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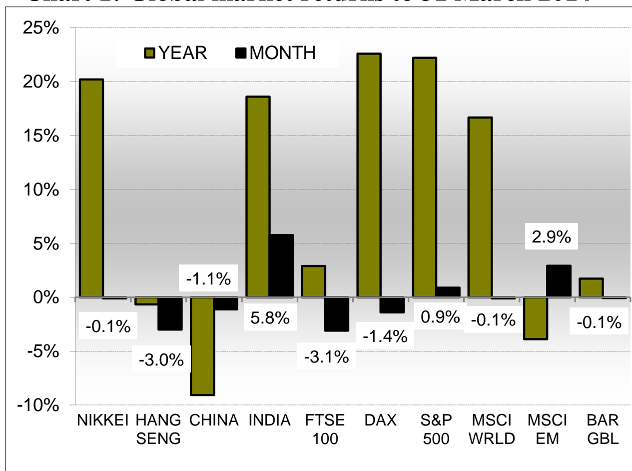
March in perspective – global markets
March proved to be a "tricky" month, with all sorts of geo-political hurdles and some disappointing economic news to contend with. Global markets seem to be struggling to find direction; although many of them reached all-time highs during March, they did so with little conviction and have subsequently retreated from their records in the early days of April. By way of example, although the US equity market reached an all-time high in the last week of March, less than 10% of its constituents actually reached new highs i.e. there was very little breadth in the market. Perhaps that is not too surprising, given the stellar returns experienced on global equity markets in 2013. This year was always going to be a disappointing one if investors expected a repeat of 2013.

Chart 1: Global market returns to 31 March 2014



It might come as a surprise to you to see which asset classes were the winners during the first quarter of 2014. The latter are contained in Table 1; country returns are measured by their respective, dollar-denominated MSCI indices. In the case of emerging markets, many of their currencies enjoyed a strong month during March, which subsequently lifted their year-to-date i.e. first quarter equity returns into positive territory in dollar terms.

In terms of actual returns, the MSCI world index declined 0.1%, while the MSCI emerging market index rose 2.9%. Chart 1 depicts the returns of the major markets. With the exception of Brazil (7.0%), India (5.8%) and Indonesia (3.2%), most equity markets ended the month in negative territory. The dollar was marginally firmer against developed currencies but a lot weaker against emerging market currencies. The Indian rupee rose 3.8%, the Brazilian real 3.5% and the Turkish lira 3.1%. The rand's 2.1% gain against the dollar during March should be seen in this context.

Table 1: 2014 First quarter winners and losers (%)

	Best performing	Worst performing
Asset class	Commodities	Cash
Commodity	Coffee	Copper
Fixed income sector	EM sovereign bonds	US treasuries (1 – 3 year duration)
Equity sector	Utilities/ healthcare	Telecoms/ Consumer discretionary
EM equity market	Indonesia	Russia
DM equity market	Israel	Japan
EM sovereign bonds ($)	Greece	Russia
DM sovereign bonds ($)	Portugal	Canada
Foreign exchange	Brazilian lira	Russian rouble

Source: Merrill Lynch

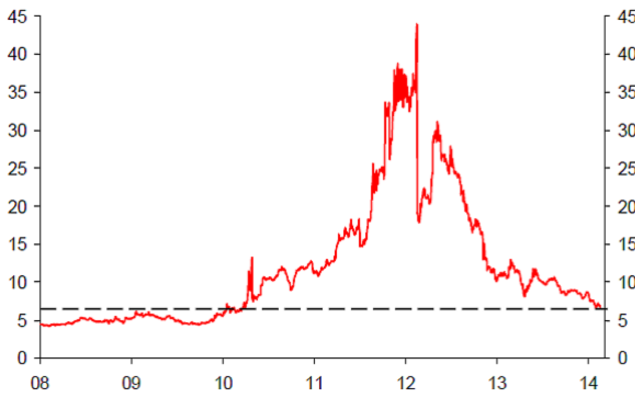
Commodity prices were weak across the board; gold, platinum and silver declined 2.6%, 2.5% and 6.1% respectively, while copper fell 5.7%. Soft (food) commodities were firmer though, which helped the broad-based commodity indices to post marginal gains.

