Merchant West SCI Balanced Plus Fund

Quarterly Report
Quarter ending 30 June 2026

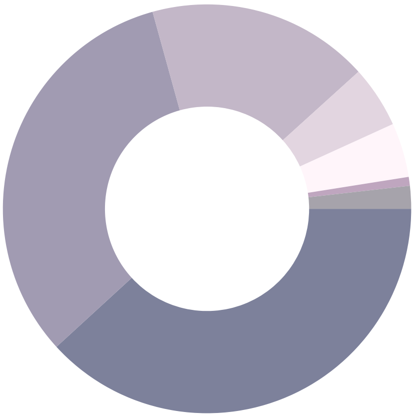
FUND DETAILS

Benchmark	ASISA Category	Portfolio Managers	Suitable Investor
ASISA Category Average: SA Multi-Asset High Equity	South African Multi-Asset High Equity	Merchant West Investments Team	The Merchant West SCI Balanced Plus Fund is suitable for investors seeking to maximise growth over the long term within the constraints of regulations governing retirement funds. Investors have a moderate to aggressive risk profile and are prepared to accept capital volatility in the short to medium term. Investors are prepared to invest for a minimum period of five years and longer.

Top 10 Holdings

Top 10 Holdings	%
Merchant West Global Equity Fund USD Class A	19.9
RSA Govt Bond R2030 8.00% 31012030	6.2
RSA Govt Bond R2032 8.25% 31032032	6.0
RSA Govt Bond R2035 8.875% 28022035	5.9
Naspers Limited	4.2
Merchant West SCI Money Market Fund Class B	4.0
AngloGold Ashanti Plc	3.9
FirstRand Limited	3.6
Standard Bank Group Ltd	3.3
British American Tobacco Plc	1.8

Asset Allocation: Portfolio Date: 30/06/2026



Asset Allocation	%
SA Equity	38.2
Global Equity	32.5
SA Fixed Income	17.6
SA Cash	4.9
SA Property	4.3
Global Property	0.7
Global Cash	1.8
Total	**100**

Performance

Performance	Fund %	Benchmark %
3 months	1.9	2.8
1 year	10.5	12.3
3 years	12.2	12.6
5 years	10.8	11.0
10 years	7.4	8.3
Since Inception (November 2012)	8.1	9.1

Annualised after one year

Highest and Lowest Annual Returns

Highest and Lowest Annual Returns	%
Highest annual return	17.4
Lowest annual return	-1.8

By calendar year

PERFORMANCE REVIEW

The Fund returned 1.9% in the second quarter of 2026, underperforming the peer group benchmark (ASISA SA Multi-Asset High Equity) which returned 2.8%.

Fund returns were driven by its exposure to listed property and fixed income. Our resources exposure (specifically gold and platinum stocks) detracted from performance due to a higher-for-longer interest rate environment which raises the opportunity cost of holding non-yielding precious metals. In the offshore portion of the Fund, exposure to names tied to the AI buildout aided absolute performance, although an underweight exposure to global semiconductor stocks dragged on relative performance. Our exposure to energy counters detracted from absolute and relative performance as peace talks progressed between the US and Iran.

MANAGEMENT ACTIONS

During the quarter we significantly sold down our global property holdings. We are not convinced of this sector's risk/return attractiveness versus various other asset classes at present valuations and growth prospects. We have retained Big Yellow as we believe it to be a significantly undervalued and well-run company.

Over the period we also sold out of our position in NewGold as a we look to manage our exposure to gold from a portfolio context. We still retain a material weight to gold equities.

We redeployed the proceeds from the trades above into South African bonds which we believe offer a better risk/return profile. Within our SA bond exposure, we reduced duration materially. This was done by selling down longer-dated bonds and selling out of inflation-linked bonds. We have generated very attractive returns being long duration over the last few years, however with yields reducing materially over the last two years we have decided to take profits, as the return to taking duration risk has significantly compressed.

