Merchant West Global Equity (USD) Fund

Quarterly Report
Quarter ending 30 June 2026

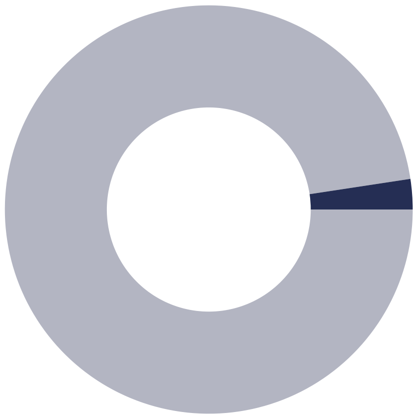
FUND DETAILS

Benchmark	ASISA Category	Portfolio Manager	Suitable Investor
MSCI World Index (USD)	Global Equity General	Raymond Shapiro	The Merchant West Global Equity (USD) 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	%
Berkshire Hathaway	5.5
Alphabet Inc	5.4
Visa Inc	5.2
Taiwan Semiconductor Manufacturing	4.5
ASML Holding	3.9
Union Pacific Corporation	3.7
Schneider Electric	3.0
Amazon	3.0
Booking Holdings Inc	2.9
Admiral Group Plc	2.8

Asset Allocation: Portfolio Date: 30/06/2026



Asset Allocation	%
Global Equity	97.6
Global Cash	2.4
Total	**100**

Performance

Performance	Fund %	Benchmark %
3 months	6.5	13.8
1 year	7.2	21.3
3 years	14.2	19.2
5 years	9.0	11.5
10 years	7.1	13.1
Since inception (June 2015)	6.3	11.3

Annualised after one year

Highest and Lowest Rolling 12 Months Returns

Highest and Lowest Rolling 12 Months Returns	%
Highest rolling 12 months return	41.9
Lowest rolling 12 months return	-25.5

By calendar year

PERFORMANCE REVIEW

The Fund gained 6.5% (US$) over the quarter versus the MSCI World Index (net) which was up 13.8% over the period. Other major indices were also strong, with the MSCI All Country World Index gaining 14.9% and the MSCI Emerging Markets Index up 24.1% over the period.

The MSCI World Index (as well as the other major indices) was led by Information Technology, which rose more than 33% over the quarter. Within the sector, returns were powered by semiconductor companies, particularly memory chip producers, broadening the AI trade beyond its original leaders. Financials and Industrials also posted modest gains, adding to the broader index. The Communication Services sector was relatively weaker, although Alphabet was a notable support. Energy was the detractor over the second quarter, with a sharp reversal from the first quarter, driven almost entirely by vacillating US-Iran geopolitics.

The Fund's exposure to semiconductor and semiconductor equipment producers, through ASML and Taiwan Semiconductor Manufacturing Company (TSMC), contributed to performance over the quarter, as did the Fund's holding in Alphabet. Holdings in payments networks (Visa), as well as stock selection in Health Care, namely UnitedHealth and Novo Nordisk, also aided returns. Energy exposure through TotalEnergies and Exxon detracted as oil sold off over the period. A sector underweight position in semiconductor companies, especially memory chip producers, was the most material detractor from relative performance, with these stocks being up very strongly over the period. An underweight exposure to global banks, that outperformed, also detracted from relative returns.

MANAGEMENT ACTIONS

We initiated a 1.9% position in Nvidia during the quarter. The scale of AI infrastructure spend is proving materially larger than we first anticipated, and Nvidia sits at the centre of that build-out. Based on our research, the valuation does not look overly stretched against the growth runway ahead. The position sizing reflects both our conviction and our respect for how quickly this cycle can turn.

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 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.

Over the period we reduced our exposure to the hyperscalers (Alphabet, Microsoft, Meta and Amazon), which had run hard once fears over the Iran conflict eased. The decision to sell down was informed by one fact – the return on their massive capital expenditures (current and expected) is unclear.

We redeployed the proceeds into three high-quality businesses: S&P Global, Progressive Insurance and Kinsale Capital. S&P Global grows its earnings steadily without needing to spend much to do so, backed by entrenched ratings and index franchises and genuine pricing power. Progressive Insurance has a structural cost and data advantage that lets it underwrite more profitably than its peers across the cycle. Kinsale Capital brings the same discipline to specialty insurance, a smaller, faster-growing niche where its low-cost model keeps it well ahead of the sector. All three are durable, cash-generative businesses with long runways ahead of them, and each was attractively priced when we added them to the Fund.

