

Quarterly Telescope Q3 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.

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 global 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 global fund manager of the global flexible strategies at Flagship, as well as portfolio manager of the Flagship IP 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

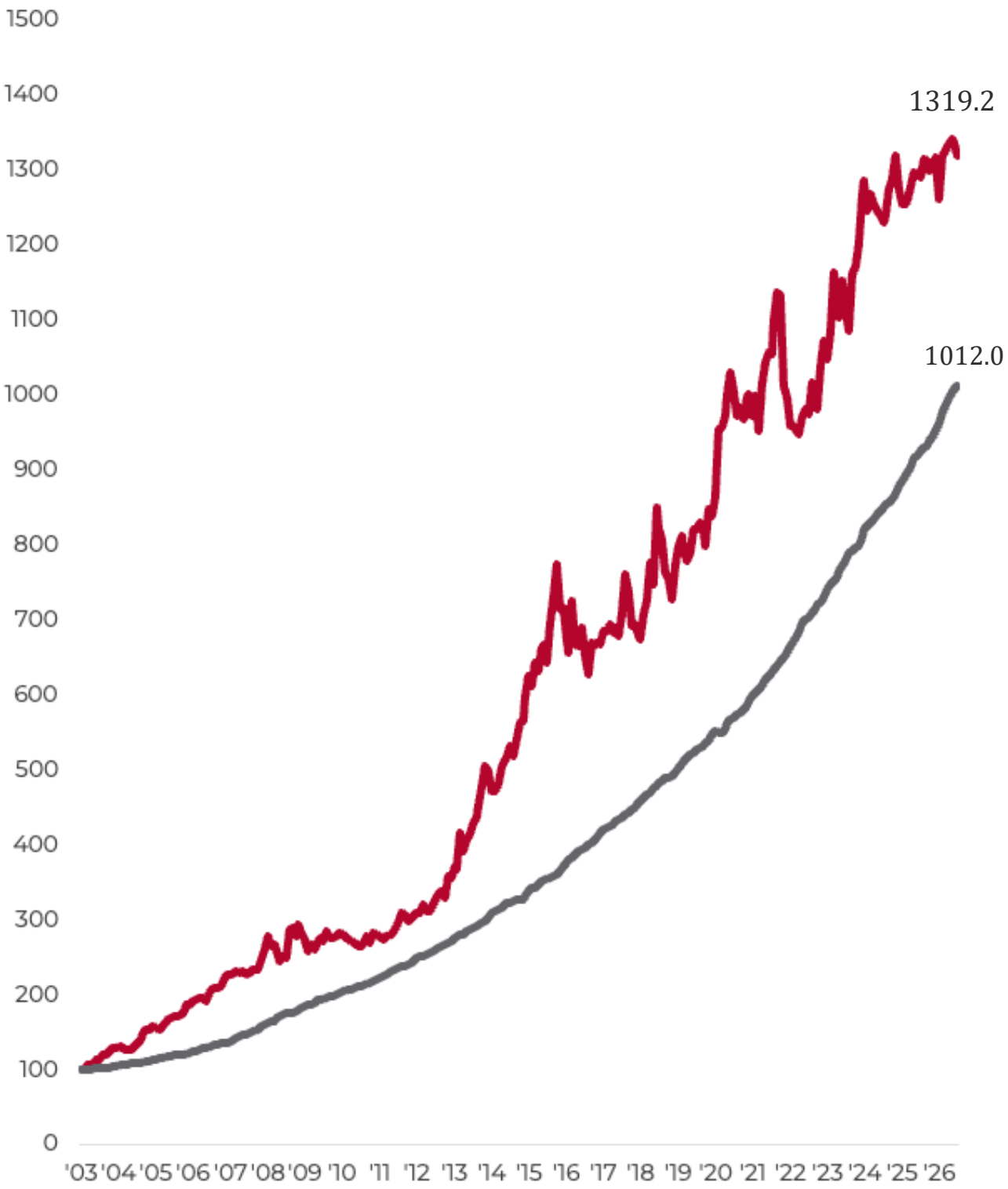
The **Flagship FR Worldwide Flexible Fund of Funds** (net of all fees) vs. SACPI +5%