What's on our radar screen?
Here are a couple of items we are keeping a close eye on:

- *The SA economy:* the SA inflation rate rose from 5.8% to 5.9% in February, driven largely by the increase in medical insurance costs. Core inflation remained at 5.3%. February retail sales rose 6.8% on an annual basis, which was better than expected.
- *Developed market economies*: **Japanese** industrial production rose 6.9%, retail sales rose 3.6% at an annual rate in February and inflation rose 1.5% in the past year, up from 1.4% in January.
- *Emerging market economies:* **Chinese** inflation rose at an annual rate of 2.0% in February, down from 2.5% in January. February retail sales rose at an annual rate of 11.8%. February inflation rose 8.1% in **India**, lower than January's 8.8%. In **Indonesia**, February inflation rose 7.8%, down from 8.2% the month before and the Bank of Indonesia (the central bank) revised its expected growth rate for 2014 from 5.8% to 5.5% and for 2015 from 6.2% to 5.9%. **Malaysian** inflation rose 3.5% in the year to February and industrial production rose 3.6%. In **Russia** the unemployment rate is currently 5.6% and the annual inflation rate at 6.2%. In **Greece**, which has outperformed most other markets during the course of the past year, inflation is running at -1.1% i.e. there is deflation, the unemployment rate has declined to 5.6% and industrial production increased at a rate of 1.1% in the year to January. For the record, during the past quarter i.e. for the year-to-date, Greek sovereign bonds have risen 25.4% and Greek equities 18.7% on an un-annualized basis. In the

past year to end-March, Greek bonds are up 102.4% and Greek equities 58.8%. Refer to Chart 2 in this regard, remembering that when bond yields decline, as they have recently, prices are rising i.e. there is an inverse relationship between bond yields and prices. In **Turkey**, December unemployment rose to 10.0% and annual inflation rose to 7.9% in February. And finally, **Brazil** announced that its economy grew at 0.7% in the December quarter, up from a *decline* of 0.5% in the September quarter last year.

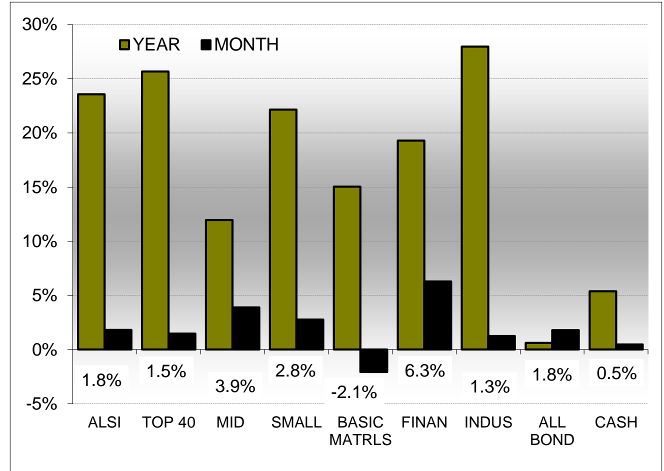
Chart 2: Greek 10-year government bond yields (%)



March in perspective – local investment markets

March proved to be a difficult month in local equity markets, too. After surging 10.9% in the first two months of this year, the basic materials index declined 2.1% during March. Similarly, after declining 0.2% during the first two months of this year the financial index surged 6.3% in March (assisted by the firm rand), bringing its two-month return to 13.9%. Industrial shares were dragged down by the churning at record levels on overseas equity markets and rose only 1.3% in March, bringing its year-to-date return to a measly 0.8%. All in all, as I am sure you will agree, there has been a lot of volatility in recent months, although this has not always been evident from the headline index movements. In the end, the All share index rose 1.8% in March, bringing its year-to-date and thus also first quarter return to 4.3%; a respectable return nonetheless, despite all the volatility. However, to reap the return you had to be in the "right" part of the market. For the record, the gold index declined 1.8% in March, bringing its year-to-date return to 42.7%. The best performing sectors during the month were food and drug retailers, which rose 13.1%, general retailers up 12.9% and non-life insurance 12.9%. The worst performing sectors were technology hardware and equipment (read Pinnacle Holdings), which fell 38.8%. Industrial metal sector fell 12.3% and the media sector 10.5%. The All bond index rose 1.8%, scraping in with a first quarter return of 0.1%.

