

PERPETUA INVESTMENT MANAGERS

Multi Asset Class Outlook

MID-YEAR 2025



Perpetua
INVESTMENT MANAGERS



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On my mind

Market uncertainty brings both risks and opportunities

Recently we have been witnessing rising macroeconomic and geopolitical uncertainties which have affected financial markets due to the association with increased risks, thus causing heightened volatility. Growing uncertainty should not be viewed only as a deterrent or a pressing reason for risk aversion when investing citing perceived risks. The opposite can be true for investors who have done thorough fundamental research in advance to understand the prevailing market dynamics as they arise, and have a long-term view. Many market participants often overreact to short-term noise and narratives which leads to excessive price volatility, creating opportunity for long-term investors to take advantage of temporary dislocations in price or value.

Abrupt panic sell-off and drastic short-term price fluctuations over the past few months have presented opportunities to reposition our client portfolios and drive outperformance. For example, when US President Donald Trump announced the massive trade tariffs against countries on the 2nd of April 2025 (also dubbed as Liberation Day in the US), we were able to access opportunities to include high quality securities in our portfolio at significantly lower valuations than they had been available for previously.

This cyclical market behaviour underscores the importance of having a long-term mindset, independent thinking and a disciplined adherence to a thoughtfully developed investment strategy.

The role of diversification in mitigating risks

One of the most effective strategies to manage risks is diversification in the portfolio. By spreading investments across various asset classes, sectors, and geographies, investors can mitigate downturns in any single area. Diversification should not just be considered across asset classes but within each class as well. This doesn't eliminate risks, but it helps manage them, providing more stable returns over extended periods. Again, it is important to review and adjust one's portfolio to ensure that it remains balanced with changing market conditions and stays aligned with strategic objectives. This is a more proactive approach to guard against unintended concentration risks whilst not missing out on potential opportunities.

This principle is applied through our top-down macroeconomic analysis and bottom-up fundamental security selection, allowing us to assess risks holistically. This framework allows for dynamic asset allocation and deliberate shifts both within and across asset classes. For example, in fixed income, we have moderated duration exposure and increased inflation protection where appropriate. In equities, we have focused on valuation-backed opportunities, increasing exposure to high-quality domestic names tied to a cyclical recovery. We retain allocations to globally diversified or defensive sectors, such as Consumer Staples and Resources, that offer resilience amidst high volatility.

Bonds are particularly attractive in today's environment where interest rates generally exceed the average rate of inflation. Given this outlook for bonds, as well as the stretched valuations for some equities, a balanced or multi-asset portfolio looks more prudent than it has in decades.

Policy risks, elevated valuations, and global economic uncertainty make it essential to stay selective and diversified, not just to protect capital, but to uncover opportunities in an increasingly complex environment.

Navigating with experience, skill and discipline

The market is navigating a rising storm of uncertainty. Investors are wrestling with concerns over slowing global economic growth, escalating tariffs wars, and growing geopolitical tensions. Central banks are juggling inflation risks and growth concerns, while companies face margin pressures from supply chain disruptions and wage inflation in a few major economies.

Every downturn, disruption, and period of uncertainty have unlocked opportunities in the past, and it is doing so in a similar manner currently. Having the benefit of past experiences, the insights gained from deep and thoughtful fundamental analysis of markets and underlying securities, and a well-defined investment process which surfaces risk-adjusted ideas which can be blended in a diversified, balanced portfolio is especially important during episodes like this. Rather than being daunted by the perceptions of increased geopolitical and macroeconomic risks, this has presented an opportunity to adjust client portfolios in a manner which maintains exposure to high conviction return generation ideas, while ensuring that we have adequate measures in place to manage the potential risks.

In this commentary

As we pass the halfway mark of a turbulent year, this edition offers a deeper dive into the shifting macro and market dynamics shaping investment thinking today.

- We begin with our **macroeconomic** perspective, where we explore the implications of a changing world order and what the erosion of traditional economic anchors could mean for portfolios going forward.
- In **global equities**, we unpack the ongoing “rewiring” of global supply chains and its investment consequences, alongside an assessment of shifting regional market leadership, highlighting how Europe and emerging markets are stepping up amid policy shifts and valuation resets.
- Turning to **domestic equities**, we reflect on the resilience of South African markets, buoyed by resources and pockets of defensive growth, while also acknowledging the challenges and opportunities that lie ahead for SA Inc. stocks.
- On the **fixed income** front, we assess what it means to rethink bond investing in a post-dollar world. Our feature on South Africa’s FLAC instruments demystifies this new layer of bank capital and what it may signal for credit markets.

We conclude with our team and investment capabilities, offering a reminder of the people and principles behind the portfolios.

We hope this edition equips you with thoughtful context and insight to help navigate the complexity and opportunity of today’s markets.

Enjoy the read!

Patrick Ntshalintshali
Senior Portfolio Manager and Macro-strategist





Macro

FEATURE: A changing world order

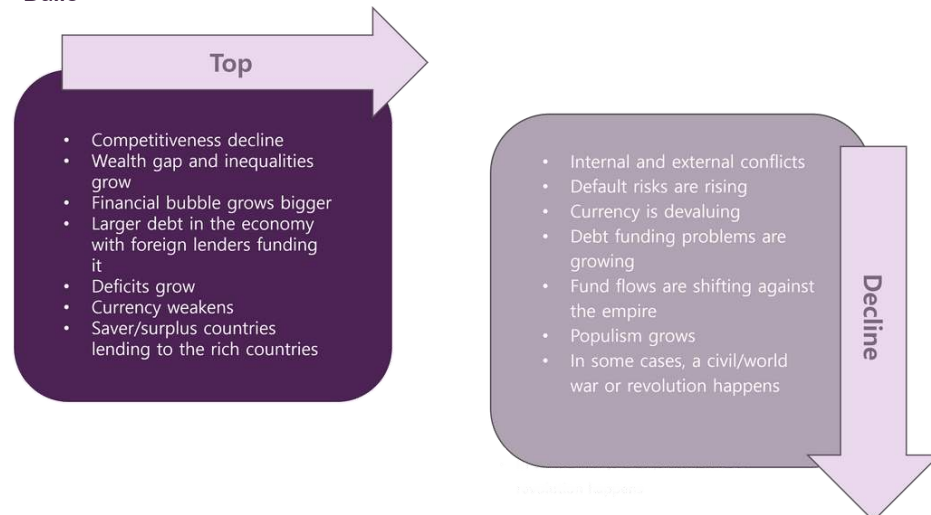
It has become increasingly difficult to analyse macroeconomic outcomes in isolation. Geopolitical dynamics are now central to shaping economic outcomes. The separation between macro and geopolitics is fading and it has become increasingly important to merge the two lenses going forward.

For decades, the U.S. has been the epicentre of global stability, providing both monetary and geopolitical anchors. But today, that foundation appears to be eroding. The dollar's safe haven status is being questioned, fiscal dominance is drawing scrutiny and credit downgrades are no longer unthinkable. This prompts a core question: is the prevailing world order changing?

From peak to pressure: signs of late-stage dominance

As the U.S. maintains its grip on global leadership, the signs of late-stage empire dynamics are beginning to emerge [Figure 1]. Dominant powers tend to follow a familiar pattern: financial excess, followed by external imbalances and culminating in social, political and economic strain. Many of these symptoms such as rising deficits, a weakening currency, social division and foreign creditor reliance are increasingly visible today.

Figure 1: How global empires behave in a changing world order according to Ray Dalio



What once felt like foundational truths, are now being challenged and we see four key themes emerging [Figure 2]:

- USD dominance is coming into question
- Safe haven status of U.S. treasuries is being called into question
- Capital flows are dispersed across new geographies and assets
- Resilience, not scale, defines safe-haven behaviour

Figure 2: A new emerging playbook

Old world view	Theme	New emerging reality
USD unquestioned, Treasuries = core	U.S. centrality	USD dominance challenged, USTs no longer treated as "free alpha"
Flows to U.S. = default	Safe haven logic	Fragmented flows → commodity EMs, real assets
Trust in Fed & U.S. policy	Policy trust	Global investors hedging U.S. dysfunction risk
Always meant "buy the U.S."	Global risk-off	Now = "look for pockets of resilience"

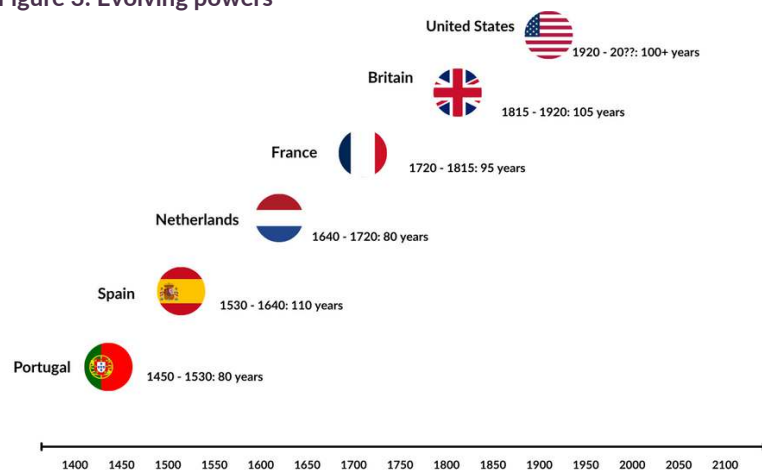
USD reserve status has existed over a century

While the U.S. dollar (USD) has held the global reserve currency status for a long time in the modern era, we are finally seeing fractures starting to form. Empires have risen and fallen over time. Most nations dominated for a century before handing the baton over to the next superpower. Britain held it for 105 years, until the U.S. assumed global leadership during the aftermath of World War 1 [Figure 3].

