FLAGSHIP
ASSET MANAGEMENT

Quarterly Telescope Q2 2026

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01

We are a global specialist investment boutique

Flagship is a specialist global asset manager founded in 2001.

We are 100% independent and fully owned by staff and directors.

Our mission is to be the navigators and global authority of your complete investment future, wherever it may lead.

02

We manage global portfolios in three distinct strategies

Global Equity | Global Flexible | Global Fund of Funds

We believe in a focused approach to fund management

Our longest running Funds have track records spanning over two decades

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03

We are long term investors who manage diversified portfolios

We use a dynamic investment strategy and active risk management to build robust, diversified equity portfolios.

Our unconstrained approach allows us to navigate diverse market conditions and identify opportunities wherever they arise.

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The Flagship Global Investment Team

Philip Short BSc (Maths), CFA

Philip is a fund manager of the global funds at Flagship and brings specialist macroeconomic expertise to the global team. Philip has gained 20 years' experience in the industry at JP Morgan, Fairtree Capital and Old Mutual as an analyst and portfolio manager. He completed his Bachelor of Science in Mathematics at the University of Pretoria and is a CFA charter holder.

James Hayward BEng (Civil), CFA

JD is a fund manager of the global funds at Flagship, having joined in 2021 as an equity analyst. At the completion of his degree, JD worked in the engineering and fintech start-up industries while pursuing further studies in investments. JD holds an Engineering degree from Stellenbosch University and is a CFA charter holder.

