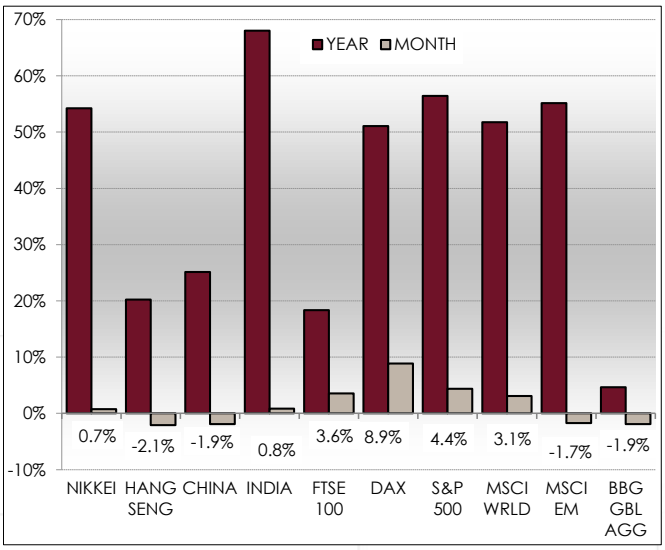
March in perspective – global markets

2021 continues to be as interesting and exciting as last year, though different in so many ways. Each month so far has had one or two unique over-riding factors that have influenced the markets, and March was no different.

Chart 1: Global returns to 31 March 2021



In the US all eyes were on the huge stimulus packages unveiled by President Biden, and the resultant effect on US (bond) interest rates (yields); in China all eyes were on the Communist Party's conference where major policies, including economic ones, were debated and determined; the Chinese authorities also started rolling out some pretty heavy-handed regulation within the tech, fintech and education spaces; a ship got stuck in the Suez canal (if you don't think that is important, consider that the estimated cost of $10bn per day for all parties involved, including the 400 ships that had to wait for the passage to open up). Of course all eyes are on the roll-out of the coronavirus vaccines, the description of which could in itself take up a few paragraphs. Turkey continues to shoot itself in the foot, much to investors' dismay, and an over-leveraged hedge fund blew an estimated $10bn hole in a few banks' balance sheets. All of these events, and others not highlighted, were significant market movers in their own right. Yet equity markets continued to scale the "wall of worry", with many ending the month at, or close to, record levels.

If there was one common characteristic of the month, it was the disparate returns across markets and asset classes; in some cases intriguing and seemingly contradictory movements. Global bond yields moved sharply higher, leading to a fall in their prices (the Bloomberg Global Aggregate Bond index lost 1.9%), while global equity markets rose (the MSCI World index rose 3.1%). Some markets rose (the German and US equity markets rose 8.9% and 4.4% respectively) while others declined (the China market lost 1.9%, and Hong Kong 2.1%). The dollar was relatively firm (the DXY index rose 2.6%) when the consensus view seems to be for it to be weak. The gold price lost 5.4% and the rand firmed (rising 2.6% despite the firm dollar), which would ordinarily have seen the Gold index on the JSE decline sharply; yet it rose 12.6%.

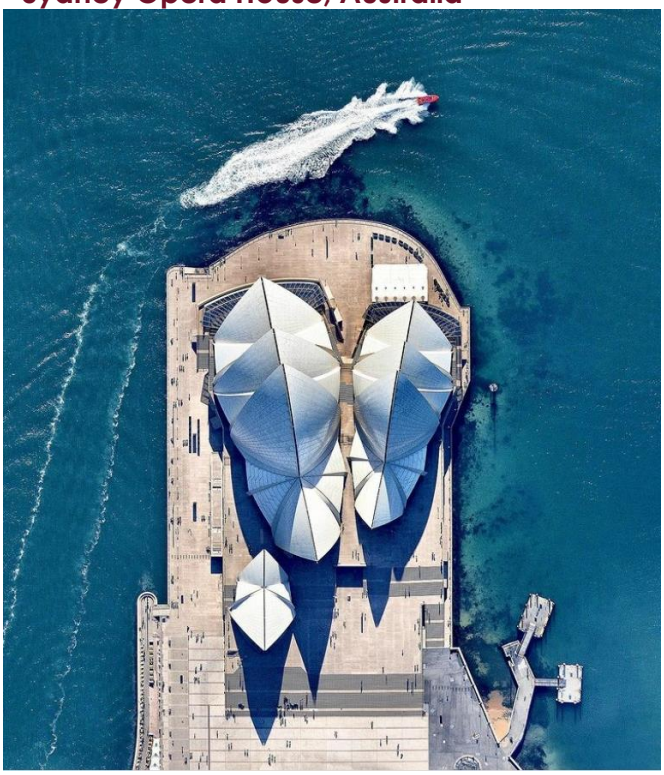
Despite these contradictions, March still saw impressive market returns. Over and above those already mentioned, the Swiss equity market rose 5.0%, and the S&P Mid and Small cap indices 4.5% and 3.2% respectively. The Brazilian and Greek markets rose 6.0% and 9.2% respectively.

The fact that most markets troughed a year ago (on 23 March 2020 to be exact) means that the base off which annual returns to end-March are being measured is very low. Yet the annual returns are still impressive and completely belie the economic and humanitarian crises through which the world has had to navigate. The S&P Mid and Small cap indices, for example, have risen 80.8% and 92.7% respectively, and the

NASDAQ return of 72.0% over the same period is no less impressive. The MSCI World index is up 51.8% and the US and German markets are 56.4% and 51.1% higher on an annual basis to end-March.

So for those who remained invested throughout the past year, it has been a very profitable period indeed. Whilst on the topic of impressive annual returns to end-March, it is worth listing the returns from cash and global bonds over this period: cash delivered a return of only 0.1% and bonds 4.7%, bearing testimony to our long-held preference for equity markets over all other major asset classes.

Sydney Opera House, Australia



Source: @dailyoverview

What's on our radar screen?