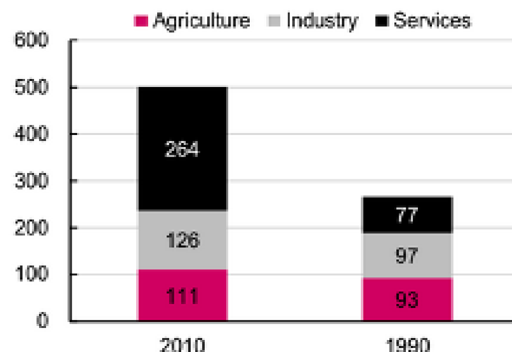
Chart 3: Local market returns to 31 March 2014



Nigeria – revisiting the data

Nigeria overtook South Africa early in April to become Africa's largest economy and 26th largest in the world after the government released updated figures that nearly doubled estimates for gross domestic product (GDP). As a result of the revision, Nigeria's economy, or GDP, for 2013 was $509bn, 89.0% larger than previously stated for last year. The change was made by bringing forward the base year for calculations to 2010 from 1990, when the structure of the economy was very different and services such as banking and telecoms had barely taken off.

Chart 4: Nigeria: The changing economy ($bn)



Source: FT.com

South Africa's GDP stood at $372bn last year, although its population of 51m is a fraction of Nigeria's 169m. The GDP increase far exceeded the expectations of analysts who had forecast an increase of between 40.0% and 60.0% following the rebasing exercise. Most countries do one on a regular basis although Nigeria has not done so since 1990.

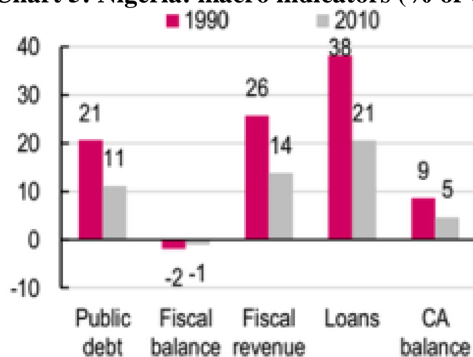
It places Africa's most populous nation and leading oil producer within reach of its ambition to become one of the world's top 20 economies, above other developing countries

such as Thailand, Venezuela and Colombia. The figures follow an exhaustive data review intended to give a more accurate picture of the economic activity that has driven growth over the past two and a half decades. In a similar exercise, Ghana's GDP rose more than 60.0% in 2010. The figures have been verified by the International Monetary Fund, the World Bank and the African Development Bank over the past three months.

The data also significantly alter the share of Nigeria's economy held by different sectors, providing a more accurate reflection of the growth in services and consumer demand that has accompanied rapid urbanization. The share held by oil and gas is down from 32.4% to 14.4%, showing that the economy has diversified to a much greater extent than previously recorded although the state is still dependent on oil earnings for more than 70.0% of revenues.

Agriculture's share of GDP moves down from 34.6% to 21.6%, as does industry which goes from 36.2% to 25.6%. Within industry, however, telecoms moves up from just 0.8% of GDP to 8.6% and the national film industry, known as *Nollywood,* and which had hitherto not been reflected in the statistics, takes up 1.4%. The sectoral changes also highlight where the opportunities for job creation lie, showing that the entertainment industry and information technology have provided dramatic growth.

Chart 5: Nigeria: macro indicators (% of GDP)



Source: FT.com

The calculation alters several other figures. It dramatically lowers Nigeria's already healthy debt-to-GDP ratio of around 20.0% and strengthens the case for further borrowing. On the other hand, the figures will not put more money in the pockets of the common man. More than 60.0% of Nigeria's population is thought to live in severe poverty, while, at the top end, a new generation of multi-millionaires and billionaires has emerged.

