

PERPETUA INVESTMENT MANAGERS

Fixed Income Quarterly Commentary

October 2025



Perpetua
INVESTMENT MANAGERS



Contents

On my mind	1
Key highlights	3
Anchors of stability	5
• Fed independence: Is it at risk?	6
• Gold: Moved into overbought territory	7
• Developed Markets: Term premium has widened - can Emerging Markets step in?	10
• South Africa: Pays to stay invested	11
Transnet SOC Ltd: price the hard-anchors, not the promises	14
Feature: Can the GNU survive	18
Perpetua team	20
Invest with us	21

On my mind... *Pooja*

As we enter the final quarter on 2025 and look toward 2026, a few themes have become hard to ignore. The shift away from U.S. assets has left its mark across portfolios, while different anchors have stepped forward with gold the most prominent, rallying just over 50% year-to-date.

What's just as striking is what hasn't moved. Even as the market prices some semblance of a Fed cutting cycle, U.S. treasuries have spent much of the year in a range. This is at odds with the traditional playbook. Term premium and the fiscal impulse are doing the work at the back end. The depth of the sell-off in Japan's longer-dated bonds is a reminder that sovereign debt markets aren't necessarily safe assets these days. Sticky inflation and softer growth tend to spur government spending plans, priming yields to break higher if given the chance. A number of economies face too much debt and lingering inflation, keeping pressure on the long end, and curves steep.

Ironically, and perhaps given this global backdrop, it's beginning to feel more steady here in South Africa. Political noise around the Government of National Unity (GNU) has abated somewhat; Eskom confirmed it had made a profit and, more importantly, pretty much kept the lights on all of last year, and while growth is subdued, so is inflation. The inflation anchor, if it lands, means lower neutral rates and lower inflation, translating into hopefully more disposable income and growth. It's by no means perfection, but it is progress, and for now that is enough to keep risk premia edging in the right direction.

Markets have definitely noticed, as local bonds and equities continue to have a buoyant year.

So, what role will fixed income play in the months ahead? We take it back to its core as an income asset - coupon, carry and roll-down. Pick your points on the curve and let time do the heavy lifting. Short-dated inflation-linkers are also showing value and we are switching out of some short-dated nominals into linkers. Globally, we prefer the short end and belly in developed markets (DM), and Treasury Inflation-Protected Securities (TIPs) where breakevens still compensate. Gold keeps its strategic seat; we seek to reduce at these extreme levels and wait to add on pull-backs. Currency is a risk budget; we hedge around known event risk and let the rand's mean-reversion do its work.

Markets will remain noisy - they always do. If long yields rise, we'll look to add duration. If reform momentum fades, we'll lean more on income and less on risk. And if the dollar strengthens, our hedges will do their job. We stay true to our process and remain nimble as always.

My final thought: this is a market defined by anchors, not certainties. Policy still matters, even if it moves slowly. Income still compounds, if you give it time. And South Africa still rewards patience, especially for those willing to let the curve do the work.

Pooja Tanna
Head of Fixed Income



On my mind... *Ryan*

South African corporate bond spreads

South Africa's corporate bond market continues to remain characterised by tight spreads and excess liquidity, but recent events are reshaping the opportunity set. The re-opening of the SOE market through Transnet's R15bn government-guaranteed private placement in August demonstrates the bifurcation of risk: guaranteed paper trades as sovereign substitutes with tightening spreads, while unguaranteed paper prices tight relative to its high-yield nature. The new R8.8bn Transnet 7-year guaranteed floating rate note (FRN) priced at Jibar +235bps, around 75bps inside 2024 levels with a R6.2bn fixed rate note pricing at 10.11% (asset swap spread of Jibar +249bps). Unguaranteed paper remains high-yield in character, offering reform optionality but at spreads that we believe undercompensate for execution risk. Sovereign guarantees to Transnet (R193bn approved since 2023) anchor stability, but repricing will only follow tangible reform milestones.

Transnet SOC Ltd - Price the hard-anchors, not the promises

In this quarter, we publish a piece on Transnet SOC Ltd: Price the hard-anchors, not the promises. Here we provide a brief overview of our credit scorecard framework, which first assesses standalone fundamentals and then (where appropriate) applies sovereign support uplift. We are encouraged by the reform momentum that is building at Transnet: corporatisation of the Ports Authority, slot allocations and LeaseCo, but until these initiatives translate into measurable delivery, we see them as medium-term optionality rather than near-term catalysts. As a result, on a standalone basis, we believe that Transnet remains a standalone B(ZA) policy-driven credit based on its FY2025 financials and our hard rating anchors (a measure of liquidity being one of them). With sovereign support, our internal rating for Transnet is uplifted by 2-3 notches to BBB(ZA) with guaranteed-instruments continuing to map to a AAA(ZA) internal rating.

South African bank credit

Bank credit is on the cusp of structural change. Standard Bank's senior unsecured September auction cleared strongly, but in our view marks the last of its kind. The results show R4.619bn bids vs R2.605bn issued (1.8x cover) and clearing spreads of Jibar +82bp (3y), +98bp (5y), +110bp (7y) plus, a ZARONIA linked FRN at Z+95bp.

With R288-360bn of FLAC (First Loss After Capital) issuance required from 2026 onward, the market will face a structural uplift in bank funding spreads. FLAC should become the new anchor for the senior credit curve going forward, widening from previous senior unsecured benchmarks, cascading through to corporate and SOE credit spreads. For investors, this represents both opportunity and repricing risk: early FLAC issues should come with attractive premiums but will reset valuations market-wide in our view. See our piece [What the FLAC is going on?](#) for a deeper dive into what is FLAC, its structure, risks, and our view of potential market implications [here](#).

Jibar to ZARONIA transition

Finally, the benchmark transition is gathering pace. We anticipate that the Jibar cessation announcement will occur on 3 December 2026, with the Credit Adjustment Spread (CAS) to be fixed then. From March 2026 no new instruments will be issued referencing Jibar, with ZARONIA fallback language and consent processes in place for previous instruments. Operational and legal deadlines are tight, but critical for a smooth transition. Encouragingly, ZARONIA-linked derivatives are gaining liquidity, providing greater depth and resilience to the ZARONIA curve, which underpins discounting and valuation of ZARONIA-linked notes.

Final thoughts

Against this backdrop, our positioning remains disciplined. We underwrite sovereign-backed balance sheets where credit spreads compensate for delay risk, but we are cautious on paying tight levels for unguaranteed reform optionality until milestones are fully banked. In practice, this means allocating selectively into guaranteed SOE issuance for sovereign-linked carry, while continue to prefer bank and structured credit for yield.

Ryan van Breda
Portfolio Manager





Key highlights: 2025

Key highlights

Past quarter

In South Africa

- ZAR firmed year-to-date, driven more by a softer dollar and stronger gold than by new domestic reforms.
- South African reserve bank (SARB) kept policy restrictive and re-anchored forecasts at 3%, reinforcing credibility while waiting for formal target reform.
- State-owned entity (SOE) risk was again in focus. Additional sovereign support to systemically important entities kept funding stable and highlighted the importance of pricing hard anchors (guarantees, liquidity, track record).