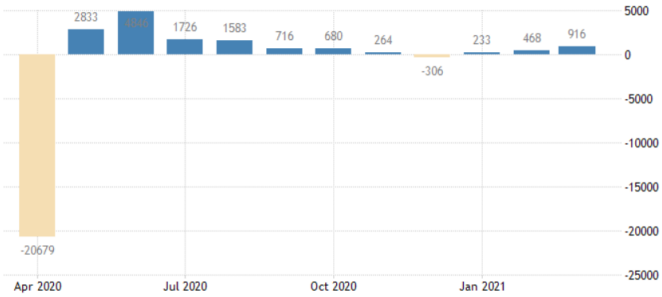
Here is a summary of the things we have been keeping an eye on:

- *The US economy:* As expected, evidence is emerging of the effects of the stimulus the US government has implemented to stimulate their economy. Following the $600 cheques paid in January, US personal income declined 7.1% in February (it rose 10.1% in January), while spending declined 3.4% after January's 3.4% monthly increase. Speaking of stimulus, President Biden unveiled the "American Jobs Plan", which will see $2.25tn spent during the course of the next eight years. The Plan includes $620bn for transportation and $650bn for measures including clean water and high-speed broadband. $580bn is earmarked for manufacturing, including $180bn for the largest non-defence research and development (R&D) program in US history. $400bn was allocated towards care for the elderly and disabled. There was also emphasis on sustainability and the green economy, with money for modernising the electric grid, as well as building, preserving and retrofitting homes and commercial buildings. Of course, someone has to pay for all of this, and in that regard the Biden Administration said the Plan would be fully paid for within the next 15 years, through inter alia, changes to the corporate tax code including an increase in the corporate tax rate from 21% to 28% and a "global minimum tax of 21%".

Back to the robust economy, 916 000 jobs were added to the labour market in February. The January and February data was revised upwards, while the unemployment rate declined to 6.0%. The broader definition of unemployment, the U-6 measure, which includes part-time workers, declined to 10.7%. However, Chart

2 places the latest jobs data into perspective: while the trend is definitely improving, one must not lose sight of how many jobs (20.6m) were lost in April last year at the peak of the pandemic lockdown.

Chart 2: US non-farm payrolls (monthly)



Source: tradingecomonics.com

One of the concerns of the market is the potential for inflation to rise sharply in the coming months. There was evidence of that in March although it is too early to determine whether the increase is temporary or of a more permanent nature. Headline inflation rose 0.6% month-on-month in March, bringing the annual increase to 2.6%. Core inflation i.e. excluding food and energy price increases, rose 0.3% month-on-month, bringing its annual increase to 1.6%. There is no doubt that the development of price increases (inflation) will be watched very closely in the coming months – and for good reason.

March US retail sales increased by a record 9.8% month-on-month; February's sales were revised from -3.0% to -2.7%. The strong retail sales were driven by the opening of the economy due to the successful vaccination campaign, fiscal stimulus money, and a rebound from February, when cold weather depressed retail sales in large parts of the country. All of these strong data point to an economic growth rate in excess of 4.0% in the first quarter of 2021 (Q1). Testimony to the increasing economic momentum was evident in the ISM Non-manufacturing (services) (Purchasing Managers' Index [PMI]) rising to 63.7, the highest reading since the data series began in 1997. The ISM Manufacturing Index rose from 60.8 to 64.8, again the highest ever on record since this series began in 1983; so enormous strength and momentum indeed!

Oyster farming on the French Atlantic coast

Source: @tomhegen.de

- *Developed economies*: The Eurozone monthly inflation rate for March was 0.9%, its highest rate in over a year, bringing the annual headline inflation rate to 1.7% from 1.3% in February. The annual core inflation declined from 1.5% in February to 1.3% in

March. The German Ifo business climate indicator for March rose to 96.6, the highest level since June 2019. As in the US, the PMI readings showed that industrial activity was rebounding strongly in the developed world, and in Germany and Switzerland in particular, although Japan's activity seems to be lagging. The International Monetary Fund (IMF) released their latest growth forecasts, and there were strong upgrades across most countries. Their forecast for global economic growth in 2023 increased from 5.5% (their January forecast) to 6.0%, while their 2022 forecast rose from 4.2% to 4.4%. Their inflation forecasts rose, too, although not dramatically. The IMF now sees consumer prices rising by 1.6% in 2021 and 1.7% in 2022 in the developed world.

- *Emerging economies:* China dominated the news flow on the economic front during the past month. They released their eagerly anticipated Q1 growth data; China headed into lockdown first, precisely a year ago, and have by and large recovered from that event. The growth rate was thus always going to be high, given the low base, and it did not disappoint: The Chinese economy grew 18.3% in Q1 relative to Q1 of 2020, although the quarter-on-quarter rate of 0.6% was more pedestrian and placed the low base into perspective. Industrial production grew 14.1% year-on-year while retail sales rose 34.5% when measured against the same period last year. Fixed Asset Investment rose 19.4%. These are extraordinary growth rates, but the low base in China during Q1 needs to be borne in mind. Of course, for the rest of the world, the base will be Q2, making direct comparisons rather tricky. On the inflation front, producer inflation rose at an annual rate of 4.4%, the fastest pace since July 2018. Headline inflation rose at an annual rate of 0.4%, after readings of -0.3% and -0.2% in January and February respectively.

Iceberg near Greenland

Source: @joe_shutter

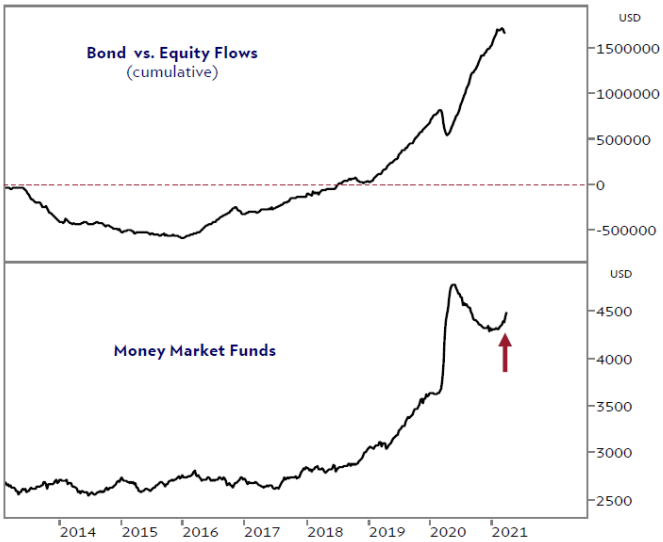
Charts of the month

"Show me the money"

As you are surely well aware by now, most global equity markets are at all-time highs. A lot of retail money has been directed into equity markets, but it is useful to review these flows in an historical context. Chart 3 provides that perspective. We have long maintained that there is still a lot of retail money "sitting on the sidelines", having missed the rally from March last year. The Chart below shows the cumulative money flows into bond versus equity markets; it is clear from the

top chart that a significantly larger amount of money has flowed into bond markets since 2014 than has flowed into equity markets. $1.7tn more flows have been directed into bond markets, meaning there is still plenty of retail money waiting to be directed into the equity market. Notwithstanding the new records in equity markets, the lower chart shows that money is still flowing into money markets, too, despite the low levels of interest rates.