For the record

Table 2 below lists the latest returns of the mutual and retirement funds under Maestro's care. You can find more detail on our website at www.maestroinvestment.co.za. Returns include income and are presented *after* fees have been charged. Fund Summaries for each respective fund listed in the table are available on our website.

Table 2: The returns of funds under Maestro's care

	Period ended	Month	Year to date	Year
Maestro Equity Prescient Fund	**Mar**	**0.6%**	**0.2%**	**23.6%**
JSE All Share Index	*Mar*	*1.8%*	*4.3%*	*23.6%*
Retirement Funds				
Maestro Growth Fund	**Mar**	**0.2%**	**0.1%**	**17.3%**
Fund Benchmark	*Mar*	*1.3%*	*3.1%*	*17.2%*
Maestro Balanced Fund	**Mar**	**0.2%**	**0.1%**	**15.3%**
Fund Benchmark	*Mar*	*1.2%*	*2.8%*	*15.4%*
Maestro Cautious Fund	**Mar**	**1.0%**	**1.1%**	**12.9%**
Fund Benchmark	*Mar*	*1.3%*	*2.1%*	*9.3%*
Central Park Global Balanced Fund ($)	**Feb**	**3.1%**	**-1.3%**	**-1.2%**
*Benchmark**	*Feb*	*2.6%*	*1.2%*	*9.6%*
*Sector average ***	*Feb*	*2.7%*	*0.7%*	*6.6%*

* 40% MSCI World Index, 20% each in Barclays US Aggregate Bond Index, Credit Suisse Tremont Hedge Index and 3-month US Treasury Bills
** Lipper Global Mixed Asset Balanced sector ($)

The Personal Finance Quarterly Comment

A new addition to *Intermezzo* will be a quarterly piece about Personal Finance, written by David Pfaff. This quarter we have chosen to re-cap on retirement funding and the recent changes announced by the National Treasury.

Compulsory savings, or pre-tax retirement savings as they're more commonly known, represent a complicated sector of financial services. This is unfortunate due to the fact that the sector is trying to achieve the facilitation of retirement savings at a time when it's believed that less than 8% of South Africans are adequately provided for.

At retirement, members of pension funds and retirement annuity (RA) funds can take up to one-third of their savings as a lump sum in cash. In terms of the recent Budget proposals, the first R500 000 is tax-free (up from R315 000 previously). Members must then use the remaining two-thirds to buy either a living or life annuity.

Members of provident funds can take all their savings as a cash lump sum at retirement. This, however, is expected to change from 1 March next year, when provident fund members under the age of 55 will have to use two-thirds of what they have saved after 1 March next year to buy an

annuity (no different to the current pension fund legislation), unless their accumulated savings after that date are less than R150 000. Provident fund members who are aged 55 and above on 1 March 2015, will still be able to withdraw all their savings at retirement. Members younger than 55 will, at retirement, be allowed to withdraw in full what they have accumulated by 1 March 2015 (effectively no change to the status quo).

These are subtle but important changes to take note of and ultimately an attempt to align pension and provident fund legislation.

Withdrawing, moving or transferring your retirement benefit

Over one's working life it is likely that you will have a 'mismatch' of retirement funding investments at a number of different investment houses. This is certainly not first prize, but is a common occurrence for the majority of the working population within South Africa.

However, this doesn't have to be the case, as it is possible to consolidate all the investments so that one particular investment manager is able to manage them[1]. This is important as it gives your financial advisor more clarity in terms of your overall net worth and provides a far better platform off which he or she is able to make financial decisions on your behalf. When leaving your job you have the following options when considering what to do with your retirement fund benefits:

- Take the full amount in cash (taxed according to the pre-retirement age tax table)
- Preserve your retirement in a preservation fund
- Transfer your benefit to your new employers fund
- Opt for a hybrid of the above

Most people spend the majority of their adult life working; this normally entails three different types of careers and probably four to five different jobs. What complicates the situation is that over different periods of your working life, your need for capital changes and therefore often affects your investment decisions when considering what to do with retirement capital when changing jobs. This is part of the reason that many South African employees have 'bits and pieces' of their retirement capital at different investment houses.