Globally

- The Federal reserve cut 25 bps as expected, amidst political turmoil.
- DM 10-year yields remained range-bound.
- Gold made new highs on official central bank buying and returning investor inflows.
- Emerging market: local markets benefited from positive real carry and a weaker dollar.

Current quarter

In South Africa

- Focus is on the Medium-term budget speech (MTBPS) and progress on the SARB/Treasury 3% anchor. Clarity here should influence curve premia.
- Watch coalition dynamics and reform flow for risk-premium compression.
- Funding calendar and SOE support cadence remain key to relative value across bonds and credit.

Globally

- Term premium swings are the main driver of DM curves; we expect curve steepening to continue.
- Local currency sovereign bonds (such as LATAM, Asia, South Africa) remain attractive where policy is credible and real rates are positive.

Our positioning

- Developed-market rates: bias to the short end and belly; keep cash as dry powder to add duration at range extremes. Hold short-dated TIPs where breakevens compensate.
- SAGBs: We are selective along the curve, maintaining an overweight position in the belly and neutral on the long end. We have also added to our short-dated linker positions as inflation insurance.
- Credit: Prefer high-quality bank and structured credit. Prepare for FLAC supply - early prints should come with concession and will reset senior curves.



Anchors of stability

New anchors of stability

In our last [multi-asset commentary](#) we argued that geopolitical dynamics are now central to economic outcomes, forcing us to reframe how we view markets. In this quarter, we focus on what lies ahead: the anchors of stability that have been keeping markets steady and the tests to those anchors.

Anchor #1:

Is the Fed's independence at risk?

The past quarter saw a slew of central banks largely deliver what markets expected. In the U.S., the Fed's decision to cut 25bps in their September Federal Open Market Committee (FOMC)*, was broadly in line with market expectations. The dot plot¹ signaled scope for further easing, but the wide dispersion in dots underscores uncertainty around the policy rate path as the Fed balances a softening labour market against possible inflation pressures.

The political backdrop, however, drew heightened scrutiny. Stephen Miran (who advocated for a larger cut of 50bps) was appointed to the board of governors just before the September meeting, securing a seat until the new year. The campaign to remove Lisa Cook continues (although a court ruling allowed her to remain on the board of governors) and Powell's term as Fed Chair will expire in May 2026, enabling Trump to select a new figure to lead the Fed. Powell has declined to share his plans on whether he will remain on the board through January 2028 after his term as chair expires.

*How does the Federal Open Market Committee (FOMC) work?

- The FOMC has **19 total participants**:
 - 7 members of the Board of Governors in Washington (when all seats are filled).
 - 12 presidents of the regional Federal Reserve Banks (like New York, Chicago, Dallas, etc.).
- Not all 19 get a vote at every meeting.
 - Only 12 people vote on policy decisions at a given meeting.
 - Those 12 are:
 - The 7 Governors (permanent voters)
 - The New York Fed president (also a permanent voter)
- 4 of the remaining 11 regional Fed presidents, who rotate annually.

¹**Dot plot:** Part of the Fed's Summary of Economic Projections, published quarterly. Each dot is one FOMC participant's view of the appropriate federal funds rate at the end of each calendar year and in the longer run. Identities are anonymous; both Governors and Reserve Bank presidents submit dots (voters and non-voters). It is guidance and it's revised each meeting. The median gets the headlines, but the dispersion tells you how uncertain the Committee is.

FOMC summary:

- All 19 take part in the discussions and give their views on the economy and policy.
- Only 12 actually cast votes to decide the federal funds rate and other monetary policies.
- The voting group rotates to give different regions of the U.S. representation over time.

Currently the board of governors stands as follows (as of September 2025):

Govenor	Appointed by	14-year term expiration date	End of other positions
Lisa Cook	Biden	Jan 31, 2038	
Philip Jefferson	Biden	Jan 31, 2036	Vice chair term ends September, 2027
Michelle Bowman	Trump	Jan 31, 2034	Vice chair for Supervision term ends in June, 2029
Michael Barr	Biden	Jan 31, 2032	
Christopher Waller	Trump	Jan 31, 2030	
Jerome Powell	Obama, Trump, Biden	Jan 31, 2028	Chair term ends May, 2026
Stephen Miran	Trump	Jan 31, 2026	

Key takeaway:

Even with new appointments, policy is set by a rotating, 12-member voting group and a still diverse Board. Influence can grow at the margin, but wholesale control is structurally hard without broad alignment across Governors and Reserve Bank presidents. This is not a near-term 'capture' risk. However, we are watching the 2026 nominations. We are wary of any moves to tilt the mandate towards a higher inflation tolerance, and balance sheet politics that pressure the Fed to manage the long end. None of these are our base case, but they are the channels through which politics could affect market expectations.

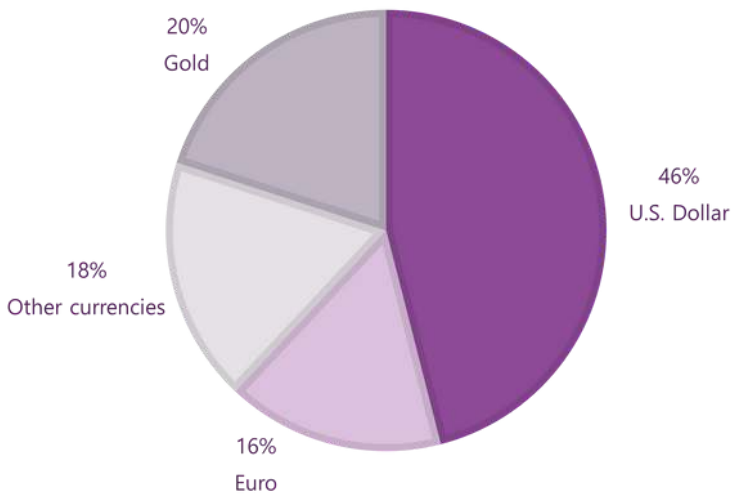
Anchor #2

Gold is the new neutral safe haven asset. But has it run too much?

Gold has climbed just over 50% this year, outpacing major assets such as the S&P 500 Index and, for the first time, surpassing the 1980 peak in real terms. Trade and geopolitical volatilities that boosted haven demand, along with central bank purchases and inflows to exchange-traded funds, have all supported the rally.

The foreign reserves picture has also shifted. On a market value basis, the ECB (European Central Bank) estimates that gold reached 20% of global foreign reserve holdings at the end of 2024, surpassing the euro at 16% [Figure 1]. The US dollar, while remaining the dominant reserve, extended a steady decline to reach 46% of global reserves.