Our human lifespans are short, and one must not make the mistake of thinking that what has been, will always be. The USD has held reserve status for over a century. We are finally seeing fractures starting to form. Are we witnessing the collapse of one superpower for another to rise? If so, who rises next in a world that looks increasingly fragmented?

While no clear successor has emerged, China stands out as a leading contender. Its response to the renewed tariff war, marked by resilience, retaliation and a refusal to concede, signals a clear intent to chart an independent course. At the same time, China is actively forging new alliances and positioning itself as a more reliable and stable trade partner, quietly laying the groundwork for a shift in global economic gravity. The baton may not pass cleanly from one superpower to the next. Instead, the future may be defined by a more fragmented world, shaped not by a single dominant nation, but by several competing regional spheres of influence.

Figure 3: Evolving powers



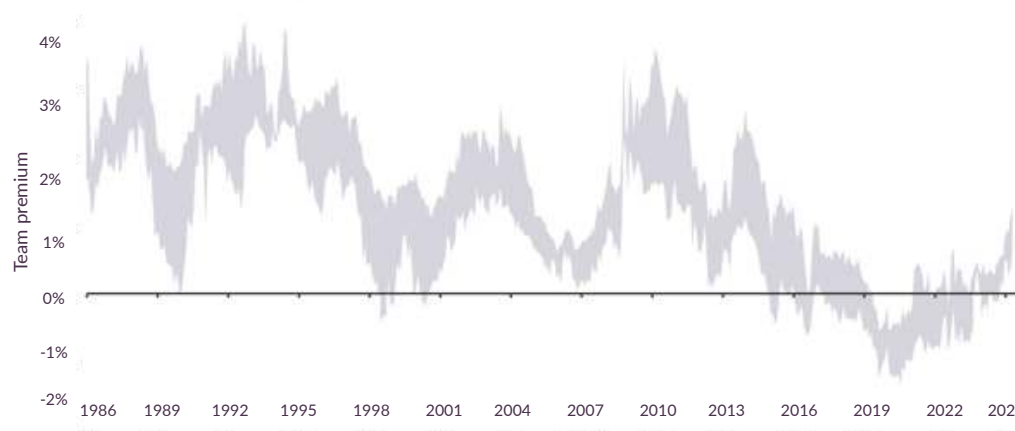
Source: TS Lombard

Shifting economic policies warrants a higher term premium

We believe this new emerging reality warrants a higher term premium. For decades, term premiums trended lower, at times dipping into negative territory, reflecting confidence in long-term fiscal and inflation stability [Figure 4]. That is no longer the case. Persistent fiscal deficits, rising government spending and threats to inflation and monetary policy stability are just a few of the reasons investors are now demanding greater compensation for the risk of holding long-term bonds [Figure 5].

In this environment, a term premium of between 2% and 3% is not only plausible, but increasingly necessary to justify strategic long duration exposure.

Figure 4: Ten-year term premium across U.S., euro area and UK



Source: BlackRock

Figure 5: U.S. government deficit has averaged 9% of GDP in the past 5 years



Source: BofA Global Investment Strategy. GFD. Moody's forecast

Reassessing traditional safe havens

Historically, during periods of market stress, U.S. Treasuries and the dollar have offered reliable downside protection. During previous sell-offs, both assets typically held their value or even gained, while equities sold off sharply [Figure 6]. However, since the latest market correction on the 2nd of April, both assets failed to provide refuge. Instead, it is gold that has clearly emerged as the standout performer, indicating that is the global, neutral safe haven asset.

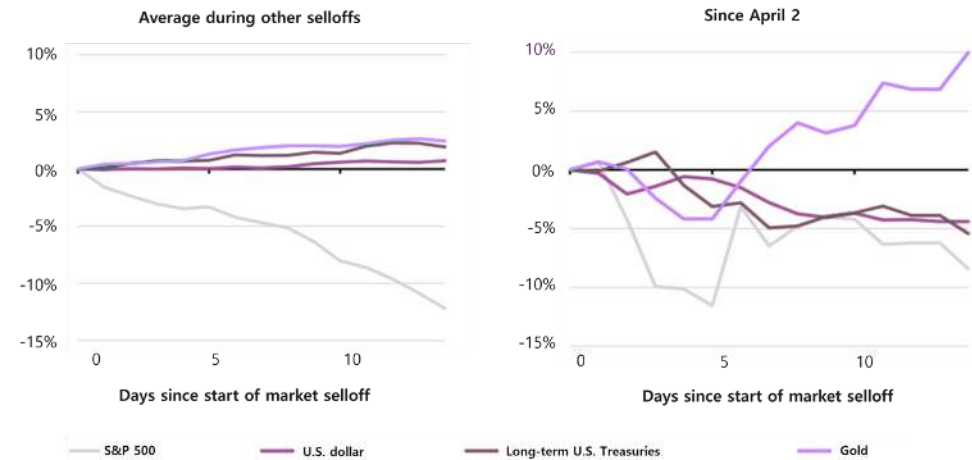
This divergence reinforces a broader shift in investor psychology: resilience is no longer defined by scale or historical precedent, but by independence from U.S. policy dynamics. In recent years, the dollar has become more than just a reserve currency. It has also become a geopolitical instrument, used to enforce sanctions, restrict capital movement and influence trade flows. In other words, the dollar can be weaponised.

This raises several uncomfortable questions for investors and policymakers alike:

- Who is truly “safe” in a dollar-dominated world?
- Which assets provide diversification away from dollar-centric risks?
- What happens when the traditional hedges no longer hedge?

These questions help explain the resurgence of gold. Unlike Treasuries or the U.S. dollar, gold carries no counterparty risk, no central bank, and no political allegiance. In this new regime, gold is reasserting itself not just as a hedge against inflation, but as a hedge against system concentration, a store of value in an increasingly polarised world. For further analysis of this, please click on the link to read our article “[All that glitters is gold – but for how long](#)” by our Deputy CIO, Lonwabo Maqubela, which explores these dynamics and their implications for portfolio construction.

Figure 6: Asset performance during S&P selloffs



Source: BlackRock

Key takeaways

Given all this uncertainty, the key question becomes: Where are we in the cycle and how do we position for it?

We believe we are entering a period of stagflation, where growth slows but inflation remains sticky [Figure 7]. In this environment, we lean into the following ideas:

- Real assets like gold and commodities
- Companies that are trading on sustainably higher dividend yields and stronger balance sheets
- Global bonds, with a focus on diversification away from U.S. exposure
- Selective EM assets with credible monetary frameworks and fiscal metrics
- Inflation backed securities such as TIPs and selective floating-rate credit indices

Figure 7: The macro variables and positioning balancing act





Global equities

FEATURE: The rewiring of global supply chains**China's manufacturing dominance starts to plateau**

For the past three decades, China has served as the engine room of global manufacturing. From textiles to electronics, its factories have powered the world's supply chains, capitalising on low labour costs, efficient infrastructure, and an open embrace of global trade. Today, China still accounts for nearly 30% of global manufacturing output, a dominant share that underscores its role as the "world's factory." This manufacturing prowess has underpinned the country's economic rise and reshaped global business models that rely on scale, speed, and price efficiency.

However, the veneer of that dominance has been eroding. The COVID-19 pandemic starkly exposed the fragility of global supply chains overly dependent on a single region. Lockdowns, factory closures, and shipping bottlenecks caused unprecedented delays across virtually every sector, from semiconductors to medical supplies. In parallel, protracted trade tensions between the United States and China, marked by tariffs on hundreds of billions of dollars in goods, have evolved into broader geopolitical and technological rivalry. Restrictions on high-tech exports, increased scrutiny on Chinese firms, and growing pressure on corporations to reduce exposure to geopolitical risk have intensified calls for diversification.

A shift to "China+1"

Beyond geopolitics, there are fundamental economic factors also challenging China's position. Labour costs in Chinese manufacturing hubs have more than tripled over the past decade, eroding its historical cost advantage. Meanwhile, China's demographic profile is shifting, with a shrinking working-age population and growing labour shortages in key industrial provinces. Moreover, recent policy crackdowns and a less predictable regulatory environment have left many global investors questioning the stability of long-term operations in the country.

