MERCHANT WEST
Finance Invest Insure

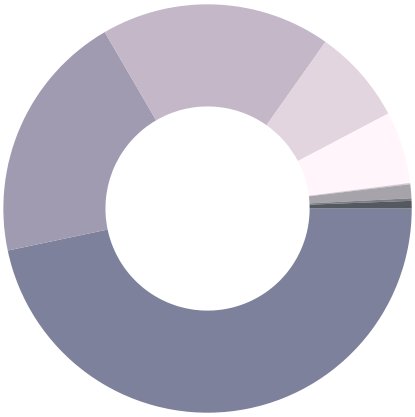
Merchant West SCI Cautious Fund
Quarterly Report
Quarter ending 30 September 2026

FUND DETAILS

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

Top 10 Holdings	%
Merchant West SCI Global Managed Growth Fund Class Z	12.7
RSA Govt Bond R2032 8.25% 31032032	12.1
Merchant West SCI Enhanced Income Fund Class D	11.9
RSA Govt Bond R2030 8.00% 31012030	11.6
RSA Govt Bond R2035 8.875% 28022035	11.6
Merchant West Global Equity Fund USD	8.5
Merchant West SCI Money Market Fund Class B	2.8
AngloGold Ashanti Plc	2.3
Naspers Limited	1.9
FirstRand Limited	1.6

Asset Allocation: Portfolio Date: 30/09/2026



	%
SA Fixed Income	46.7
Global Equity	19.9
SA Equity	18.2
SA Cash	7.5
SA Property	5.7
SA Preference Shares	0.1
Global Property	1.1
Global Cash	0.2
Global Fixed Income	0.6
Total	**100**

Performance	Fund %	Benchmark %
3 months	0.2	0.3
1 year	7.3	7.2
3 years	13.5	12.0
5 years	11.0	9.5
10 years	7.9	7.9
Since Inception (January 2012)	8.2	8.4

Annualised after one year

Highest and Lowest Annual Returns	%
Highest annual return	17.5
Lowest annual return	-0.4

By calendar year

PERFORMANCE REVIEW

The Fund returned 0.2% in the third quarter of 2026, marginally underperforming the peer group benchmark (ASISA SA Multi-Asset Low Equity) which returned 0.3%.

Fund returns were driven by its overweight exposure to offshore equities, as global indices continued to march higher on continued AI enthusiasm. Bond exposure also added to performance. Our domestic overweight exposure to equities delivered flat performance marginally ahead of the JSE All Share. Our overweight exposure to SA listed property detracted from performance, as higher bond yields impacted the valuations in the sector.

In the domestic portion of the Fund, diversified and precious metals mining were the main contributors to performance while consumer, financial and technology exposures detracted from performance.

In the offshore portion of the Fund, information technology and energy were the main contributors to performance while consumer exposures detracted from performance.

MANAGEMENT ACTIONS

Over the quarter we initiated a new position in Glencore, which we view as one of the best-placed ways to own long-term exposure to copper production growth coupled with a strong shareholder returns policy. On top of this they have a world-class commodity trading business that offers a differentiated sources of returns and benefits from volatile energy prices and higher interest rates.

We exited our position in Mr Price. The performance required from their recent offshore acquisition (NKD) would require very material profitability improvement to create value for shareholders. Investors that continue to hold are essentially hoping Mr Price achieves what no other SA retailer has achieved offshore. On top of this we see a weak outlook for the SA consumer environment where discretionary retail

continues to struggle, and the environment remains highly competitive and overtraded. We would need to see a broad SA GDP uplift for things to improve, which we don't expect short term. If we are wrong on the macroeconomic outlook, this would lift all boats, and we maintain higher quality SA exposure in the portfolio that would benefit. While the valuation looks undemanding, it includes execution (improved earnings from NKD) which is not a sure bet.

MARKET OVERVIEW

The ongoing conflict between the United States and Iran continued to shape global economic policy and financial markets during the third quarter of 2026. Oil had fallen in June on hopes of a US–Iran memorandum of understanding, but prices rallied hard as talks lost momentum and supply fears returned. During September, Brent crude rose back above $100 per barrel, prompting bond yields to hit their highest levels in years. The resultant energy-led inflation shock, together with a surprisingly resilient global economy, forced most developed-market central banks back into tightening mode during the quarter. The US Federal Reserve (its first hike since July 2023 and the first under the new Fed Chairman Kevin Warsh), the European Central Bank and the Bank of Japan all raised rates by 25 basis points in September, while the Bank of England held steady.

Heavy sovereign bond issuance and record corporate borrowing compounded the rate shock. US hyperscalers (large-scale cloud service providers that offer highly scalable and flexible computing infrastructure to businesses and organisations such as Amazon, Microsoft and Google) have issued more than US $200 billion of long-term bonds in 2026 to fund the AI buildout, competing directly with governments for duration buyers.