We trimmed UnitedHealth Group, taking profits after a strong run, though the share still sat around 35% below its all-time high. Part of that recovery came from a broader rotation into Health Care, as investors sought out a defensive, reasonably valued corner of the market after the sharp gains elsewhere. Company-specific progress helped too: the returning CEO has rebuilt confidence, repricing to recover the surging medical costs of 2025, buying back stock and lifting the dividend, while a better-than-expected Medicare Advantage reimbursement update added support. The DOJ investigation remains an overhang, but fear around it has eased, and the market now leans towards a financial settlement as the more likely outcome than criminal charges or forced structural change.

We reduced our positions in Nestlé and Unilever, where valuations look demanding against low single-digit growth. On Unilever specifically, we are cautious on the McCormick deal, with a cultural mismatch that we think will weigh on execution. We also trimmed British American Tobacco after a strong two-year run driven largely by a rerating. Here too the valuation no longer sits comfortably against a business capable of only low single-digit growth over the medium term, and the picture is complicated further by Next Generation Products facing tougher competition than combustibles and by an added layer of regulatory risk.

MARKET OVERVIEW

Global markets endured one of the most volatile and event-driven quarters in recent memory and 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. 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, and 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.

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 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.

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 second quarter of 2026 was a mirror image of the first, and a vindication of our refusal to construct the portfolio for a single outcome. The stagflationary shock that gripped markets at the start of the year gave way to de-escalation, oil collapsed, and the technology and growth businesses punished most severely in the first quarter recovered most sharply. An investor positioned entirely for a prolonged conflict would have been badly wrong-footed. 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.

Pricing power remains at the centre of our framework: the most important attribute a business can possess in any environment 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, financial data and analytics providers, exchanges and market-infrastructure operators, and insurance underwriters whose premiums reprice to reflect inflation. Their pricing power is structural, embedded in the product or contractual, rather than dependent on the cycle. We pair this with an insistence on conservative balance sheets, avoiding businesses where leverage could impair the equity value in a downturn – a discipline that proves especially valuable when a benign environment turns abruptly, as it did at the start of this year.

Critically, we continue to avoid constructing the portfolio for a single macro or thematic outcome. Equally, we do not position defensively for its own sake. Opportunities often appear when uncertainty is greatest and others are selling indiscriminately, as the first-quarter sell-off demonstrated. The portfolio balances resilience against renewed stress – integrated energy majors, consumer staples, property and casualty insurers and defensive health care – with meaningful exposure to high-quality structural compounders, from industrial-technology leaders to global travel platforms, that reassert themselves when conditions normalise. We remain prepared to act counter-cyclically, deploying capital into the fear-driven sell-offs that create the most attractive entry points.

Artificial intelligence remained the dominant driver of markets. Having fallen sharply in the first quarter on fears that new capabilities could disrupt software business models, technology rallied hard as those fears reversed. As we broaden the Fund's exposure to the opportunity, we remain acutely aware that the hyperscalers are committing enormous sums of capital to the AI build-out – increasingly funded by debt and equity as well as operating cash flow – with limited visibility on the eventual quantum of spend or on how AI services will be monetised. History is unkind to capital cycles that outrun their economics. We therefore reduced our hyperscaler exposure into the second-quarter strength, while acknowledging these are exceptional, innovative businesses that should not be underestimated. The moment the spend stops translating into durable returns is the moment the thesis changes, and we are monitoring AI monetisation trends closely. We continue to favour the picks-and-shovels beneficiaries, such as energy supply and management businesses whose products are essential regardless of which platform ultimately wins.

Our most consequential positioning call has been an underweight exposure to semiconductors; the principal reason the Fund lagged its benchmark over the past twelve months. Buoyed by the enormous spend on AI compute, semiconductor stocks, led by the memory-chip names, rocketed roughly 90% over the last twelve months and more than 50% year-to-date. This sector alone now constitutes 16% of the MSCI World Index, with technology-related stocks as a group comprising 40% of the MSCI World and 50% of the S&P 500 by our estimates.

We are wary of such a large concentration in the essentially single theme of AI – one with highly uncertain future profitability. In our view the market is over-extrapolating today's AI-driven spend: semiconductors are intensely cyclical and prone to booms, busts and commoditisation, especially the red-hot memory companies, whose profitability has historically been volatile and moats weak. We hold our exposure through the highest-quality names – ASML, TSMC and a smaller position in Nvidia – whose technological advantages would take decades to replicate. The stance detracted from performance this quarter and year, but it is consistent with how we underwrite durable returns and we remain comfortable with it. The extreme enthusiasm attached to AI is drawing capital away from other sectors, dampening their valuations and providing us with attractive entry points into neglected high- quality businesses.

Above all, we act as active global managers applying a diversified, bottom-up approach to stock selection, holding the highest-quality businesses available at attractive valuations irrespective of geography, size or industry. We cannot predict the path of geopolitics, but we can own businesses whose competitive positions, cash generation and balance-sheet strength allow them to weather periods of stress. This 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

Raymond Shapiro
Portfolio Manager