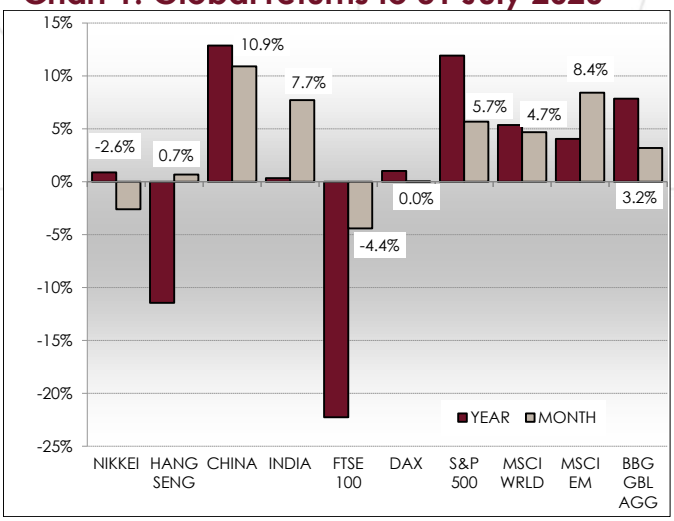
July in perspective – global markets

Global equity markets continued to surprise investors as they grind relentlessly upwards despite the economic and business uncertainty, and the pandemic we are still in the midst of.

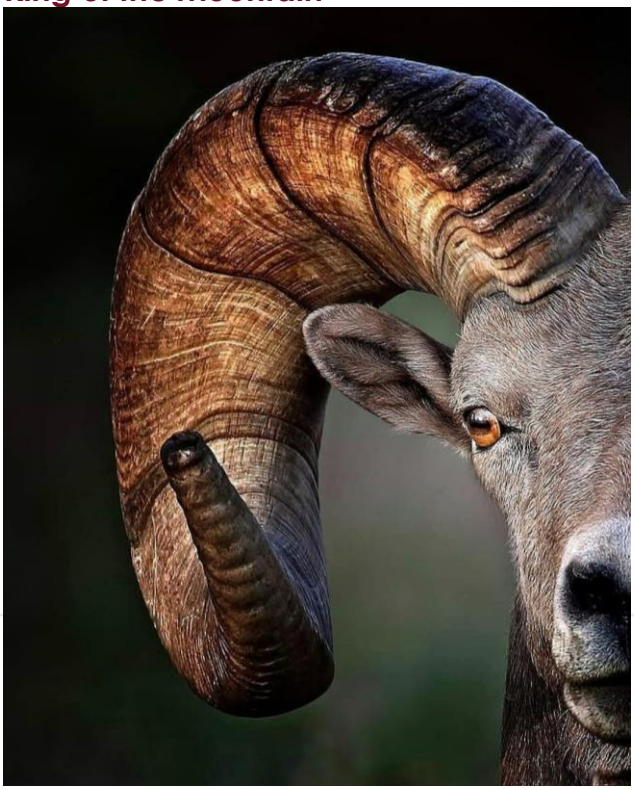
Let's take a quick raincheck and review the past few months in global equity markets: after a very strong (10.8%) rebound in April – remember markets troughed on 23 March – followed by another strong (4.6%) month in May, markets took a small breather in June, although they still posted positive (2.5%) returns. With the onset of second quarter earnings season, one would have thought that markets would be hesitant in July, in light of the uncertainty surrounding the earnings outlook and the strong rebound they had already experienced. However, that expectation proved to be incorrect. Markets continued to move sharply higher (4.7%), led as they have been, by large global technology companies.

Chart 1: Global returns to 31 July 2020



The investment landscape and environment are changing rapidly, and are full of disparate forces, each pulling in their own direction. Responses to the global pandemic have had a mixed effect, economies have rebounded at differing speeds, and idiosyncratic issues like the US election and the ongoing Sino-US tech Cold War haven't added any comfort or visibility into the future. Yet markets continue to rise strongly, and bond yields (interest rates) reach new lows. With the unprecedented monetary policy relief flooding markets with liquidity (money) and fiscal support sure to follow, equity markets have gathered a new lease of life and now find themselves as "the only game in town".

King of the Mountain



Instagram handle: @s.phiferphotography

Of course, looking at the major indices can be misleading. The S&P Mid and Small Cap indices are still down 9.7% and 15.3% respectively for the year-to-date, but in general the US equity market has been resilient, and large tech companies even more so. Let's consider some of the data following another truly remarkable month in global investment markets.