In response, multinational corporations have begun executing what's come to be known as "China+1" or increasingly "China+Many" strategies. These approaches aim to retain a foothold in China while diversifying supply chains into other geographies to build resilience. This is not about abandoning China altogether — rather, it reflects a pragmatic recalibration toward flexibility and risk management.

The rise of new manufacturing hubs

Various regions have surfaced as alternatives to China's default dominance [Table 1].

- **Vietnam**, with its close proximity to China, a young labour force, and improving infrastructure, has attracted significant investment. This has specifically been seen in electronics, apparel, and footwear manufacturing with electronics output specifically having doubled in the past five years.
- **India**, supported by large-scale incentive schemes, a burgeoning consumer base and simplified land regulations, is becoming a key player in the mobile phone assembly, pharmaceuticals, and auto components industries. India's manufacturing sector grew at 8% annually between 2015 and 2022.
- **Mexico**, with its strategic location and trade agreements with the United States, has grown in prominence for automotive and electronics production, bolstered by the nearshoring trend. Rates of nearshoring to Mexico have increased by 15% annually since 2019.
- **Indonesia and Thailand** are gaining momentum in low-cost manufacturing and electronics.
- **Poland and Romania** are drawing investment from Western European firms seeking shorter supply lines. Even Sub-Saharan Africa, in early stages of industrialisation, is being eyed for its potential in light manufacturing and agro-processing, especially as firms look for long-term cost-effective alternatives.

Table 1: Emerging hubs and their strengths

Region/Country	Key strengths	Likely product categories
Vietnam	Low labour cost proximity to China improving infrastructure	Textiles, electronics, footwear
India	Large labour force, government incentives (e.g., PLI scheme)	Mobile phones, auto parts, pharmaceuticals
Mexico	NAFTA/USMCA proximity, time-zone alignment with U.S.	Appliances, automotive, electronics
Indonesia	Abundant labour, resource base	Apparel, mining, battery materials
Malaysia/Thailand	Tech manufacturing experience, political stability	Semiconductors, electronics
Eastern Europe (e.g., Poland, Romania)	EU access, skilled labour	Auto components, machinery
Sub-Saharan Africa (e.g., Ethiopia, Kenya)	Early-stage, cost advantage	Apparel, agriculture, light assembly

Cost pressures and margin implications

This strategic repositioning is not without cost. In the short term, companies face margin pressures as they invest in new facilities, retrain labour, and manage the complexity of multi-region supply chains. The duplication of infrastructure and inventory can weigh on earnings. However, this is partly offset by lower labour costs in new hubs and the long-term benefit of risk reduction. Over time, firms may also gain pricing power by being seen as more resilient and reliable suppliers. Still, in the near term, some price pass-through to consumers is likely, especially in sectors with thin margins or high exposure to complex inputs.

Automation also plays an important role in reshaping cost dynamics. In sectors where labour intensity is declining, such as precision components or semiconductor fabrication, the argument for reshoring or nearshoring becomes more compelling especially when paired with government subsidies or energy security considerations.

The response of major companies

Several leading companies are already well into their diversification journey, for example:

- Apple has ramped up iPhone assembly in India and is expanding production of accessories and components in Vietnam.
- Dell and HP have shifted parts of their PC and server supply chains out of China.
- Tesla is building new production capacity in the U.S. and Europe.
- Nike and Adidas are increasingly sourcing footwear from Southeast Asia.
- Semiconductor giants like TSMC and Intel are making landmark investments in the U.S. and Europe, aligned with national security priorities and government incentives such as the CHIPS Act.
- Samsung and LG have relocated smartphone and appliance lines to Ho Chi Minh City in Vietnam to balance cost and supply reliability.

These moves are not merely about geopolitics; they are also about agility. The firms that acted early to diversify their supply bases were better able to navigate pandemic-era bottlenecks and now enjoy enhanced strategic flexibility.

A broader set of sourcing considerations

Importantly, supply chain decisions are no longer driven solely by cost. Resilience, environmental and labour compliance, energy security, and digital traceability are becoming critical factors. Companies are investing in supply chain digitisation, leveraging AI, blockchain, and data analytics, in order to enhance visibility, reduce waste, and optimise logistics across regions. In parallel, ESG-conscious sourcing and decarbonisation goals are influencing where and how firms produce, further accelerating the push away from single-country dependence.

As a result, we are witnessing the emergence of multi-node, digitally enabled supply chains designed not just for efficiency, but for adaptability and compliance in a complex global environment.

The shape of the next global supply chain map

The broader narrative here is not about de-globalisation, but rather re-globalisation. The world is shifting from a model of hyper-optimised, just-in-time supply chains anchored in China, to a more fragmented, regionalised, and strategically diversified system. This “just-in-case” approach reflects a recognition that efficiency must be balanced with resilience. It also marks a significant realignment of global economic geography, one where political alliance, security concerns, and sustainability play as crucial a role as labour cost and shipping time.

For investors, this evolving landscape presents both risks and opportunities. Companies involved in automation, industrial software, logistics, and infrastructure development in emerging manufacturing hubs are poised to benefit. Nations like India, Vietnam, and Mexico could see inflows of foreign direct investment and long-term productivity gains. Exchange traded funds (ETFs) and private capital vehicles targeting these geographies are likely to attract investor attention. Meanwhile, U.S. industrial, logistics, and semiconductor sectors stand to gain from government-backed reshoring initiatives and capital expenditure (capex) cycles driven by national security imperatives.

Positioning for a multipolar manufacturing future

China will remain a manufacturing powerhouse, especially in capital-intensive sectors like renewables, chemicals, and advanced electronics. However, its status as the default supply chain nucleus is being unseated by a more complex and multi-polar reality. Multinational corporations are responding with urgency, building new partnerships, and embracing new models of production that emphasize resilience, flexibility, and regional balance.

For investors, the key is to understand not only where the next factories will be, but also what capabilities, policies, and ecosystems will define the manufacturing powerhouses of the future. Those who adapt early and align their capital accordingly will be best positioned to navigate and thrive in this new era of global production.

Key takeaways

- China's dominance is shifting as rising costs and geopolitical risks drive supply chain diversification.
- “China+1” strategies are accelerating, with India, Vietnam, and Mexico emerging as key alternatives.
- Global firms are investing in resilience, prioritizing regional balance, agility, and risk management.
- Supply chain decisions now factor in ESG, energy security, and digital traceability - not just cost.
- The future is multipolar, with fragmented, adaptable, and tech-enabled supply chains replacing the old model.

Global equities

As we reach the halfway mark of 2025, global equity markets have delivered a mixed but broadly positive performance. While the momentum from 2024 has slowed, particularly in the U.S., other regions have stepped forward, offering investors new opportunities. In this update, we review market performance year-to-date; consider the multiple macroeconomic and geopolitical forces at play; and share our views on what lies ahead for the remainder of the year.

Global equity market performance: a rotation in leadership

Global markets have remained resilient, but the sources of strength have shifted. Here's how major equity regions performed from January to June 2025 [Figure 8]:

- U.S. (S&P 500)

After a stellar 25% return in 2024, the U.S. equity market cooled slightly, though still ended the half-year in positive territory. Gains were again led by large-cap technology and AI-related names.

- MSCI World ex-U.S.

Developed markets outside the U.S. caught up meaningfully, aided by weaker dollar conditions and strong inflows.

- MSCI EAFE (Europe, Australasia & Far East)

EAFE equities, often overlooked in recent years, benefited from attractive valuations and renewed interest as global diversification regained importance. European equities were standout performers in H1, as fiscal stimulus in Germany and interest rate cuts from the European Central Bank (ECB) improved investor sentiment and liquidity.

- Emerging Markets (MSCI EM)

After lagging in 2024, EM equities rebounded with strength, supported by stable currencies, relatively high real yields, and improving fundamentals across several key economies.

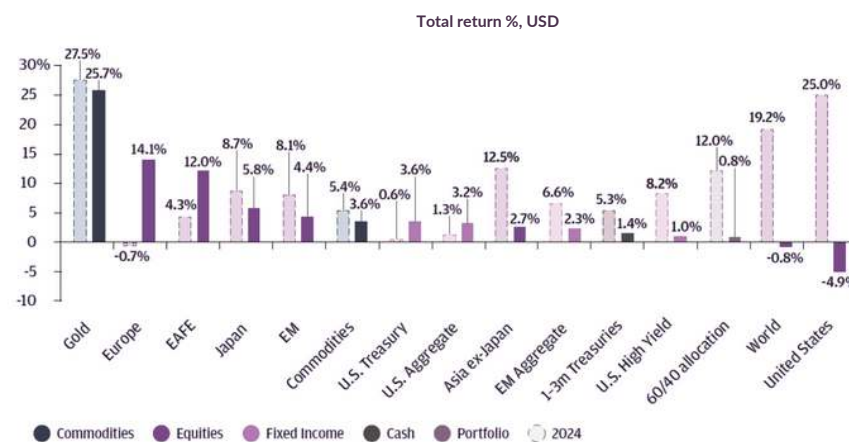
Compared to 2024, the U.S. has moderated, while non-U.S. markets, particularly Europe and EM, have gained traction and leadership. It is indeed for the first time in a long time that non-U.S. markets have been outperforming US equities [Figure 9].