Chart 3: Cumulative bond versus equity flows

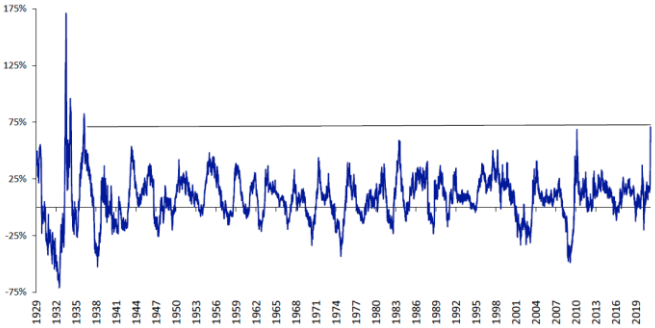


Source: Julius Bär

A low base and strong markets set new records

Speaking of record equity markets, Chart 4 shows the annual percentage change in the S&P500, the large cap US equity index, since 1929. Of course the base (23 March 2020) of the final reading is low, as this represented the trough of the markets follow lockdowns around the world. However, the chart nevertheless shows that the annual percentage change in the S&P500 index we are currently experiencing, is the largest one since 1936. Put differently and perhaps more ominously, it does not really get much better than this right now.

Chart 4: Annual gain in US equity market (%)



Source: Deutsche Bank

In terms of companies that have driven the US equity market to record levels, it is rather disconcerting to see, as reflected in Chart 5, that only ten large tech companies have driven just about all the gains. The other 490 companies, representing 70% of the total value of that index, have largely mirrored the returns of the European equivalent of the S&P500, namely the STOXX Europe 600 index, both of which have lagged the 10 mega-cap companies by a very large margin.

Chart 5: Mega-cap drivers of US equity market

Indexed to 100 at 31 December 2014

Source: Deutsche Bank

The Hang Seng index – ringing the changes

On 1 March the Hang Seng Indexes Company, the company which compiles Hong Kong's benchmark equity index, the Hang Seng Index (HSI), announced steps to improve the index, beginning with its May 2021 review and effective as of the June 2021 index rebalancing. The plan is to raise the number of index constituents from

55 (after the March review) to 80 by mid-2022 and eventually take the total number of constituents to 100. Five companies are expected to be included in the index each quarter. In addition, any single stock will be capped at 8% of the index. In this process, the number of companies from mainland China will gradually increase. Hong-Kong based companies are expected to eventually make up a quarter of the index at most, making the Hang Seng Index a real benchmark alternative for measuring the performance of Chinese stocks.

Château de Cormatin, France

Source: @drone_lyonnais

Following the increase in its constituent stocks to 80, the HSI will cover 71% of Hong Kong's total market capitalization (cap), up from 56.6 % as at the end of January. It will also cover 66% of market turnover, up from 50%. In May last year, the company agreed to add companies with multiple voting rights to the benchmark. This led to the inclusion of Alibaba, smartphone maker Xiaomi, and food delivery firm Meituan Dianping.

The Hang Seng Index was launched in 1969. It was initially calculated by Hang Seng Bank, before Hang Seng Indexes was set up in 1984. The index started out with 33 constituent stocks, and expanded to 38 in 2006 with the first inclusion of H shares. The following year, the Hang Seng Indexes announced it would gradually expand the HSI to 50 constituent stocks, which was only achieved in December 2012. The share of the total market cap of the Hong Kong stock market represented by the companies included in the benchmark decreased, from 65% in 2016 to 56.6% as at the end of January 2021.

The Hong Kong market's total market cap grew 458% from HK$8.2tn ($1.1tn) in 2005 to HK$45.6tn ($5.9tn) in 2020. Over this period, the proportion of mainland Chinese companies listed in the city rose from 41.6% to 79%.

The company will proceed with a proposed cap on the weighting of stocks at 8%, lower than the current limit of 10%. Only two stocks – insurer AIA and social media giant Tencent – currently have a weighting of 10% and thus face a cut. On the other hand, the influence of Alibaba, Xiaomi and Meituan will increase after their weighting rises to the new limit; they were included in the benchmark with a weighting of 5% each.

As part of the revamp, Hang Seng Indexes will insure that between 20 and 25 Hong Kong companies are among the constituent stocks, so as to prevent their representation from falling as more Chinese companies are added to the benchmark. The index currently has 24 Hong Kong firms and 31 Chinese companies. The latest reforms also shorten the time required for companies to become a constituent stock. According to the overhauled rules, they will only be required to have been listed for three months

– down from the current requirement of two years – before they can be added to the index. The index provider estimates that HSI's price earnings (PE) ratio will move from 15.7x currently to 19.1x (in an 80-constituent scenario) while the dividend yield will decline from 2.6% to 2.1%.

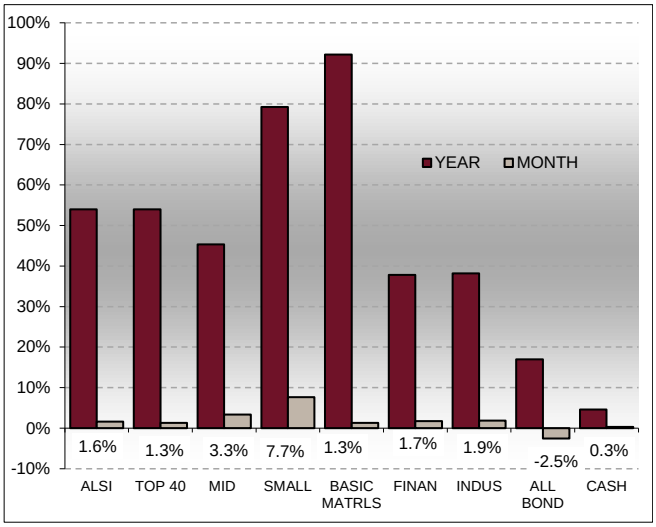
Tombstone in Helsinki Cemetery, Finland

Source: @__h_elena

March in perspective – local markets

Turning to local markets, shown in Chart 6, March proved to be a rewarding month, although nowhere nearly as profitable as global markets. The All Share index rose 1.6% but the bond market followed global bond markets lower, falling 2.5%. The annual returns on these two major markets to end-March are now 54.0% and 17.0%. Cash delivered a return of only 4.6%. During March, the Basic Materials, Financial, and Industrial indices rose 1.3%, 1.7%, and 1.9% respectively, while the Large, Mid and Small cap indices rose 1.3%, 3.4% and 7.7% respectively.

