July in perspective – global markets

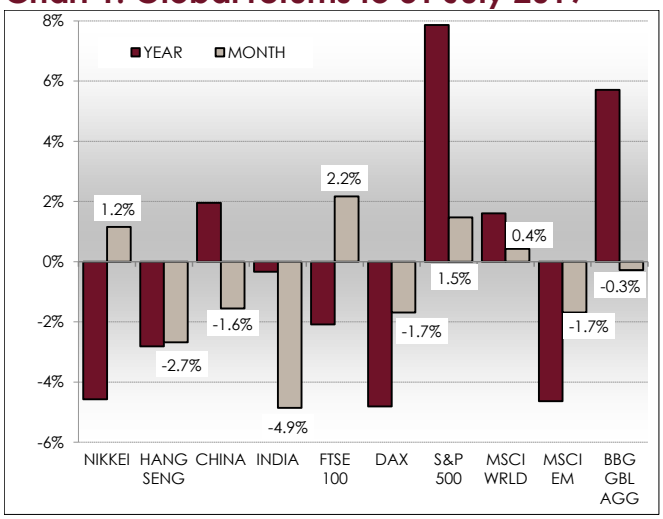
For a number of reasons, July felt like a rather strange month. The US China trade talks got underway again, corporate earnings season kicked off, and a highly anticipated US Federal Reserve meeting took place – but all of these events occurred late in the month, leading markets to adopt a "wait and see" attitude in general. Global bond and equity markets have performed very well so far this year, so there are a lot of expectations built into current market levels; there is not much room for disappointment. In the event, the month seemed to fly by, without any meaningful volatility. Some corporate earnings came in above expectations and some came in below, bond markets oscillated within a narrow range, and participants watched the political circus in the US, UK and EU with vested interests.

Animals on Galápagos Island

Instagram handle: @stevemccurryofficial

We should not be surprised then that most investment markets were mostly flat during July. One of the biggest stories was the dollar, which strengthened 2.5% during the month. The euro and sterling lost 2.2% and 3.8% respectively. The firm dollar placed many commodity prices under pressure – the Bloomberg Commodity index declined 0.9% during the month – but certain commodity prices actually rose on the month, including all the precious metals. The global bond market declined 0.3% although it is still up 5.3% so far this year.

Chart 1: Global returns to 31 July 2019



The firmer dollar retarded the progress of certain large emerging markets. The MSCI Emerging Market index lost 1.7%, with China and India registering declines of 1.6% and 4.9% respectively. The MSCI Emerging Market index's 7.4% year-to-date return lags the comparable 16.1% return of the MSCI World index i.e. developed markets. That said, the German equity market lost 1.7% during July, and Hong Kong declined 2.7%. The UK market was only saved due to the collapse in sterling and the Brexit "Bojo" circus. Despite the strong dollar, the US equity market rose 1.5%, bringing its year-to-date gain to 20.0%. The S&P Mid and Small Cap indices' comparative year-to-date returns are 18.3% and 14.0%, bearing testimony to just how firm US equity markets have been so far this year.

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

Lady in red

Instagram handle: @worldneedsmorespiralstaircases

What's on our radar screen?

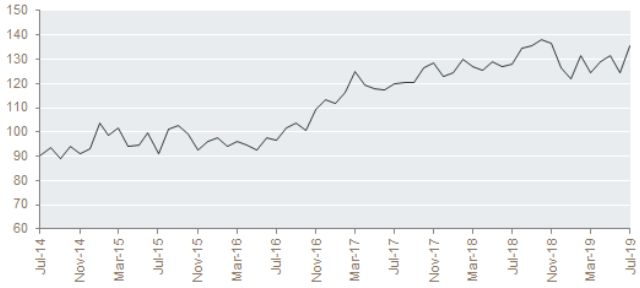
Here are a few items we are keeping an eye on:

- *The SA economy:* The South African Reserve Bank (SARB) lowered interest rates by 0.25% in July, as expected, its first rate cut since March 2018. Retail sales rose 0.1% in May, bringing the annual increase to only 2.2%, down from 2.4% in April. Retail sales improved in June though, registering a monthly increase of 0.3%, bringing the annual increase to 2.4%. Inflation remained relatively benign, rising 0.4% in June to an annual increase of 4.5%. In July it moved even lower to 4.0% (or 3.96% to be exact). The core inflation rate i.e. price increases excluding food and energy prices, rose to an annual rate of 4.3% in June, up from 4.1% in May. In July core inflation declined to 4.0%. The unemployment rate rose from 27.6% in March to 29.0% in June, translating into 6.7m unemployed people in the country, an increase of 500 000 since March. The SA government continues to throw good money after bad, with the Minister of Finance announcing greater support for the ailing Eskom, just about all of which will have be raised in the debt markets. This came a week after the SARB reduced its forecast for SA's 2019 growth rate to 0.6% and the International Monetary Fund (IMF) reduced its forecast from 1.2% to 0.7%. In increasing its support and hence also its debt levels, a down-grade from all three global credit rating agencies later this year looks highly likely. Early in August we received news that SA gold production declined 16% during the past year, an improvement from the 24.4% annual drop in June. Manufacturing however, declined 1.5% in June, bringing the annual *decline* to 3.2% versus May's 1.0% annual *increase*. The clear signs of a slowdown in the economic activity in the country continue to be the order of the day.