When exiting a retirement fund, for whatever reason, the most important information you need to take note of is whether or not you are exiting the fund before or after normal retirement age i.e. the age of 55.

Table 3: Younger than 55 years

Pre-retirement lump-sum taxation	
Taxable Income	**Rates of tax (2014/2015)**
R0 - R25 000	0% of taxable income
R25 01 - R660 000	18% of taxable income above R25 000
R660 001 - R990 000	R114 300 + 27% of taxable income above R660 000
R990 001+	R203 400 +36% of taxable income above R990 000

This is important because, depending on how old you are, the tax treatment of your retirement capital withdrawn from a retirement fund is completely different. Tables 3 and 4 depict the way SARS taxes you when leaving a retirement fund, depending on your age. This takes place regardless of whether or not you continue to work in full time employment.

Table 4: Older than 55 years

Retirement lump-sum taxation	
Taxable Income	**Rates of tax (2014/2015)**
R0 - R500 000	0% of taxable income
R500 001 - R700 000	18% of taxable income above R500 000
R700 001 - R1 050 000	R36 000 + 27% of taxable income above R700 000
R1 050 001+	R130 500 +36% of taxable income above R1 050 000

It is important to not only preserve your retirement capital, at each and every leg, when you move jobs, but also to continue to invest in your retirement. In brief, this has to do with not paying tax unnecessarily and making use of the dispensation SARS grants to retirement funds. This dispensation is granted in two areas; by allowing taxpayers to make contributions to retirement funds pre-tax on a monthly basis and then also allowing them to withdraw at retirement according to a tax rate as per Table 4 above. You will notice that the blended tax rate in Table 4is far lower than the normal tax table during your working life.

Seek advice – it is critically important

As mentioned previously, this year the National Treasury increased the tax-free lump sum withdrawal at retirement from R315 000 to R500 000, the benefit of which should not be underestimated. Firstly, that is a massive advantage to members that have just reached normal retirement age. Secondly, it is very important that you utilise this once-off lump sum withdrawal correctly at retirement, as you are only allowed a limited number of withdrawals.

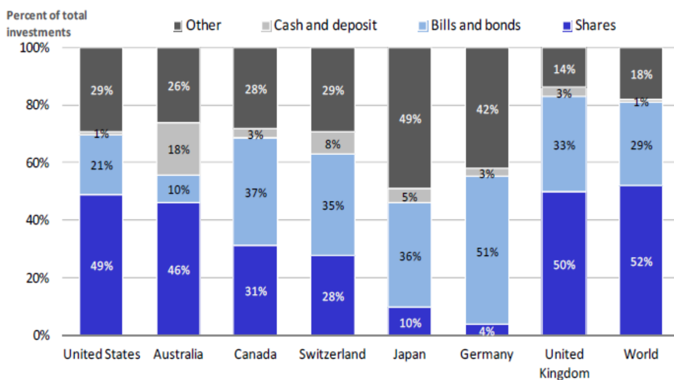
Each individual situation is different, so it would be impossible to offer a 'one-size-fits-all' solution. At Maestro we have very strong views on how to manage retirement capital. As an investment house we are able to look after pension and or provident funds, RA's, preservation funds and living or life annuities. We would welcome the opportunity to analyse your current situation and report back

to you on its appropriateness, to ensure your retirement needs are met as efficiently as possible.

Note 1: Retirement capital that is consolidated will never be consolidated in terms of actual capital flows, but merely in terms of where the capital is invested. By way of example, it is possible to manage pension, provident and preservation capital in the same fund, but keep the absolute amounts separate for reporting purposes. It is a legislative requirement to ensure that the capital is separated.