Chart 6: Local returns to 31 March 2021



It is worth pointing out that in all of my 35-year career, I can't recall including charts on annual market returns where the quantum of returns was so high across the boards. Refer again to Charts 1 and 6 and note the sheer size of the annual index returns. Of course, this is a function of the fact that most indices troughed last year on 23 March, so we are recording returns from an extremely low base. However, it is worth noting just how large the returns are in absolute terms.

For the record

Table 1 lists the latest returns of the mutual and retirement funds under Maestro's care. Returns include income and are presented *after* fees have been charged. Fund Summaries for each respective fund listed in the table, as well as all the historic returns, are available on our website.

"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

Table 1: The returns of funds in Maestro's care

	Period ended	Month	Year to date	Year
Maestro Equity Prescient Fund	**Mar**	**0.9%**	**7.8%**	**38.4%**
JSE All Share Index	*Mar*	*1.6%*	*13.1%*	*54.0%*
Morningstar sector ave	*Mar*	*3.3%*	*12.3%*	*49.2%*
Maestro Growth Fund	**Mar**	**-1.7%**	**2.3%**	**15.0%**
Fund Benchmark	*Mar*	*0.3%*	*7.6%*	*35.9%*
Morningstar sector ave	*Mar*	*1.4%*	*7.4%*	*30.7%*
Maestro Balanced Fund	**Mar**	**-1.7%**	**2.1%**	**14.5%**
Fund Benchmark	*Mar*	*0.2%*	*6.4%*	*30.8%*
Morningstar sector ave	*Mar*	*0.7%*	*5.5%*	*24.3%*
Maestro Cautious Fund	**Mar**	**-0.9%**	**0.7%**	**7.3%**
Fund Benchmark	*Mar*	*-0.2%*	*3.7%*	*22.0%*
Morningstar sector ave	*Mar*	*0.2%*	*3.5%*	*17.3%*
Maestro Global Balanced Fund	**Mar**	**-6.0%**	**-1.7%**	**4.8%**
Benchmark	*Mar*	*-1.4%*	*1.4%*	*7.9%*
*Sector average **	*Mar*	*-0.9%*	*2.9%*	*11.0%*

* Morningstar Global Multi Asset Flexible Category

Notwithstanding the returns listed in Table 1, our longer-term returns for our investment solutions are listed in the table below. All returns are for periods to 31 March, and are taken from Morningstar's monthly survey. Returns are shown on a net basis i.e. after all fees have been deducted.

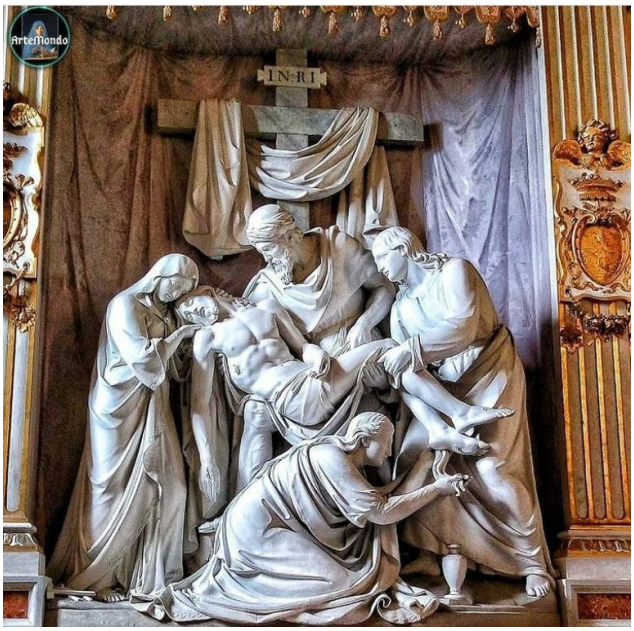
Table 2: The Maestro Equity Prescient Fund

Morningstar (ASISA) South Africa Equity General - March 2021						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Equity Prescient Fund	***7.8%***	***15.2%***	***38.4%***	***5.3%***	***1.0%***	***6.7%***
Maestro Equity Fund benchmark	13.1%	24.2%	54.0%	9.7%	8.2%	10.9%
SA Peer Group Average	12.3%	23.2%	49.2%	6.0%	4.9%	8.4%
Maestro position within Group	155	147	134	87	101	51
Number of participants	169	167	164	148	115	63
Quartile	4th	4th	4th	3rd	4th	4th

Table 3: The Maestro Growth Fund

Morningstar (ASISA) South Africa Multi-Asset High Equity - March 2021						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Growth Fund	***2.3%***	***2.0%***	***15.0%***	***7.6%***	***4.5%***	***7.9%***
Maestro Growth Fund benchmark	7.6%	15.1%	35.9%	9.6%	8.5%	10.5%
SA Peer Group Average	7.4%	13.7%	30.7%	7.3%	5.5%	8.6%
Maestro position within Group	204	204	190	82	126	47
Number of participants	210	207	201	178	145	59
Quartile	4th	4th	4th	2nd	4th	4th

Deposition, Wilhelm Theodor Achtermann Trinità dei Monti cathedral, Rome



Source: @palermo.caterina

Table 4: The Maestro Balanced Fund

Morningstar (ASISA) South Africa Multi-Asset Medium Equity - March 2021						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Balanced Fund	***2.1%***	***2.2%***	***14.5%***	***6.2%***	***4.0%***	***7.4%***
Maestro Balanced Fund benchmark	6.4%	12.8%	30.8%	9.3%	8.4%	10.0%
SA Peer Group Average	5.5%	10.3%	24.3%	7.1%	5.5%	7.9%
Maestro position within Group	97	96	90	58	64	25
Number of participants	99	97	93	84	70	36
Quartile	4th	4th	4th	3rd	4th	3rd

Table 5: The Maestro Cautious Fund

Morningstar (ASISA) South African Multi-Asset Low Equity - March 2021						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Cautious Fund	***0.7%***	***2.3%***	***7.3%***	***6.4%***	***5.2%***	***7.9%***
Maestro Cautious Fund benchmark	3.7%	9.3%	22.0%	7.5%	8.1%	8.5%
SA Peer Group Average	3.5%	7.2%	17.3%	6.6%	5.7%	7.8%
Maestro position within Group	157	153	152	81	75	28
Number of participants	160	157	155	136	111	54
Quartile	4th	4th	4th	3rd	3rd	3rd