For a change, let us start with foreign exchange, where perhaps the most unusual activity occurred. The dollar, which has been firm for a long time now, lost 4.2%, which in turn boosted other currencies, especially emerging market ones. The rand gained 2.0% against the greenback, the Aussie dollar 4.2% and the Brazilian *real* 5.5%. The euro was firm, ending 5.3% higher on the month. The weak dollar laid the platform for firmer commodity prices: gold and platinum prices ended up 10.5% and 9.6% respectively, but it was "poor man's gold", silver, which stole the show with a gain of 29.4% on the month. The oil price rose 3.5%, although it really does seem to be marching to its own drum at the moment. The base metal and soft commodity price complexes were all firm.

Global bond markets were not to be outdone: the Bloomberg Global Aggregate Bond index rose 3.2%, bringing its year-to-date gain to 6.3% - who would ever have thought *that* return possible, given that the US 10-year bond began the year at a lowly yield of only 1.75%. That however, seems an eternity away from the July month-end yield of 0.5%!

Emerging equity market returns were supported by the weak dollar: the MSCI Emerging Market index rose 8.4% versus the MSCI World index 4.7%, which is still not shabby – the latter has now risen 24.4% in the last 4 months! The MSCI Emerging Market is up 27.1% over the same period, while the NASDAQ is up an astonishing 39.6%. Did anyone notice there was an economic crisis underway, with no clear exit in sight?! The Chinese equity market rose 10.9%, and the Brazilian and Indian markets ended 8.3% and 7.7% higher respectively. The Hong Kong market turned in another disappointing monthly return of only 0.7% (it is still down 12.8% so far this year) while the UK continued to play its part as the "serial loser", falling 4.4%, bringing its year-to-date return to -21.8%.

The Great Crossing

Instagram handle: @paultje_nl

What's on our radar screen?

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

- *The SA economy:* Second quarter (Q2) growth data has yet to be released in South Africa, but all signs point to a dire outcome. The country was already in a recession before the Covid pandemic began, so we are bracing ourselves for a significant contraction in the economy. Unemployment has climbed steadily since January 2018 and was 30.1% during the first quarter i.e. before the pandemic began. The SA Reserve Bank cut its interest rate to an all-time low of 3.5% in late July, but that

is unlikely to have a major positive impact on businesses, who are struggling to survive the pandemic lockdown and an extremely unfriendly business climate. Business confidence declined to 5 during Q2, from 18 in Q1, the lowest it has been since the series began in 1975, and lower still than the darkest days brought about by sanctions during the apartheid regime – not quite a record government should be proud of! Consumer confidence plunged to -33 in Q2, from -9 in Q1. The index was at 26 in January 2018, following the appointment of President Ramaphosa during the so-called "Ramaphoria", but has declined ever since then, turning negative (-7) in Q2 2019. The sub-index measuring the appropriate time to buy durable goods fell to -64, the lowest level since 1985, during the state emergency brought about by the violent resistance to the apartheid regime.

- *The US economy*: The US economy shrank at an annualized rate of 32.9% during the Q2, or 9.5% quarter-on-quarter, the worst quarterly contraction since 1947. Personal income declined 1.1% between May and June, versus a monthly decline of 4.4% in May and a 12.1% surge in April, albeit off a very low base in April. Monthly numbers are volatile which is why we tend to lay more store by annual data. That said, with so much damage done during March and April around the world, we are all watching monthly data now to see to what extent the respective economies are recovering. Personal spending in the US rose 5.6% in June, down from an 8.5% rise in May but far above the precipitous decline of 12.9% in April – again, note just how volatile these data are.

Bat drinking, Gorongosa National Park

Instagram handle: @piotr_naskrecki

Turning to the labour market, which is also being closely watched to assess the extent of any rebound, 1.76m jobs were created in July, with large gains seen in the hospitality, retail, government and health-care sectors. This was fewer than the 4.79m jobs created in June. Despite these gains, there are still 13m less jobs than before the pandemic began in late-February – remember 20.8m jobs were lost in April alone. The unemployment rate fell to 10.2% from 11.1% in June. US headline inflation rose 1.0% in July, while core inflation i.e. inflation excluding food and energy prices, rose at month-on-month rate of 0.6% (1.6% year-on-year), its highest monthly increase in three decades. The US Manufacturing PMI in July was 50.9, only just above the 50 growth-contraction divide. US retail sales

rose 1.2% in July from the previous month. The monthly increases in May and June were 18.3% and 8.4% respectively, so the pace of recovery is slowing. That said, retail sales collapsed 8.2% and 14.7% during February and March respectively, so the effects of the low base seem to be something of the past.