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

Annualised returns since inception %

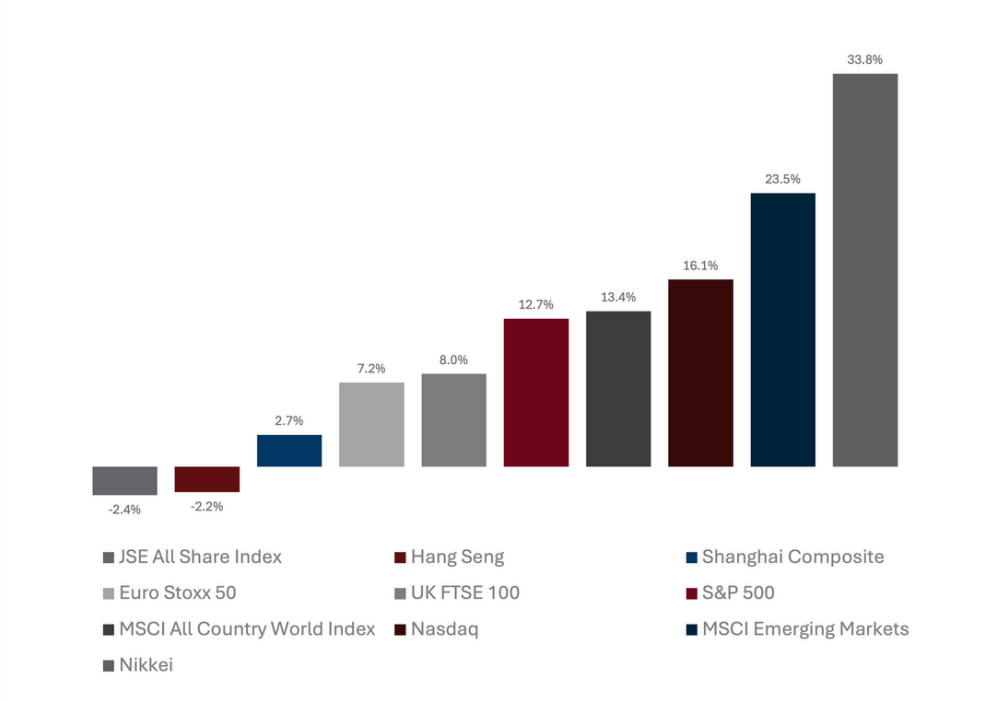
Flagship FR Worldwide Flexible Fund of Funds 11.8% p.a.

CPI + 5% 10.3% p.a.



Global Market Commentary

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



Source: Flagship Asset Management, Bloomberg

US government debt continues to surge, yet there appears to be little political appetite to address the growing fiscal imbalance.

Equity markets delivered mixed results in the third quarter. In the US, the S&P 500 gained 2.3%, while the Nasdaq Composite rose 2.6%. This contrasts sharply with the small-cap Russell 2000, which closed the quarter 7.2% lower, as the clear divergence between mega-caps and the rest of the market again became evident. Year-to-date, these indices have returned 12.7%, 16.1%, and 13.9%, respectively.

London's FTSE 100 delivered decent results, ending the quarter 1.8% higher. For the year-to-date, measured in USD, performance is also relatively strong at 8%. Europe's Euro Stoxx 50 fared slightly worse, losing 0.9% during the quarter, but is still up 7.2% year-to-date, measured in USD.

There was a much wider divergence in performance in the East. Japan's Nikkei 225 declined by 4.2% during the quarter, but on a year-to-date basis, measured in USD, it is still up an incredible 33.8%. By contrast, Hong Kong's Hang Seng is the exact opposite. Despite a strong quarter, in which it gained 8.6%, it is still down 2.2% for the year, measured in USD.