Table 6: Maestro Global Balanced Fund

Morningstar (ASISA) Global Multi-Asset Flexible - March 2021						
	3 mths	6 mths	1 Year	3 Years	5 Years	10 years
Maestro Global Balanced Fund	***-1.7%***	***-8.2%***	***4.8%***	***13.6%***	***N/A****	***N/A****
Global Balanced Fund benchmark	1.4%	-2.7%	7.9%	16.1%	8.0%	13.9%
SA Peer Group Average	2.9%	0.3%	11.0%	14.4%	8.0%	12.8%
Maestro position within Group	41	40	27	17	N/A	N/A
Number of participants	43	40	37	27	21	11
Quartile	4th	4th	3rd	3rd	N/A	N/A

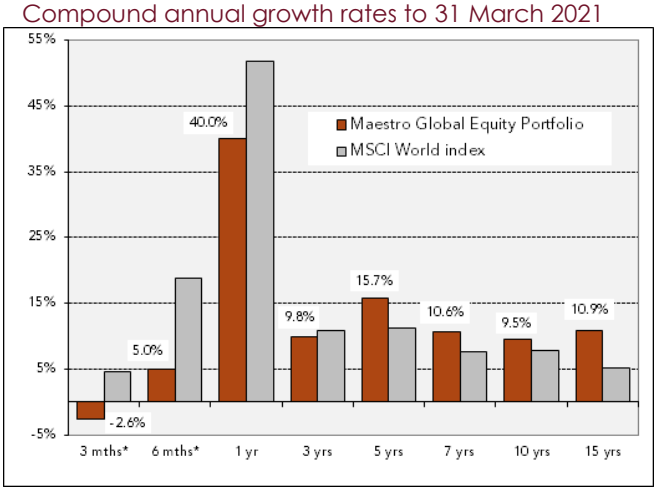
"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

Table 7: Central Park Global Balanced Fund

Morningstar USD Moderate Allocation - March 2021						
	1 Year	3 Years	5 Years	7 years	10 years	15 years
Central Park Global Balanced Fund ($)	***29.4%***	***6.3%***	***8.5%***	***4.5%***	***2.6%***	***2.7%***
Central Park Glbl Balanced Fund benchmark	31.3%	7.9%	8.1%	5.7%	5.4%	4.8%
Global Sector Average	25.1%	5.1%	5.9%	3.8%	3.6%	N/A

Chart 17: Maestro global equity returns

Compound annual growth rates to 31 March 2021



File 13: Info almost worth remembering

Ever wonder why Africa has no future?

Well, wonder no more. Read on about the advice some of her leaders are giving their citizens.

Dorothy Gwajima, Tanzania's health minister, held a Covid-19 press briefing last month that looked more like a cooking show. Brandishing a blender as an aide added ginger, onions, lemon and pepper to the concoction, she explained that the vegetable smoothie would ward off coronavirus. Offering no evidence for the claim as she downed a glass, Gwajima said the virus was "ravaging" neighbouring countries but not Tanzania. The east African country of nearly 60m people had no need of vaccines and "no plans to receive them", she said.

Her pronouncements echoed the views of John Magufuli, Tanzania's president, who declared Covid-19 vaccines dangerous and unnecessary. A devout Catholic, Magufuli said God would protect his nation from the disease. "If the white man was able to come up with vaccinations, he should have found a vaccination for Aids by now," he said. For the record, John Magufuli died on 17 March 2021, ostensibly from "heart disease".

Elderly lady in North Vietnam

Source: @julieannedaviesphoto

The online music industry – remarkable data

Many of you are aware of my love for music, specifically classical music. It is unsurprising then that I take a keen interest in the development of the music industry. One aspect I have never fully understood, is the economics behind the online music industry. You can imagine how interested I was to read the following article, written by Will Page, Spotify's Chief Economist and the author of "Tarzan Economics", due to be published next month. I have quoted the article verbatim, and hope you find it as interesting as I did.

"In 1984, a mere 6 000 music albums were released in the UK. Today, streaming services make available a similar volume - 55 000 new songs - every single day. There are not only more songs, but more musicians. Since Spotify launched in 2009, the number of British songwriters has increased by 115% to 140 000 and the ranks of UK recording artists have ballooned 145% to 115 000. Twenty years ago, there were five UK major labels and at most two dozen independent distributors; today Spotify hosts music from 751 suppliers.

American crocodile, Rio Tarcoles, Costa Rica

Source: @journeying_justin

'Unsurprisingly, there are also more genres to classify all these songs. In 2000, the industry classified all the world's music into no more than a dozen-and-a-half genres. Today, Spotify's 'everynoise' acoustic map tracks 5 224 genres, including Coptic hymns, Russian romanticism and the new lockdown hit of shanty, of course.

"Music was one of the first industries hit by digital disruption. Its fate shows the rest of us the future. When digitisation removes barriers to entry, there is so much more of everything. Last year saw a flood of new books (more than 3.5m titles, although only a fifth were new titles), podcasts (885 000 new episodes - almost two new podcasts every minute), mobile games (88 000, up 50% on 2019) and scripted original TV series (493 in the US alone - more than one a day).

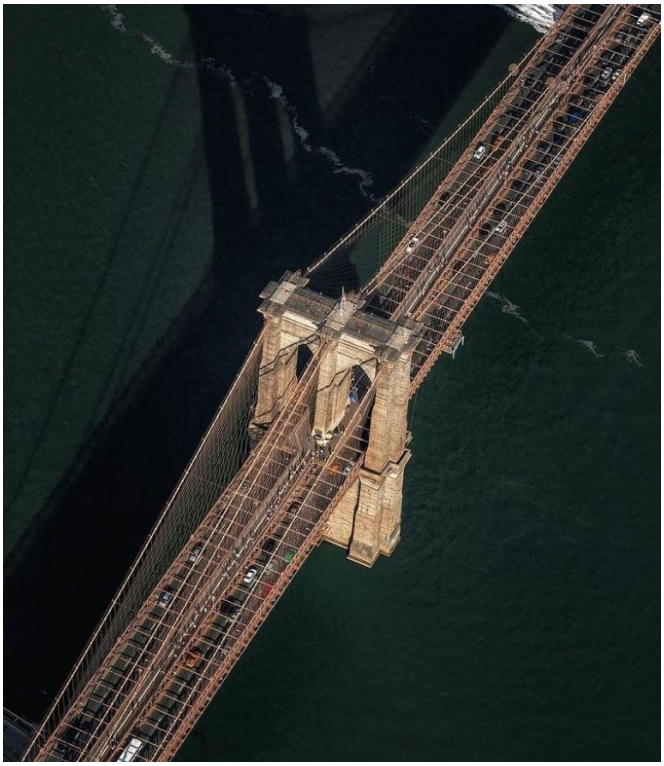
"Investor money is pouring into digital media at the moment – there have been seven acquisitions of podcasting companies for more than $100m each in the past two years – but that has not translated into newfound wealth for many creators. Here's why: the music industry is indeed making more money thanks to streaming, but there are far more mouths to feed.