Global developed markets were led higher by the US over the quarter. The S&P 500 returned 2.3% and the Nasdaq Composite 2.6%, setting records in August and early September. The Dow returned -2.3% and the Russell 2000 -7.2%. Only four sectors finished positive: energy (mainly oil), information technology, health care and communication services. Utilities, industrials and real estate were the weakest, punished by the 85 basis points jump in the US 10-year Treasury yield. Leadership rotated from semiconductors towards hyperscalers and software. S&P 500 earnings are expected to grow at least 30% in 2026.

The MSCI World Index posted a net total return of 1.9% in US dollars. Under the surface the quarter was narrow and rate driven. Value beat growth, while small caps (with more floating-rate debt) and REITs lagged badly as bond yields jumped. MSCI Europe lost 1.0% in euros (-1.7% in USD) as investors worried about the ECB hiking cycle, while MSCI Japan gained 2.4% in yen (+5.9% in USD). However, the Nikkei 225 (which has a very large technology tilt) fell 5.3% in yen terms, hit hard by the July chip rout. The MSCI UK Index gained 1.8% in British pounds (+1.9% in USD), outperforming Europe thanks to its heavy weighting in energy, mining and banks.

Emerging market equities ended Q3 marginally lower (-0.4% in US dollars) after a 24.1% gain in Q2, their best quarter since 2009. The Index's heavy tech concentration made it hostage to the July chip sell-off; it rebounded 3.2% in August, led by Korea and Taiwan, before rising US yields and a firmer dollar weighed on prices in September. The MSCI China Index gained 3.7% both in Hong Kong and US dollars.

US GDP grew at a 2.2% annualised rate in Q2, carried by consumer spending and AI-related business investment. Consumer price inflation was 3.4% year-on-year (YoY) in August with core inflation (excluding the volatile food and energy products) at 2.4%. Headline Personal Consumption Expenditure (PCE) – the Fed's preferred measure of inflation – was 3.4% and core PCE 3.0%. Energy prices were up 16.3% YoY.

Growth rates of energy importers such as the UK, euro area and Japan were expected to slow, but not contract. The Eurozone economy expanded 0.6% quarter-on-quarter in Q2 2026, revised up from initial estimates of 0.4%, and 1.2% YoY. Data released early in October show that inflation rose from 3.2% in August to 3.8% in September. In the UK, Q2 2026 GDP growth printed at 0.5% QoQ and 1.4% on an annual basis compared to the same period in 2025. The UK's annual inflation rate rose to 3.1% in August 2026, the highest in five months, in line with market expectations and up from 2.9% in July. Japan's economy grew by 0.4% on a QoQ basis and 1.4% YoY, while the annual inflation rate was 1.9% in August 2026, unchanged from July.

Overall, China's economy remained resilient but uneven in Q3. The key theme was a widening gap between a strong industrial/export sector and relatively weak domestic demand and property activity. Growth momentum softened, but the economy was still broadly on track for the government's 4.5–5% 2026 growth target. However, the property downturn and weak household demand continued to constrain activity.

Government bonds had their worst quarter in years, with the US 10-year Treasury yield rising 85 basis points to 5.29%, the largest quarterly rise in several years and its highest level since just before the 2007 financial crisis. The Bloomberg Global Aggregate Bond Index ended the quarter down by 2.5% in US dollars. The rout in bond markets can be ascribed to three factors, namely higher energy-led headline inflation that forced the Fed, ECB and BoJ to hike, heightened term premia on heavy sovereign supply and record hyperscaler bond issuance, and the resurfacing of fiscal and political risk in France and the UK.

Global listed property (GPR 250 REIT Index) gave back some of its strong first-half gains in the third quarter, falling 5.9% in US dollar terms as geopolitical uncertainty and a "higher-for-longer" interest rate outlook weighed on the asset class. Regionally, Europe (-8.3%) and the Americas (-6.2%) led the declines, while Asia (-2.9%), Oceania (-2.7%) and Africa (-1.3%) held up relatively well.

The global economy is slowing but holding up better than many feared. It has absorbed the energy supply shock from the Middle East conflict better than expected, though persistent inflation and uncertainty are clouding the near term. Several risks remain, including renewed

energy market turmoil, extreme weather from a strong El Niño, surging government bond yields and AI investments that fail to deliver expected returns.

