MERCHANT WEST
Finance Invest Insure

Merchant West SCI Flexible Income Fund
Quarterly Report
Quarter ending 30 June 2026

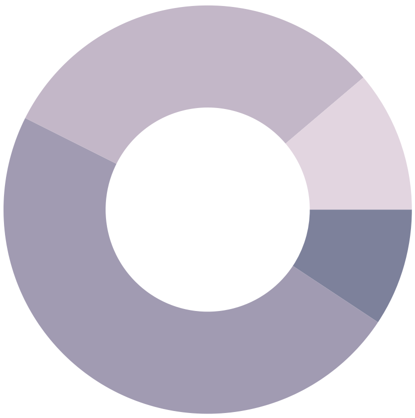
FUND DETAILS

Benchmark	ASISA Category	Portfolio Manager	Suitable Investor
STeFI Call Rate	South African Multi Asset Unclassified	Richard Henwood	The Merchant West SCI Flexible Income Fund is suitable for investors seeking an after-tax return in excess of that yielded by the money market or cash, mainly in the form of dividends. Investors have a conservative risk profile, but are prepared to accept a relatively low level of volatility and are prepared to invest for three years and longer.

Top 10 Holdings

Top 10 Holdings	%
Standard Bank Group Preference Shares	13.0
Discovery Holdings Preference Shares	11.6
Grindrod Preference Shares	7.9
Coronation Fund Managers	7.6
Network Healthcare Preference Shares	7.5
Merchant West SCI Money Market Fund Class B	7.2
Investec Ltd Preference Shares	7.1
Nedbank Group Ltd	6.7
RSA Govt Bond R2040 9.0% 31012040	5.0
RSA Govt Bond R2030 8.00% 31012030	4.6

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



Asset Class	%
SA Fixed Income	9.3
SA Preference Shares	48.1
SA Equity	31.4
SA Cash	11.2
Total	**100**

Performance

Performance	Fund %	Benchmark %
3 months	2.8	1.6
1 year	12.9	6.9
3 years	16.7	7.6
5 years	17.9	6.6
10 years	11.8	6.3
Since Inception (January 2008)	9.4	6.4

Annualised after one year

Highest and Lowest Annual Returns

Highest and Lowest Annual Returns	%
Highest annual return	44.0
Lowest annual return	-10.2

By calendar year

MARKET OVERVIEW

The second quarter of 2026 was, in many respects, the mirror image of the first. Having been dominated by the outbreak of war involving Iran and the associated surge in energy prices, markets spent the second quarter unwinding much of that geopolitical risk premium. Brent crude oil fell 38.4% in US dollars over the quarter, reversing the bulk of the 94.5% spike recorded in the first three months of the year, while gold declined 14.1% and platinum 20.5% as demand for safe-haven assets faded. With the energy shock dissipating, risk appetite returned forcefully: the MSCI All Country World Index gained 14.9% in US dollars over the second quarter, the MSCI World Index rose 13.8%, the S&P 500 returned 15.2% and the Nasdaq Composite surged 21.5%. Emerging markets led the recovery, with the MSCI Emerging Markets Index up 24.1% and the Emerging Markets ex China Index gaining a remarkable 34.5%, although China remained the notable laggard, declining 6.6%.

Market leadership also reversed. Having favoured value, defensive and dividend-paying shares during the first quarter's risk-off environment, investors rotated firmly back into growth: the MSCI World Growth Index returned 18.9% in US dollars over the quarter against 9.2% for the MSCI World Value Index, while the S&P Global Dividend Aristocrats Index gained a comparatively modest 6.1%. For rand-based investors, the strong global equity returns were partially diluted by currency strength, with the rand appreciating 3.4% against the US dollar over the quarter as the oil price collapsed and risk appetite towards emerging markets improved.

