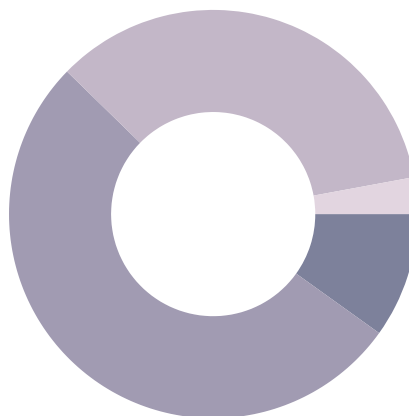


FUND DETAILS

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

	%
Standard Bank Group Preference Shares	14.4
Discovery Holdings Preference Shares	11.8
Grindrod Preference Shares	8.8
Coronation Fund Managers	8.8
Network Healthcare Preference Shares	8.7
Investec Ltd Preference Shares	7.7
Nedbank Group Ltd	5.9
Absa Group Limited	5.7
RSA Govt Bond R2040 9.0% 31012040	5.2
RSA Govt Bond R2030 8.0% 31012030	4.9

Asset Allocation: Portfolio Date: 30/09/2026

Performance

	Fund %	Benchmark %
3 months	2.0	1.7
1 year	13.1	6.8
3 years	16.2	7.5
5 years	15.1	6.8
10 years	11.8	6.3
Since Inception (January 2008)	9.4	6.4

Annualised after one year
Highest and Lowest Annual Returns

	%
Highest annual return	44.0
Lowest annual return	-10.2
<i>By calendar year</i>	

MARKET OVERVIEW

The third quarter of 2026 saw the geopolitical risk premium that markets had unwound in the second quarter return. Oil had fallen in June on hopes of a memorandum of understanding between the US and Iran, but prices rallied sharply as talks lost momentum and supply fears resurfaced, with Brent crude climbing back above US\$100 per barrel in September. The resulting energy-led inflation shock, together with a surprisingly resilient global economy, pushed most developed-market central banks back into tightening mode. The US Federal Reserve (in its first hike since July 2023 and the first under new Chairman Kevin Warsh), the European Central Bank and the Bank of Japan all raised rates by 25 basis points in September.

Global equities delivered only modest gains: the MSCI World Index returned 1.9% in US dollars, the S&P 500 gained 2.3% and the Nasdaq Composite rose 2.6%. Emerging markets slipped 0.4% in US dollars after their 24.1% surge in the second quarter, hurt by a sharp chip sell-off in July and a firmer US dollar in September, although Chinese equities gained 3.7%.

Government bonds endured their worst quarter in years. The US 10-year Treasury yield rose 85 basis points to 5.29%, its highest level since just before the 2007 financial crisis, as energy-driven inflation forced central banks to hike and heavy sovereign issuance pushed term premia higher. Record borrowing by US hyperscalers to fund the AI buildout and renewed fiscal and political risk in France and the UK, added to the pressure. The Bloomberg Global Aggregate Bond Index fell 2.5% in US dollars. The rate shock also reshaped equity leadership: value outperformed growth, while small caps and interest-rate-sensitive assets lagged badly, with the Russell 2000 down 7.2% and global listed property (GPR 250 REIT Index) falling 5.9% in US dollars.

The return of higher oil prices reversed much of the improvement in South Africa's inflation outlook seen in the second quarter. Headline inflation edged up to 4.4% in August, with transport prices up 8.8% year-on-year, while core inflation eased to 4.1%. The SARB's Monetary Policy Committee unanimously raised the repo rate by a further 25 basis points to 7.25% on 23 September, following its hike in May. The SARB now expects headline inflation to rise above 5% late this year and early next before returning to the 3% target only towards the end of 2027.

This came against a softer growth backdrop, with GDP contracting 0.2% quarter-on-quarter in the second quarter after six consecutive quarters of growth and the SARB lowering its 2026 growth forecast to 1.2%. Despite the global bond rout and the rate hike, domestic yield assets held up relatively well: the FTSE/JSE All Bond Index returned -0.7%, inflation-linked bonds gained 1.5% and SA listed property returned -1.1%.

The SA equity market was broadly flat, with the FTSE/JSE All Share Index declining 0.3%, but this masked a sharp divergence between sectors. Resources rose 15.2% and the Precious Metals and Mining Index gained 16.7%, despite a volatile ride for precious metals shares, which surged 32% in August before falling 12% in September as real yields rose. These gains were offset by weakness in SA Inc shares and index heavyweights Naspers (-16%) and Prosus (-6%), leaving Industrials down 10% and Financials down 3.7%.

The quarter is another reminder of how quickly geopolitical developments can move markets, with the oil-driven relief of the second quarter largely reversed within three months. It also shows how difficult it is to time 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, while global bonds and global listed property came under significant pressure as yields surged, the domestic income-producing assets that anchor these portfolios proved comparatively resilient. Inflation-linked bonds delivered a positive return, and both South African bonds and listed property declined only modestly.

PERFORMANCE COMMENTARY AND PORTFOLIO ACTIONS

During the third quarter, the Fund delivered a positive return of 2.0%, modestly ahead of its benchmark, the STeFI Call Rate (+1.7%). Performance was underpinned by positive gains from its SA preference shares (+2.0%) and SA equity (+0.7%) exposure, while SA bonds (-0.3%) were a detractor as SA government bond yields rose inline with their global peers.

During the quarter, the Fund received preference share dividends from Capitec Limited, Discovery, Grindrod Ltd, Investec Ltd and Standard Bank, along with ordinary dividends from ABSA Group, Nedbank, Investec Ltd, Santam, British American Tobacco, Mr Price, Valterra Platinum, Exxaro Resources and Kumba Iron Ore. The Fund declared a quarterly distribution of 2.88 cents per unit for 30 September 2026.

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.35% allocation to high yielding SA equity.

Currently the Fund holds a c.10% allocation to SA government bonds. 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 5.8% – 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

Disclaimer

Sanlam Collective Investments (RF) (Pty) Ltd is a registered and approved Manager in Collective Investment Schemes in Securities and the Manager retains full legal responsibility for the co-brand portfolio. Collective investment schemes are generally medium- to long-term investments. Past performance is not necessarily a guide to future performance, and that the value of investments/units/unit trusts may go down as well as up. A schedule of fees and charges and maximum commissions is available from the Manager on request. Collective investments are traded at ruling prices and can engage in borrowing and scrip lending. The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. Performance is based on NAV-to-NAV calculations with income reinvestments done on the ex-div date. Performance is calculated for the portfolio and the individual investor performance may differ as a result of initial fees, actual investment date, date of reinvestment and dividend withholding tax. Income funds derive their income primarily from interest-bearing instruments. The yield is current and is calculated on a daily basis. The manager has the right to close the portfolio to new investors in order to manage it more efficiently in accordance with its mandate. Annualised return is the weighted average compound growth rate over the period measured. The Management of this portfolio is outsourced to Merchant West Investments (Pty) Ltd. (FSP) License No. 44508, an Authorised Financial Service Provider under the Financial Advisory and Intermediary Services Act, 2002. Charges of the most expensive fee class, maximum fund charges include (incl. VAT): Manager initial fee (max): 3.45%; Manager annual fee (max): 0.86%; Total Expense Ratio (TER): 0.96%. The registered name of the fund is "Merchant West Sanlam Collective Investments Flexible Income Fund." The performance of the portfolio depends on the underlying assets and variable market factors. The manager has the right to close the portfolio to new investors in order to manage it more efficiently in accordance with its mandate. Annualised return is the weighted average compound growth rate over the period measured.