Figure 1: Composition of official reserves



Source: ECB, IMF, Bloomberg

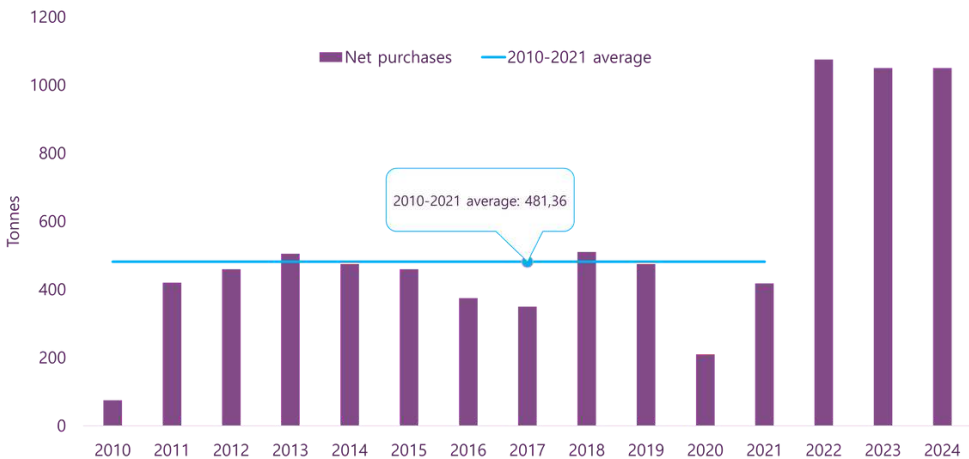
Note: Relative share is for 4Q 2024

Who is buying?

1. Central banks

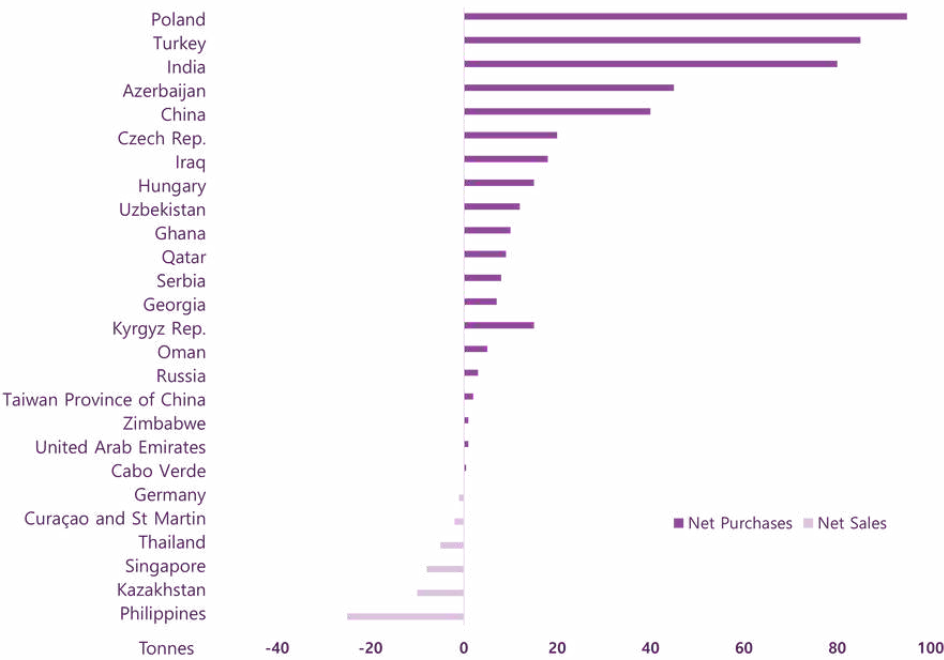
- Three consecutive years of 1000 tonnes of gold purchases by central banks, after a decade of averaging between 500-600 tonnes [Figure 2].
- In 2024, the main reported purchasers of gold, buying 20 tonnes or more were EM central banks, namely Poland, Turkey, India, China and Azerbaijan [Figure 3].
- Globally, CB gold holdings amount to nearly 36,200 tonnes and account for almost 20% of official reserves, up from around 15% at the end of 2023, according to reported IMF data through the end of 2024 [Figure 4].
- The U.S., Germany, France and Italy still hold roughly 16,400 tonnes of gold combined. This represents nearly half of reported global official gold reserves, with the U.S. holding almost a quarter of global reported gold reserves alone. Each of these four countries hold more than 70% of its total reserves in gold. Taking out these four outsized holders, gold's share in official reserves falls to just above 11%.
- Given the statistics, most EM reserve portfolios still carry much smaller gold shares, leaving scope to add over time. When surveyed, most managers have maintained their intent to keep adding to their reserves. They are not done with gold yet and political uncertainty will continue to revive demand into 2026.

Figure 2: Central banks have been net buyers for the last 15 years



Source: World Gold Council

Figure 3: EM-led central bank buying far outstripped selling again in 2025

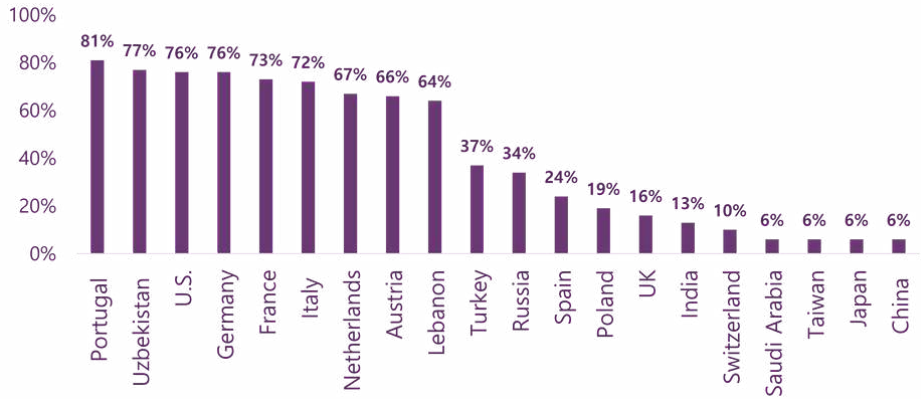


Source: World Gold Council

2. Investors

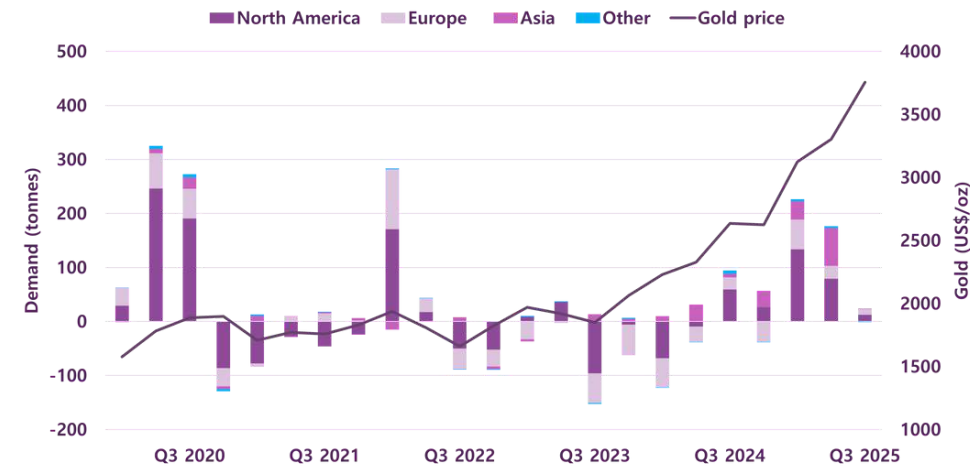
- After two soft years, ETF flows turned positive in 2025, posting the largest first-half inflow since 2020, with July and August extending the streak [Figure 5].