Bond prices and yields have an inverse relationship. As new bonds offering higher yields are issued, older bonds with lower coupons become less attractive, so investors are willing to pay less for them, leading to a decline in prices until the yield is comparable to those of newly issued bonds.

This is a topic we touched on in our 2nd-quarter Telescope '26 when US Treasury bond yields hit record levels. They have since shown little tendency to move lower. In fact, during the most recent quarter, we saw several instances of US long-term bond yields reaching levels not seen since the early 2000s, with the 10-year bond yield breaching 5.3% and the 30-year yield breaching 5.7%. Ultimately, and since the turn of the century, the third quarter proved to be the worst for US Treasuries. The reasons are, in part, well understood. US government debt continues to surge, yet there appears to be little political appetite, on either side of the aisle, to take meaningful steps to address the growing fiscal imbalance.



However, the persistence of inflation became increasingly evident during this last quarter, exacerbated by the ongoing war in Iran. The price of Brent Crude rose 42% and is now up 70% since the start of the year. Interestingly, despite oil flows recovering to >90% of pre-war levels, shipping rates remain significantly higher and are being absorbed into the price of oil and refined products. Refined products, especially diesel, remain in large short supply as Middle East refineries remain offline due to damage from missile strikes. Higher energy prices feed through every segment of the economy and energy importers, such as the EU, are experiencing particularly sharp price increases. France's most recent inflation numbers illustrate the scale of the problem, with energy prices soaring 21.2% year-on-year.

Despite the US being a net energy exporter, it is not immune to the effects of the current crunch. The Fed, under new chairman Kevin Warsh, had little choice but to raise the borrowing rate, for the first time since 2023, to address inflationary pressures. Failure to do so may well have led to a complete loss of faith in the Federal Reserve's independence, which would have pushed bond yields even higher.

Higher bond yields also mean that equities now face additional competition from bonds. Not only does the rate at which future earnings are discounted increase (leading to lower fair values today), but at more than 5%, Treasury yields now offer a viable alternative to equity investors, for the first time in decades. For the US government, this presents a further challenge: mounting pressure to contain rising Treasury yields, failing which an ever-greater share of the federal budget will be consumed by interest payments.

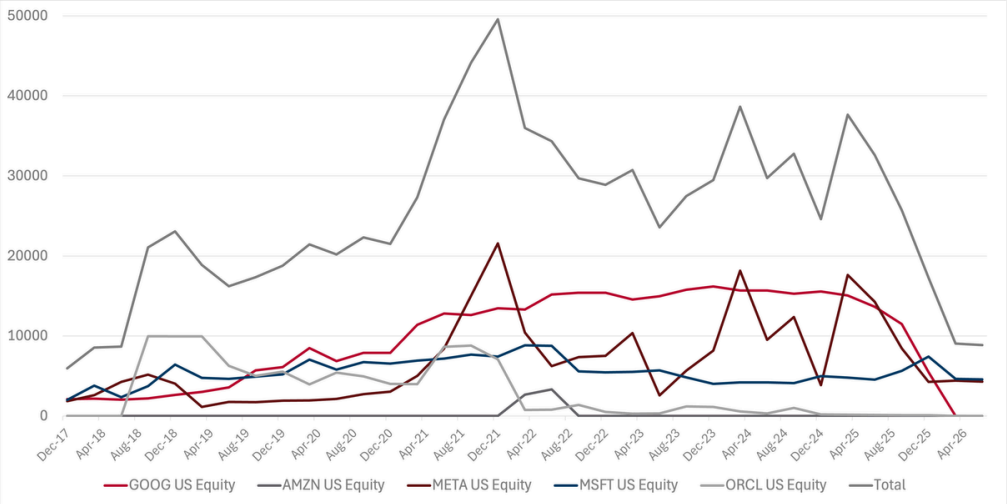
Some of the most cash-generative companies in history are suddenly turning free-cash-flow negative.