Close-up of a Bee

Instagram handle: @jkorhoin

- *Developed economies*: We have noted the terrible US Q2 economic contraction already; the picture wasn't much better in other developed countries. The UK economy declined 2.2% during the first quarter (Q1), so was on a slippery slope heading into the pandemic and lock-down. As it turned out, the UK economy contracted 20.4% quarter-on-quarter during Q2, considerably worse than the 9.5% contraction in the US, and in Germany and France, where the comparable Q2 economic declines were 10.1% (the worst in 50 years) and 13.8% respectively. The decline in the UK economy was the largest since records began in 1955. The Italian economy contracted 12.4% during Q2, and the Spanish economy 18.5%. At this stage, one is tempted to become too familiar with these enormous declines, but we should not glance over them, or fail to appreciate the decimation caused to millions of livelihoods, households and families. I wonder how we would have reacted a year ago, when all was going along just fine, had I told you that the Spanish economy would contract 18.5% in one quarter. Or Germany contract at a rate of 10.1%? To place the scale of these contractions into perspective, consider that the German, French, and Spanish economies contracted at an *annual* rate of 34.7%, 44.8%, and 55.8% during Q2! The economic damage is simply mind-boggling. The Eurozone region as a whole declined 12.1% quarter-on-quarter, or 40.3% on an annualized basis. The Japanese economy contracted 7.8% on a quarterly basis (27.8% annualized), less than other countries, although the Japanese economy was already in contraction mode in Q4 2019 and Q1 2020 (-2.2%).
- *Emerging economies:* Many countries are still reducing interest rates to try and contain the economic fall-out form the Covid pandemic. The Colombian central bank reduced its rate by 0.25% to an all-time low of 2.25%, amidst indications that rates might move lower still before the end of the year. The Colombian central bank estimates that their economy will decline between 6% and 10% in 2020. The Brazilian

central bank lowered their *Selic* rate by 0.25% to an all-time low of 2.0%. In China, retail sales posted a disappointing decline in July, falling 1.1% on an annual basis. Industrial production rose 4.8% but fixed asset investment declined 1.6%. Annual headline inflation was 2.7% in July, up from 2.5% in June and 2.4% in May.

The Common Fly

Instagram handle: @alexandermelnik

Quotes to chew on

Humble beginnings for the world's richest man

At the Congressional committee hearing in Washington in August, *Amazon CEO Jeff Bezos* provided insight into his humble beginnings. "My mom, Jackie, had me when she was a 17-year-old high school student in Albuquerque. My father, a Cuban immigrant who arrived in the US unable to speak a word of English, adopted me at the age of four. Together with my grandparents, these hardworking resourceful and loving people, made me who I am." After graduating from Princeton, Mr Bezos worked in New York. But at 30 he left a "steady job on Wall Street" to move cross country to Seattle in order to found an online bookstore, "fully understanding that it might not work". The rest, as they say in the classics, is history.

5G is alive and well in China already

With all the noise caused by US President Trump around the issue of the next generation of telecommunications, 5G, you could be forgiven for thinking we are still years away from its implementation. That may be the case in most countries, but not so for China. In the South China Morning Post of 17 August, reporting on China Mobile's results, we read the following: "China Mobile had 70.2m 5G users by the end of June and the number of subscribers will probably exceed 100m this year, according to (stockbroker) Pacific Securities. The mobile phone carrier has already set up 188 000 5G base stations in over 50 cities and plans to build another 350 000 this year, the brokerage said".

Charts of the month

Apples with apples

Economists and investment professionals are keen to spew out numbers, assuming everyone understands them and has the appropriate perspective against which to draw meaningful conclusions. Historically, regions have developed habits of reporting economic data differently, which makes it hard at times to compare apples with apples, so to speak. So I found the table, below, rather useful when comparing economic growth rates across different regions. It shows what the growth rates were on a quarter-on-quarter basis, and the same growth rate on an annualized basis.

Table 1: Recent economic growth rates (%)

		US	Euro area	Germany	France	Italy	Spain	UK	Switzerland	China
Q1	QoQ%	-1.3%	-3.6%	-2.0%	-5.9%	-5.4%	-5.2%	-2.2%	-2.6%	-10.0%
	Annualised	-5.0%	-13.6%	-7.8%	-21.7%	-19.8%	-19.3%	-8.5%	-10.0%	-34.4%
Q2	QoQ%	-9.5%	-12.1%	-10.1%	-13.8%	-12.4%	-18.5%	-18.9%	-8.7%	11.5%
	Annualised	-32.9%	-40.3%	-34.7%	-44.8%	-41.0%	-55.8%	-56.7%	-30.5%	54.6%
Q3	QoQ%	4.2%	8.2%	5.2%	11.1%	10.0%	9.8%	12.2%	6.3%	3.3%
	Annualised	18.0%	37.1%	22.5%	52.4%	46.4%	45.3%	58.5%	27.7%	13.9%
Q4	QoQ%	1.6%	2.7%	2.4%	2.9%	2.7%	3.3%	4.0%	2.2%	2.1%
	Annualised	6.5%	11.2%	10.0%	12.1%	11.2%	13.9%	17.0%	9.1%	8.7%