Figure 4: Gold as a percentage of central bank holdings in 2025



Source: World Gold Council, IMF, JP Morgan Commodities Research

Figure 5: Gold ETF quarterly flows in tonnes



Source: World Gold Council

Is the move overdone?

Gold screens as a multi-sigma overshoot versus its long-run trend [Figure 6]; even in real terms it's stretched. That does not time a peak, but it does thin the margin of safety and argues for patience on additions.

Figure 6: Gold price overshoot



Source: Bloomberg

Key takeaway and outlook

Strategic: Maintain some exposure to gold as a permanent neutrality hedge.

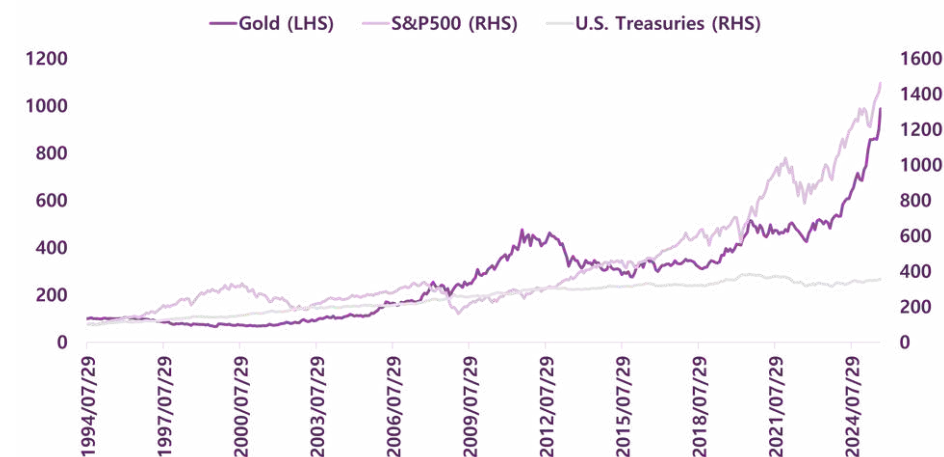
Tactical: Given the run, we now prefer to wait for any consolidations or pull backs to add, which history suggests we are likely to get [Figure 7]. Using the local equity indices as a proxy, local investors likely have significant exposure to the yellow metal (vs global investors). It is our view that local investors should use these levels as an opportunity to reduce risk or take profits.

The key factors we are watching:

- The breadth and persistence of ETF flows;
- Whether central bank buying remains above recent averages;
- If gold holds its ground despite firmer US 10-year real yields or an appreciation in the dollar (two traditional safe haven assets in the face of headwinds).

Figure 7: Gold vs. S&P vs. U.S. Treasuries (since 1994)

A reminder that gold earns its seat as a diversifier and "neutrality hedge," not as a momentum trade. The recent surge strengthens the strategic case but argues for patience on adds.



Source: Bloomberg

Anchor #3:

Term premium is warranted in the U.S. Does that allow Emerging Markets (EM) to play a bigger role?

Why has term premium become so important?

The difference between the short end and the long end is what we call the term premium, where the 10-year yield reflects the extra compensation for interest rate risk [Figure 8]. The story of the long end this year has been less about the path of the policy rate and more about the rent investors demand to hold duration. As the market prices in an easing cycle, the short end grinds lower to reflect this policy path. The long end, however, remains elevated as investors remain concerned about supply, balance sheet run-off and macro uncertainty.

The bond market's warning bell

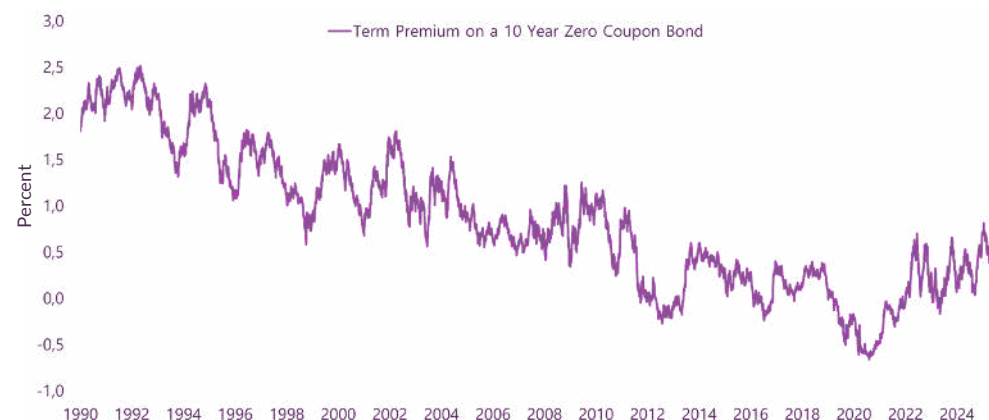
What we have been calling the “new conundrum”, namely, that longer-term interest rates can rise even as the Fed is expected to cut rates - is now becoming more commonly discussed. This stems from three key changes in the structural backdrop for bonds:

- Inflation has moved from largely predictable to genuinely uncertain: inflation is no longer running persistently below target but is now going on more than four years of running persistently above target;
- Rising Treasury supply: debt and deficit levels pushing up the supply of treasury debt;
- Falling Treasury demand: the end of the global quantitative easing era, a slowdown in recycling of dollar reserves by foreign central banks, and long bonds becoming less reliable hedges are all contributing to weaker demand for Treasury debt.

The result is that long-term rates need not follow the Fed as strongly as it has in the past (or even at all). This means that where you hold duration matters as much as how much you hold. It also means thinking more broadly about the diversification properties of traditional fixed income as well as beyond just long-end U.S. duration for portfolio hedges.

We believe this term premium will continue to trend higher i.e. steepening the yield curve as the long bond stops being a directional bet and becomes an income asset again where carry and roll do most of the work.