  The US economy: the US economy grew 2.1% during the second quarter (Q2), fuelled in part by healthy consumer spending, which rose 4.3% (the increase in durable good consumption rose to 12.9%). Inventories declined, which retarded the growth somewhat, while core PCE inflation rose only 1.8%, although it was higher than Q1's 1.1%. More evidence to support the strength in the US consumer came in the form of US consumer confidence, which rose to 135.7 in July, relative to an upwardly-revised 124.3 (from 121.5) June number – refer to Chart 2 in this regard. July retail sales were also strong.

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

Chart 2: US Consumer confidence index



Source: EFG

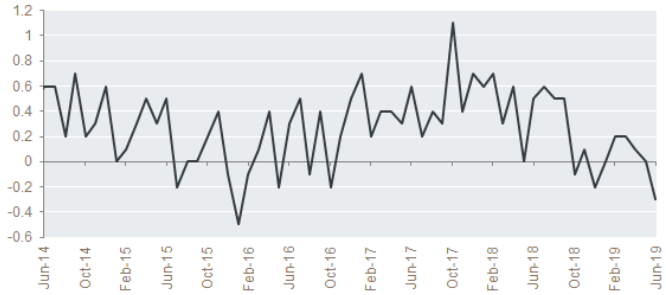
So the message is clear: growth during the second quarter was robust. However, markets look forward, so all eyes are on the current state of the economy, an indication of which was provided by the non-manufacturing i.e. services Purchasing Managers' Index (PMI), which came in at 53.7. The manufacturing PMI was only 51.2, down from 51.7 in June and close to the 50 mark, below which is indicative of economic contraction rather than growth. The manufacturing PMI was last at these levels in August 2016 – refer to Chart 3.

Chart 3: US ISM Manufacturing PMI

Source: EFG

While US consumer confidence remains strong, the business sector is less confident. The Conference Board's Leading Index indicator continues to decline. It fell 0.3% in June, its biggest decline in three years, as shown in Chart 4.

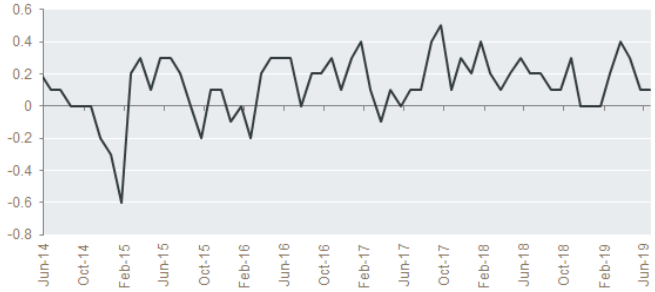
Chart 4: Conf. Board Leading Economic index



Source: EFG

Finally, US headline inflation rose 0.1% month-on-month during June, as shown in Chart 5. Core inflation i.e. excluding volatile food and energy prices, rose 0.3% in June from 0.1% in May. It rose by a similar amount (0.3%) in July. Amazingly, this is the first time since 2001 that the US has posted two consecutive readings of 0.3%, showing that there may well be inflationary pressures building up. The 3-month annualized rate of core inflation is now at 2.8%.

Chart 5: US monthly headline inflation (%)

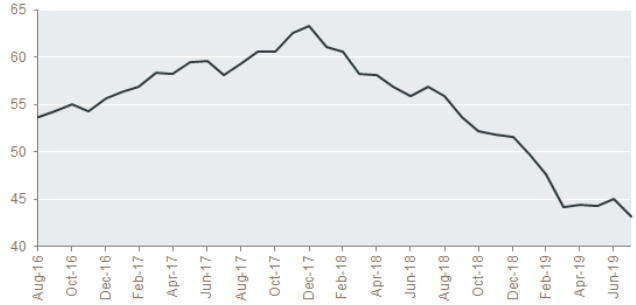


Source: EFG

- *Developed economies*: It is appropriate that we start with the Eurozone in general, and with Germany in particular, as it is proving to be the epicentre of what is turning out to be a really horrible year for the economic bloc. The German economy contracted 0.1% during Q2 over Q1, bringing its annual growth for the year to June to only 0.4%, its slowest rate of growth for six years. The economy grew 0.4% during

Q1. While of the subject of growth, the Eurozone as a whole grew 0.2% during Q2. Prior to the release of the growth data, the German ZEW survey showed that economic sentiment has dropped to an 8-year low. German PMI data has also been flagging a contracting economy, with the index declining to 43.1 in July, confirming what many had thought: the uptick to 50 in June was an anomaly and not the change in the trend – refer to Chart 6 in this regard.

Chart 6: German Manufacturing PMI



Source: EFG

While on the topic of manufacturing PMIs, the French PMI in July was sitting on the 50 level, the dividing line between growth and contraction. The Eurozone PMIs as a whole moved in the same direction, with the manufacturing and non-manufacturing PMIs declining to 46.4 (from 47.7) and 53.3 (53.6) respectively. Still in Germany, retail sales rose by a surprising 3.5% in June, although May's data was revised lower, from -0.6% to -1.7%. Producer prices (PPI) fell 0.4% in June, after a 0.1% decline in May.