"A UK parliamentary inquiry, which I submitted evidence to, has highlighted this dichotomy. Politicians have been pummelled with angry testimony about the industry. Mercury Prize-nominated Nadine Shah told MPs, 'I'm critically acclaimed but I don't make enough money from streaming and am struggling to pay my rent . . . I am just not being paid fairly for the work.' Songwriter Fiona Bevan, who has penned hits for Lewis Capaldi and One Direction, went further, arguing 'Right now, hit songwriters are driving Ubers' to make ends meet.

"The three major music labels, which make more than $1m per hour from streaming revenues, have defended the current model, which sees most artists receive a 20% to 25% royalty on streaming. Because earnings go first to pay back any advance, that means an artist who receives an advance of £100 000 must sell £500 000 worth of music before receiving any fresh cash.

"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

Brooklyn Bridge, New York City



Source: @beholdingeye

"There lies the conflict. When a music label has splashed out on a big upfront payment to a star, it has every reason to spend more to cover the promotion and advertising needed to make the songs into hits. For lesser known artists, it is often easier to hand out lots of small advances, and simply wait and see if some of them go viral. It's a bit like the old adage about finance: if you owe the bank £100 000, you've got a problem, if you owe them £1m, they have the problem.

"Partly in response, artists are increasingly trying to go it alone. Rather than signing a 30-page record contract that requires hiring an expensive lawyer to negotiate, some musicians are turning to DIY services like Distrokid and EmuBands. These summarise their offer in three simple bullets: pay a fixed fee, retain all your rights and keep all your revenues.

"As lockdown took hold, major labels released 1.2m songs in 2020; DIY artists released a staggering 9.5m. That's an 8 to 1 ratio of artists doing it themselves to labels doing it for them.

"While artists choosing to 'go it alone' may not receive the same kind of promotional muscle, streaming means they can increasingly draw on many of the same data and outreach tools as the major labels.

"Using YouTube, SoundCloud and Spotify, artists can access analytics that show who and where their fans are. Platoon, purchased in 2018 by Apple, allows artists to retain their rights and have access to bespoke global services. Amazon-owned Twitch's live video streaming platform saw a jaw-dropping 1tn minutes watched in 2020, with music playing a prominent role.

"Patreon, a platform that allows artists to sign up members and receive fees from them, took seven years from inception to distribution of $2bn to creators. The global music industry took 12 years to do the same from streaming revenue. These tools are available to all, and the more independent artists are, the more they make use of them.

"For many artists around the world, these tools are their best hope of survival. The pandemic has all but wiped out live performances, which had been the primary breadwinner for most artists. (Britons alone spent £2.5bn on live music in 2019.)

"Even as the UK considers whether to update music copyright rules, everyone else should be watching this industry as a living demonstration of what happens when barriers to entry fall. The pie definitely grows, but the number of creators wanting a piece of it grows even faster.

Going up in smoke – the weird weed industry

There seems to be a fascination about the cannabis industry, no matter where one finds it in the world. With some major changes afoot in the US, and with numerous cannabis or so-called "pot companies" listed in the US, a lot of the attention has been focussed on that market, and by association the Canadian market, where cannabis has been fully legalized.

Despite its appeal or perhaps as a result of its appeal, the cannabis industry remains an enigma within the investment industry, as you will see from the article below. I share this story because I am absolutely certain that once the South African stock market opens up to cannabis, in whichever way that may occur, we will also experience the weird and irrational attributes that characterise this industry. The follow articles appeared in the Financial Times, recently, and is very interesting and informative. Watch this space, I am 100% certain this is going to happen in South Africa in due course, and I know that we will be asked by many clients and investors whether Maestro will be investing in pot companies.

One last observation to note before diving into the topic: in most cases governments only open the cannabis industry in order to be able to tax it and raise tax revenues as a result. In that regard, the industry is likely to be treated much like the other "sin" industries i.e. tobacco and alcohol industries, at least in terms of tax treatment, once it is legalized. Read on, and decide whether it makes investment sense.

"Cannabis stocks have been on a roll this year, with rising expectations for full federal legalisation in the US pushing many marijuana-related equities to unprecedented highs. The S&P Toronto Stock Exchange (TSX) Cannabis index almost tripled in value between the US presidential election in early November and February 10. Even after a subsequent sell-off, it is still trading at twice the level seen in early November.

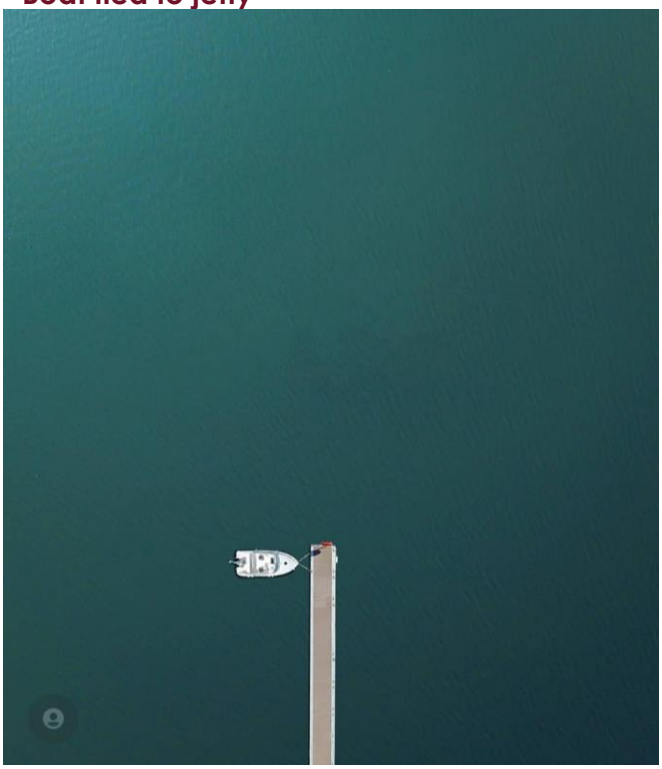
Covering jars of Turong in the rain, Vietnam

Source: @vietsui

"Investors in the burgeoning array of Exchange Traded (ETFs) Funds tracking the sector are being warned to ensure they understand exactly what it is they are buying. Even some ETF managers are raising red flags. 'In recent months, Canadian cannabis stocks have traded in a way that doesn't make sense. They have traded on false optimism, on hype and on misinformation,' said Dan Ahrens, chief operating officer and portfolio manager at AdvisorShares, the largest marijuana ETF provider by assets.