Figure 8: Year to date returns in key global equity indices



Source: Bloomberg

Figure 9: Non-U.S. markets vs U.S. equities



Source: FactSet

What drove global equity market movements in 2025 YTD

- U.S. tariff and policy uncertainty

In early 2025, concerns around new tariffs and shifting trade policies under the current administration weighed on sentiment. Specifically on 2 April which President Trump termed “Liberation Day”, he unveiled a baseline 10% tariff on all imports, escalating to 34 % on China and 20 % on the EU. The S&P 500 plunged -12 % in two sessions and the VIX catapulted from 22 to > 50, its highest since 2020. However, this was offset by continued confidence in technology and AI-driven growth, which helped the broader market stay afloat.

- Europe's policy pivot

Europe surprised markets with a strong fiscal and monetary response. The ECB cut rates multiple times, and Germany announced a €1 trillion investment plan - driving growth optimism and equity inflows.

- AI optimism

The AI investment theme continued to fuel equity gains, particularly in the U.S. Technology giants remain at the forefront of innovation and profitability, helping markets shrug off macro noise.

- Weaker U.S. dollar

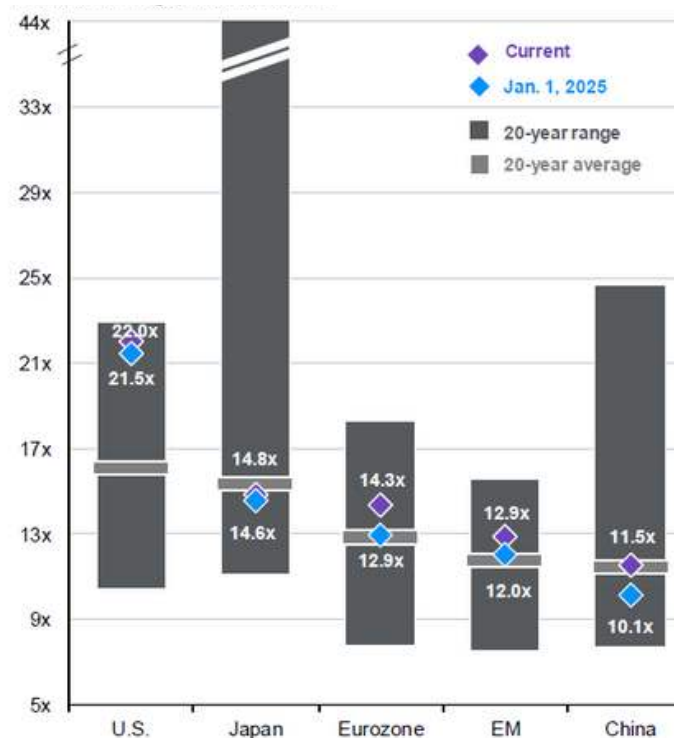
A roughly 7% decline in the U.S. dollar during the first half boosted returns for global and emerging market investors, while also improving export competitiveness in many regions.

- Emerging market resilience

EMs outperformed thanks to better fiscal discipline, stronger currencies, and renewed investor interest in diversification away from the U.S. These markets also benefited from favorable demographics and stable commodity prices.

Investor confidence has gradually improved after a cautious start to the year. While the U.S. experienced modest outflows from equity funds, Europe saw its strongest fund inflows in four years. Valuation gaps have also contributed to this rotation: the U.S. remains expensive (~20x forward earnings), while Europe and EMs are trading at more attractive levels (~14–15x) [Figure 10].

Figure 10: Valuations by country/region
P/E ratios, next 12 months



Source: FactSet, MSCI, Standard & Poors, JPAM

The elevated multiple of the U.S. market reflects the market's concentration in large-cap technology stocks, particularly those benefiting from AI-driven growth expectations. In contrast, European equities are trading at more modest valuations despite strong performance year-to-date, underpinned by supportive monetary policy and fiscal stimulus. Emerging Markets (EM) offer even deeper discounts, reflecting a mix of investor caution, geopolitical risk premiums, and structurally lower growth assumptions. However, many EMs are showing improving fundamentals, positive earnings momentum, and currency stability—suggesting these valuations may understate the opportunity.

Looking ahead: H2 2025 outlook

Looking ahead to the second half of 2025, we believe global equity markets will be shaped by a complex interplay of macro forces, policy decisions, and corporate fundamentals. On the positive side, AI and automation remain powerful structural growth drivers, particularly in the U.S., where technology and semiconductor companies continue to benefit from elevated capital investment and robust earnings visibility. In Europe, improving macro data, further monetary easing from the ECB, and substantial fiscal stimulus—particularly Germany’s infrastructure package—could reinforce momentum, especially in industrials and financials. Emerging Markets may continue to gain ground, supported by currency tailwinds, attractive valuations, and a rotation toward higher-yielding, undervalued assets.

However, risks remain front of mind: inflation has proven more persistent than anticipated in several economies, threatening the pace and extent of rate cuts. Policy uncertainty in the U.S., particularly around tariffs, regulation, and fiscal direction, could introduce volatility and weigh on corporate sentiment. Furthermore, geopolitical tensions—from U.S.-China relations to Middle East instability—may contribute to sudden risk-off episodes.

In this environment, we expect equity returns in H2 to be more differentiated by region, sector, and style, with a premium on earnings durability, balance sheet strength, and valuation discipline. As a result, maintaining a globally diversified, quality-tilted, and dynamically managed equity exposure will be essential to navigating the balance of opportunity and risk in the months ahead.

Opportunities

- Technology leadership in the U.S. remains intact. AI-related earnings and capital investment are likely to stay strong.
- European and EM equities still offer compelling relative value and higher dividend income.
- Selective cyclical sectors could benefit if macro conditions improve and policy risks subside.

Risks

- Trade tensions and political policy shifts, particularly in the U.S., could surprise markets.
- Sticky inflation may delay rate cuts or reduce policy flexibility.
- Valuation pressure means corporate earnings must deliver, especially in tech-heavy markets.
- Currency volatility could reverse some of the tailwinds enjoyed by non-U.S. markets.

Key takeaways and positioning

2025 so far has marked a turning point in global equity leadership. After a multi-year U.S. dominance, international markets have reasserted themselves, helped by supportive policy, reasonable valuations, and more balanced growth drivers. For investors, this reinforces the importance of:

- True global diversification,
- Active regional and sector allocation, and
- Flexibility to respond to policy and macro shifts.

We remain constructive on global equities but mindful of rising risks. Specifically, we remain underweight US equities and overweight international and emerging market equities. A balanced approach cognisant of downside risk management offers the best foundation for navigating what could be an eventful second half of the year.



A person in a light blue shirt is sitting at a wooden desk, writing in a notebook. The notebook is open, and the person's hand is visible holding a pen over the pages.



Domestic equities

Domestic equities

Resilient South African equities — but a new world awaits

The JSE Capped SWIX returned a strong 16.7% in the six months to end-June 2025, driven primarily by a c.40% surge in the Resources sector year-to-date (YTD). Industrials and Financials delivered more modest returns of 15% and 6.5%, respectively [Figure 11]. Within industry groups, Telcos led the charge, bolstered by outsized returns from Blue Label Telecoms (+150%) and MTN (+57%). In contrast, Aspen's 28% decline weighed heavily on the Healthcare sector.

Amid heightened global uncertainty, largely sparked by the renewed "Trump Tariffs", investors rotated into defensive assets. This benefitted Consumer Staples, with British American Tobacco (+29%) and AB InBev (+32%) outperforming. Importantly, these companies are also beginning to show improved organic growth.