Figure 8: Term premium on a U.S. 10-year zero coupon bond

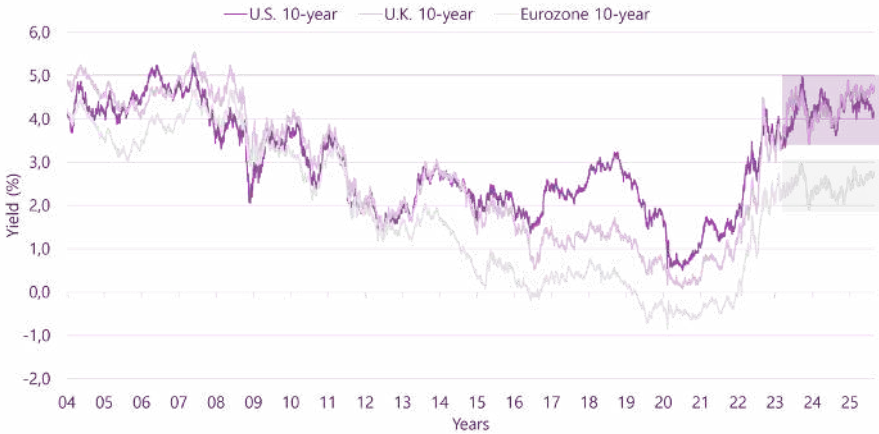


Source: Board of Governors of the Federal Reserve System (US) via FRED ®

Key takeaway

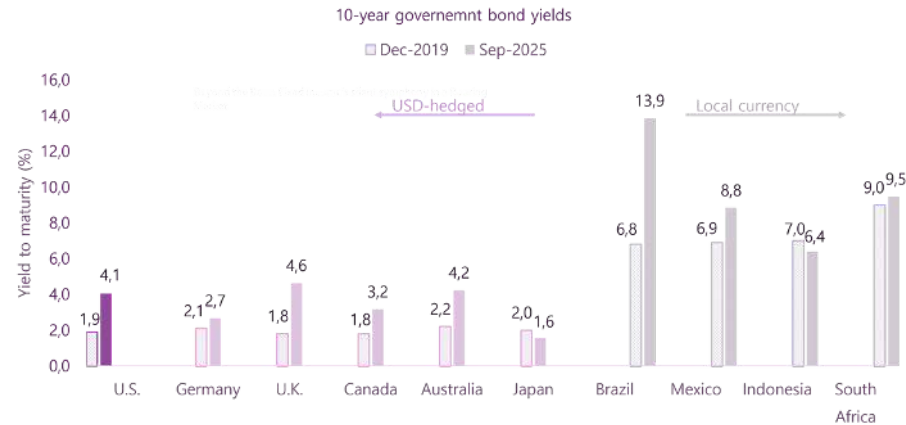
As developed markets no longer deliver outsized gains [Figure 9] and the play becomes one of income generation, emerging markets make it very simple [Figure 10]. There is credible real carry if one has the patience to let time do the heavy lifting. On a dollar hedged basis, certain emerging market bonds compete directly with U.S. treasuries. However, the real opportunity lies on an unhedged basis. Currency risk is a tool to be budgeted for and dynamically managed, as opposed to a forecast to be won. Done deliberately, emerging market local-currency government bonds can far outpace developed market bond yields over the same horizon.

Figure 9: Western government bond yields have been rangebound for two years



Source: Bloomberg

Figure 10: Emerging market bonds offer attractive opportunities



Source: PIMCO Investment Managers, Sector outlook, June 2025

Anchor #4:

South Africa continues to offer value in the EM space

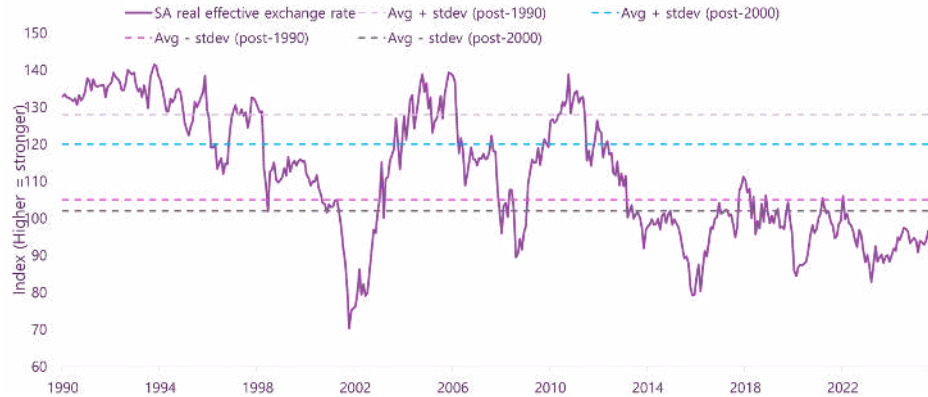
The rand paradox

The rand is one of the most sensitive emerging market currencies, wearing global risk on its sleeve. Offshore flows, event risk at home, dynamics of the dollar and a very liquid ZAR market all contribute to outsized moves. That liquidity cuts both ways: it makes the rand a convenient proxy hedge for broader EM risk, which can amplify swings when global risk appetite turns.

The rand is also a shock absorber: it does the adjusting so bonds don't have to all at once.

So far this year ZAR has strengthened against the dollar, driven more by a softer dollar and stronger gold than by domestic reform. The point still holds that the real trade weighted rand is trading close to its long term average [Figure 11] leaving room for sustained gains if domestic reforms make headway and policy mix remains credible.

Figure 11: Real trade-weighted rand is around its long-term average

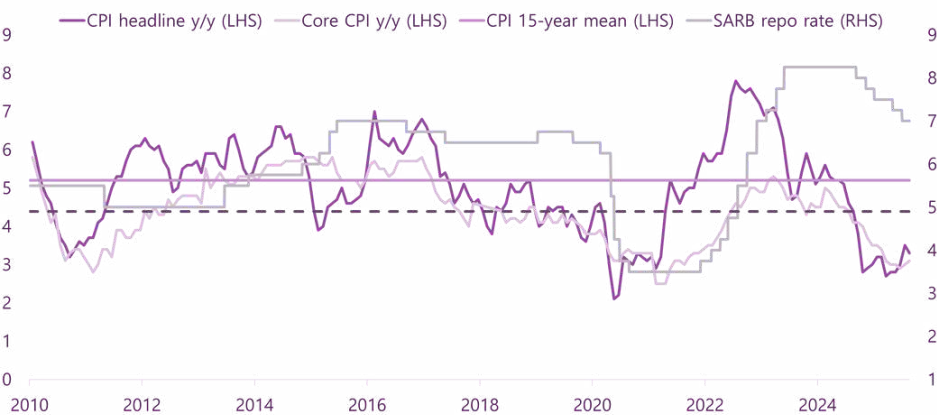


Source: Bloomberg, SARB, Standard Bank Research

Anchoring inflation

The stronger rand, combined with the SARB’s move to anchor its forecasts at 3% inflation, is constructive for the bond market [Figure 12]. If the anchor sticks (we should get a final decision on it at the MTBPS scheduled for the 12th of November), then we would expect long-run price levels to fall, neutral rates to edge lower and inflation risk premia to compress along the curve, which is all constructive for SAGBs over time.