So all-in-all the Eurozone economy is not looking at all good. It was surprizing then that when the International Monetary Fund (IMF) revised its growth outlook for the Eurozone, it kept it steady at 1.3%. The growth outlook for the developed world was raised slightly by 0.1%, thanks in part to an upward revision to the US economy to 2.6%. Expectations for global growth were revised down by 0.1% in each year, to 3.2% in 2019 and 3.5% in 2020. Trouble in Argentina, Brazil, South Africa, Turkey and Venezuela – all emerging markets – contributed to the downward revisions. The IMF revised their expectation for 2019 economic growth in China by 0.1% to 6.2% and in India by 0.3% to 7.0%.

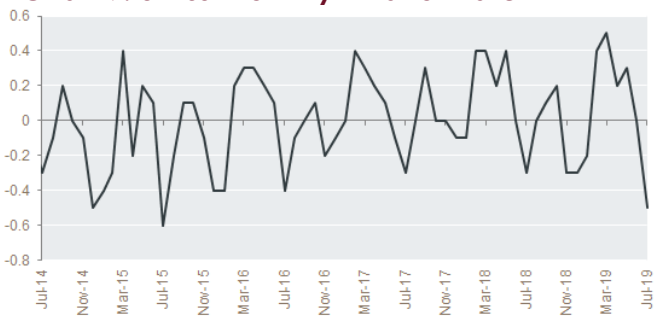
Lion in the rib cage

Instagram handle: @prey_zoo

The UK also contracted during Q2, with output declining 0.2% from Q1, as business reduced inventories following the extension to the Brexit deadline. As the pound weakens and absorbs the strain due to the Brexit-induced uncertainty, inflation is moving higher. Headline inflation rose from 1.9% in June to 2.1% in July, while core inflation is now running at an annual level of 1.9%. Producer inflation in July came in at 1.3%, up sharply from 0.1% the month before. The Japanese economy grew at an annualized rate of 1.8% during Q2, down from 2.8% in Q1. Growth was boosted by government spending as well as consumer spending as shoppers increased

their purchases ahead of the expected sales tax increase in October. Finally, the Swiss inflation rate declined 0.5% in July, the biggest monthly decline since July 2015, lower than expected and down from June's 0.0% - refer to Chart 7 in this regard. The annual inflation rate in Switzerland is now 0.3%, the lowest level since July 2017.

Chart 7: Swiss monthly inflation rate



Source: EFG

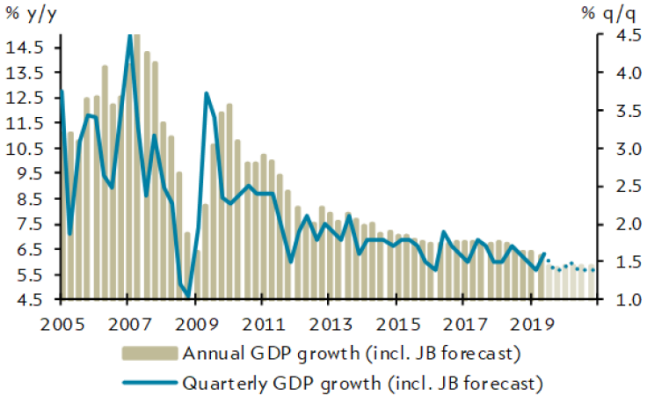
- *Emerging economies*: A great deal of data releases characterized the month, but by and large the story was uniform across all emerging markets: economic growth is slowing and central banks are lowering interest rates. Starting with China, growth in that economy slowed to 6.2% in Q2, down from 6.4% in Q1, and at the slowest rate since 1992 when the country starting publishing quarterly data – refer to Chart 8. During June, industrial production rose 6.3% on an annual basis, retail sales 9.8% and fixed asset investment 5.8% - all above expectations. However, the raft of July data was more sobering: industrial production rose "only" 4.8%, retail sales increased at an annual rate of 7.8%, and fixed asset investment 5.7% - these readings were all below expectations. The annual increase in (consumer) inflation to June was 2.8%, while producer inflation (PPI) was -0.3%, its first negative reading since September 2016.

Kingfisher midday snack

Instagram handle: @birds_private

Turning to New Zealand, the Reserve Bank (RBNZ) lowered interest rates by 0.5% - the markets had been expecting a cut of only 0.25% - bringing the key policy rate to 1.0%. In addition, the RBNZ was particularly aggressive in their comment about the possibility of rates moving even lower; this led to notable weakness in the Australian dollar (to a 10-year low relative to the US dollar) and the New Zealand dollar (the so-called "Kiwi").