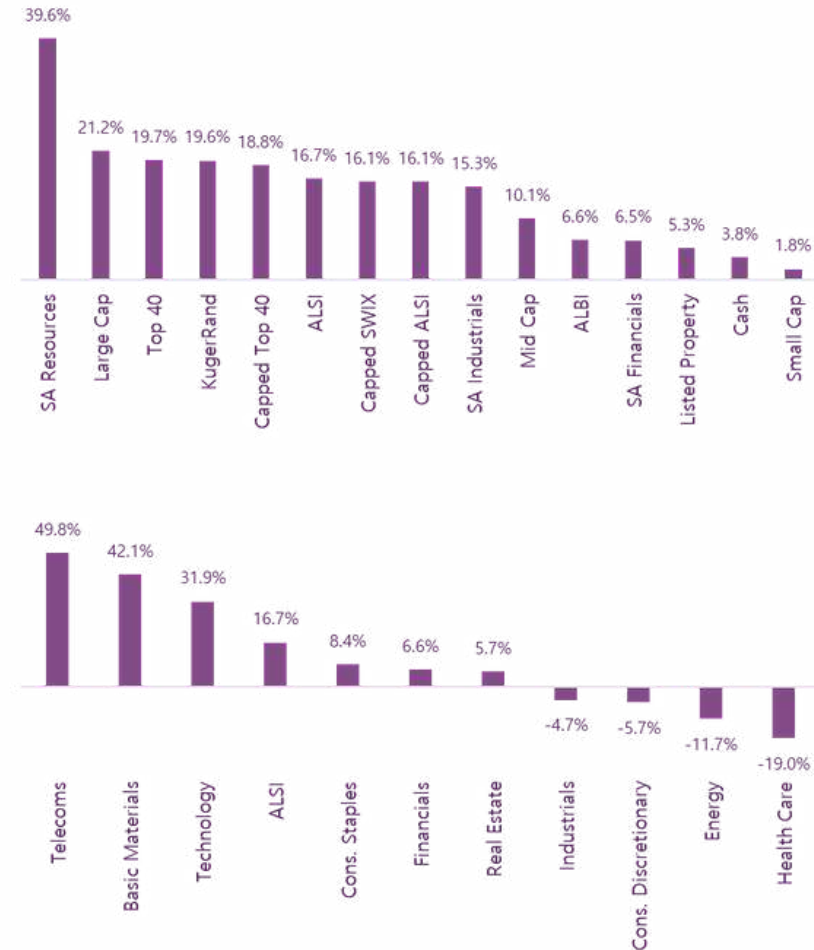
By contrast, domestically focused sectors, often labelled "SA Inc.", lagged. Banks (+4.3%), Life Insurers (+8.6%), Construction and Materials (-12%), and Retailers (-17%) reflect the ongoing pressure from anaemic domestic growth [Figure 12].

Figure 11: Major indices returns over H1 2025



Indexed to 100, total returns depicted
Source: FactSet

Figure 12: SA Asset Class Returns YTD



Source: FactSet, SBG Securities analysis

Revisiting our earlier view

In our previous [Multi-Asset Class report](#), published in January 2025, we highlighted several trends likely to drive earnings:

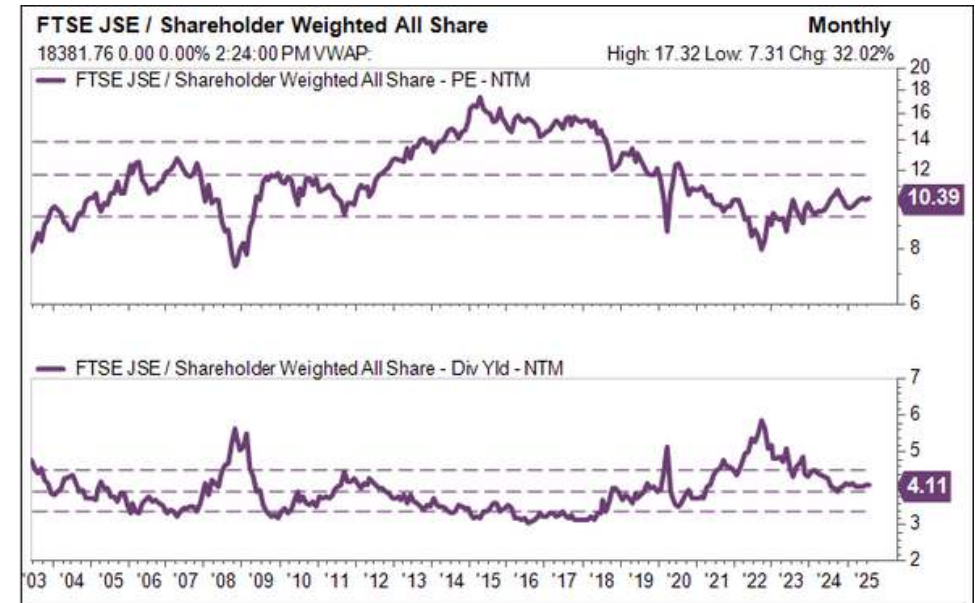
- Resources underperformance in preceding periods, particularly PGMs, presented opportunity due to sub-economic basket prices. We were more cautious on gold, which appeared fully valued following its strong rally.
- Diversified miners were pricing in weaker commodity prices, but macroeconomic headwinds limited the case for a sharp rebound.
- Domestic consumption was expected to improve as falling interest rates and higher disposable incomes bolstered consumer confidence.
- We also anticipated improving shareholder distributions.

These themes largely played out in line with our expectations. However, the gold rally persisted ahead of expectations, underpinned by both investor and central bank demand. Industrial Metals and Mining whilst attractive, have lagged. PGMs had a stellar first half, with platinum and palladium shares rising 52% and 22% respectively, translating into YTD returns for PGM equities of close to 100%.

Cheap and resilient SA

Despite persistent global headwinds, including sluggish post-Covid growth, elevated inflation, high interest rates, geopolitical instability, and weak Chinese growth, the JSE Capped SWIX has delivered a 16% annualised return over the past three and five years. Much of this performance reflects a recovery from Covid-era earnings troughs and an uplift in sentiment, as evidenced by rising price-earnings (PE) multiples. Valuations, while above their lows, remain attractive with the market PE ratio currently at 10.4x, below its long-term average of 11.6x, and the average dividend yield being an attractive 4.1% [Figure 13].

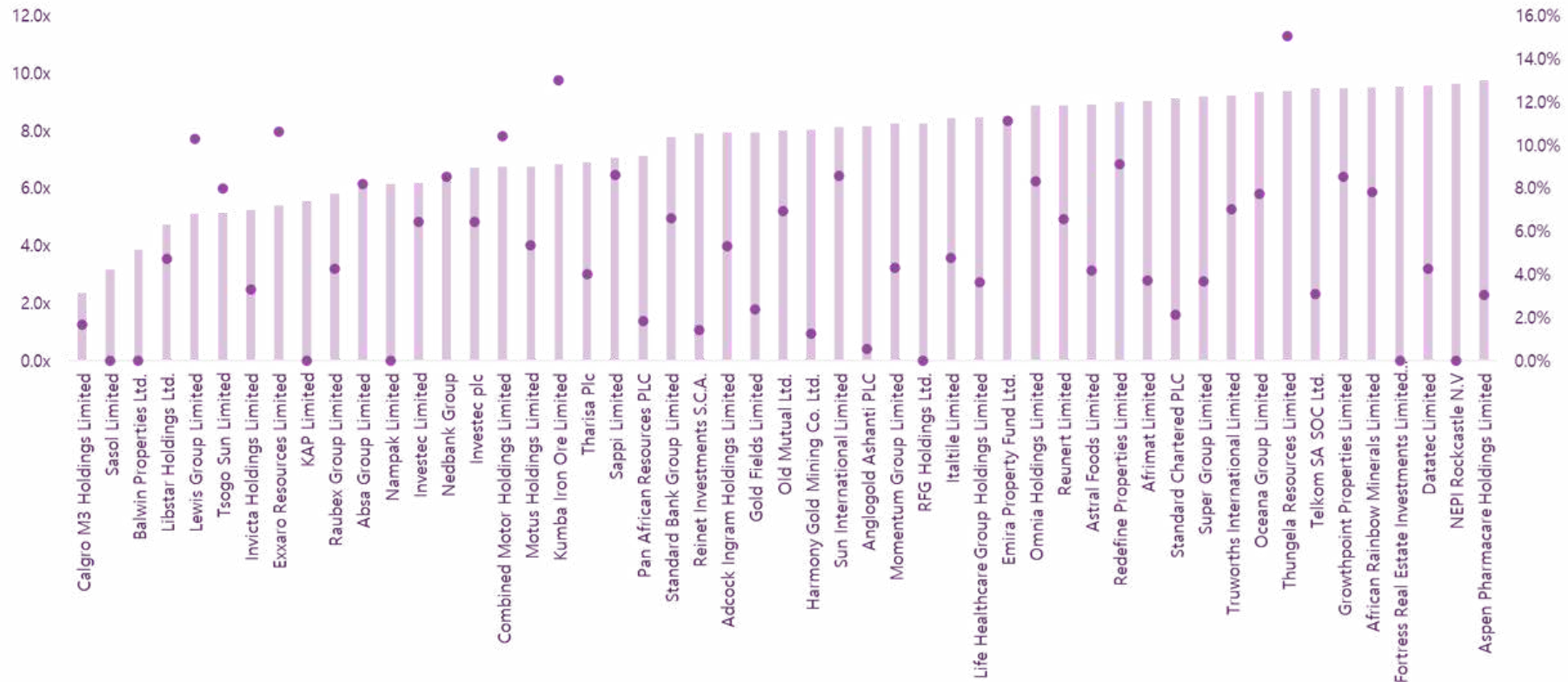
Figure 13: JSE Valuation levels



Source: FactSet

We continue to find a broad range of conservatively financed businesses trading below 10x PE and offering compelling dividend yields [Figure 14].

