MERCHANT WEST

Finance Invest Insure

Merchant West SCI Dividend Equity Fund

Quarterly Report

Quarter ending 30 June 2026

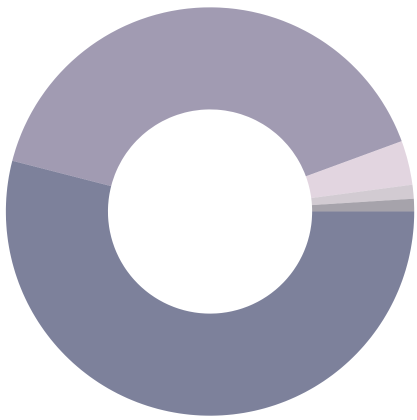
FUND DETAILS

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	6.0
Standard Bank Group Ltd	3.9
Bid Corporation Ltd	3.8
Bidvest Group Ltd	3.7
Naspers Limited	3.5
Shoprite Holdings Ltd	3.4
British American Tobacco Plc	3.1
ADvTECH	3.1
AVI Limited	2.9
Pepkor Holdings Ltd	2.5

Asset Allocation: *Portfolio Date: 30/06/2026*



	%
SA Equity	54.0
Global Equity	40.4
SA Fixed Income	0.0
SA Property	3.5
SA Cash	0.0
Global Cash	1.1
Global Property	1.0
Total	**100**

Performance

Performance	Fund %	Benchmark %
3 months	3.2	-0.4
1 year	9.4	15.2
3 years	12.5	14.5
5 years	11.5	12.4
10 years	7.0	8.4
Since inception (December 2012)	7.9	9.0

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 gained 3.2% over the quarter, while its benchmark, the ASISA South African General Equity peer group, lost 0.4% over the period.

The Fund's exposure to South African economy centric companies ('SA Inc' equities and property) were the main contributor to returns and comprise 44% of the Fund. The direct offshore component of the Fund (42% weight) was a marginal contributor to returns as the rand strengthened c.3% against the US dollar and similarly against the euro and British pound. A broad detractor to Fund returns were holdings in offshore listed energy equities.

Significant stock specific contributors (in ZAR) over the period included FirstRand (+13%), TSMC (+36%), ASML (+46%) and ADvTECH (+15%). Detractors included Zoetis (-42%) and TotalEnergies (-19%).

MANAGEMENT ACTIONS

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.

During the period we also initiated a new position in Naspers. This follows a period of significant weakness over the last nine months, driven by a derating in its main investment, being Tencent. At time of purchase Tencent was trading at a forward price-to-earnings multiple of just 13.5x, with Naspers itself trading at an attractive 45% discount to the value of the sum of its parts, the majority comprising of its stake in Tencent. Tencent has very rarely traded on a lower valuation multiple and is still projected to grow profits in the double digits over the next five years at least.

We exited our position in GSK during the quarter. The trigger was the company's decision to spend US$10bn acquiring Nuvalent, an early-stage cancer business. We are wary of large acquisitions in pharma; the sector's record of buying growth is poor, with acquirers routinely overpaying for pipelines that arrive years away from profitability and often fail to clear the bar that the deal price implied. A purchase of this size, funded to acquire assets still in development, shifts capital away from returns we can underwrite and towards an outcome we cannot. This change in how management is allocating capital is one we are not in favour of investing in.

We exited our Paychex position in favour of Broadridge during the quarter, a decision anchored in moat durability. Broadridge's moat rests on its near-monopoly in proxy material and investor communication distribution, processing over 80% of all US shares outstanding held in street name, underpinned by long-dated broker-dealer contracts where switching carries prohibitive regulatory and operational risk, with only a handful of small-scale competitors operating in the market. Paychex, by contrast, retains a narrower moat with more muted growth prospects: while referrals and brand trust support its franchise, their small-and-medium-sized business clients can switch payroll providers within weeks, leaving pricing power and recession resilience comparatively exposed. Advances in AI technology look very likely to lower software development costs, potentially increasing competition for Paychex's systems and offerings. We view Broadridge's structurally entrenched position, emanating more from regulatory barriers than technology factors, as the more durable compounder over our investment horizon.

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. 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.

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%).

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 second quarter of 2026 was, in many respects, a mirror image of the first, and a powerful vindication of our refusal to construct the portfolio for a single outcome. The stagflationary shock that had gripped markets at the start of the year gave way to de-escalation: a ceasefire in early April, a formal memorandum of understanding between the US and Iran in June, and the reopening of the Strait of Hormuz. Oil collapsed, inflation fears began to ease, and the very growth-oriented and technology businesses that had been punished most severely in the first quarter recovered most sharply. An investor who had positioned entirely for a prolonged conflict would have been badly wrong-footed. This is precisely why we resist making large, politically driven directional bets. The future remains unpredictable, and the discipline that serves long-term investors is not forecasting the next geopolitical turn but owning businesses that can endure and compound through whatever comes.

A key driver of global markets 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.

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 of 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.

Our approach of holding a diversified group of enduring, high-quality businesses at attractive valuations, provided robust returns over 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 often present themselves during times of change. The extreme enthusiasm attached to AI is drawing capital away from other stocks and sectors, depressing their valuations – we see opportunity in many sectors as a result. Notwithstanding, we have exposure to what we believe are the highest quality beneficiaries of AI, being ASML and TSMC. 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, valuation-disciplined, and anchored in enduring business quality remains the most reliable path to attractive long-term returns.

Raymond Shapiro
Portfolio Manager