File 13. – Things almost worth remembering
Mapping the world's financial markets
Deutsche Bank issue a periodic research piece called *The Random Walk: Mapping the World's Financial Markets*. It depicts in graphic form various aspects of the global financial markets and industry. I thought you would be interested in two specific charts. The first, shown below, depicts the asset allocation across pension funds in selected OECD regions. It is remarkable to compare, for example, the equity culture in the US, where 49% of pension funds are invested into equities, with say, Germany, where equities constituted only 4% of pension funds, but where the largest (51%) portion of funds is invested in bonds. It would have been very interesting to see, but it was not shown, what the allocation is across major emerging markets. If we are heading for a sustained period of bond underperformance (remember we are at the end of a 30-year bull market in bonds) and equity outperformance, one wonders where that will leave German pension funds in terms of returns.

Chart 6: Pension fund asset allocation across OECD countries at the end of 2012

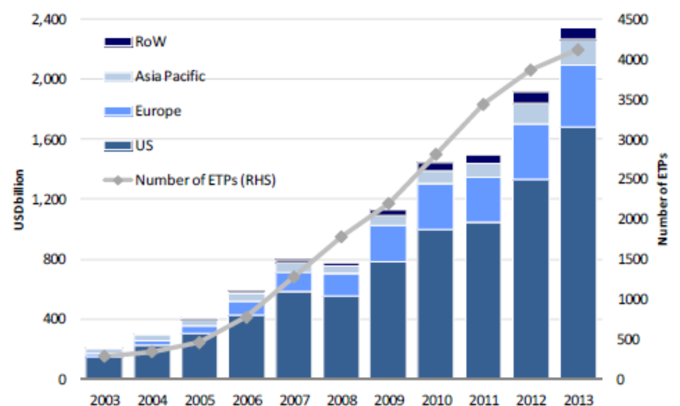


Source: Deutsche Bank

We are often asked about exchange traded products (ETPs) or derivatives of the underlying concept of ETPs, such as exchange traded funds (ETFs), exchange traded notes (ETNs) or exchange traded commodities (ETCs). For those new to this concept, ETPs are specifically designed to track or mirror underlying indices. So the Satrix40 (ETF) tracks the JSE Top40 index i.e. an index consisting of the 40 largest companies on the JSE, etc. ETFs are usually cheaper than funds that are managed in such a way as to outperform the underlying index. Also worth noting here is that in the US, outperformance of an index is quite rare i.e. it is not the norm, while in South Africa it is quite common. Another concept often forgotten by ETF investors is that an investment in an ETF says nothing about the underlying companies into which you are buying, or the characteristics of the underlying market. Whether they are rubbish companies, or very cheap or very expensive, is irrelevant to an ETF manager; his only job is to ensure that the ETF he manages mirrors perfectly the underlying index he has been charged to track.

There is certainly a place for ETFs, especially in global portfolios, where either knowledge (of the underlying companies) is in short supply, or liquidity is a problem. Their relatively cheap cost structure is an added attraction, which has helped popularize them in recent years. Exactly how popular they have become is shown in the chart below, which illustrates the growth in the broadly-defined ETF market. The ETP is now worth almost $2.4tn (trillion) spread across nearly 4 500 different funds or products.

Chart 7: Global ETPs regional asset growth

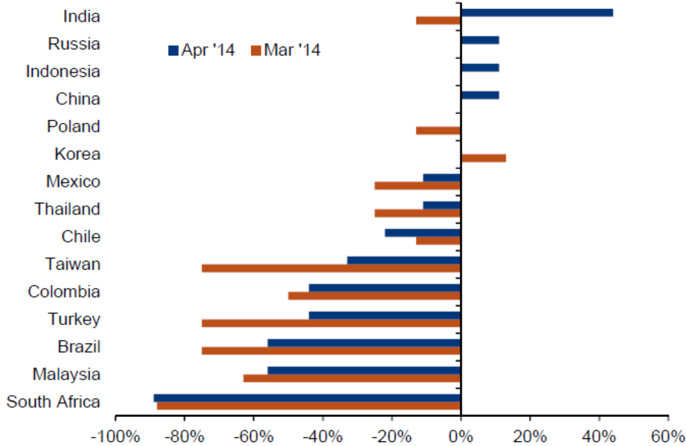


Source: Deutsche Bank

Investors vote with their feet
As South Africa heads to the polls on 7 May, a chart I would present to the government is the following one: it depicts global emerging market investor views in general and their preferences for certain countries in particular. One wonders what SA's policy makers think of our ranking on this chart. Do you think they are even aware of this sentiment, and if so, do they even care? I'll leave you to decide. The chart shows that South Africa is the least preferred emerging market at present, with nearly 90% of investors underweight the country i.e. they have taken an active view to have less SA exposure than that which is implicit in the benchmark

against which they are being measured. Perhaps we should be grateful for a slight improvement? The percentage in March was 100% i.e. everyone was underexposed to the country.