Figure 14: Attractive valuation



Source: FactSet

Domestic consumption may surprise

We maintain the view that lower interest rates and inflation, combined with YTD wage growth of 9%, should support consumption, especially off the weak 2024 base. Encouragingly, new passenger vehicle sales have rebounded by 21% compared to the same period last year.

In response, in addition to our existing exposure, we've increased exposure to domestically focused counters such as Bidvest (BVT), Truworths (TRU), The Foschini Group (TFG), FirstRand (FSR), and Nedbank (NED).

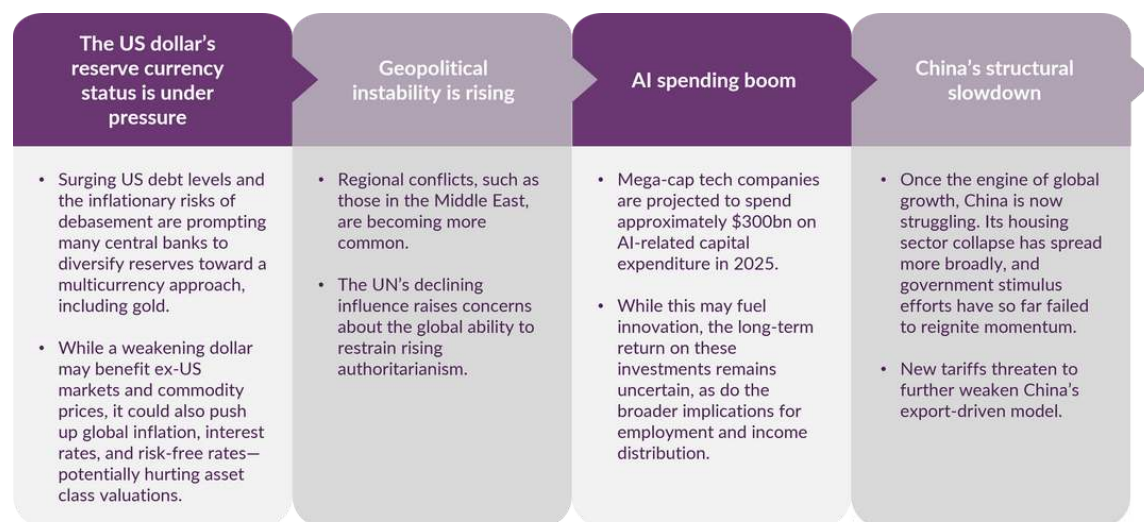
Global risks are rising

South Africa's attractive valuations need to be considered in the broader global context, where headwinds are intensifying.

In the US, economic indicators are beginning to soften. Unemployment is rising, job openings are declining, and discretionary spending on housing, vehicles, and dining out, is weakening. Credit card defaults are on the rise, capital expenditure plans are slowing down, and this is all unfolding before the next wave of tariffs.

We believe global equity markets are underestimating several seismic shifts [Figure 15].

Figure 15: Seismic shifts expected in global markets



Source: Perpetua Research

Portfolio positioning

South African equities have proved to be remarkably resilient, buoyed by solid resource performance, improving fundamentals, and attractive valuations. Yet we are entering a new global era defined by geopolitical realignment, economic fragmentation, and technological disruption.

While valuation remains a key anchor for our positioning, the case for diversification and selectivity is stronger than ever. Investors will need to navigate a complex landscape, marked by both local opportunity and global upheaval, with caution, conviction, and a clear-eyed view of structural changes.

Against this backdrop, our portfolio reflects a deliberate balance of domestic conviction and global risk-aware diversification, as outlined below:

- We are positioned to benefit from a cyclical improvement in domestic conditions, with increased exposure to SA Inc. counters in retail, logistics, and financials.
- Exposure to precious metal miners, particularly PGMs, remains high, supported by strong YTD performance, tight supply-demand dynamics, and elevated geopolitical risk premiums.
- Positions in Consumer Staples are retained for their resilience in a flight-to-safety environment and early signs of organic growth.
- Selective allocation to China-linked opportunities reflects a cautiously constructive view on potential stabilisation, focused on diversified or indirect exposure.
- Overall, we continue to anchor our equity allocation in valuation discipline, while actively seeking to diversify risk and capture return across sectors and geographies.



Fixed income

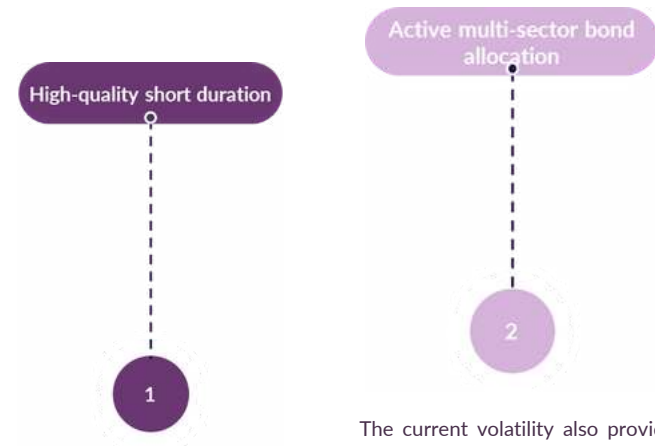
Fixed income

De-anchored: re-thinking fixed income in a post-dollar world

As traditional anchors of stability lose their grounding weight, fixed income markets are evolving to reflect this transition. With U.S. treasuries no longer providing the safety net they once did, the focus has shifted towards diversification.

This new regime calls for a new fixed income framework, one that remains anchored to the core principles of fixed income investing, yet responsive to evolving risks:

- Generating income and total return
- Ensuring capital preservation and volatility management
- Providing diversification against risk assets



With short-end yields already elevated, staying tactically short duration continues to make sense, especially as concerns around tariffs and potential inflationary pressures resurface. High-quality short-dated instruments provide carry while limiting duration risk in a market still recalibrating rate expectations.

The current volatility also provides good opportunities to assess multiple countries and curves, that could be driven not only by central bank actions, but also varied growth expectations and inflation trajectories. A strong understanding of individual macroeconomic and monetary policy outlooks for each area is key to identifying cross country relative valuations and curve positioning [Figure 16].

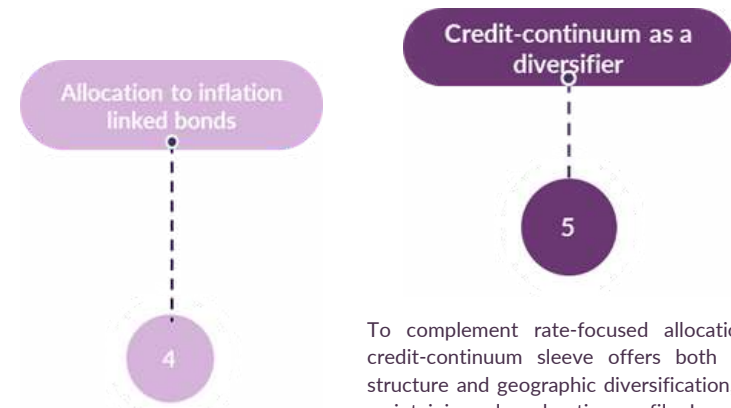
Derivatives as a yield enhancer & risk mitigator



Derivatives play a dual role in this environment. First, they offer tactical yield enhancement through instruments such as swaps and options, which can be layered over core portfolios without increasing directional risk. In fact, if structured correctly, derivatives can deliver similar yields to outright bonds but with lower volatility, especially when exploiting spread differentials (e.g. yield curve or asset swap spreads). Second, they provide tail-risk protection, allowing investors to hedge against specific outcomes such as sharp rate increases or heightened currency volatility.

New building blocks – a new fixed income framework

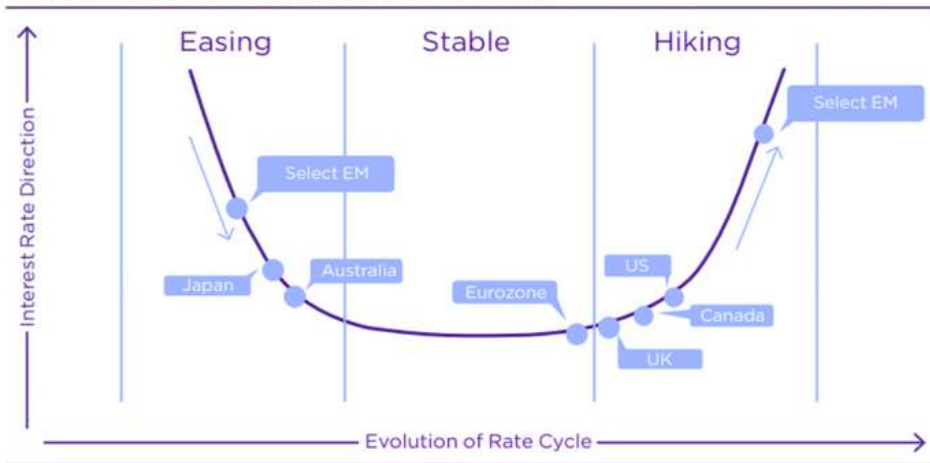
In our view, a framework based on a mix of targeted, tactical strategies can benefit investors. We break this down into five core building blocks:



In a world where inflation has likely bottomed and risks are skewed to the upside, holding inflation-backed securities, particularly TIPs, can provide effective protection against unexpected inflation shocks. Locally, we believe opportunities exist at the short end of the curve, where break-evens are more attractive, while the long end remains too expensive relative to fundamentals [Figure 17].