Chart 8: Chinese economic growth slowdown

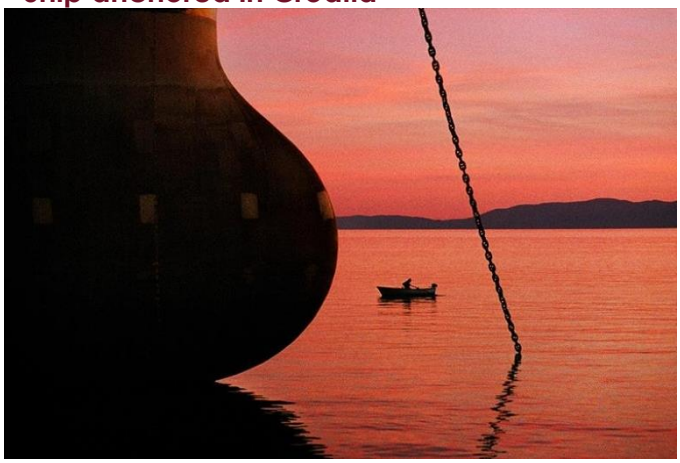


Source: EFG

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

Moving on to Thailand, the Bank of Thailand lowered its policy interest rate – its first cut in four years – by 0.25% to 1.5% on concerns of a slowing economy and a strong Thai baht. The Reserve Bank of India (RBI) lowered its interest rate by 0.35%, the fourth consecutive cut, to an official policy rate of 5.4%. Concern is growing about the independence of the RBI, given that the previous Governor resigned following pressure from government about his hawkish monetary policy stance and that the rate has now been cut at every meeting since Governor Shaktikanta Das became governor. The RBI noted that domestic economic activity continues to be weak and escalating trade tensions might further impact India's export and investment activity. It lowered its 2020 growth forecast to 6.9%. The Indian economy grew 5.8% in Q1 – the slowest growth in five years. A sharp slowdown in investment activity and slow consumption growth caused the overall weakness. The Singapore economy contracted 3.4% during Q2, meaning that its economy grew only 0.1% during the year to end-June.

Ship anchored in Croatia



Instagram handle: @stevenmccurryofficial

Elsewhere Brazil's central bank cut their Selic policy rate by 0.5% to 6.0%, the first cut since March 2018. Inflation in Brazil is running around 3.4%.

Little monk in the snow

Instagram handle: @natgeoyourshot

In Turkey, the authorities lowered the benchmark interest rate from 24.0% to 19.75% - the first cut since 2016 – bowing to pressure from President Erdogan and simultaneously calling into question its independence and credibility. Inflation in Turkey declined from 18.7% in May to 15.7% in June and the economy *contracted* by 2.6% during Q1. The Central Bank of Russia lowered its key policy rate by 0.25% to 7.25%, partly in response to paltry economic growth of 0.7% so far this year. The annual inflation is currently 4.6%. Growth in the Philippines declined to 5.5% in Q2, the slowest rate in four years, due largely to weak investment, where gross fixed investment declined 4.8% during the past year. Private consumption spending increased at 5.6% during the past year. The slower growth rate led to the Central Bank of Philippines (BSP) to cut its interest rates by 0.25% to 4.25%. South Korea's Q2 growth rate slowed to an annual rate of 2.1%, marginally higher than Q1's 1.7%, amidst a

private sector investment slowdown. Bank Indonesia also cut its interest rate by 0.25% following six interest rate increases last year. It also now expected the Indonesian economy to grow below the mid-point of its 5.0% to 5.4% forecast in 2019.

Morning prayers in the snow

Instagram handle: @natgeo

Charts of the month

This month I have a few random charts that I found fascinating and would like to share with you. They touch on certain themes driving the market, and I hope you find them interesting.

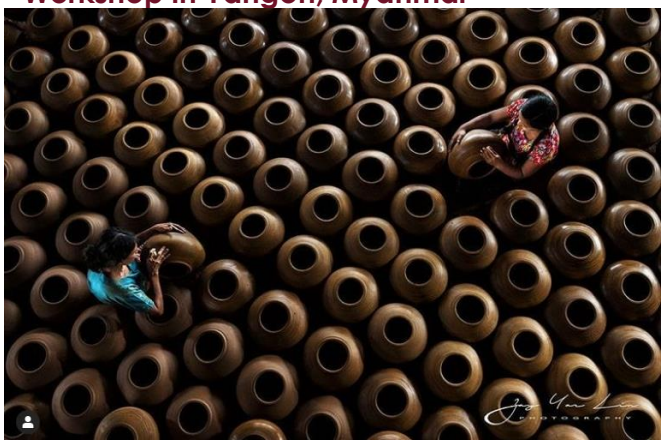
Chart 9: The gold price and negative yields

Source: Julius Bär

Negative yields lend support to gold

An investment in physical gold generates no income, and there are a few small costs tied to the investment (storage, insurance, etc.). The higher interest rates go, the more expensive the cost of holding gold becomes, given that you are sacrificing a rising income stream. Conversely, the lower interest fall, or in the present day, the further interest rates fall into negative territory, the cheaper it becomes to hold gold. That relationship is proving very robust and reliable in the present times, as more and more bonds slip into negative yield territory i.e. you pay the borrower to hold its debt – bizarre indeed, but that is the world we find ourselves in. Chart 9 depicts the total value of negatively yielding bonds, currently around $16trn, against the gold price; the close correlation since the end of 2015 is very evident. Clearly, if and when bond yields begin rising, the price of gold is likely to come under pressure.

Workshop in Yangon, Myanmar



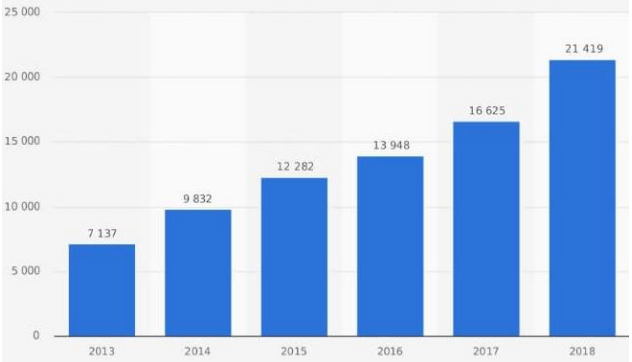
Instagram handle: @zayyarlin84

So how much do you spend on R&D?