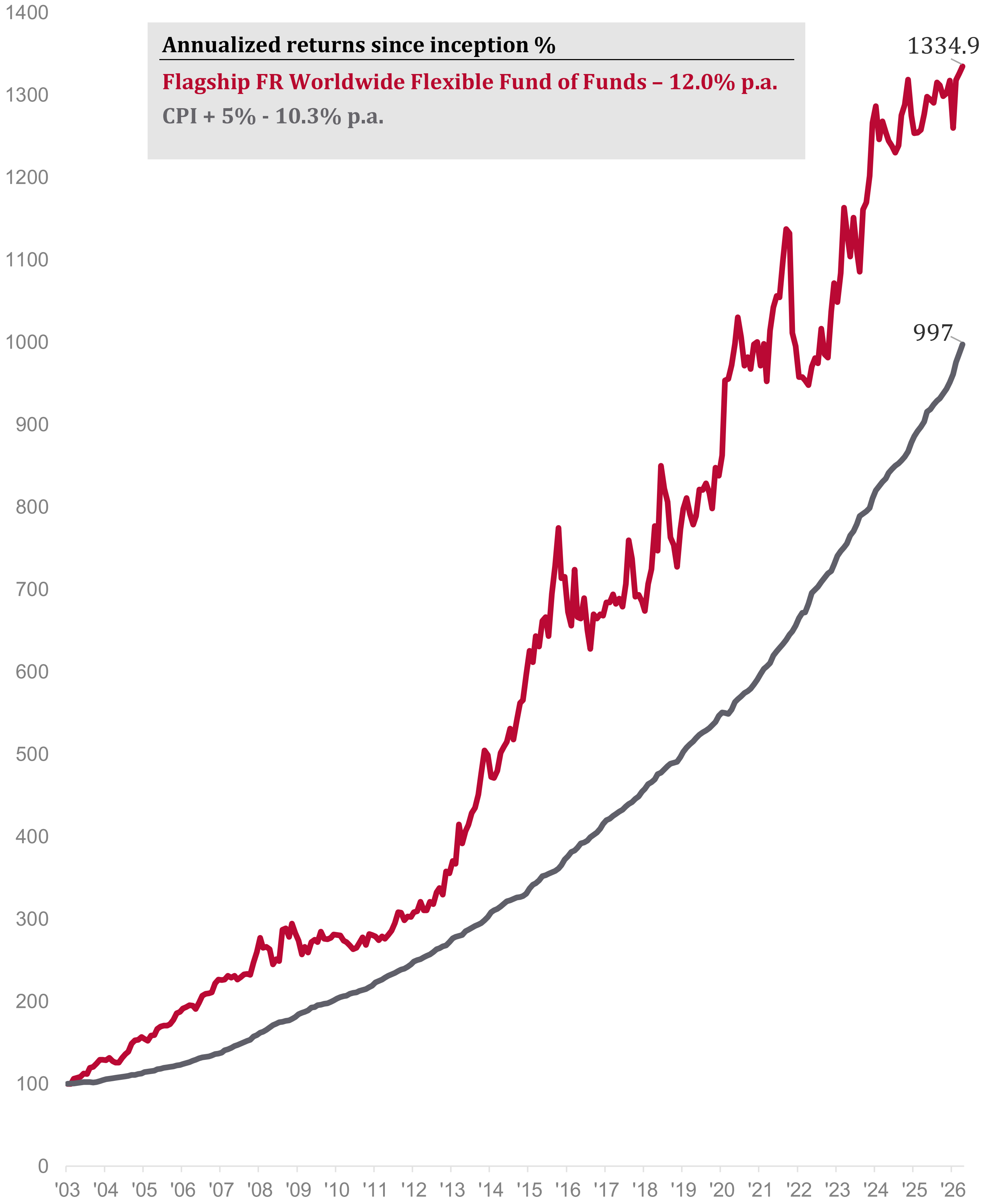
Paul Floquet CA (SA), CFA

Paul is a fund manager of the global flexible strategies at Flagship, as well as portfolio manager of the Flagship FR Balanced Fund. He qualified as a chartered accountant in 1995 with Deloitte and Touche and gained international investment experience with JP Morgan and Merrill Lynch. He became a portfolio manager and director at Flagship in 2004. Paul is a CFA charter holder.

The Power of Long-term Compounding

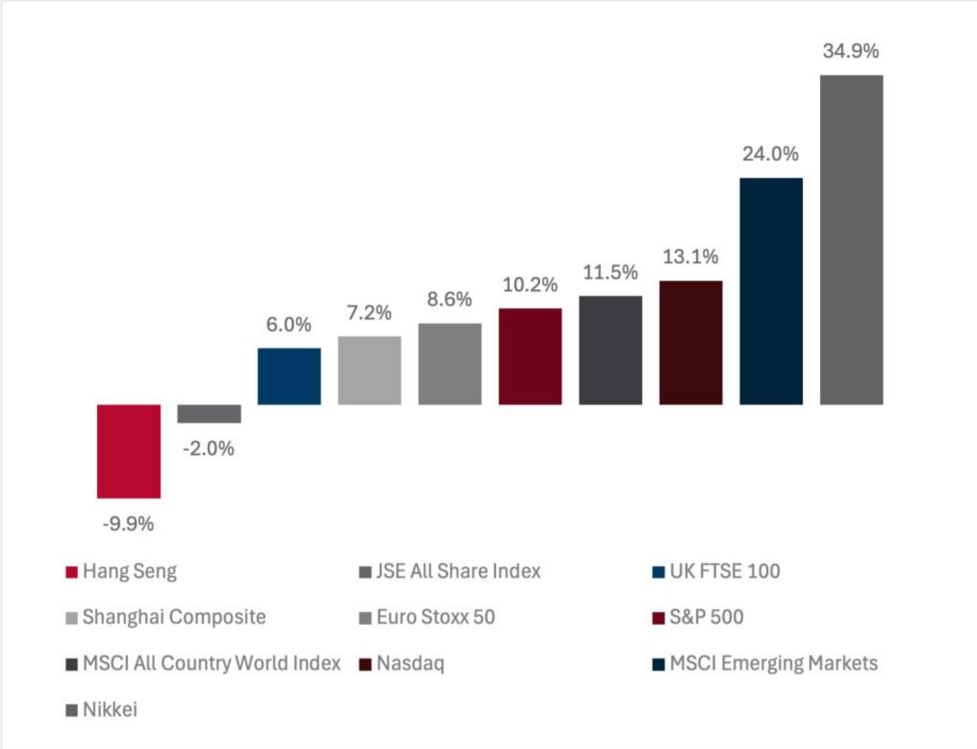
The **Flagship FR Worldwide Flexible Fund of Funds** (net of all fees) vs. SA CPI +5%

from 3 April 2003 to 30 June 2026 (23+ years)



Global Market Commentary

Graph 1: YTD Global Index Returns in USD (Dec 31, 2025 to 30 June, 2026)



Source: Flagship Asset Management, Bloomberg

Most global equity markets were exceptionally strong during the 2nd quarter, recovering swiftly post the March selloff in the wake of US and Israeli operations against Iran. This sharp recovery was another lesson on the importance of staying invested in equity markets, despite volatility. Lowering equity exposure post the March selloff would have been a costly mistake given the strength of the subsequent recovery.

This sharp recovery was another lesson on the importance of staying invested in equity markets, despite volatility.