Over the quarter we initiated a new position in Santam. It is one of the JSE's longest listed businesses which has survived numerous SA economic regimes. The business has generated exceptional returns on equity with a high level of consistency over three decades at a substantially lower beta than the JSE All Share Index. It holds the number one position in SA commercial/specialty lines with scale advantages in underwriting data, reinsurance purchasing power and specialty expertise, which is evidenced in an industry leading expense ratio.

MARKET OVERVIEW

Global markets endured one of the most volatile and event-driven quarters in recent memory, yet delivered exceptionally strong returns to investors who remained invested through the turbulence. Despite President Trump having vowed that the war in Iran would last a mere few weeks, the conflict escalated during the second quarter with Brent Crude Oil trading at just below US$115 early in May and remaining above US$90 for most of the quarter as the Strait of Hormuz remained closed. After numerous failed attempts at a peace deal, the two sides announced a preliminary "roadmap" to end the ongoing conflict and reopen the Strait of Hormuz in mid-June. Other events that dominated markets include a more hawkish stance by most central banks as the oil price shock pushed inflation higher across the globe, a change of leadership at the US Federal Reserve, and a continuation of exceptionally strong corporate earnings driven by artificial intelligence-related capital expenditure.

Having entered April in deeply oversold territory following a difficult first quarter, global equity markets staged a powerful recovery with the MSCI World Index posting a net total return of 13.8% in US dollars (+9.7% in ZAR). US indices recorded their best quarterly performance in several years (+15.2% for the S&P 500 in USD). Semiconductor and technology shares led the advance with the Nasdaq-100 posting its second-best quarter in 25 years. Market breadth improved markedly as the rally broadened beyond the largest technology names into small and mid-caps, value, and cyclical sectors. Emerging markets, led by South Korea and Taiwan, once again outperformed developed peers with a US dollar return of 24.1%, buoyed by AI-related capital spending, resilient earnings growth and improving governance. Excluding China, the MSCI Emerging Markets Index gained 34.5% in US dollars.

Bond markets had a far more turbulent quarter. Oil-driven inflation fears pushed global yields sharply higher in May, before a reversal in energy prices and progress toward a durable US-Iran ceasefire allowed yields to retreat somewhat into quarter-end. The Bloomberg Global Aggregate Bond Index ended the quarter down by 0.9% in US dollars. Kevin Warsh, appointed by President Trump and long an advocate of lower rates, took over as Federal Reserve chair in May and immediately struck a markedly hawkish tone once in office, given that oil-driven inflation had pushed headline US CPI to a three-year high near 4.2% and core PCE to 3.4% by May. Warsh, during his first Federal Open Market Committee (FMOC) meeting in June adopted a notably more hawkish tone than his predecessor, dropping explicit forward guidance and overseeing a FOMC that, for the first time in years, signalled a bias toward rate hikes rather than cuts.

The more notable story in bond markets was Japan, where a weakening yen and rising domestic yields, with the 30-year Japanese government bond yield reaching a record high and the 10-year reaching its highest level since 1997, raised the prospect of unwinding carry trades that have been a persistent source of global liquidity. Commentators highlighted the risk that a disorderly reversal of the yen carry trade could act as a source of volatility for global risk assets.

Global listed property (GPR 250 REIT) ended the second quarter up 10.1% (USD), as the asset class appeared to benefit from sector rotation away from technology, despite developed market bond yields remaining elevated.

The European Central Bank raised interest rates by 25 basis points at its June 2026 meeting, the first increase since 2023, as inflation rose to 3.2% in May from a low of 1.7% in January, with policymakers emphasising their commitment to anchoring inflation at the 2% medium-term target. The move follows rising energy costs and persistent inflation risks driven by the Iran conflict and disruptions to oil shipments through the Strait of Hormuz. The UK left interest rates unchanged during the quarter at 3.75% as the inflation rate eased to 2.8% in May from 3.3% in March.