We were chatting about the Research and Development (R&D) spending by some of the technology behemoths at a morning meeting recently when Japie brought up the following chart. Before we look at the chart and place its

contents into perspective, let's note that the total budget for non-military R&D spending by the US government during the 2018 fiscal year was less than $80bn.

Chart 10: Alphabet's annual R&D spend ($m)

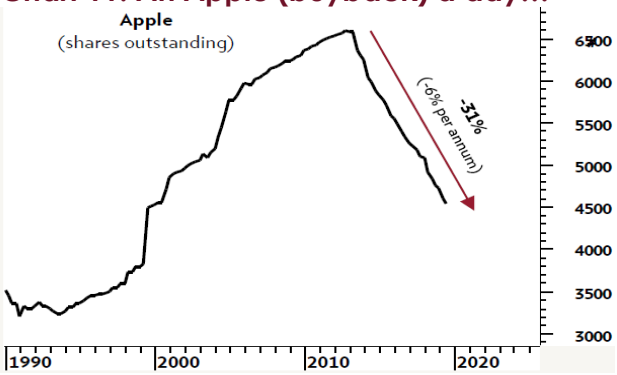


Now consider Chart 10, which depicts the annual R&D spending by Alphabet, the parent company of Google. In 2018 Alphabet alone spent more than a quarter of the entire US government's spend on R&D. That's an awful amount of money and clearly is what makes these tech giants so powerful and innovative. It also provides insight into why governments around the world are starting to fear "Big Tech" so much and why the groundswell of targeting these companies by governments is gaining so much traction.

A significant part of the US corporate psyche

One of the unique features of the US corporate landscape, and here I am specifically referring to the behaviour of US listed and domiciled companies, is the issue share buybacks. This refers to the practice of companies using their cash to buy (back) their own shares. It is widely debated in investment circles; Maestro is indifferent towards the matter. In our view the practice has its advantages and disadvantages, but we are aware of it, take it into account in our analysis, and work around and with it when it comes to constructing our portfolios. Those against the practice highlight the fact that it doesn't add much to the real economy, and that there are better ways to utilize one's cash. I suppose companies would argue that when there are insufficient investment opportunities around i.e. there is insufficient demand for their products or services to justify increasing their capacity, and where the respective company is still very cash generative, one may as well deploy the cash to buy back shares. Tech companies are typically faced with this "problem", not least because so many of them are not only hugely cash generative but are also cash flush – particularly these days, where the corporate sector, or at least many parts of it, has never been in better health (read cash-flush).

Chart 11: An Apple (buyback) a day…



Source: Julius Bär

Apart from just drawing your attention to this practice and hotly debated topic, I thought Chart 11 was worth sharing in this regard. It depicts the number of Apple shares outstanding. Apple is one of the most cash-rich companies and its cash pile dwarfs all others, so it is a primary candidate for share buybacks. The fact that its rate of growth is slowing, merely compounds its "cash problem" so it is not surprising to see that it has been one of the most aggressive in terms of share buybacks in recent years. In fact, you can see from the chart that since 2013, the number of outstanding Apple shares has declined by 31% or around 6% per annum.

The Julius Bär comment that accompanied the chart was rather prescient: "Thus, shareholders who have been holding on to their shares now own a larger pie of the company. This is of course in total contrast to the bond market, where the amount of negatively yielding bonds has risen to $16tn and continues to grow. Therefore, investors should keep this in mind and ask whether the underlying asset has a growing or shrinking supply."

Horned beasts

Instagram handle: @geosafaris

Quotes to chew on

More testimony of historic events in bond markets

For a number of months now we have been commenting on the historic movements in global bond markets. There is no market participant alive today who has ever seen bond yields decline so far, many deep into negative territory. It has many of us scratching our heads as to who could continue to buy investments on which the only certainty is that they are guaranteed to lose money. Of course, it is a bit more complicated than that. Don't be fooled though, you will only lose money if you buy bonds at a negative yield – there is no uncertainty about that. Not surprisingly, much of the daily market commentary has been directed at these remarkable and historic events, some of which are covered below.

Deutsche Bank's Jim Reid wrote, in this *Daily Reid* of 26 July as follows: "Mr Draghi has been the master at absorbing all the criticism markets have thrown at him over the years and then come out fighting. Indeed, given what happened yesterday its rather apt that seven years ago today, Mr Draghi made his seminal 'whatever it takes' speech which was the main turning point in terms of reversing a then rolling European sovereign crisis. In terms of saving the Euro project, this speech was a great success. Indeed Italian yields which were trading above 6.5% when he stood up to speak are now 1.52%. However the subsequent policies associated with this speech have seen much collateral damage with negative policy rates, €2.6tn of Quantitative Easing (QE), 50% of the €11.8tn European bond market now trading at a negative yield, mixed growth performance, and with lower and lower expectations of inflation. The ECB has succeeded in keeping the Euro together to date, but has failed by a large margin on their inflation mandate."

On 8 August, he wrote as follows: "As for Austria's 100-year bond, this security deserves its own paragraph. Since October, it has gone from a cash price of 107.3 to 191.6. It was also as 'low' as 148.7 in mid-July. So that's a rough return of 79% in ten months and 29% in four weeks. That takes its year-to-date gains to 64.4%, making it, to our knowledge, at or around the best performing asset of the year so far, better than the

December Dalian iron ore future (46.5%), Jamaica's JSE index (40.4%), Greece's ASE index (36.6%), and gold (16.8%). Oh, and if you want to buy a UK 30-year inflation linked bond at the moment, your yield will be -2.08%. That's their lowest levels ever."