In an attempt to tame yields, Treasury Secretary Scott Bessent announced that the government will double its buyback of long-term Treasury bonds, effectively interfering with market pricing fundamentals. The move temporarily pushed yields lower, but all gains were erased in the very next session as markets grew increasingly sceptical of America's ability to rein in its surging deficit. Bessent also faced pushback from his former mentor, famed investor Stanley Druckenmiller, who wrote that "Governments defending prices against fundamentals always lose". Whether Bessent and his team will manage to quell market concerns remains to be seen, but one thing is certain, further escalations in the Middle East and sky-high energy prices are not helping their cause.

At the stock-specific level, the AI buildout remains a dominant force driving market performance. However, growing uncertainty over how and when these substantial investments will translate into sustainable returns has fuelled heightened volatility, turning much of the AI trade into a whipsaw ride for investors. Some of the most cash-generative companies in history are suddenly turning free-cash-flow negative, as hyperscalers increasingly look to debt markets to finance their enormous Capex requirements, while simultaneously halting multi-year share buyback trends. Consensus estimates now show hyperscaler capex exceeding $1 trillion in each of the next three years, meaning debt markets will have to be tapped during a period of rising rates.

Graph 2: Money Spigot Starts to Run Dry

Quarterly share buybacks for five big tech firms through Q1, 2026



Source: Bloomberg

The market is clearly skittish, and with good reason…

This has led to a significant shift in market momentum, as some of the main beneficiaries of the AI buildout are being sold indiscriminately, despite continuing to post record quarterly numbers and increasing backlogs, with some critical semiconductor part providers sold out through 2029. As an example of this shift, South Korea's KOSPI index, a barometer for the AI trade, recorded a record 2-day 20% decline in early July; and IBM, a US blue-chip stalwart, recorded a 25% single-day decline, its largest since 1968, after forward guidance underwhelmed the market. A Goldman Sachs momentum (high-beta) index has experienced more than 20 one-day 5% sell-offs this year alone, more than in the previous 5 years combined. The market is clearly skittish, and with seemingly good reason…

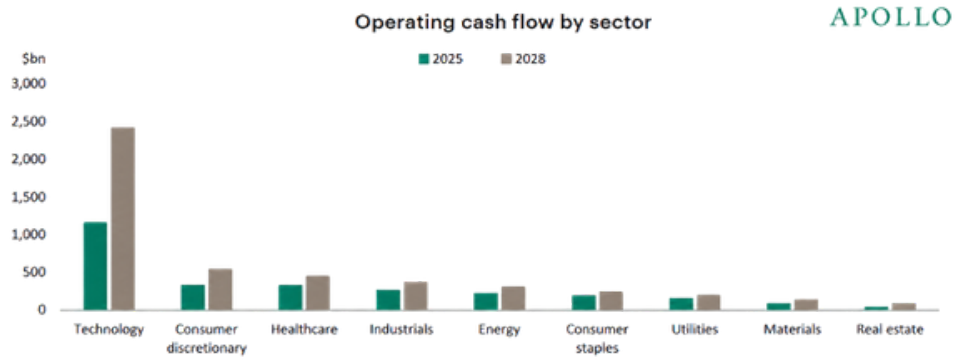
Aside from funding concerns, AI leaders themselves have made statements, with both the CEOs of Anthropic and OpenAI arguing that the advancement of the AI frontier needs to be slowed to prevent AI from slipping beyond human control and inflicting catastrophic harm. Charming. This on the back of more evidence emerging of cases in which the most advanced AI models escape from their training environments, pursuing goals unrelated to their original tasks. These so-called "alignment issues" have prompted several other voices, including Bill Gates and several AI safety researchers, to express concerns that we are nearing a point of no return in the development of this technology.

So, while funding and governance concerns are already weighing on the sector, could earnings disappointments be the next challenge? Apollo highlights a striking divergence between analysts' consensus earnings expectations for the technology sector and those for the broader market.