While trade relations between the US and China remain uncertain, a notable positive development was the state visit by President Trump to China in May, which produced a series of agreements including new bilateral Boards of Trade and Investment, expanded Chinese purchases of US agricultural products, and a mutual commitment to reopening the Strait of Hormuz, materially reducing the tail risk of a fresh escalation in the world's most important bilateral trading relationship.

Commodity markets were defined almost entirely by the oil price cycle. Brent crude spiked to a multi-decade wartime high before retracing the bulk of its gains as a ceasefire framework took hold, although residual uncertainty over shipping through the Strait of Hormuz kept a risk premium embedded in prices. Gold, having reached a record high earlier in the year, consolidated lower over the quarter as the stronger US dollar and higher real yields weighed on the metal, before staging a partial recovery into quarter-end.

The outlook for global markets will depend on several interconnected developments: whether the Iran ceasefire holds and shipping through the Strait of Hormuz continues to normalise; how the Federal Reserve under Chair Kevin Warsh responds to inflation, including whether June's hawkish stance results in further rate hikes; whether strong AI-related capital expenditure and earnings growth can be sustained as investors increasingly assess the gap between announced investment and realised revenue; the direction of US–China relations following the May Trump–Xi summit, particularly the implementation of new trade mechanisms and any changes to tariffs and technology restrictions.

In South Africa, the June 2026 quarter highlighted the contrast between improving domestic fundamentals – including stronger fiscal credibility, credit rating upgrades, continued economic expansion and reform progress – and deteriorating external conditions stemming from the Middle East oil shock. While markets generally remained constructive on South African assets due to improving sovereign fundamentals, higher oil prices, renewed inflation concerns and slowing global growth tempered optimism and reinforced expectations that monetary policy would remain restrictive through much of 2026.

The dominant South African macro story of the quarter was the SARB's decision on 28 May to raise the repo rate by 25 basis points to 7.00%, its first hike since May 2023. The move followed a jump in headline consumer inflation to 4.0% in April from 3.1% in March, driven overwhelmingly by fuel price increases linked to the Middle East conflict. Governor Lesetja Kganyago was explicit that the Bank's credibility depended on responding decisively to the risk of second-round inflation effects feeding through into wages and broader price-setting behaviour, even as the central bank simultaneously downgraded its 2026 GDP growth forecast to 1.2% from 1.4%, reflecting both the global energy shock and the impact of severe flooding in the Eastern and Western Cape earlier in the year. Encouragingly, as oil prices retreated through June, consensus economist forecasts point to the SARB holding rates steady through the balance of the year, with a modest chance of renewed easing only in 2027.

The financials and industrials sectors of the South African equity market managed to leverage off the positive momentum in global equity markets, with the Financials Index returning 8.0% and the All Share Industrials Index gaining 4.8%. However, a stronger US dollar and weaker precious metals prices (gold: -14%, and platinum and silver: -21%), as well as a sharply lower oil price (-38%) over the quarter (all in US dollars) resulted in a steep decline in the Resources Index of -18.7% (ZAR). This left the FTSE/JSE All Share Index in the red for the quarter with a total return of -2.4%. The best performing industry groups over the quarter were Telecommunications (+16.2%), Health Care (+12.0%) and Consumer Discretionary (+10.9%), while the worst performing were Basic Materials (-18.8%), Energy (-15.6%) and Technology (-4.2%).

Despite a continued rise in inflation prints in the June quarter, with CPI increasing to 4.5% in May, the FTSE/JSE All Bond Index (ALBI) managed to post a positive return of 7.9% over the quarter. The positive return came about thanks to some normalisation in bond yields which had spiked in March (the ALBI declined by 7%, the second-worst month in the Index's 25-year history) on the back of the US/Israeli invasion of Iran and the sharp rise in the oil price. Inflation-linked bonds produced a return of 6.5% for the quarter amidst signs of a de-escalation in the conflict in Iran and lower oil prices towards the end of June.