Red sail

Instagram handle: @natgeoyourshot

Democracy revisited

I have often raised eyebrows when I mention that I do not believe in democracy as a political system. I wonder if, after 24 years of an ANC government, many South Africans, in their heart of hearts, would not agree with me. You are more than welcome to send me your views.

In this regard, I have been reading Factfulness, by Hans Rosling, a book that I can recommend highly. It is one of the few books I have read in recent years that has challenged my thinking and been inspiring. It presents a view of the world that is different, refreshing, and that for once, offers hope for our future.

Commenting on the danger of thinking of a single perspective, Rosling offers the following comment on democracy, which I readily identify with: "This is risky, but I am going to argue it anyway. I strongly believe that a liberal democracy is the best way to run a country. People like me, who believe this, are often tempted to argue that a democracy leads to, or is even a requirement for, other good things, like peace, social progress, health improvements, and economic growth. But here's the thing, and it is hard to accept: the evidence does not support this stance.

"Most countries that make great economic and social progress are not democracies. South Korea moved from Level 1 to Level 3 faster than any country had ever done (without finding oil). All the time as a military dictatorship (*Ed*: Rosling uses a classification methodology of four Levels to measure economic and social progress and well-being, with Level 1 being the most basic and Level 4 the highest). Of the ten countries with the fastest economic growth in the years 2010 – 2016, nine of them score low on democracy.

"Anyone who claims that democracy is a necessity for economic growth and health improvements will risk getting contradicted by reality. It's better to argue for democracy as a goal in itself instead of as a superior means to other goals we like.

"There is no single measure – not GDP per capita, not child mortality (as in Cuba), not individual freedom (as in the United States), not even democracy – whose improvement will guarantee improvements in all the others. There is no single indicator through which we can measure the progress of a nation. Reality is just more complicated than that."

Obituary: Johnny Clegg (1953 – 2019)

I suspect all readers will have been saddened to hear of the passing of Johnny Clegg, after a four-year struggle with pancreatic cancer. In many respects he epitomized the dream within so many of us to see a non-racial South African society living in harmony – and having fun in the process. President Ramaphosa put it this way: "Clegg's songs gave apartheid-era South Africa a window on the non-racial South Africa we were determined to achieve". Through his music and life Johnny Clegg touched all of us, no matter what age, as well as many musicians around the world, and he will be sorely missed by all. He is survived by his wife of 31 years, Jenny, and two sons. Refer to the photo of Johnny and Jenny Clegg, below, on their wedding day, where the ceremony was celebrated in the Zulu nation tradition.

Born in Lancashire in 1953, Clegg moved to apartheid South Africa at the age of six. At 15, he met Charlie Mzila, a domestic worker who taught him the isiZulu language and introduced him to the maskandi music of Zulu culture. This education brought the Clegg to the hostels and shebeen bars of Johannesburg's black migrant worker population at a time when apartheid suppressed urban mixing.

His guitar-playing in the maskandi genre brought him to the attention of Sipho Mchunu, a musician. Together they founded a band, Juluka, at a time when apartheid police could have arrested the two men for walking together on the wrong street. Clegg formed a second interracial band, Savuka, when Juluka ended in 1985.

Clegg joined other South African musicians such as Miriam Makeba, Brenda Fassie, and Hugh Masekela in defying the racial strictures that apartheid sought to impose on them. He was also an anthropologist, producing academic texts on Zulu *isishameni* dance and migrant worker culture. The traditional Zulu warrior dance, involving kicking one's leg high into the air to intimidate adversaries, was a constant feature of his concerts. Yvonne Chaka Chaka, said of Clegg "He could have stayed a privileged white man but he befriended a gardener, learned the art of Zulu, and learned the African dance."

With his band Savuka, Clegg recorded his most famous song, "Asimbonanga", in 1987. It called for Mandela's release from Robben Island at a time when censors were suppressing photographs of South Africa's future first post-apartheid president. The song title means "We have not seen him".

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

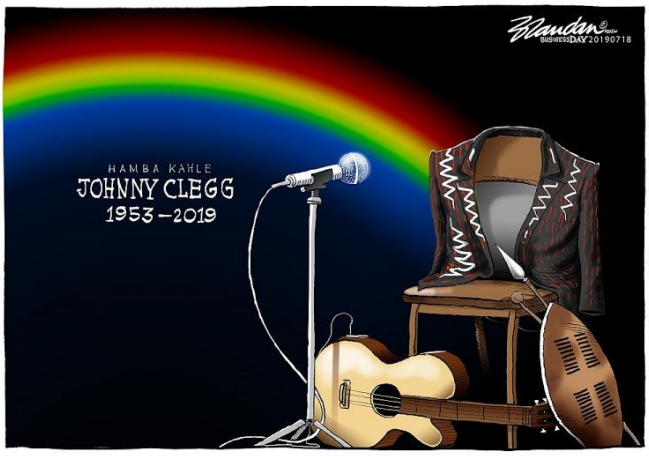
Much of Clegg's music was banned from radio play and his concert appearances were limited in South Africa in the late 1980s, though his music met with success abroad. Clegg once said that he performed "Asimbonanga" in 1986 "knowing it was going to be banned and not knowing he [Mandela] was ever going to be released because we were in the middle of a civil war". When Clegg reprised "Asimbonanga" at a concert in Frankfurt in 1999 — five years after apartheid ended with South Africa's first post-apartheid elections — Mandela himself joined him on stage. You can see the video on this wonderful and historic event by clicking here.

