025. The investment case rests on a well-established consolidation playbook applied to a highly fragmented $800bn industry, where no single player holds more than mid-single-digit market share and over 7 000 sub-scale competitors lack the resources to invest in technology-driven solutions. Approximately 80% of revenue is driven by non-discretionary repair and remodel activity, supported by an ageing US housing stock where the median home is now over 40 years old, and roofing replacement cycles of 15 to 20 years create recurring demand. Jacobs has a proven track record of compounding shareholder value through industrial consolidation, having previously built United Waste, United Rentals and XPO.

During the quarter we also trimmed our position in ASML following a strong run and elevated valuation. Within our Japanese trading house exposure, we reduced Marubeni and rotated a portion of the proceeds into a new position in Itochu. Itochu is, in our view, the best-managed of the Sogo Shosha, with the strongest capital allocation discipline and the highest return on equity among its peers, consistently in the mid-teens. Unlike several of its trading house counterparts, Itochu has limited commodity exposure, resulting in a more predictable earnings profile.

We reduced our position in Johnson & Johnson and sold out of Roche. We view these valuations as demanding for companies with long-term track records of meagre growth and mid-to-high single digit growth targets that management teams have historically struggled to deliver. The pharmaceutical sector faces a challenging backdrop of mounting regulatory risk, pricing power under pressure and rising innovation costs, all of which make the terminal value of these franchises difficult to underwrite with confidence. Both stocks have benefited from a rotation into perceived safety, and we elected to take those gains and redeploy capital into opportunities with more attractive risk-adjusted return profiles.

We materially reduced our hyperscaler exposure during the quarter. While we remain constructive on the longer-term opportunity in these businesses we believe the risk-reward balance has deteriorated, and we will continue to look for opportunities to reduce exposure as appropriate.

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. 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.

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, AI-driven disruption, and elevated valuations. The combination of a supply-driven energy shock, rising inflation expectations, and early signs of growth deceleration presents the most challenging macro environment for investors since 2022 – and arguably a more structurally complex one, given the multiplicity of risks converging simultaneously. 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. This is precisely why pricing power has moved to the centre of our investment framework. In a stagflationary environment – where input costs are rising, consumer spending power is being eroded, and central banks are constrained from cutting rates – the single most important attribute a business can possess is the ability to raise prices without losing customers. The portfolio is deliberately weighted towards businesses that operate as essential toll roads on economic activity: payment networks that take a percentage of every transaction regardless of what is being bought; financial data and analytics providers whose products are embedded in client workflows and face negligible substitution risk; exchanges and market infrastructure operators whose revenues rise with volatility and trading volumes; and insurance underwriters whose premiums reprice annually to reflect inflation. These are not businesses that need to ask permission to raise prices – their pricing power is structural, embedded in the product or contractual.

Critically, however, we are not constructing the portfolio for a single outcome. Lucrative opportunities often exist when uncertainty is greatest and when others are selling indiscriminately. If the conflict de-escalates and the Strait of Hormuz reopens, oil prices will retreat sharply, inflation fears will dissipate, and the very growth-oriented businesses that have been punished hardest will likely recover most. We want to seize those opportunities. The portfolio therefore balances its stagflationary resilience – owning integrated energy majors, consumer staples, property and casualty insurers and defensive health care businesses – with meaningful exposure to high-quality structural growing compounders that will reassert themselves when conditions normalise. These include companies such as TSMC, ASML, Schneider Electric and Booking.com. 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.

Artificial intelligence remained a key structural driver in markets. The concern that new AI capabilities could threaten established software business models, caused these stocks to fall over 20% over the quarter, and the selling appeared indiscriminate. Additionally, investor scrutiny of whether hyperscaler capital expenditure will deliver adequate returns, weighed on various mega cap technology businesses. We materially reduced our hyperscaler exposure where we believe the risk-reward balance has materially deteriorated. We would stress however that these hyperscalers have shown themselves to be highly innovative and productive in their long-term vision and capital allocation and should not be underestimated. We remain closely focused on the evolution of end-demand AI trends, which will ultimately determine whether current infrastructure investment is justified. We also continue to see opportunity in the picks-and-shovels beneficiaries of AI infrastructure: energy supply and management and semiconductor businesses whose products are essential regardless of which AI model or platform wins.

Above all, we emphasise our role as active global managers applying a diversified, bottom-up approach to stock selection. Our objective is to hold the highest-quality businesses available at attractive valuations, irrespective of geography, market capitalisation, or industry. We construct the portfolio to achieve sensible diversification across both scenarios and sectors. We cannot predict the path of geopolitics, but we will own businesses whose competitive positions, cash generation and balance sheet strength mean they can weather periods of stress. 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