Figure 12: SARB looking to adjust targets towards 3% to simplify message



Source: Bloomberg

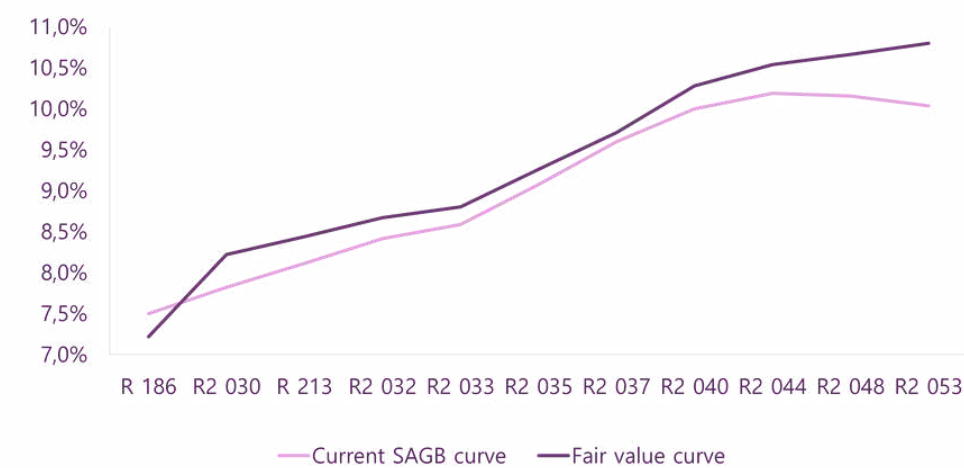
All points to a constructive outlook on SAGBs

Given the recent rally in SAGB’s, the play becomes one of income generation driven by carry and roll, as mentioned earlier.

On our fair value lens the curve has done some of the work already [Figure 13]. The belly has converged toward fair, while the very short-end and the long end screen expensive. So we focus on being paid to wait at selected points on the curve, not on taking more duration risk. The thesis remains practical: we don’t need perfection in reform or growth - just incremental delivery on power and logistics, credible budgeting and the rand’s habit of mean-reverting, to turn carry and roll-down into the bulk of the return.

If the 3% inflation anchor is formalised and execution keeps inching forward, our fair-value curve shifts lower by a modest amount, especially in the belly, closing today’s gap without needing a growth miracle.

Figure 13: Our fair value curve shows that bonds have done most of the work



Source: Bloomberg

Key takeaways

- Fixed income is reverting to its original intent: an income asset, with carry and roll doing the heavy lifting rather than duration beta.
- A positive U.S term premium widens the menu to strategically include EM assets alongside DM.

Our positioning

- Developed market bonds: positioning in the short-end and belly makes the most sense. Keep cash available to add duration at range extremes.
- SAGBs: We remain overweight the belly and have moved towards neutral on the long-end, adding selectively where carry and roll down pay. We have also rotated out of short-dated nominal bonds which we screen as expensive, into short-dated inflation linkers where we see value, providing us with an inflation hedge.
- Credit: Prefer high-quality bank and structured credit. Prepare for FLAC supply-early prints should come with concession but will reset the senior curve.





Transnet SOC Ltd

Transnet SOC Ltd: price the hard-anchors, not the promises

Are we being paid for future policy and execution risk?

South Africa's fixed income markets remain heavily shaped by state-owned enterprises (SOEs). These entities are simultaneously systemic to the economy yet structurally challenged, a dilemma for South African fixed income investors. Transnet is arguably the most systemic SOE after Eskom. As South Africa's critical freight and logistics backbone, it owns and operates the country's freight rail, ports and pipelines infrastructure, underpinning around 70% of bulk commodity exports and a meaningful portion of GDP.

Yet the story of Transnet is no longer one of monopoly strength but one of operational strain that is being actively managed through sovereign and lender accommodation to ensure stability. To stabilise funding and ensure continued market access, government approved R94.8bn of additional guarantees in July, taking cumulative support to R145.8bn - a level broadly covering Transnet's net debt position.

This raises a simple but urgent question: are investors being compensated for the risks they are underwriting?

At Perpetua, we differentiate between balance sheets that are funded by policy and those that are fixed by policy. We allocate to the former when credit spreads compensate for execution delays. We wait on the latter until milestones are banked. We price the hard-anchors, not the promises. When pricing Transnet's credit issuances, our angle is clear: what we underwrite, how we price it, and what changes our mind going forward.

How we score SOE credit: the framework

Perpetua's two-step scorecard first assesses standalone profiles (business, financials, governance, ESG), then applies government support notching (role, link, track record). Ratings are mapped to ZA-scale bands and capped by liquidity metrics and hard financial anchors.

For Transnet FY2025, the outcome is:

- **Standalone profile:** B(ZA), reflecting operational progress but liquidity constraints.
- **Government support uplift:** +2-3 notches from guarantees, systemic importance and reforms.
- **Final issuer rating:** BBB(ZA).

What we underwrite: the hard-anchors

Recovery momentum is visible. FY2025 results show rail volumes have increase by +5.5% year-on-year (y/y) to 160.1mt (below target), revenue by +7.8% to R82.7bn, and EBITDA by +39% to ZAR30.6bn (margin 37%, which is consistent with our AAA(ZA) anchor). Losses narrowed by 74% to ZAR1.9bn (2024: R7.3bn). Container throughput (the total volume of shipping containers handled by a port) remains sluggish, yet improving, while security incidents, though down 23% y/y, still cost R1.6bn in lost revenue. Further improvements are required to close the gap with targets.

Gearing (Net debt/Capital) remains in the BBB(ZA) band at 49.6%, consistent with our 45-55% threshold and stable since FY2021. While near the upper end, it reflects capital discipline under pressure [Figure 1].

Figure 1: Gearing



Source: Transnet annual financial statements, Perpetua Research

Cash Interest Cover (CIC) is the pressure point [Figure 2]. CIC has moderated to 1.8x, below covenant levels, with waivers secured through lender support and sovereign guarantees. Reliance on lender forbearance highlights structural fragility.

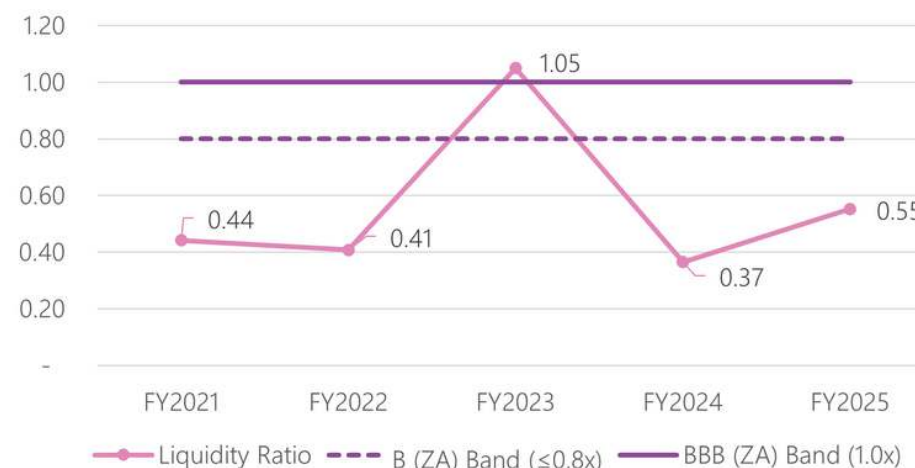
Figure 2: Cash Interest Cover Times(x)



Source: Transnet annual financial statements, Perpetua Research

Liquidity measured over the next 12 months is at 0.55x (sources ZAR51bn overuses ZAR93bn) and maps to our B(ZA) band [Figure 3]. This structural funding shortage is mitigated by sovereign guarantees to sustain lender market access.