Senegalese music star Youssou N'Dour wrote on Facebook that he was "very sad" to hear of Clegg's death. "He made his mark on the world forever with his bold anti-apartheid struggle and we will be eternally grateful for his song 'Asimbonanga'."

In 1991 the French government made him a Knight of Arts and Letters. He became one of the first South Africans to be honoured by Queen Elizabeth with the Officer of the Order of the British Empire in 2015.

Most recently, President Ramaphosa bestowed on him the National Order of Ikhamanga for bridging African traditional music with other music forms.

Clegg's other hits include *Impi* and *Scatterlings of Africa* (1986), *The Crossing* (1993) and *Great Heart* (1987). His album *Heat, Dust and Dreams*, made with the group Savuka, earned a Grammy nomination in 1993.



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.

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

	Period ended	Month	Year to date	Year
Maestro Equity Prescient Fund	**Jul**	**-0.7%**	**7.2%**	**-1.8%**
JSE All Share Index	*Jul*	*-2.4%*	*9.6%*	*2.2%*
Maestro Growth Fund	**Jul**	**0.0%**	**8.8%**	**2.9%**
Fund Benchmark	*Jul*	*-1.4%*	*8.8%*	*5.3%*
Maestro Balanced Fund	**Jul**	**0.0%**	**6.0%**	**0.1%**
Fund Benchmark	*Jul*	*-1.1%*	*8.3%*	*5.8%*
Maestro Cautious Fund	**Jul**	**0.7%**	**3.9%**	**8.3%**
Fund Benchmark	*Jul*	*-0.7%*	*6.7%*	*6.2%*
Central Park Global Balanced Fund ($)	**Jun**	**6.2%**	**17.9%**	**-4.2%**
*Benchmark**	*Jun*	*4.8%*	*11.7%*	*5.3%*
*Sector average **	*Jun*	*3.1%*	*9.7%*	*3.0%*
Maestro Global Balanced Fund	**Jul**	**0.3%**	**19.5%**	**5.2%**
Benchmark	*Jul*	*0.7%*	*10.3%*	*12.1%*
*Sector average ***	*Jul*	*1.3%*	*11.3%*	*9.7%*

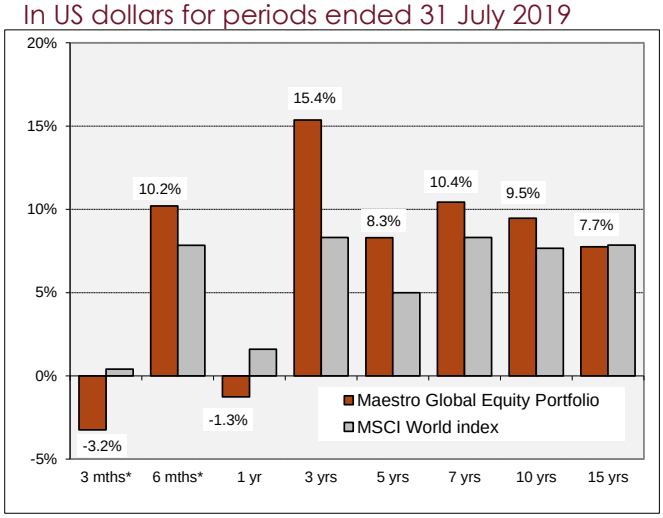
* 60% MSCI World Index and 40% Bloomberg Global Aggregate Bond Index
** Morningstar USD Moderate Allocation ($)
*** Morningstar ASISA Global Multi Asset Flexible Category

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

It has been some time since we drew your attention to the returns Maestro has achieved on the global equity portfolios under its management. Notwithstanding volatile markets, we have been able to maintain our record of, over most periods, outperforming the benchmark, in this case the MSCI World index. We are also in a position to report returns over a 15-year period for the first time. They are depicted in Chart 12, below.

Chart 12: Maestro global equity returns

In US dollars for periods ended 31 July 2019

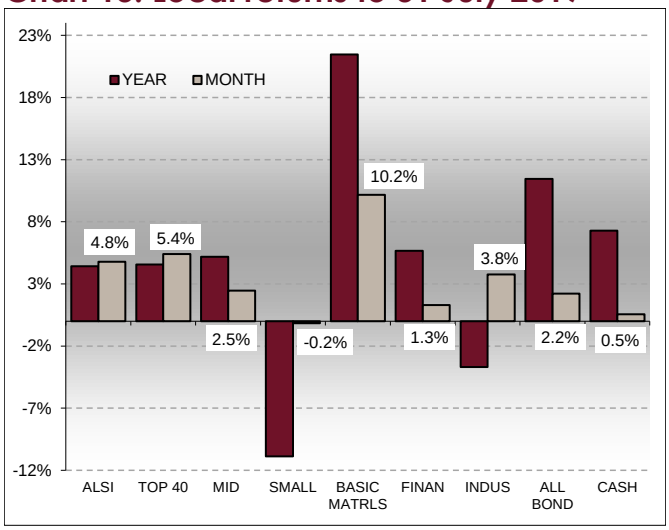


July in perspective – local markets

Turning to the local markets, the slow meltdown into oblivion continues, while politicians "fiddle" and obsess about factions within the ruling party, and other largely irrelevant things. Billions of rands, which the country doesn't actually have and can certainly not afford, are being thrown into the bottomless pit of failed and corrupt State-owned enterprises (SoEs), while the poor get poorer, unemployment rockets, and crime and gang-related atrocities escalate. More and more companies are being brought to their knees as the country's productive capacity is tested to the limit by slowing demand, endless regulation, bureaucracy and institutionalized ineptitude. The tax base is voting with their feet as taxpayers and job creators emigrate at an alarming and unprecedented rate.