Essentially, tech analysts believe future earnings are about to explode, while analysts in other sectors (which would be beneficiaries of tech's advancements and thus paying customers) aren't seeing anything close to those growth numbers, suggesting a large disconnect. Where will the earnings come from if not from the other sectors?

Either tech analysts are right, which would mean there will be large and unexpected growth in other sectors (the customers), not currently priced in and thus presenting an opportunity, or they are wrong, and their projections for future earnings growth will have to be meaningfully cut.

Graph 3: Tech's operating cost flows are expected to soar, but its customers are not?



Note: Technology includes Information Technology and Telecommunications.

Source: Factset, Apollo Chief Economist

Where will the earnings come from if not from...other sectors?

Flagship Strategy Performance

Table 1: Performance of the Flagship Strategies over Q3 '26 and 1 year to 30 September '26, net of fees

Global Equity Strategy	**Q3 '26**	**%Δ 1YR**
Flagship Global Equity Fund (USD)	-9.9%	-0.8%
Flagship FR Global Equity Feeder Fund (ZAR)	-9.9%	-5.2%
Flexible Strategy	**Q3 '26**	**%Δ 1YR**
Flagship Worldwide Flexible Fund (USD)*	-9.6%	-0.1%
Flagship FR Worldwide Flexible Fund (ZAR)	-9.6%	-7.2%
Fund of Funds Strategy	**Q3 '26**	**%Δ 1YR**
Flagship FR Worldwide Flexible Fund of Funds (ZAR)	-1.2%	2.2% (7.4% in USD)

Source: Flagship

The USD-ZAR relationship was relatively flat over the quarter, so currency movements had a negligible effect. Over the past 12 months, the ZAR has remained about 4.9% stronger than the US Dollar, which eroded some returns for ZAR-denominated funds investing primarily offshore. We highlight USD-ZAR currency movements to ensure our investors are aware of the implications of a stronger ZAR for their Flagship fund investments.

Over longer periods, momentum has delivered excess returns, but short-term volatility will occur from time to time.

After recording strong performance across funds in the 2nd quarter (19.3% for the Global Equity Fund and 16.6% for the Worldwide Flexible Fund), the 3rd quarter was disappointing as the funds gave up a portion of those gains.

The underperformance was primarily driven by two factors:

Firstly, as noted in the Market Commentary section of this Telescope, Q3 was characterised by heightened volatility in funds exposed to stocks driven by strong market momentum, especially in the AI buildout space. Given that part of our process is to let our winners run while cutting losses sooner, this inevitably means that several of our positions have some exposure to this momentum factor. Over longer periods, momentum has delivered excess returns, but short-term volatility will occur from time to time. During July, however, relatively large positions in Micron, Lumentum and Taiwan Semiconductor, all of which are part of the AI buildout and have strong momentum, lost a lot of ground, declining between 15% and 40%.

Secondly, performance was negatively impacted by a pullback in several of our larger, long-standing holdings. During August and September, Blu Label Unlimited, Howmet Aerospace and Carpenter Technology Solutions declined by between 15% and 35%. While these investments have historically been significant contributors to Flagship's fund performance, their recent weakness weighed on returns over the quarter.

We continue to believe that our sector-neutral, diversified and flexible approach will pay off over the long term. The first two years of this process (up to the end of the 2nd quarter) delivered strong outperformance, supporting this approach. Experience and historical studies show that volatility is a common feature of investing, and investors need to discern the signal from the noise. The 3rd quarter was indeed a "noisy" quarter, and we are positive about recouping the setback we experienced in Q3.

Volatility is a common feature of investing, and investors need to discern the signal from the noise.