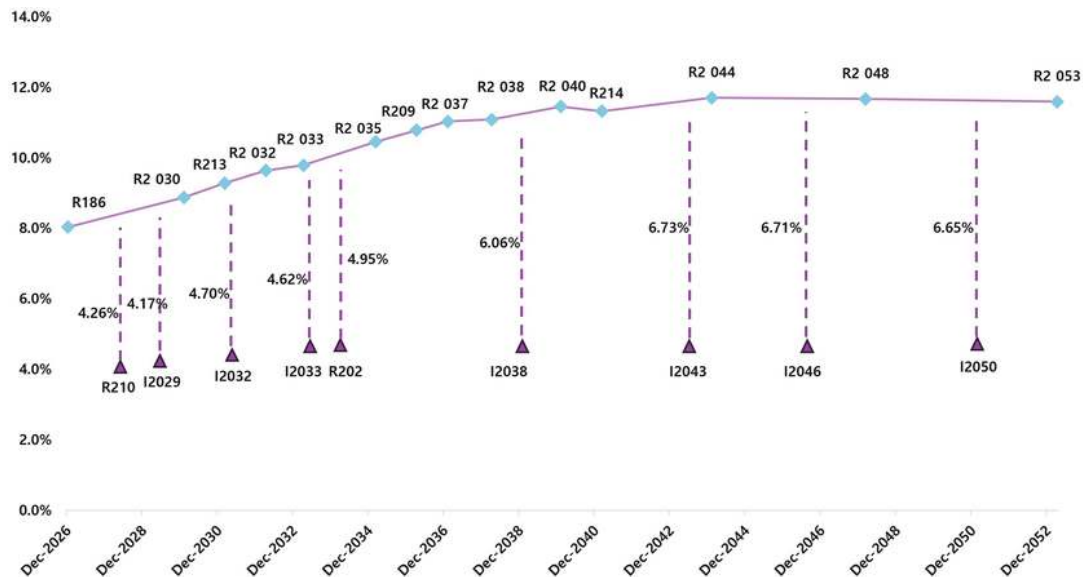
To complement rate-focused allocations, a credit-continuum sleeve offers both capital structure and geographic diversification, while maintaining a low-duration profile. Locally, we plan to incorporate defensive ZAR-denominated senior FLAC floaters (see our feature piece: [What the FLAC is going on?](#)), alongside subordinated AT1 instruments. Together, they span the risk spectrum, balancing high carry with low-interest rate sensitivity. To round out the block, a currency-hedged allocation to US investment-grade corporate credit is being considered. While slightly longer in duration, this adds sectoral and geographic diversification, helping to offset concentration risk in domestic financials. The result is a robust, high-carry allocation with a composite duration of approximately 2–2.5 years and strong resilience to rising-rate shocks.

Figure 16: Global rates and policy divergence



Source: Amundi

Figure 17: Inflation breakevens are averaging 6%-6.5% in the long end of the curve, higher than the 12-year inflation average of 5.1%.



Positioning

The shift in the global order demands flexibility, protection and targeted exposure. Our current positioning reflects this view:

- Tactical reduction in government bond overweight, following the recent rally in yields, brings positioning closer to strategic asset allocation.
- Maintaining an underweight stance in long-dated U.S. Treasuries, with a clear preference for short-dated T-bills and inflation-protected securities (TIPs).
- Global bond exposure is being diversified, with Brazil offering particularly attractive real yields.
- Currency exposure is actively managed as both a source of alpha and a macro risk mitigation tool.
- Short-dated domestic inflation linkers are favoured, offering better relative value than long-end counterparts.
- Credit allocation is being expanded through a diversified mix of local senior floaters (FLACs), subordinated AT1s, and currency-hedged U.S. investment-grade corporates to enhance carry and mitigate concentration risk.
- Selective diversification into listed property counters is under consideration, where all-in return prospects now appear more attractive than comparable fixed-income alternatives.

What the FLAC is going on?

South Africa's bail-in bonds that can bite back

South Africa's banks are gearing up for significant issuances – a shift that could reshape listed credit markets and redefine future bank funding curves. We unpack the structure, risks, and market implications of First Loss After Capital (FLAC) Instruments - and what it all means for investors.

A new era for bank resolution in South Africa

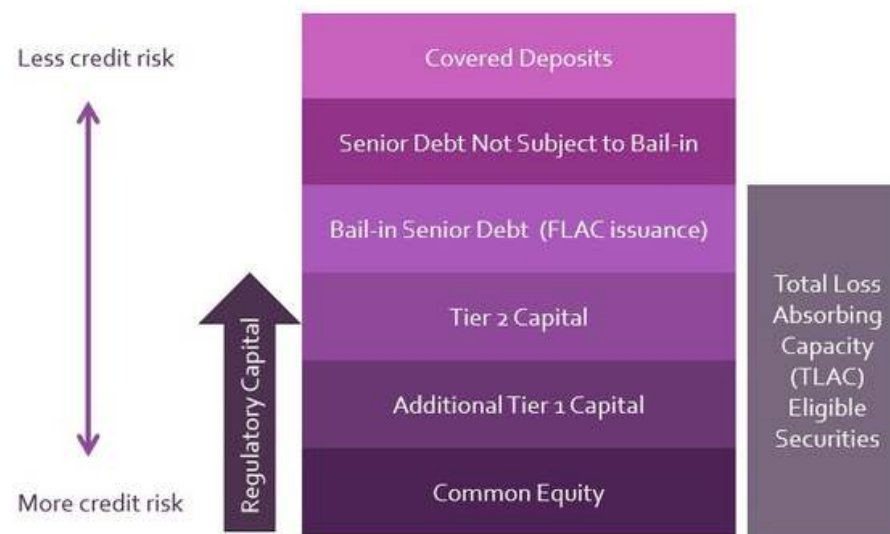
South Africa's banks are poised for a significant shift with the introduction of FLAC Instruments - additional bail-in bonds designed to strengthen the financial system and reshape the credit investment landscape. This evolution presents institutional investors with new opportunities and unique risks.

Enhancing loss absorption through FLAC instruments

Prompted by lessons from the global financial crisis, regulators worldwide have implemented frameworks to minimize taxpayer-funded bank bailouts. The Financial Stability Board (FSB) developed a framework for managing the failure of systemic financial institutions, emphasizing adequate loss-absorbing capacity to minimize the need for public bailouts. To mitigate public fund use during crises, regulators introduced Total Loss-Absorbing Capacity (TLAC) standards, allowing them to "bail-in" banks by cancelling or converting debt held by investors into equity during financial distress. This approach aims to protect taxpayers while ensuring financial stability.

In South Africa, the Prudential Authority has introduced FLAC Instruments under Prudential Standard RA03, aiming to provide adequate loss-absorbing and recapitalization capacity for systemically important financial institutions (SIFIs). The domestic regulator applies international TLAC principles to these banks and their holding companies. SIFIs designated by the Governor of the Reserve Bank currently include Absa Bank Limited, Capitec Bank Limited, FirstRand Bank Limited, Investec Bank Limited, Nedbank Limited and The Standard Bank of South Africa Limited.

Figure 18: Simplified capital structure with loss-absorbing capital

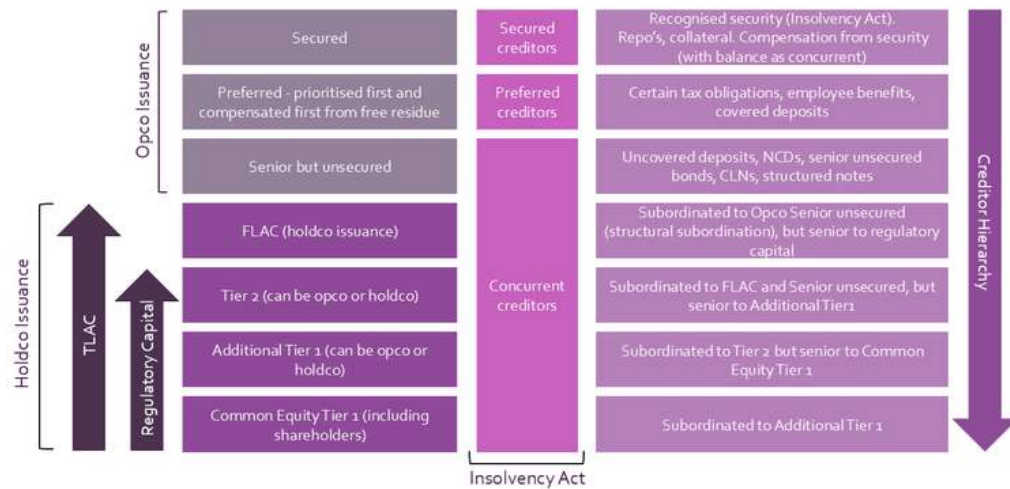


Source: Perpetua Research and BIS

Defining characteristics of FLAC Instruments

- New instruments that are to be issued by the ultimate bank holding company.
- These instruments differ to vanilla senior unsecured bank bonds, as those bonds are issued by the operating bank entity.
- The instruments are fully paid, unsecured, but now are required to have a minimum initial maturity of 24 months to be FLAC compliant.
- Instruments are required to have a minimum remaining maturity of 12 months, implying that these instruments are callable 12 months prior to maturity.
- Instruments prohibit early redemption by the issuer and acceleration clauses.
- Rank junior to other senior unsecured claims but senior to regulatory capital - Common Equity Tier 1 capital (CET1), Alternative Tier 1 (AT1) and Tier 2 (T2) instruments.
- Investors are required to acknowledge bail-in risk by the regulator within resolution.