In the US, the benchmark S&P 500 and tech-heavy Nasdaq returned 15.2% and 21.6%, respectively, during the 2nd quarter, making it the best returns for both indices since the 2nd quarter of 2020. The 2nd quarter also saw the S&P close above 7,000 for the first time, while the Nasdaq notched a 13-day winning streak – its longest in more than three decades. After the sharp March correction for both indices, their year-to-date (YTD) returns are now 10.2% and 13.1%, respectively.

Returns were slightly more muted in the UK, as the FTSE 100 gained 4.1% during the quarter. YTD, it has now gained 7.6% (6% in USD). Equities in Europe were also strong, with the Euro Stoxx 50 closing the quarter 13.6% higher. YTD, its return now sits at 9.3% (8.6% in USD).

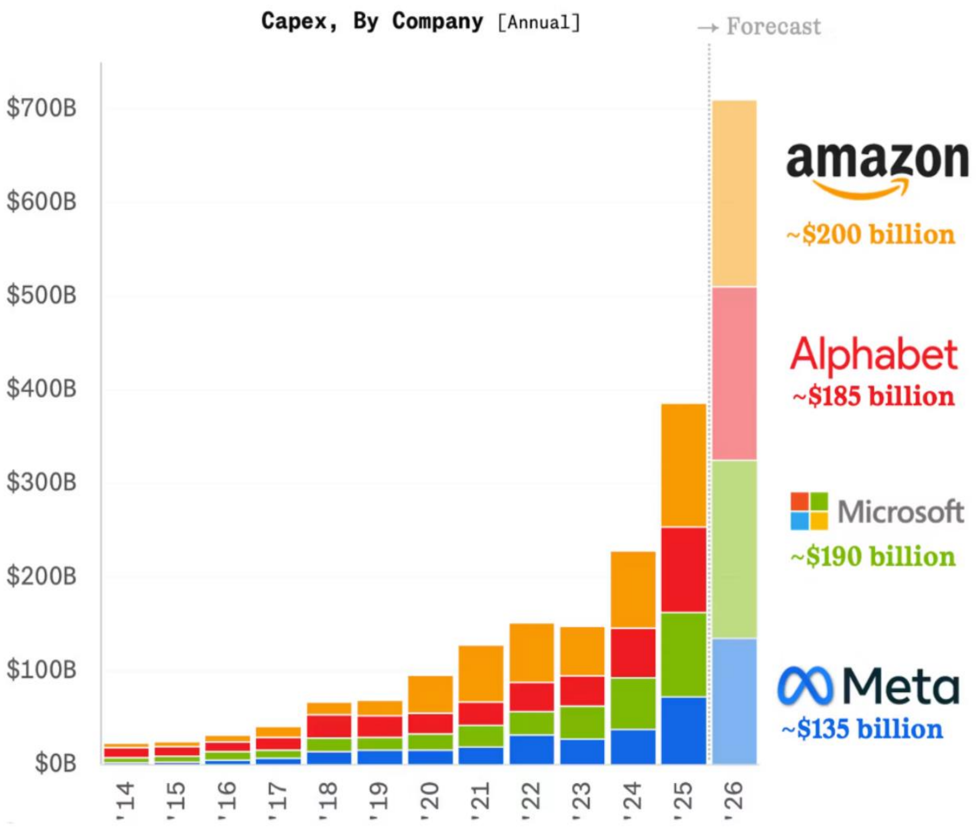
In the East, there were vastly different outcomes this quarter. Hong Kong's Hang Seng index declined by 6.5% and is now down 9.9% for the year. Investors in Japanese equities had reason to celebrate, however, as the Nikkei 225 ended the quarter a spectacular 37.3% higher. YTD, it has now gained 40.4% (or 34.9% in USD). However, even that pales in comparison to the continued strength of South Korea's KOSPI index. After already being the best performing index in 2025, it gained a further 90% during the 2nd quarter – thanks largely to its two main index members, memory giants SK Hynix and Samsung.

South African equities struggled during the 2nd quarter, with the ALSI declining by 2.4%. YTD, the index is 3% lower (2% in USD).

Zooming in on the US, much of that market's strength can be attributed to the enormous levels of capital expenditure by the hyperscalers (Amazon, Alphabet, Microsoft, Meta, plus Oracle, to some extent). The scale of the current AI buildout is unlike any CAPEX cycle seen in recent decades. For the moment, a very meaningful share of US economic growth (and US equity returns) can be attributed to the sustained level of spending (and the market's expected payoff) by these hyperscalers as they continue to fund the AI buildout.