Figure 3: Liquidity excluding guarantee(s)



Source: Transnet annual financial statements, Perpetua Research

Funding requirements remain significant at ZAR66bn over five years, ZAR127bn capital expenditure (capex) and ZAR99bn in loan redemptions. Guarantees enable execution of this plan while reforms take hold. On a standalone basis, Transnet's metrics remain under strain, but sovereign and continued lender support ensures stable market access.

What is priced: policy vs execution

The market has drawn a line between two types of SOE debt: guaranteed paper, trading at sovereign proxies, and unguaranteed paper, which should trade as high-yield.

Guaranteed paper is sovereign-linked. Pricing has trended closer to SAGBs with a modest premium, reflecting confidence in the guarantee structure. In August 2025, Transnet privately placed ZAR15bn of 7-year guaranteed notes: ZAR8.8bn at Jibar +235bps (floating) and ZAR6.2bn 10.11% fixed (asset swap spread of Jibar +249bps). The issuance refinanced the TN25 bond and raised c.ZAR5bn fresh funds.

Compared to March 2024's 7-year fixed-rate guaranteed private placement at 12.34% (asset swap spread of Jibar +324bps), spreads have tightened by 75bps driven by excess demand and limited available of guaranteed paper. On an asset swap basis, the pick-up versus a 7-year SAGB compressed by 63bps. Investors increasingly treat guaranteed Transnet bonds as sovereign substitutes, rewarded with incremental yield for complexity in guarantee enforcement and liquidity.

By contrast, **unguaranteed paper**, TNF27 (Feb 2027 maturity) trades at Jibar +285bps, which is tight for high-yield paper. Here, the spread reflects weak standalone fundamentals and uncertainty on policy and execution delivery, which is unlikely to reprice tighter without reform milestones. This creates a two-speed market: guaranteed paper offers sovereign-linked carry, while unguaranteed paper represents reform optionality at spreads that, in our view, undercompensate for execution and delay risk. Investors are effectively being paid less than warranted for reform optionality.

What changes our mind: policy and execution

Transnet remains a policy-driven credit investment. Standalone metrics sit in the B(ZA) range, but sovereign guarantees and lender engagement continue to prevent disorderly outcomes and ensure market access. Treasury has provided R193bn in guarantees since late 2023, substituting sovereign strength for liquidity gaps.

Key watchpoints that would shift our stance are:

- **Operational execution:** FY2025 delivery of 27.8% of shareholder compact objectives and 38.5% of turnaround initiatives shows early traction. Partnerships with Kumba and Exxaro demonstrate private-sector alignment is starting to embed structural improvements. We need to see sustained increases in operational effectiveness and evidence of sustained volume recovery.
- **Policy reform:** Economic Regulation of Transport Act, corporatisation of the Ports Authority, slot allocation process for private operators are all steps forward. LeaseCo, which will pool 21,000 wagons and 600 locomotives for refurbishment, is another. Timelines are extended, but the direction is constructive and provides a platform for long-term resilience, all of which depends on consistent implementation.

- **Sovereign support:** R193bn of PFMA-backed guarantees are unconditional and irrevocable, giving sovereign-equivalent status. The durability of this commitment is central to investor and rating agency confidence. Any shift would reprice risk immediately.
- **Covenant management:** CIC metrics remain under pressure, but active engagement with lenders and the sovereign backstop have successfully stabilised outcomes. While deleveraging will be important over time, the combination of waivers, guarantees, and reform initiatives creates room for gradual improvement over time. Lender support remains key for sustainability.

Key takeaways:

Our current stance is we price the hard anchors, not promises, for now. Policy-backed balance sheets can be underwritten where spreads compensate for timing risk, while reforms provide optionality for repricing once milestones are delivered.

In our framework:

- **We will not underwrite** a thin standalone profile with weak metrics unless with sovereign support.
- **What we price is sovereign support** as we believe execution delay remains underpriced.
- **What changes our mind** is sustained evidence of delivery of hard metric improvements and implemented reform.

Until milestones are banked, Transnet remains a policy-anchored credit. For investors, the decision is less about fundamentals than about politics. Guaranteed instruments offer sovereign-equivalent protection with incremental yield. Operational and policy initiatives embed reform optionality, which, once banked, could drive repricing. Until then, our approach remains clear, we buy the guarantee until milestones are further banked.



Feature: Can the GNU survive

Can the Government of National Unity survive in South Africa

Since its inception post the May 2024 election, and increasingly so recently, we have had the benefit of witnessing a few tests and challenges to the Government of National Unity (GNU) arrangement - the kind of challenges that nearly caused it to collapse completely. The two major political parties, the African National Congress (ANC) and the Democratic Alliance (DA), have been at each other's throats over policy disagreements, budget policy, and other ideological differences – which one could have predicted from the outset.

Based on these developments, we have formulated views on whether the GNU can survive until the 2029 national election. We think the Government of National Unity can succeed, but not by default. Its survival depends on deliberate choices, responsible leadership, and a shared commitment to the country's long-term interests.

We agree that the GNU is complex and can certainly seem messy. But given our current political reality, a fragmented electorate, entrenched factionalism, and the lack of any viable single-party majority; the GNU isn't just our best option, it's our only realistic path to stability, reform, and renewal.

We believe that the GNU could hold based on the following factors:

- 1. Public support is real and growing.** Recent polls indicate that 66% of South Africans believe the GNU is functioning effectively. This matters. Voter backing gives the coalition legitimacy and pressure to perform.
- 2. The GNU has already shown resilience.** The budget vote, initially a moment of potential collapse, became a test of political will and the GNU passed. This proves that with enough incentive, parties are willing to compromise.
- 3. We are seeing policy alignment emerging** not just in theory, but in practice. Reforms under Operation Vulindlela continue to receive support across the GNU. The planned Medium Term Policy Framework could serve as a critical blueprint for unity, if implemented effectively.

Further, we acknowledge the reality that this is a voluntary arrangement. That means continued co-operation is not guaranteed. But ironically, that's part of its strength because all parties involved know that the cost of collapse is far worse. A minority government would plunge the country into chaos, endless impeachments, unstable legislation, and ultimately no progress.

Let's not forget that the alternatives, like the Economic Freedom Fighters (EFF) or uMkhonto weSizwe (MK) coalitions, offer no credible evidence of a vision for governance. Their track record is untested. Some may argue that it is dominated by populism over pragmatism and division over delivery.

By contrast, the GNU, despite its imperfections, has already demonstrated governance discipline through the inclusion of diverse parties like the DA and other smaller reformist players. This has improved transparency, oversight, and accountability. Importantly, the GNU is grounded in shared values, constitutionalism, non-racialism, and social justice. These are not slogans. They are the foundation of the South Africa we must build, and this grand coalition may be the most practical available mechanism that ensures we pursue them.

The path forward

Admittedly, the GNU may not deliver miracles, and it won't be free of friction. But it offers a workable platform to stabilise, reform, and grow.

If the parties involved demonstrate maturity, prioritise delivery over division, and remember that failure would harm the country far more than any single party, then yes – the GNU can survive.

And if it survives, it may just lay the groundwork for a stronger, more mature democracy and a better South Africa.