"Financial Times analysis of 59 companies found in eight major cannabis ETFs reveals that 43 made a loss over their last reported 12-month period, 27 chalked up net losses that were larger than their total revenue, and six – with a combined market cap of $794m – had no sales at all! Moreover, of the 16 that were profitable, 14 were not primarily cannabis companies at all, and were at most tangentially involved in the industry.

Boat tied to jetty



Source: @nikolator

"The list of stocks, drawn up by data provider TrackInsight, includes tobacco giants Philip Morris International, British American Tobacco and Imperial Brands, drinks company Constellation Brands, fertiliser company Scotts Miracle-Gro, cigarette paper manufacturer Turning Point Brands, two real estate companies, a lighting company and one, Amyris, involved in everything from cosmetics and fragrances to developing Covid-19 vaccines.

"Most genuine cannabis companies 'are pretty small and nearly all are unprofitable', said Peter Sleep, senior portfolio manager at 7 Investment Management. 'A lot of them are companies with no sales and no other research. These companies are purely issued to pay the directors' fees and to get into ETFs,' he said. 'I don't own the garbage that some of the other ETFs own,' said Ahrens, whose cannabis ETFs are among a minority that are actively managed. 'We greatly underweight what you might call the usual suspects. Aurora Cannabis, Tilray, Hexo, WeedMD. All these companies are wildly unprofitable. I'm surprised that some of the other competitor ETFs hold big tobacco, or even Scotts Miracle-Gro, which is primarily a lawn fertiliser and weed killer company' he said. Moreover, the listing regime for cannabis stocks in North America, overwhelmingly the dominant market, is so counter-intuitive it could accurately be described as wacky.

"In the US, 15 states have legalised recreational cannabis, but it remains illegal at the federal level. As a result, any company involved in this trade is barred from listing on any US stock exchange. With the Toronto stock exchange also off limits, most trade on small, relatively obscure Canadian exchanges. However, companies focused on Canada's fully legalised market (but not directly involved in that of the US) are free to list in the US, and most have done so in order to tap the greater capital available.

"Mark Noble, executive vice-president of ETF strategy at Toronto-based Horizons ETFs, which runs marijuana funds, said the Canadian market was worth just $2bn a year, whereas annual sales in the 15 US states that have legalised the drug are already $15bn. Yet the bulk of inflows are going into US-listed stocks - that is, the companies that only have access to the smaller and more mature

Canadian market. As a result, the 10 largest Canadian operators now trade at an enterprise value (EV) to earnings before interest, tax, depreciation and amortisation (EBITDA) ratio of 92.2, compared to just 14.8 times for the top 10 in the US, according to analysts from Canada's CIBC World Markets. 'We view the indiscriminate nature of the rise in valuations puzzling, as the move in share prices seems to benefit those with little to no stated ambitions in the US,' they added.

"Noble said 'the majority of stocks that are doing extremely well right now from a performance perspective are being driven by US retail investors buying them, but these are overwhelmingly Canadian legal cannabis companies that are listed in the US but can't do business in the US. It has created a big rally in stocks that are capital constrained, in terms of revenue. Most likely retail investors are buying the companies that are easily accessible to them and are listed on big US exchanges, but they are not buying the companies that are making money in the US.'

"Ahrens attributed the chasm in valuations to 'a lack of education and misinformation', adding that some people were 'investing blind. They do not understand that these companies cannot sell marijuana in the US or they are under the impression that everything is going to be legalised and these companies will do a lot of business in the US. That is a false premise in my opinion.'

"The prospect of federal legalisation, ignited by Joe Biden's presidential victory, does provide some rationale for buying the US-listed Canadian companies, in that they would then presumably be able to enter the more lucrative US market.

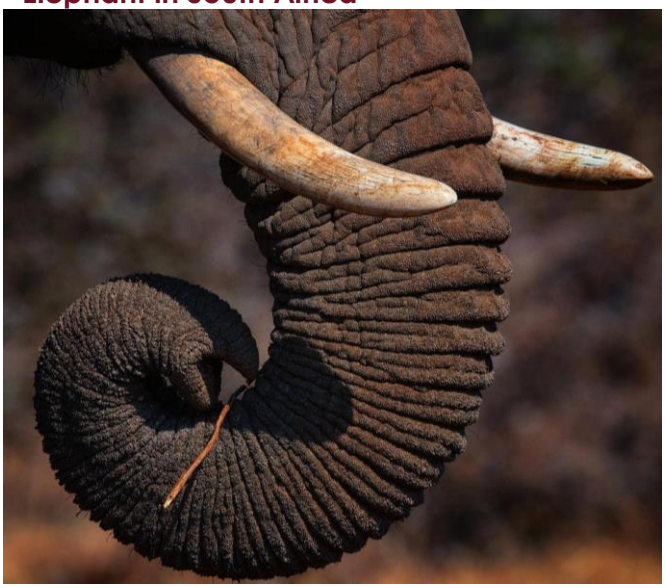
"Opinions are divided on the likelihood of legalisation, though, which would require 60 votes in the US Senate i.e. the support of at least 10 Republican senators as well as the more dope-friendly Democrats.

Elephant in Maasai Mara, Kenya

Source: @pnweingart

"Not everyone is concerned about the stretched valuations of lossmaking companies, however. Jay Jacobs, head of research and strategy at New York-based Global X, said it had launched 25 thematic ETFs over the past 10 years, including a cannabis one, and that 'what we see across a lot of fast-growing industries is that they are not focused on profitability, at least at this stage of their growth. It's about market share, building scale, trying to get customers. They are reinvesting all their cash flow into growth. They are not trying to be profitable, not trying to pay dividends or return capital to investors in other ways,' he argued."

Elephant in South Africa



Source: @ladzinski

Show me the money!!