The best performing major asset class in SA over the quarter was listed property, with the FTSE/JSE SA Listed Property Index (SAPY) returning 10.0%. The strong second quarter was supported by falling SA government bond yields (the yield on the R2035 bond dropped from 9.15% to 8.28% over the period) alongside continued improvement in property fundamentals, which is translating into inflation-beating dividend growth.

South Africa's economic outlook remains one of gradual but modest improvement, supported by easing structural constraints, improving fiscal credibility, and stronger investor confidence following recent sovereign credit rating upgrades. However, growth is expected to remain below potential, constrained by persistent unemployment, weak private investment, infrastructure bottlenecks, and global uncertainty. The outlook will depend on continued implementation of economic reforms, the outcome of South Africa's local government elections in November and their implications for GNU stability, the South African Reserve Bank's ability to manage inflation amid external shocks such as higher oil prices, and the resilience of global demand for South African exports. While the medium-term trajectory has improved, risks remain tilted to the downside if global growth weakens further or domestic reform momentum slows.

PORTFOLIO STRATEGY

The Fund's objective is to outperform the average fund in its category (SA Multi-Asset High Equity) over a full market cycle (trough to trough or peak to peak). The Fund seeks to achieve its objective by applying asset allocation and stock selection views to the current context across domestic and global markets. For the most part, the Fund is unlikely to deviate significantly from prevailing trends.

A key driver of markets again this quarter, and indeed the year, has been artificial intelligence (AI), together with the industries expected to benefit from (such as semiconductors) or be disrupted by (such as software) its growth. Vast sums are being invested globally to build the infrastructure and capacity required for AI to become embedded across economic and social activity. What remains uncertain, however, is whether demand from paying customers will ultimately deliver returns in line with these investments. As this structural shift is still in its early stages, we are closely monitoring the evolution of end-demand trends, which will ultimately be determined by the tangible value AI delivers to businesses and individual users. Any cooling in the sentiment surrounding the prospects for AI stocks and sectors could have a significant negative effect on global market returns as technology-related stocks as a group now comprise roughly 40% of the MSCI All Country World Index by our estimates.

In South Africa GDP growth is still subdued, although showing signs of gradual improvement, as logistics and energy bottlenecks ease. Early signals of reform in certain sectors, such as rail, bode well for future growth prospects as does a gradual easing of inflation and thus interest rates, off the back of lower oil prices. Unfortunately, a breakup of the GNU or departure of the official opposition would be undecidedly negative and is still a risk at this stage. We however remain confident that cool heads will prevail, despite political posturing, leading to positive changes in South Africa's long-term growth trajectory and attendant reduction in risk premia and interest rates, which appears to already be underway.

Balancing the factors above and considering the undemanding valuations and depressed earnings of SA Inc. equities, we continue to hold a meaningful allocation to SA economy centric securities in the Fund. Little positivity is priced into most of these equities, which we believe provides an attractive opportunity to benefit from the ongoing, albeit gradual, improvement in the governing of the country. Puzzlingly, the reduction in the South African 10-year bond yield this year, from 10.31% at the end of 2024 to 8.42% at the end of quarter, seems to have had no positive effect on the valuation SA Inc. stocks. We believe it is only a matter of time before the collective rating of SA Inc. stocks adjusts to a lower cost of capital and re-rates upwards.

Given the various downside and upside risks present we are careful to construct the portfolio to achieve sensible diversification. Our approach strives to enable the Fund to benefit from long-term structural growth drivers, while remaining resilient through changing economic, technological and geopolitical conditions. We look to allocate a relatively full equity weight and hold it through the cycle. Other asset classes (such as bonds, property, gold, or cash) that possess attractive uncorrelated characteristics are used to gain protection from unexpected headwinds where appropriate. Within asset classes, we look for companies that possess valuations that are attractive for their given quality attributes as well as adequate growth opportunities.

Merchant West Investments Team
Portfolio Manager