In South Africa, the equity market ended the quarter on a relatively flat note, with the FTSE/JSE All Share Index (total return) declining by 0.3%. This figure however masked a significant amount of intra-quarter volatility as precious metals went from hero (+32%) in August to zero (-12%) in September as real yields surged. However, the FTSE/JSE Precious Metals and Mining Index still ended the quarter with a stellar return of 16.7%, while the Resources Index was up 15.2%. The strong performance from the resources sector was however negated by weakness in the prices of SA Inc equities, as well as index-heavyweights Naspers (-16%) and Prosus (-6%). This left the FTSE/JSE All Share Industrials Index down by 10% over the quarter, while the Financials Index lost 3.7%. The worst performing industry groups over the quarter were Technology (-12.0%), Consumer Discretionary (-10.6%) and Consumer Staples (-5.5%). Basic Materials (+15.6%) and Health Care (+2.4%) were the industry groups that managed to end the quarter on a positive note.

After six consecutive quarters of growth, GDP in South Africa contracted 0.2% QoQ in Q2 2026. Trade (-1.9%), manufacturing (-1.8%, with seven of ten divisions lower) and mining (-3.0%, led by PGMs, manganese, gold and iron ore) drove the decline, while net exports subtracted 1.1 percentage points. Fixed investment fell for a second quarter and unemployment rose to 33.6%. Household spending grew a modest 0.4%.

The annual inflation rate inched up marginally to 4.4% in August 2026 from 4.3% in July, below the expected 4.5%, but the fuel shock has re-intensified. Transportation remained the main source of upward pressure, with prices rising 8.8% year-on-year, after an 8.9% advance in July. Meanwhile, core inflation, which excludes prices of food, non-alcoholic beverages, fuel, and energy, eased to 4.1% from a two-year high of 4.2% in July and slightly below the expected 4.2%.

On 23 September the SARB's MPC unanimously raised the repo rate 25 basis points to 7.25% (prime 10.75%), after holding at 7.00% in July and hiking in May. Governor Kganyago expects headline CPI above 5% late this year and early next, returning to the 3% target only towards end-2027. The SARB cut its 2026 growth forecast to 1.2% from 1.4%. Its model shows rates broadly stable for the rest of 2026, with cuts later as inflation falls; the next MPC meeting is in November.

The South African bond market held up relatively well over the quarter despite the rout in global bond markets and the rate hike, with the FTSE/JSE All Bond Index showing a total return of -0.7%, while inflation-linked bonds gained 1.5%. The SA Listed Property Index (SAPY) returned -1.1%.

The GNU held together, but campaigning for the 4 November local government elections has sharpened ANC–DA friction, with DA leader Geordin Hill-Lewis attacking the ANC manifesto in August. The poll is widely seen as the first major test of the GNU's reform agenda, with hung councils likely in several metros and political violence a risk in KwaZulu-Natal. Strained relations with the US remain a background trade risk.

PORTFOLIO STRATEGY

The Fund's objective is to outperform the average fund in its category (ASISA SA Multi-Asset Low Equity) over the long term. We pursue this through a long-term strategic asset allocation that favours growth assets, combined with active management at the level of individual securities. Our goal is to deliver higher risk-adjusted returns than our peers through the cycle.

Over the long term, growth assets have been the primary driver of real returns. The Fund therefore holds a structurally higher weighting to equities and listed property than most of its peers. We maintain that weighting through the cycle rather than attempting to time markets with tactical shifts. Returns are captured from a diversified mix of sources across asset classes: capital growth, dividends and interest.

We express conviction through the companies we own rather than through sector or macroeconomic calls. We treat South African and global markets as a single opportunity set, and our global equity exposure is researched and managed in-house. We look for a focused but well-diversified selection of quality businesses at attractive prices. These are companies with enduring business models, competitive strengths and pricing power, management aligned with shareholders, sensible balance sheets and robust returns on capital. Businesses like these can compound value through the cycle, and the market often undervalues that durability. This approach gives the Fund a high active share (i.e. degree to which portfolio holdings differ from the benchmark indices) while keeping unpredictable country, macro and industry risks under control.

A higher allocation to growth assets offers the highest expected long-term returns, but it also brings greater short-term volatility, and we manage that deliberately. Our quality focus and valuation discipline help limit drawdowns. The portfolio is diversified across markets, sectors, asset classes and sources of return. Our allocations to bonds, listed property and cash reduce overall portfolio volatility. Gold acts as ballast given its low long-run correlation to growth assets, and we choose actively between gold equities and physical gold. All decisions are made collaboratively by a team of experienced senior portfolio managers with complementary specialist skills across SA and global asset classes. This broadens our awareness of risk and opportunity and avoids reliance on any single individual.

We do not try to predict short-term market movements. What we can commit to is owning good businesses at sensible prices with enduring cash flows, within a disciplined long-term allocation. That allocation is designed to capture the return premium of productive assets while remaining resilient through varied economic and geopolitical conditions.

Merchant West Investments Team
Portfolio Manager

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