By way of an indication as to how much of a political decision the legalization of cannabis is, read these extracts from an article relating to the legalization of cannabis in New York. The article appeared in the Financial Times of 31 March.

"Legal marijuana has at last become a reality in New York following years of disagreement over how to regulate its sale and distribution. The bill was signed into law by Governor Andrew Cuomo after being agreed earlier in the week by the state's legislature. It will allow New Yorkers aged 21 and over to possess up to three ounces of marijuana for their personal use. It will also open the way for licensed dispensaries to sell cannabis products.

"The push to legalise marijuana was framed not only as a means to improve the state's finances in the middle of an economic crisis but also as a racial justice imperative. Studies have shown that black and Hispanic users of marijuana were arrested at far higher rates over the years than their white counterparts. The law will seek to address that by expunging past convictions for marijuana use as well as setting aside licences for minority groups to ensure that they benefit from what is expected to be a brisk legal marijuana business. According to projections by the governor's office, it could eventually contribute $350m in annual tax revenue and create 60 000 jobs. 'This is a historic day in New York - one that rights the wrongs of the past by putting an end to harsh prison sentences, embraces an industry that will grow the Empire State's economy, and prioritises marginalised communities so those that have suffered the most will be the first to reap the benefits,' Cuomo said on Wednesday.

"Andrea Stewart-Cousins, the New York senate majority leader, called it 'a momentous first step in addressing the racial disparities caused by the war on drugs'. New York is the 16th US state to legalise marijuana, which remains illegal at the federal level. Moves to do so in the state have been under way for years, but foundered over disagreements about such issues as what to do with the resulting revenues. Some communities and members of law enforcement also expressed deep misgivings.

"Some observers said they believe the governor became more amenable to compromise on some of the outstanding issues as he seeks to fend off a furious push to remove him from office due to sexual harassment complaints and questions about his handling of the state's nursing homes during the Covid crisis. In recent remarks, Cuomo argued that the legalisation of marijuana in neighbouring states, including New Jersey and Massachusetts, made resistance futile. New Yorkers were going out-of-state to buy marijuana but the state was not generating tax revenue as a result.

"The New York legislation will create an Office of Cannabis Management with a five-member board to regulate marijuana and cannabis products. The state will also aim to set aside 50% of the licences for distributors and producers for women and minority-owned businesses, as well as distressed farmers and veterans. Of the resulting tax revenues, 40% will be dedicated to education, 40% to community investment grants, and 20% to drug treatment efforts."

San Paolo Island, Brescia, Italy

Source: @dariatroitskaia

Regulation – now I've heard it all …

Those who have spent any length of time with me would have heard me griping about the matter of regulation. Don't get me wrong: I understand the need for it, and am 100% committed to rooting out fraud, corruption and malpractice in our profession but also in society in general.

Sadly, our leaders and politicians set the worst possible example in terms of the perpetuation of corruption, fraud, greed and skulduggery. But I digress - back to regulation: my gripe is that so much of it is totally brainless, unnecessary (it only serves to protect the interests and careers of those who impose it), not to speak of the increasing and now destructive time and costs that it imposes on everyone in the profession, including the client at the end of the day, who pays in terms of fees that could arguably be lower in the absence of the tsunami of mindless regulation, and significantly decreased levels of service. It is fair to say that financial service firms probably spend at least 50% of their time and total costs of regulation. And it is only getting worse by the year.

In case you think I am being a drama queen, consider this email we received from Investec Bank the other day, concerned a client. I mention the bank specifically, but in their defence, they are simply "doing their job and fulfilling their regulatory obligations" – and that is just the start of the problem. No one is prepared to ask, is this not enough; is it not over the top; has anyone thought of what the regulators are actually doing or asking for; do they even understand the consequences of their own regulators?

By way of background, this client is a 70-something year-old lady who emigrated to Scotland a few years ago. She had lived in South Africa for the most part of her life and is such a honey I don't think she would hurt a fly.

However, that didn't stop the bank implementing their regulatory obligations by sending us the following email: "This is a courtesy email to advise that in response to recent media exposure regarding US threat to re-impose Sanctions on Myanmar, and advise that Investec Bank have

called for the account for client (ABC) to be closed. Client (ABC's) place of birth as per ID on record, is listed as Burma. Sanctions are imminently going to being re-imposed on Myanmar. The account is currently dormant. Compliance restrictions prevent the bank from maintaining accounts where these flags present".

Do you see what I mean? Do you now understand what my griping is about? Sadly, no one will listen and it is only going to get worse. One wonders where it will all end.

Black cat – now you see him

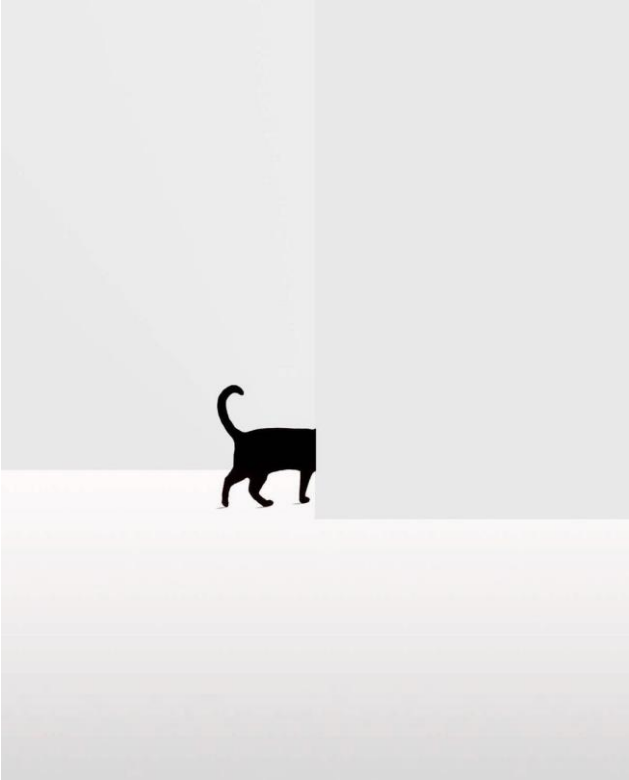
Source: @jonathan_koons

So what's with the pics?

As usual, I have shared a few photos in this letter, although I must apologize that they are so haphazard and random. I will in future try and group them in a more thematic or logical manner.

Nevertheless, I hope you find them enjoyable and encourage you to follow the photographers and their remarkable work on Instagram, using the handles as shown.

Black cat – now you don't



Source: @jonathan_koons

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