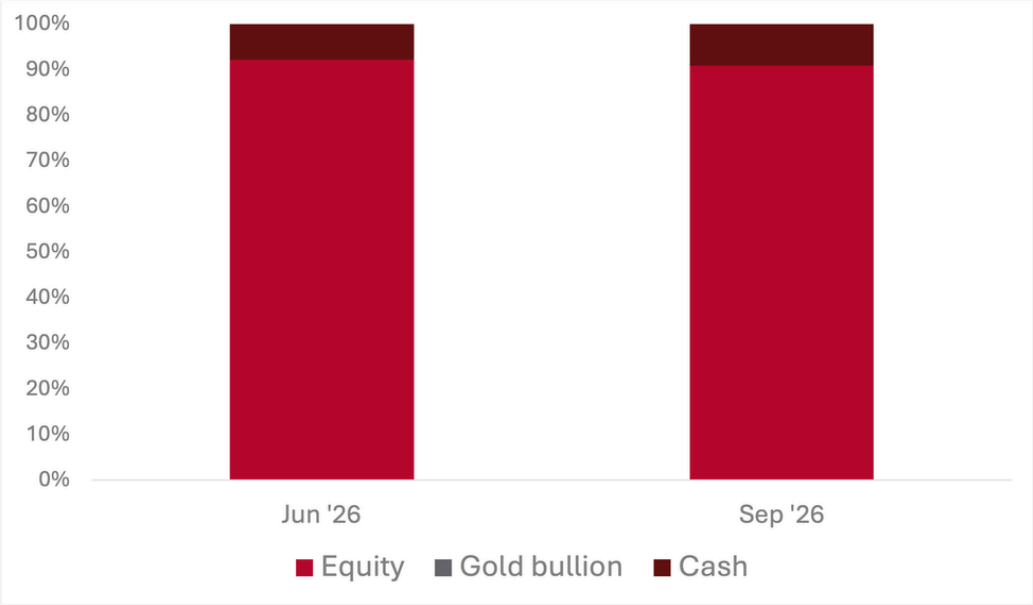
The Fund of Funds had a much less volatile quarter, fulfilling its purpose of reducing volatility by blending managers with different styles to deliver a smooth, "through-the-cycle" performance profile.

Asset Allocation

In our Q2 '26 Flagship Telescope, we identified three dominant forces shaping the macroeconomic landscape: the Middle Eastern energy shock and inflation; the AI capex boom holding the line; and hawkish Central Banks. All three remain central to the current outlook.

In this quarter's Telescope, rather than revisiting these forces, we share our thinking on asset allocation, which has remained unchanged since Q2, as shown in the graph below.

Graph 4: Flagship Worldwide Flexible Fund Asset Allocation



Source: Flagship

Our research shows a 92% correlation between global liquidity and global equity markets.

The Flagship Worldwide Flexible Fund currently has a high allocation to equities of approximately 91%, with no bond exposure and 9% held in cash. Given that markets are trading near all-time highs, one might reasonably ask: why such a high allocation to equities and no allocation to bonds?

Firstly, global liquidity remains high. Although we have discussed global liquidity before, it is worth revisiting this concept. Our in-house measure of global liquidity tracks the amount of cash and cash-like instruments circulating across the global economy. The more liquidity in the system, the more supportive the environment tends to be for global equities. Our research shows a 92% correlation between global liquidity and global equity markets.

Graph 5: Global Liquidity ($ trillion)



Source: Bloomberg

Secondly, markets are not expensive, yet they reflect strong expectations for one-year forward earnings growth.

Forecasts are notoriously difficult and can prove wrong on both the upside and the downside.

The All Country World Index (ACWI) is trading at 16.4x forward earnings, 6% below its five-year median of 17.4x and broadly in line with its 10-year median.