The All Share index lost 2.7% during July, with the Financials index leading the decline, down 6.4%, followed closely by Basic Materials, which ended the month down 5.2%. The Industrial Index rose 1.2%, while the Mid and Small Cap indices registered monthly returns of -2.0% and 0.5% respectively. The rand ended down 0.5% against the dollar which, all things considered, was a relatively good performance in the face of the rampant greenback.

Chart 13: Local returns to 31 July 2019



File 13 – Information almost worth knowing

Big Brother is watching...

We have all watched authorities in virtually every country tighten up their collection of revenue and their pursuit of taxpayers which, in their opinion, have evaded taxes in general and specifically by hiding them from the authorities in "faraway places". Of course, government efforts in this regard have during the past few years given rise to draconian pieces of regulation, such as "FATCA" and "CRS", which now virtually "rule the waves" of offshore investment. Implicit in this

regulation is the creation of an electronic platform for governments to share information on taxpayers. As we continually remind our clients, there is now literally "no place to hide" from the tax authorities and we would strongly encourage all clients and taxpayers to ensure their tax affairs are all up to date, in order, and fully compliant with all prevailing legislation.

Isolation

Instagram handle: @natgeoyourshot

An interesting aspect to emerge from this process is to sift through the information which an increasing number of governments are releasing on errant taxpayers or money that is "less than clean". Of course, this is a cat and mouse game, and publishing information on errant taxpayers is an important PR exercise for many authorities. Nevertheless, some of the details are fascinating.

In the UK for example, according to an all-party parliamentary committee scrutinizing the draft Registration of Overseas Entities Bill, more than £90bn is estimated to be laundered illegally through the UK each year. In 2017, 160 properties worth over £4bn were identified as being purchased by high corruption-risk individuals, and 86 000 properties in England and Wales identified as owned by companies incorporated in jurisdictions where secrecy was paramount.

Redefining the short-term insurance industry

As many of you will know, Maestro has, on behalf of its clients, been investing in Chinese companies for many years already. This has resulted in an unfortunate increase in volatility of our portfolios at times, but we continue to view China as the great "hunting ground" for unique, once-in-a-lifetime opportunities. If you can get past the usual, stereotypical Western narrative about China, which is very misleading and simply not correct, at least in our opinion, then one will begin to realize just how wonderful some of those opportunities are. The Chinese economy may be slowing, but it is still growing nearly three times the rate of the US economy. In many respects, it is still in the process of "emerging" - China would argue that it is simply regaining its rightful place as the global leader, but I will leave that debate for the historians to argue.

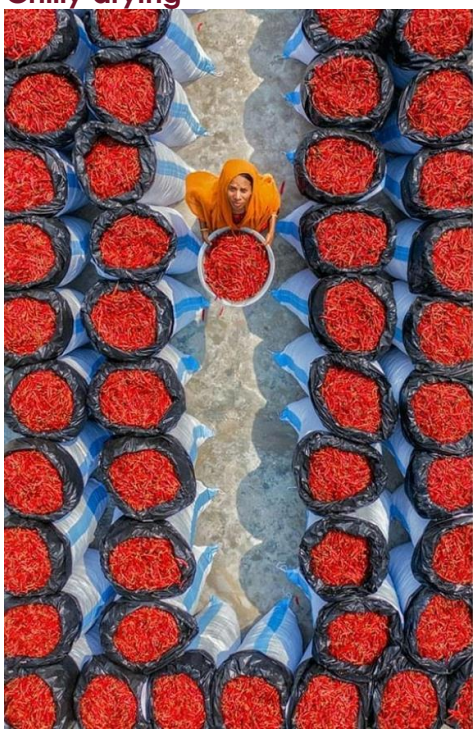
One example of how Chinese businesses are redefining Western business norms, for want of a better way of putting it, was highlighted in Ping An's recent results. Before sharing it with you, can I ask you to think of your experience of insurance claims in terms of the length it takes to settle the claim, and the administrative requirements, not to talk of the frustration?

Now consider the following extract from Ping An's results: "Ping An Property and Casualty is the industry leader for online claims services. We developed Artificial Intelligence-powered image-based loss assessment and precise customer profiling technologies. Capitalizing on these technologies, we launched the "Ping An Motor Insurance Trust Claim" service for auto owners with safe driving behaviors. Through this service, *we settle a claim within an average of 168 seconds with no back-end manual operation involved" (my italics)*. I rest my case.

Young monks in the sun, Myanmar

Instagram handle: @street.classics

Chilly drying



Instagram handle: @people_infinity_

So what's with the pics?

As with recent editions of Intermezzo, I have taken to Instagram to select and share a few photos that appealed to me. I have chosen them from my "Photography" folder this month, where I save photos which appeal to me for no other reason that they are beautiful or unique photos. I hope you will agree with me.

Bald eagle fishing

Instagram handle: @wildlifecookies