

FUND DETAILS

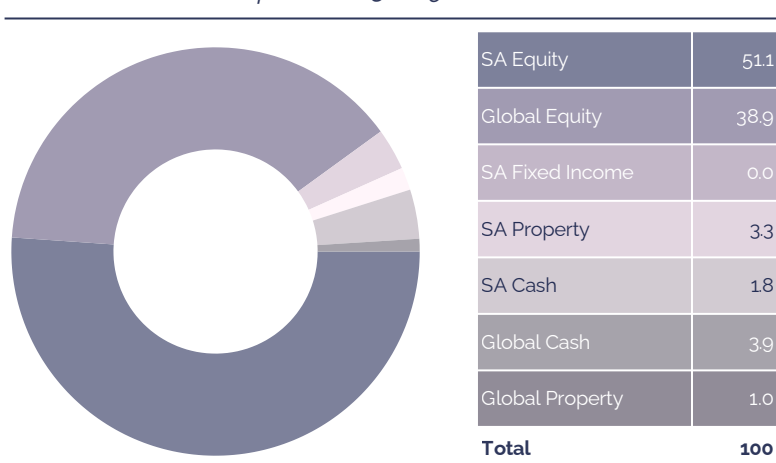
Benchmark	ASISA Category	Portfolio Managers	Suitable Investor
Peer Group Average of the SA General Equity Sector	SA Equity General	Raymond Shapiro	The Merchant West SCI Dividend Equity Fund is suitable for investors seeking long-term capital growth in excess of inflation through a portfolio of high-quality, 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

	%
FirstRand Limited	5.7
Standard Bank Group Ltd	3.9
Shoprite Holdings Ltd	3.6
Naspers Limited	3.5
ADvTECH	3.5
Bid Corporation Ltd	3.5
Bidvest Group Ltd	3.4
Microsoft Corporation	2.9
British American Tobacco Plc	2.9
Santam Limited	2.9

Performance	Fund %	Benchmark %
3 months	-1.2	0.3
1 year	6.2	5.8
3 years	12.0	15.4
5 years	10.2	11.9
10 years	7.1	8.4
Since inception (December 2012)	7.7	8.8

Annualised after one year

Asset Allocation: Portfolio Date: 30/09/2026


Highest and Lowest Annual Returns	%
Highest annual return	26.0
Lowest annual return	-11.8
<i>By calendar year</i>	

PERFORMANCE REVIEW

The Fund returned -1.2% over the quarter, while its benchmark, the ASISA South African General Equity peer group, returned 0.3% over the period.

The Fund's South African economy centric equities (43% of fund) were the main drag on returns over the quarter, led by weakness in our SA bank holdings. The offshore equity component (39% of fund) was a marginal drag on returns with weakness across various sectors. Significant absolute stock specific contributors (in ZAR) over the period included Microsoft (+37%), Shoprite (+11%), SAP (+37%), AdvTech (+9%) and TotalEnergies (+12%). Detractors included AVI (-19%), Naspers (-15%) and Pepkor (-19%).

MANAGEMENT ACTIONS

We exited our position in Mr Price during the quarter. 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.

We exited our positions in Nestlé and Unilever, as we became less confident that these businesses can grow fast enough to justify their valuations. Even under generous assumptions, we could not find attractive enough expected returns from these businesses.

Rising interest rates in the US and Europe weigh on predictable but low growth stocks, and because higher rates reflect a higher risk premium more so than higher long-term inflation, these elevated rates cannot be offset through growth from raising prices. Earnings growth in these stocks has averaged around 5% a year in US dollars over the past decade, with roughly two percentage points of that coming from debt-funded buybacks that are now hard to repeat. We are also concerned about risks such as weight-loss drugs, private-label competition and weakening brands.

We sold out of smaller positions in Deutsche Boerse (elevated valuation after a strong run), Lowe's (continually weakening US market due to high interest rates) and Netcare (cloudy growth prospects). We redeployed some of these proceeds into Santam and Naspers where we see the prospect for materially higher returns.

To broaden our exposure to payment networks (we hold a 2% position in Visa) we initiated a new position in Mastercard, which represented 1% of the Fund at period end. Mastercard shares many of Visa's qualities: both are structural growers with revenue compounding in the low to mid-teens and exceptionally high returns on capital, with even higher returns on incremental investment. Mastercard has historically grown a little faster, has greater exposure to emerging markets and operates from a smaller base. The market has typically recognised this with a valuation premium of more than 20% to Visa, but at purchase Mastercard traded at near parity on around 25x next-twelve-months earnings.

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.

Global developed markets were led higher by the US over the quarter. The S&P 500 gained 2.3% and the Nasdaq Composite 2.6%, setting records in August and early September. 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. 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.

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

While the Fund marginally underperformed the benchmark over the quarter, this reflected weakness in our domestic holdings as the economy contracted and the SARB raised rates, and our disciplined bias in favour of robust, quality-oriented exposures over uncertain higher risk assets, such as gold and platinum equities, whose swing from a 32% gain in August to a 12% fall in September illustrates the volatility we avoid. Our approach of holding a diversified group of enduring, high-quality businesses at attractive valuations provided stability across the quarter, and we believe the portfolio is appropriately constructed to weather any further stress in a volatile geopolitical environment.

Domestically, the backdrop has deteriorated. With unemployment at 33.6% and inflation expected to exceed 5% before easing, there is little scope for near-term rate relief. We remain selective in our SA Inc exposure, favouring dominant franchises with pricing power, strong balance sheets and the ability to gain share in a weak economy – market leaders in grocery retail, industrials, private education and financial services. We exited Mr Price, whose returns now depend on turning around an offshore acquisition while its home market remains overtraded, and added to Santam, whose float earns more as rates rise. The 4 November local government elections are the first major test of the GNU's reform agenda; a constructive outcome would support reform and the domestic outlook, and our higher-quality SA holdings would benefit.

Offshore, rising bond yields have changed the valuation arithmetic. Pricing power protects a business against inflation, but not against a higher risk premium, which only stronger real growth can offset. This drove our exit from Nestlé and Unilever and our preference for structural growers such as the payment networks, where we added Mastercard alongside Visa. Our offshore and rand-hedge holdings, together more than half of the Fund, diversify South African risk across geographies, currencies and return drivers, and weakness in Naspers, trading at a wide discount to its underlying value while buying back shares, offered an opportunity to add.

We are monitoring the investment landscape across domestic and globally listed businesses for the opportunities that present themselves during uncertain times. 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, disciplined, and anchored in business quality rather than macro forecasting – remains the most reliable path to attractive long-term returns.

Raymond Shapiro

Portfolio Manager

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