The scale of the current AI buildout is unlike any CAPEX cycle seen in recent decades.

Graph 2: 4 Tech Companies are Planning to Spend $700bn+ on Capex this Year



Source: Companies, Sherwood News | 2026 figures are midpoint of range

And while the AI buildout is currently powering the economy ahead, the potential fallout from the rapid rise of AI's capabilities continues to be a cause for concern. Indeed, earlier this year, Fed Chair Jerome Powell and Treasury Secretary Scott Bessent called an impromptu meeting of the most powerful finance CEOs in the US, after concerns were raised about the destructive capabilities of Anthropic's latest AI model – Claude Mythos. The model is reportedly orders of magnitude faster than human hackers at uncovering cybersecurity flaws in operating systems and web browsers, raising concerns about the security infrastructure of the US banking system.

Rather than reducing demand for workers, improved AI efficiency could expand the market and increase the need for human resources.

One area where AI was expected to cause chaos, but where we are currently seeing the opposite effect – is the job market. While there have been some high-profile layoffs at traditional tech powerhouses such as Meta (10% of its workforce), Microsoft (a first voluntary retirement program in the company's 51-year history), and Oracle (a reduction of 21,000 jobs over the past year), we are starting to see positive indicators.

Increased evidence points to a concept called Jevon's Paradox, that is, technological improvements that increase a resource's efficiency leads to an increase in demand for that resource, rather than the expected decrease (see Graph 3 below).

The idea is that improved efficiency lowers the cost of a resource, increasing demand to such an extent that more of that resource is required, rather than less. In simple terms, when things get cheaper, demand goes up. This is likely one of the reasons that help explain:

- increases in new US business formation;
- falling unemployment rates for young workers; and
- the number of job openings per unemployed worker in the US rising back above 1.

Graph 3: Unemployment Rate for Young People Declining

Source: US Bureau of Labor Statistics (BLS, Macrobond, Apollo Chief Economist)

If this continues to be the case, it will more than likely ease the Fed's job of balancing inflation and full employment. A strong job market will enable them to be more aggressive in potentially raising rates or keeping them higher for longer. The path forward is already tricky, as reflected by the 4 dissenters among Fed Governors at the previous meeting, the most since 1992, citing uncertainty over the economic outlook.

Contributing to the cloudy outlook is the divergence in outcomes of CPI and PPI numbers over the past months, ranging from the highest inflation print in years to a consensus-beating fall the following month. If the Fed were to raise rates, it would not be the first major central bank to do so, as it would be following both the European Central Bank and the Bank of Japan's recent moves in response to higher inflation due to a jump in energy prices. At the time of writing, the fragile ceasefire in the Middle East has fallen apart, further complicating the outlook for inflation going forward.

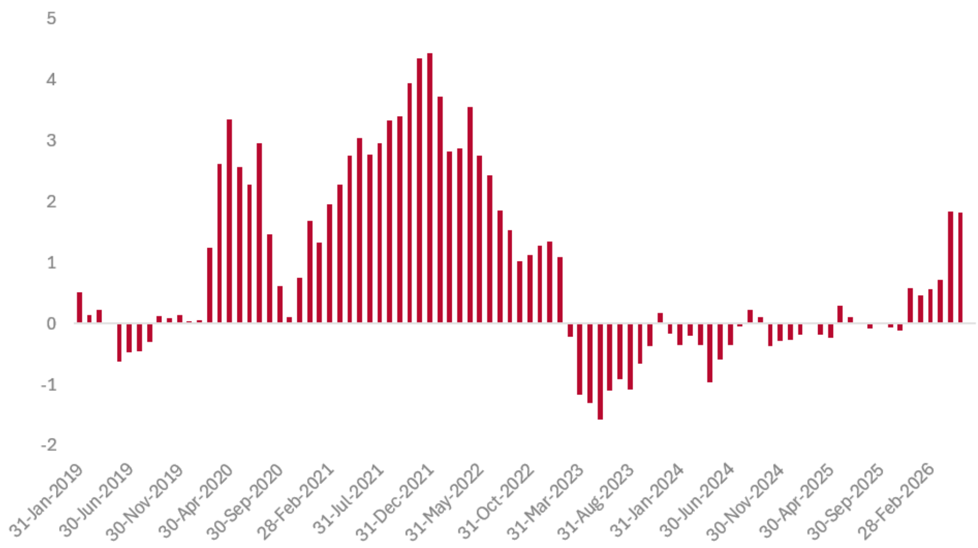
Indeed, the bond market is also signalling its concerns around inflation. Earlier this quarter, US 30-year treasury yields reached their highest level since 2007, while the 10-year yield also reached its highest close since 2025, as investors demand higher compensation for owning government debt.