Figure 19: FLAC instrument ranking in the creditor hierarchy



Source: Perpetua Research and Standard Bank Research

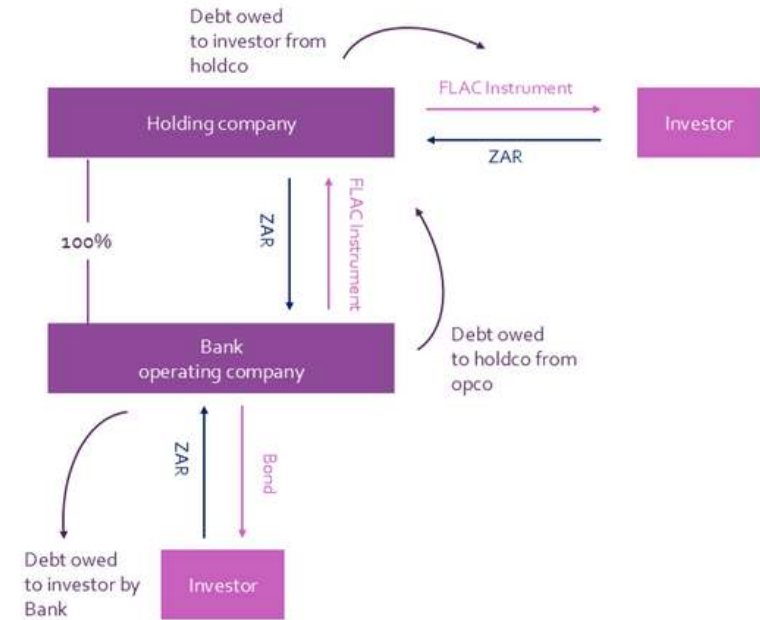
Understanding the creditor hierarchy

FLAC Instruments in resolution rank:

- Below senior unsecured creditors;
- Above regulatory capital instruments (CET1, AT1, T2); and
- This “non-preferred senior” position means FLAC Instruments, during resolution, absorb losses after regulatory capital is exhausted but before impacting other unsecured creditors.

FLAC Instruments are structurally subordinated, given where they are issued. Structural subordination occurs because the holding company's debt ranks below that of its subsidiaries, as creditors of the subsidiaries have first claim on the assets of those subsidiaries. Therefore, the holding company's ability to meet its financial obligations will depend on receipt of interest and principal repayments on loans made by it to its subsidiaries and/or distributions of earnings and capital received from its subsidiaries in the form of dividends, distributions or other advances and payments from time to time.

Figure 20: Structural subordination risk



Source: Perpetua Research

The risks: bail-in mechanics and investor impact

Bail-in within resolution: Activated when a bank enters resolution. FLAC Instruments are bailed-in only after CET1, AT1 and T2 regulatory capital instruments have first absorbed losses.

No acceleration/event of default: Like AT1 and T2 regulatory capital instruments, Investors do not have acceleration rights or event of default rights, meaning instruments continue according to original terms.

Market impact and investment opportunity

The initial FLAC issuance requirement is substantial, ranging between R288-R360 billion. Given existing JSE listed vanilla senior unsecured bank bonds of cR243billion, a shortfall of R25-R117 billion suggests considerable issuance opportunities and likely higher yields to compensate for structural and legal uncertainties. Phasing occurs from 1 Jan 2026 over a 6-year period.

In early FLAC issuance phases, investors should require additional yield spreads compared to existing senior bank bonds, reflecting structural subordination, bail-in risk and the volume required. Over time, these spreads may establish a new, elevated "senior" base funding curve - leading to a structural uplift in bank bond credit spreads. We believe this repricing will influence broader credit market spreads including for corporates, SOEs, and other issuers in time.

Looking forward

As South Africa transitions to this new resolution framework - regulatory clarity, fairness, and transparency will be crucial for maintaining investor confidence. Institutional investors must carefully evaluate AT1 and T2 regulatory capital instruments, the FLAC structure, creditor hierarchies, and bail-in risks both pre-resolution and during resolution.

Unlike AT1 and T2 instruments, which can be bailed-in at a pre-resolution trigger (Point of Non-Viability), FLAC instruments are bailed-in solely during resolution. In resolution, statutory creditor hierarchies apply, ensuring creditors are treated no worse than in liquidation. The requirement for concurrence between the Prudential Authority and the Reserve Bank prior to any pre-resolution bail-in is an essential safeguard to AT1 and T2 instrument holders, though legal and procedural uncertainties remain. As active stewards of client capital, we proactively engage the relevant regulators to advocate for a credible, transparent, and fair resolution regime that should preserve creditor hierarchies pre and in-resolution.

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 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. 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.

Invest with us

Mandate	Fund strategy
Perpetua Enhanced Cash	The Perpetua Enhanced Cash 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 the BEASSA ALBI benchmark 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.
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.

For information on Perpetua's products please see the table on the following page, visit our [website](#), or contact our client team at clients@perpetua.co.za

Invest with us

Performance ended 30 June 2025	Inception date	1 year	3 years	5 years	Since inception
Perpetua Domestic Focused Equity	November 2012	23.5%	17.8%	19.1%	8.8%
<i>JSE Capped SWIX</i>		24.6%	15.9%	16.2%	10.4%
Active return		-1.1%	+1.9%	+2.9%	-1.7%
Perpetua Core Domestic Equity (SWIX)	July 2015	24.7%	16.5%	15.2%	8.2%
<i>JSE SWIX</i>		25.2%	16.1%	14.4%	8.1%
Active return		-0.5%	+0.3%	+0.7%	+0.1%
Perpetua Domestic Core Equity (Capped SWIX)	January 2021	24.1%	16.4%	-	15.5%
<i>JSE Capped SWIX</i>		24.6%	15.9%	-	15.1%
Active return		-0.5%	+0.5%	-	+0.4%
Perpetua Global Focused Equity (USD)	February 2019	27.1%	22.2%	14.0%	9.5%
<i>MSCI ACWI (Net) (USD)</i>		16.7%	17.9%	14.2%	12.7%
Active return		+10.4%	+4.3%	-0.2%	-3.2%
Perpetua Global Core Equity (ZAR)	September 2023	13.7%	-	-	9.8%
<i>MSCI World (ZAR)</i>		13.5%	-	-	15.5%
Active return		+0.2%	-	-	-5.8%
Perpetua Developed Market Focused Equity (USD)	October 2021	26.5%	18.8%	-	9.9%
<i>MSCI World (USD)</i>		16.3%	18.3%	-	8.4%
Active return		+10.2%	+0.5%	-	+1.5%

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

Invest with us

Performance ended 30 June 2025	Inception date	1 year	3 years	5 years	Since inception
Perpetua Enhanced Cash	November 2024	-	-	-	5.8%
3 month JIBAR		-	-	-	4.5%
Active return		-	-	-	+1.3%
Perpetua Flexible Fixed Income	April 2024	12.6%	-	-	13.7%
120% of STeFI		9.8%	-	-	10.0%
Active return		+2.8%	-	-	+3.7%
Perpetua Domestic Bond	April 2015	18.8%	13.5%	11.9%	9.3%
ALBI		18.4%	13.4%	10.9%	8.9%
Active return		+0.4%	+0.1%	+1.0%	+0.4%
Perpetua Domestic Balanced	January 2014	22.2%	16.6%	16.6%	8.3%
70% Capped SWIX, 20% ALBI, 5% CILI, 5% STeFI		21.6%	14.6%	14.4%	8.8%
Active return		+0.6%	+2.0%	+2.2%	-0.5%
Perpetua Global Balanced	August 2013	19.2%	17.1%	15.4%	8.8%
ASISA SA Multi Asset High Equity Category Average		15.2%	13.4%	11.9%	8.4%
Active return		+4.0%	+3.7%	+3.5%	+0.4%

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

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