The combination of sharply lower oil prices and a firmer rand materially improved South Africa's imported-inflation outlook, and domestic yield assets responded strongly. The FTSE/JSE All Bond Index returned 7.9% over the quarter, inflation-linked bonds gained 6.5% and SA listed property delivered 10.0%, taking the sector's 12-month return to an exceptional 29.7%. Despite the improved inflation backdrop, the SARB raised the repo rate by 25 basis points to 7.00% at its May meeting, underscoring its determination to anchor inflation expectations at the lower 3% objective, a stance that the bond market has clearly rewarded. The equity market was the outlier: the FTSE/JSE All Share Index declined 2.4% over the quarter, dragged lower by Resources, which fell 18.7% as precious metals prices retreated sharply (the Precious Metals and Mining Index declined 23.2%). Beneath the headline weakness, however, the domestically focused parts of the market performed well, with Financials returning 8.0%, Banks 9.9%, Industrials 4.8% and small caps 6.2%.

The whipsaw in energy prices, equity leadership and risk appetite across the first two quarters of the year is a powerful reminder of how quickly geopolitical developments can move markets in both directions, and of the difficulty of timing such moves. Portfolios anchored in reliable, growing income streams, diversified across asset classes and geographies, remain, in our view, the most robust way to navigate this environment. Notably, the domestic income-producing assets that anchor these portfolios, namely South African bonds and listed property, were amongst the best performing asset classes over the quarter and the past twelve months.

PERFORMANCE COMMENTARY AND PORTFOLIO ACTIONS

The Fund delivered a positive return of 2.83% over the quarter, comfortably ahead of its benchmark, the STeFI Call Rate (+1.63%). Performance was underpinned by broad-based gains across the Fund's asset classes, with SA bonds the standout contributor (+8.73%), supported by further gains from SA preference shares (+2.94%) and a more modest contribution from SA equities (+0.68%).

During the quarter, the Fund received preference share dividends from Grindrod Ltd, Netcare Ltd and Standard Bank Group, along with ordinary dividends from ABSA Group, Nedbank Group, Coronation Fund Managers, Astral Foods Ltd, Combined Motor Holdings Ltd, Reunert Ltd, Vodacom Group Ltd and Zeda Ltd. These proceeds, together with additional net inflows, were reinvested into SA equities and SA bonds. Note that the Fund has historically received a preference share dividend from Investec Ltd during the second quarter; this year, however, the payment date has shifted to August and will therefore be captured in the third quarter.

PORTFOLIO STRATEGY

The objective of the Fund is to generate a high amount of income in the form of dividends. That income aims to exceed the returns generated from other short-term cash yields (like STeFI call deposits or money market funds). For tax sensitive investors, the high level of dividend income represents an attractive opportunity to improve income generation on an after-tax basis that similar traditional assets cannot match.

To achieve its objective, the Fund does subject itself to higher degrees of volatility as the capital price can move up and down driven by expectations about long-term interest rates and actual moves in short-term prime interest rates. However, by owning a diversified allocation of stocks and analysing the underlying fundamentals of these securities, we aim to mitigate credit default risk of specific companies and improve price volatility driven by sentiment towards any individual company. The Fund currently has a c.50% allocation to high quality SA preference shares and c.30% allocation to high yielding SA equity.

Currently the Fund holds a c.10% allocation to fixed income instruments, taking advantage of a rate cutting environment that favours capital gains in this segment of the market while still yielding high levels of income. If prevailing yields in the preference share market do not compensate investors sufficiently, we may consider a bigger allocation to bonds or other related fixed income assets. Similarly, if the credit risk rises to unacceptable levels, fixed income instruments may be used to protect capital when that need overwhelms the need for income generation. Cash is another asset class available to achieve these outcomes but generally the Fund will hold only small levels of cash to facilitate flows in or out of the Fund, as well as when seeking an opportunity to buy an asset. Lastly, the Fund seeks to actively manage liquidity risk by owning sufficient assets that can be liquidated at relatively short notice without putting the Fund's allocations at risk.

The Fund is well positioned to benefit from the current environment of relatively high short-term interest rates, which are likely to hold in the near term before moving slowly lower. It should also benefit from a decline in long-dated bond yields, as the SARB's new inflation target of 3% anchors lower inflation expectations and real interest rates adjust accordingly. We expect the sovereign yield curve to flatten over the next year or two, supporting returns from long-dated government bonds. The Fund currently offers an attractive forward gross yield of close to 7.5%, and an after-tax forward yield of approximately 5.7% — income we expect to continue meeting, and exceeding, after-tax returns on cash and short-dated bonds over the medium term.

Richard Henwood
Portfolio Manager