The impacts of the energy crisis on the global economy have also started showing up supply chain stress gauges, the same flashes we saw during the 2020 COVID pandemic, and subsequent inflation spike. This further adds to reasons for central banks to be on guard for a recurrence of high inflation.

The re-emergence of supply chain pressures is an early reminder that inflation risks have *not* disappeared

Graph 4: Global Supply Chain Pressure Jumped in April

The New York Fed's index hit its highest since July 2022.



Source: New York Fed, Bloomberg

Lastly, turning to commodities, there have been some volatile moves. The price of Brent crude declined by 38.4% during the quarter after reaching its highest level since 2022. YTD it is still trading 19.9% higher, illustrating the volatility that has dominated the market this year. At a point, WTI futures declined by 16% in a single day on news of a possible ceasefire.

Gold also had a weak quarter, declining by 14.1%, its worst quarter in 13 years. This despite increased geopolitical uncertainty around the Iran war, which would normally lead to a spike in gold prices. The reason is simple - inflation expectations. Higher inflation = less chance of a rate cut/higher chance of a rate hike. This means gold, which pays no dividend or interest, has to compete with higher yielding treasuries.

Geopolitically, the 2nd quarter was muted. But perhaps it just feels that way after Trump didn't, in fact, end Iranian civilisation as previously threatened.

Flagship Strategy Performance

Table 1: Performance of the Flagship Strategies over Q2 '26 and 1 year to 30 June '26, net of fees

Global Equity Strategy	**Q2 '26**	**%Δ 1YR**
Flagship Global Equity Fund (USD)	19.3%	14.5%
Flagship FR Global Equity Feeder Fund (ZAR)	14.1%	6.2%
Flexible Strategy	**Q2 '26**	**%Δ 1YR**
Flagship Worldwide Flexible Fund (USD)*	16.6%	11,3%
Flagship FR Worldwide Flexible Fund (ZAR)	11.5%	4.4%
Fund of Funds Strategy	**Q2'26**	**%Δ 1YR**
Flagship FR Worldwide Flexible Fund of Funds (ZAR)	5.9%	4.6% (13% in USD)

Source: Flagship Asset Management

Timing currency markets is close to an impossible task, and we prefer to look through this short-term noise

During the 2nd quarter, the US dollar continued its negative trajectory seen over the last couple of years, declining by 3.3% against the ZAR. Over the course of the last year, the USD has been about 7.5% weaker vs the ZAR. We like to highlight the USD:ZAR currency movements to ensure our investors are aware of the implications of a stronger ZAR on their Flagship fund investments. Over the last few quarters, the stronger ZAR has detracted from the performance of Flagship's ZAR-denominated funds which predominantly invest offshore. Given our global focus, we believe our investors are specifically looking for offshore exposure (companies and industries not readily available in the local market) and in the longer term, ZAR depreciation will be a tailwind to performance. Short-term underperformance on the back of a strong ZAR is to be expected from time-to-time, though still painful to endure. Trying to timing currency markets is an almost impossible task, and we prefer to look through this short-term 'noise' and focus on our core tasks.

The **Flagship Global Equity Fund (USD)** experienced a strong quarter, gaining 19.3% and outperforming its MSCI ACWI benchmark, which was up 14.9%. The fund delivered strong results in April and May, but gave up some gains during the last month of the quarter – a similar performance footprint to what we saw in the first quarter. Over the last year, the fund is up 14.5% in USD.

The **ZAR-denominated** feeder fund gained 14.1% during the quarter, outperforming its ASISA sector average, which returned 7.3%. Over the last year, the fund gained 6.2% compared to its ASISA sector average, which is up 5.8%. The 1-year performance was heavily influenced by the direction of the USD:ZAR relationship over the past year, as explained above.

The biggest contributors to performance during the quarter were Micron Technology, Advanced Micro Devices and Sterling Infrastructure, while the main detractors were Iren and ServiceNow.

Over the quarter and last 12 months, the **Flagship Worldwide Flexible Fund ($/ZAR)** delivered a performance footprint very similar to that of the Flagship Global Equity Fund. We would like to take this opportunity to again remind investors that this is by design. Our investment process is centred on a strict risk management system, allowing us to run the flexible fund in an equity-centric manner. Over the long term, this will serve fund performance well, as equities are the best-performing asset class over longer periods. We only expect a meaningful divergence in performance once the emergence of a major correction/bear market becomes apparent. This has not been the case over the past two years.