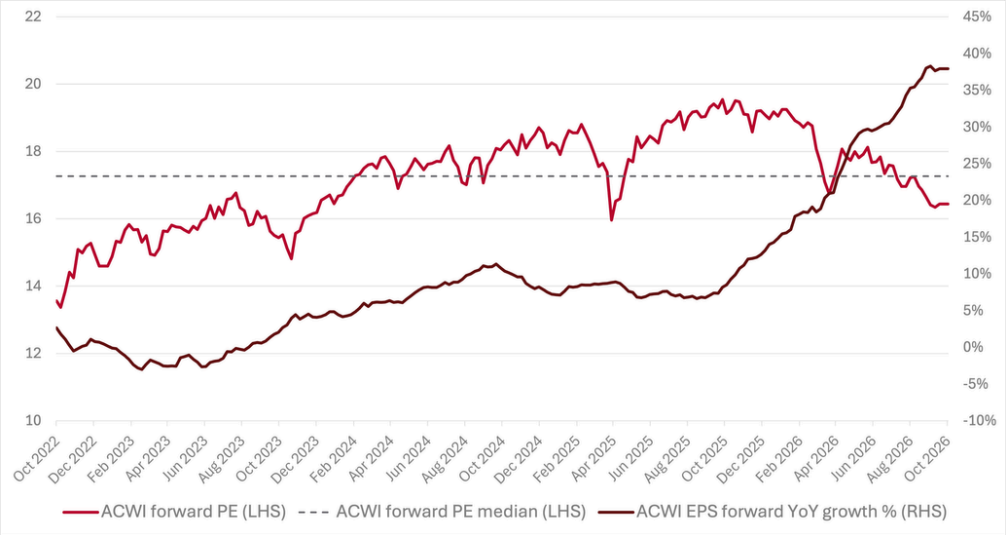
What is particularly eye-catching is the one-year forward earnings growth estimate, which currently stands at 39% year-on-year. This is a phenomenal growth rate, especially given that 2026 year-to-date earnings growth is already running at 23% above 2025 levels. The compounding effect of this growth is compelling.

However, there are two important considerations:

1. This is an estimated growth figure based on analysts' forecasts. These forecasts are derived from bottom-up company analysis and then aggregated into the ACWI. Forecasts are notoriously difficult and can prove wrong on both the upside and the downside.

2. We need to monitor the second derivative, that is, the rate of change of growth. A deceleration in the expected 39% growth rate would be important to watch, though an acceleration, however unlikely that may seem, would be equally noteworthy.

Graph 6:ACWI 1-year Forward PE and ACWI 1-year Forward Earnings Growth Estimates



Source: Bloomberg

That leaves us with bonds...

US Treasuries are beginning to offer some appeal, but we continue to see greater value in global equities.

Globally, bonds have delivered mixed results this year. Developed markets have generally struggled, with most posting negative total returns, while emerging markets have fared somewhat better.

The main drivers of bond market performance in 2026 have been an energy-driven inflation shock, and a repricing of long-dated government debt in developed markets.

- Central Banks: The Fed raised rates in September, the ECB hiked twice, and the Bank of Japan increased rates to their highest level in 31 years.
- Term premium: Fiscal deficits and heavy government borrowing pushed long-term yields higher across the US, UK, France and Japan.

An emerging market bond yield already incorporates compensation for inflation, fiscal risk and political risk. When a global shock occurs, part of that risk is already reflected in the price. In addition, some emerging markets are commodity exporters. South Africa, for example, benefited from higher prices for gold and other precious metals. This improved the terms of trade and supported the currency, helping to offset at least some of the rise in energy prices.

Looking specifically at the US 10-year Treasury yield, currently around 5.2%, it is beginning to offer some appeal. However, we do not believe it is yet attractive enough relative to the value we continue to see in global equities.

We acknowledge that we are late in the current market cycle, and over the next six months we may begin to see shifts in the underlying fundamentals. Earnings growth has been surprisingly strong and remarkably resilient, but as the base grows, sustaining such high growth rates becomes increasingly difficult.

The build-out of AI infrastructure has been a key driver of this cycle's earnings growth and market performance. While it continues to support the market today, it will ultimately mature, as all investment cycles do.

Concluding Thoughts

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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