Chart 8: Emerging market investor country preference



Source: Merrill Lynch

Table 5: MSCI returns to 31 March 2014 (%)

31-Mar-2014	Mkt cap	US$ perf (%)		
Region/Country (# Co)	U$bn	2013	1M	YTD
North America (705)	18,940	27.6	0.6	1.3
Canada (96)	1,330	3.3	1.2	1.0
US (609)	17,610	29.9	0.5	1.3
Europe (434)	8,923	21.7	-1.3	1.5
Austria (8)	37.4	10.9	-3.0	-2.9
Belgium (11)	161	24.6	-0.2	2.3
Denmark (11)	179	23.4	-3.2	14.8
Finland (13)	120	41.6	-2.7	-0.7
France (72)	1,369	23.3	-0.3	2.8
Germany (55)	1,252	28.2	-1.7	-0.5
Ireland (4)	43.3	38.9	-7.9	13.1
Italy (24)	343	16.9	6.4	14.6
Netherlands (23)	363	28.5	1.1	0.9
Norway (10)	110	5.3	1.2	1.8
Portugal (5)	25.6	7.5	1.7	9.7
Spain (22)	470	27.7	2.4	4.7
Sweden (31)	436	21.4	-1.4	1.5
Switzerland (38)	1,229	23.8	-0.4	3.9
UK (107)	2,784	16.2	-3.7	-1.8
Israel (9)	69.6	8.0	6.0	17.8
Asia Pac (1003)	6,603	9.3	0.1	-2.4
Japan (320)	2,607	24.9	-2.0	-6.3
Australia (69)	1,040	-0.3	3.5	4.6
New Zealand (5)	17.6	6.2	5.0	14.7
Asia Pac ex-Japan (683)	3,996	0.5	1.6	0.4
Asia ex-Japan (609)	2,939	0.7	0.9	-1.1
China (140)	716	0.4	-1.7	-5.9
Hong Kong (39)	364	8.1	-2.5	-3.8
India (69)	254	-5.3	8.6	7.8
Indonesia (30)	100.7	-25.0	5.3	21.0
Korea (104)	596	3.1	0.1	-3.0
Malaysia (44)	147	4.2	1.1	-1.0
Philippines (19)	35.7	-4.3	-0.6	9.1
Singapore (30)	193	-1.8	2.6	-1.1
Taiwan (106)	449	6.6	2.8	1.1
Thailand (28)	85.0	-16.9	4.4	6.5
EMEA (139)	667	-8.0	2.9	-2.1
Czech Republic (3)	10.0	-14.9	2.1	7.6
Egypt (4)	8.0	6.2	-3.9	7.6
Greece (10)	21.2	46.2	1.1	18.1
Hungary (3)	8.8	-9.0	1.5	-8.7
Poland (22)	67.1	-1.7	-2.0	3.4
Russia (22)	199	-2.6	-2.5	-14.4
South Africa (50)	294	-8.8	5.8	3.8
Turkey (25)	59.9	-28.1	16.6	4.6
Latin America (143)	729	-15.7	8.6	-0.2
Brazil (75)	417	-18.7	10.7	2.0
Chile (21)	59.3	-23.0	2.5	-2.9
Colombia (15)	42.6	-23.7	15.4	4.7
Mexico (29)	194	-2.0	5.5	-5.1
Peru (3)	16.6	-31.0	1.9	4.2
Developed Markets (1611)	32,154	24.1	-0.1	0.8
Emerging Markets (822)	3,778	-5.0	2.9	-0.8
World (2433)	35,932	20.3	0.2	0.6

Source: Merrill Lynch

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