Similarly to the Flagship Global Equity Fund, the biggest contributors to performance during the quarter were Micron Technology, Advanced Micro Devices and Sterling Infrastructure, while the main detractors were Iren and ServiceNow.

Our investment process is centred on a strict risk management system, allowing us to run the flexible fund in an equity-centric manner.

The **Flagship FR Worldwide Flexible Fund of Funds (ZAR)** returned 5.9% during the quarter, outperforming its SA CPI +5% benchmark, which returned 3.7%. Over the course of the year, the fund has returned 4.6% when measured in ZAR, and 13% when measured in USD.

We continue to monitor the performance of the Fund of Funds closely and have noted a recovery after minor changes were made to the underlying managers in 2025. The Fund of Funds has a long track record of steady, low-volatility performance. We generally do not change the underlying managers unless we see evidence of style drift or significant, unexplained underperformance vs. similar peers. This is currently not the case, and we continue to hold the same set of underlying managers.

Over the quarter, the top performing holdings were the Flagship Global Equity Fund, New Capital US Small Cap Fund, and the iShares Emerging Markets ETF, while the main detractors were the Ranmore Global Equity Fund and the VanEck Gold Miners ETF.

Asset Allocation

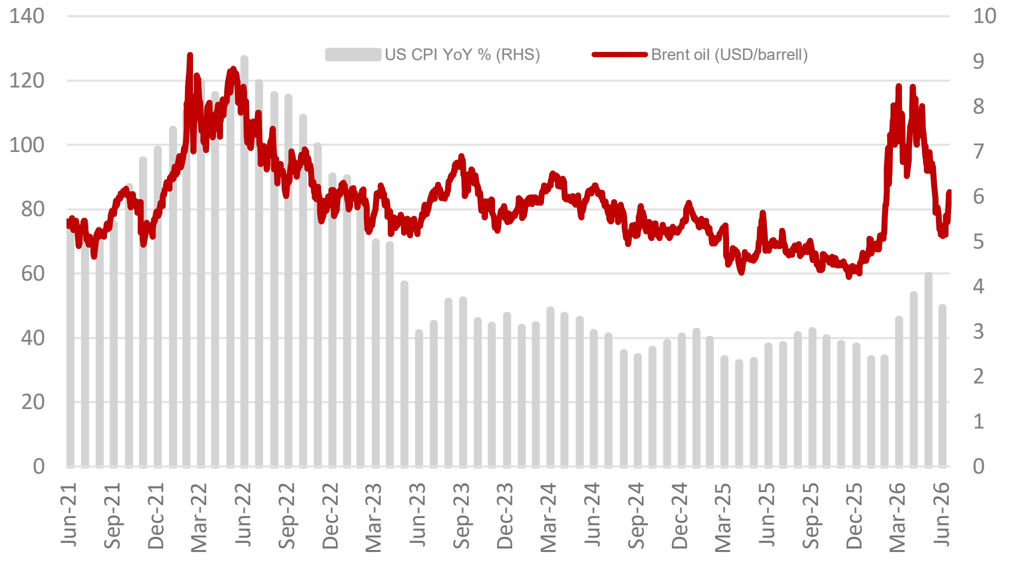
There are three dominant forces that shaped the macroeconomic landscape of Q2 2026:

1. The Middle East Energy Shock and Inflation

Oscillating due to President Trump having "A Deal" and then not having one, oil prices were volatile in the second quarter, which affected almost everything, price-wise.

Adding to petrol and diesel prices are the current higher 'crack' spreads. (A crack spread is the difference between the price of a barrel of crude oil and the wholesale price of the refined products produced from it.) This is due to refineries being temporarily shut down (drone strikes on Russian refining infrastructure and Middle Eastern disruptions) and permanently shut down (structural shifts and green energy transitions). Fortunately, the world entered the year with higher-than-average oil reserves which have, to a large extent, been drawn on, without which inflation would be higher. Given the ongoing war, we still have concerns about inflation.

Graph 5: US Inflation and Brent Oil Price



Source: Bloomberg, Flagship Asset Management

Despite inflationary concerns, global markets did not slip into a recession.

2. The AI Capex Boom Holds the Line

Despite inflationary concerns, global markets did not slip into a recession. The US - and global - economy is holding steady, with the Atlanta Fed forecasting 2.5% growth for the second quarter, a decent follow-up to Q1's 2% expansion. Driving this economic growth is a massive wave of corporate spending. In fact, business investments in AI and adjacent technologies were so dominant that they were responsible for more than half of the first half of 2026's US GDP growth. When and where this AI spend ultimately ends up is something we focus on daily.