Patrick Ntshalintshali
Portfolio Manager



Portfolio Management Team



Delphine Govender is Perpetua's CIO and has ultimate responsibility over the entire investment function and capability; this includes accountability over investment performance; ensuring that the integrity of the investment philosophy is maintained; the investment process is consistently applied (and refined where required) and that team succession planning is considered. Delphine has portfolio management responsibilities over all asset classes as well as leading the global equity capability. She has 27 years' investment experience is a qualified CA(SA) and CFA charterholder.



Lonwabo Maqubela is Perpetua's Deputy CIO and one of Perpetua's equity and balanced portfolio managers. He has over 18 years' investment management experience. He joined Perpetua as one of the firm's first team members in 2012. Lonwabo began his journey with Perpetua as a senior analyst and was promoted to a portfolio manager in 2014. Lonwabo is responsible for leading all growth assets at the firm. He is a qualified CA(SA) and CFA charterholder.



Patrick Ntshalintshali is one of Perpetua's equity and balanced portfolio managers. He is responsible for the portfolio risk management aspects of the equity portfolios and direct mentoring of analysts. He is also a Director of Perpetua and fills the role of Portfolio Risk Manager. Patrick has over 28 years' experience in the investments industry spanning primarily listed equity investments as well as private equity. He holds a BCom Hons degree and an EDP.



Pooja Tanna is the portfolio manager for Perpetua's fixed income products which include the following strategies - Enhanced Cash, Domestic Bond Fund, and Flexible Fixed Income Fund. She also manages the fixed income assets within Perpetua's multi-asset class funds and is responsible for leading income assets at the firm. Pooja has over 19 years' financial services experience of which the past 18 years has been spent directly in the field of fixed income - across fixed income trading, interest rate structuring, derivatives trading and portfolio management. She holds a BSc and BSc Hons degree in Mathematical Statistics.



Ryan van Breda is the portfolio manager for credit (Public and Private markets). Ryan has over 18 years working experience in the financial services and investment industry of which 11 years has been spent in the positions of being a portfolio manager in credit and structuring at Prescient Investment Management and Ngwedi Investment Managers. Most recently Ryan focused on structured and sustainable finance. He also launched the Prescient Clean Energy and Infrastructure Debt Fund. He has a B Com (Hons), M Com and also is a FRM.

Invest with us

Mandate	Fund strategy
Perpetua Domestic Focused Equity	The Perpetua Domestic Focused Equity portfolio aims to deliver superior risk-adjusted returns relative to the market benchmark in the medium to long term by using Perpetua's bottom-up research and stock selection, and high conviction portfolio construction within a defined risk-conscious investment process. The portfolio is suitable for investors who are seek long term alpha generation from a strategy benefiting from strong stock selection while seeking to minimise permanent capital loss.
Perpetua Domestic Core Equity (SWIX)	The Perpetua Domestic Core Equity portfolio aims to deliver superior risk-adjusted returns relative to the market benchmark in the medium to long term by using Perpetua's bottom-up research and stock selection while controlling the risk of underperformance in the short term through portfolio construction. The portfolio is suitable for investors who seek long term alpha generation while limiting the risk of short-term underperformance.
Perpetua Domestic Core Equity (Capped SWIX)	The Perpetua Domestic Core Equity portfolio aims to deliver superior risk-adjusted returns relative to the market benchmark in the medium to long term by using Perpetua's bottom-up research and stock selection while controlling the risk of underperformance in the short term through portfolio construction. The portfolio is suitable for investors who seek long term alpha generation while limiting the risk of short-term underperformance.
Perpetua Global Focused Equity	The Perpetua Global Equity UCITS Fund aims to outperform the benchmark MSCI All Country World Index in the medium to long term by using Perpetua's bottom-up research and stock selection to build a high conviction portfolio within a defined risk-conscious investment process, consisting of shares listed on developed and emerging market stock exchanges. The Fund is suitable for investors who accept short term volatility in the pursuit of long-term alpha generation. The strategy is available as a segregated portfolio for clients investing in excess of \$25m.
Perpetua Global Core Equity	The Perpetua Global Core Equity portfolio aims to deliver superior risk-adjusted returns relative to the MSCI World Index in the medium to long term by using Perpetua's bottom-up research and stock selection while controlling the risk of underperformance in the short term through portfolio construction, limiting the tracking error. The portfolio is suitable for investors who seek long term alpha generation while limiting the risk of short-term underperformance.
Perpetua Developed Market Focused Equity	The Perpetua Developed Market Focused Equity portfolios aims to outperform the benchmark MSCI World Index in the medium to long term by using Perpetua's bottom-up research and stock selection to build a high conviction portfolio within a defined risk-conscious investment process, consisting of shares listed on developed market stock exchanges. The Fund is suitable for investors who accept short term volatility in the pursuit of long term alpha generation.
Perpetua International Focused Equity	The Perpetua International Focused Equity portfolios aims to outperform the benchmark MSCI EAFE or MSCI World ex-US Index in the medium to long term by using Perpetua's bottom-up research and stock selection to build a high conviction portfolio within a defined risk-conscious investment process, consisting of shares listed on developed market stock exchanges outside of the USA. The Fund is suitable for investors who accept short term volatility in the pursuit of long term alpha generation.

Mandate	Fund strategy
Perpetua Domestic Balanced	The Perpetua Domestic Balanced portfolio is a multi-asset class portfolio investing in equities, bonds, cash and commodities in South Africa, subject to the restrictions of Regulation 28. The Fund is managed in a manner to deliver returns above long term target of SA CPI+5%. The strategy benefits from Perpetua's top-down macro-driven asset allocation process combined with bottom-up fundamental asset class research and stock-picking.
Perpetua Global Balanced	The Perpetua Global Balanced portfolio is a multi-asset class portfolio investing in equities, bonds, cash and commodities in the domestic and global markets subject to the restrictions of Regulation 28. The Fund is managed in a manner to deliver returns above long term target of SA CPI+5%. The strategy benefits from Perpetua's top-down macro-driven asset allocation process combined with bottom-up fundamental asset class research and stock-picking.
Perpetua Cash Enhanced	The Perpetua Cash Enhanced portfolio is designed for investors who have a need for a competitive return while avoiding any capital loss in the short term. It will aim to deliver returns 1.0% per annum above the Short-Term Fixed Interest rate (SteFI) benchmark before fees, and will do so by investing in short-term credit opportunities, notes, derivatives, short-dated government bonds and collective investment schemes/funds.
Perpetua Flexible Fixed Income	The Perpetua Flexible Fixed Income portfolio provides investors with a blend of stability, income and capital appreciation. The fund aims to deliver outperformance against STeFI x 120% by investing in credit opportunities, duration positions, structured notes, derivatives and alternative strategies. The fund aims to minimise volatility by utilising the various instruments in the fixed income universe.
Perpetua Domestic Bond portfolio	The Perpetua Domestic Bond portfolio seeks to generate capital and interest returns by investing primarily in South African government, parastatal and corporate bonds. The portfolio aims to deliver excess returns by investing in fixed income instruments offering superior yields which actively managing duration and credit, thereby limiting downside risk.

For more information on our products, view them on our [website](#).

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