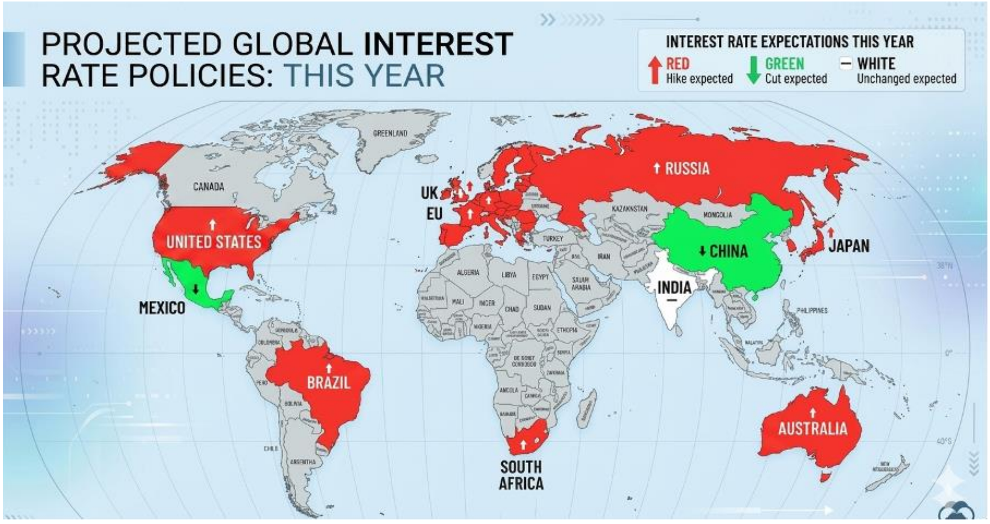
3. A Hawkish Tone from Central Banks

As one would expect, a rise in inflation would turn central bank officials more hawkish in their outlook regarding where they set interest rates.

Interest rates drive credit cycles and, in turn, are a very important discussion point at Flagship. As of the end of June '26, global markets were, on aggregate (GDP-weighted), pricing in an interest rate hike by the end of the year.

Figure 1: Rate Hike Direction

Major and some noteworthy economies' rate hike direction by the end of the year, as priced by futures.



Source: Bloomberg, Flagship Asset Management

Markets Look Through the Noise

We've had a major regional conflict, higher oil prices and inflation ticking higher, yet global equity markets, as measured by the All Country World Index (ACWI), are close to all-time highs.

Three factors help explain this resilience. Firstly, market participants looking through or past the conflict, guessing it would be resolved soon, and that oil and inflation would come down. Secondly, massive spending on AI keeps the world's largest economy going regardless of what's happening in the Middle East. Lastly, global liquidity still pushing higher from April.

Global Liquidity Continues to Support Markets

We have spoken before of the strong correlation between global markets and global liquidity. If money keeps getting pushed into the market, it will ultimately find a home, and that home is almost always equity markets.

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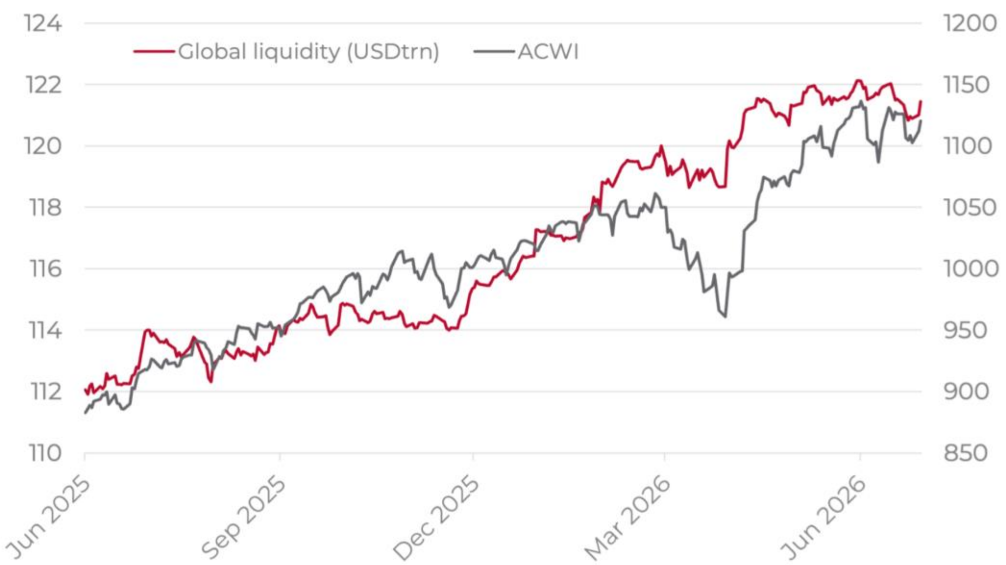
Graph 6: Global Liquidity vs ACWI

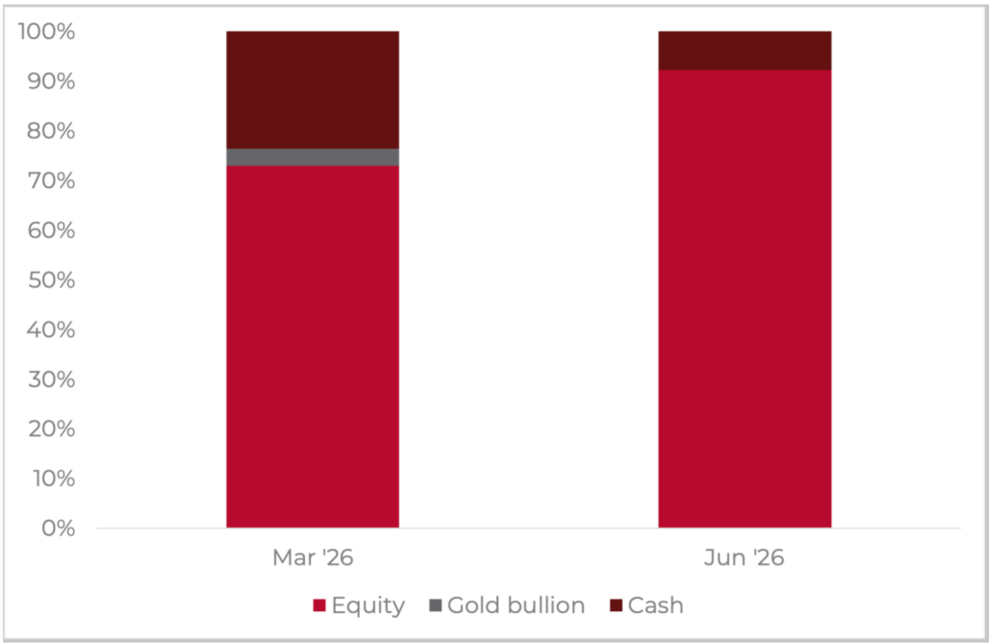


Source: Bloomberg, Flagship Asset Management

On the back of the Middle East conflict and the resultant oil price, equity prices came down in March. With little having changed in the fundamentals of the businesses we were invested in, or the businesses that we added to the funds, it offered a buying opportunity. Looking at the liquidity backdrop gave us some comfort, so we increased our equity exposure in the second quarter. If the oil price does go back to higher levels, which in turn drives inflation higher, and with global oil reserves more drawn out than before, it could drive interest rates higher, which could have an adverse effect on global liquidity.

With little having changed in the fundamentals of the businesses invested in…it offered a buying opportunity.

Graph 7: Flagship Worldwide Flexible Fund Asset Allocation



Source: Flagship Asset Management

In conclusion

Flagship's global investment process is centred on a comprehensive, active risk management system that has been designed to let our winners run, while cutting our losses sooner. Our funds own a highly diversified selection of businesses across industry groups that we believe are favourably positioned compared to their peers from a multifactorial perspective.

We believe this combination of a proprietary risk management system, used in conjunction with our approach of considering several factors before a stock or manager can be included in our portfolios, will lead to superior risk-adjusted returns across our range of funds.

While we recognise and appreciate that investing is a long-term endeavour, we also realise that most investors do not want to endure prolonged periods of relative underperformance. We believe our approach strikes a middle ground whereby we can deliver alpha (or excess performance relative to one's benchmark) over the long-term, while shielding investors from protracted periods of negative alpha, compared to the benchmark.

We write these Telescopes so that our investors know what it is we are doing and why we are doing it. For many of you, we are the caretakers of your global investments, and we would like to use this opportunity to thank you for the trust you place in us and emphasise how deeply committed we are to the responsibility that we hold.

With best regards,

The Flagship Global Team

FLAGSHIP
ASSET MANAGEMENT

Navigate Safely Forward

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