Forecast

Source: EFG

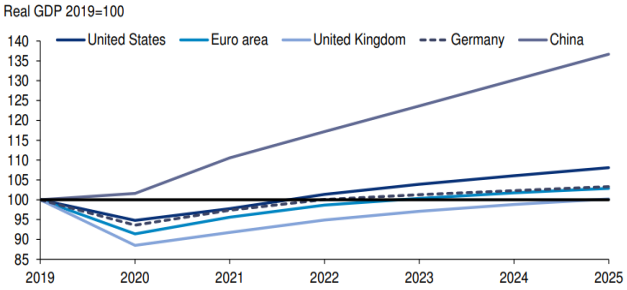
So for example, during the June quarter (Q2) the US economy contracted at a rate of 9.5% i.e. when comparing Q2 2019 to Q2 2020, the economy shrank 9.5%. But that refers to only one quarter; if one want to express the contraction on an annual basis, you have to annualize the contraction. Doing so, and using fancy statistical techniques such as adjusting for the seasonality of data, one arrives at an annual rate of contraction of the US economy of 32.9%. The advantage of doing this is it enables you to compare it to other annual data. From the above table we can see that the Chinese economy grew at an annualized rate of 54.6% in the year to end-June, although it was off a low base and that economy was affected by the Covid-19 pandemic earlier than other countries. But its 54.6% *growth* rate is directly comparable to the 55.8% rate of *contraction* of by the Spanish economy, or the 44.8% decline in the French economy.

Just do the maths

Having learnt to compare economic growth rates across regions and to not be confused when countries report quarterly or annualized growth rates, let us turn to the effects of the growth. We watch with more than a vested interest at US President Trump taking on China in a battle for global supremacy. Our view is that in the long-term, China will prevail because it is just growing so much faster than the US economy. The US as a nation has been in a state of steady decline for a number of years already, across a wide range of measures including but not limited to competitiveness, growth, and education. Of course many of these are subjective and a matter of opinion. However that isn't true of economic growth, which is simply a function of numbers, in this case the rate of growth and the consequent size of the economy. If I told you that the Chinese economy will be nearly 25% bigger than the US economy in five years' time, assuming you used the beginning of 2020 as your starting point, would you believe me? Probably not, but the numbers speak for themselves – refer to Chart 2. As they say in the US "Just do the math".

Chart 2: Economic growth divergence

100 = 31December 2019

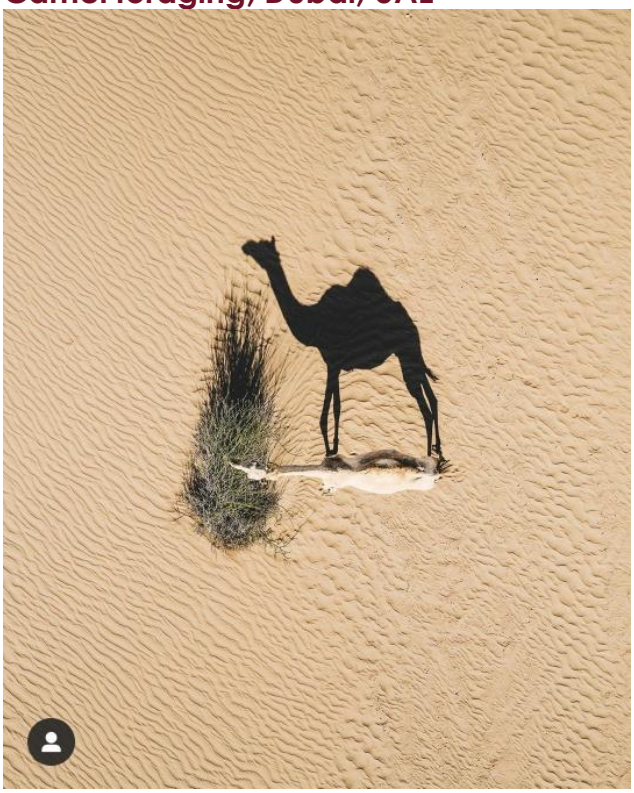


Source: Deutsche Bank

Let's be clear; I am not saying the Chinese economy will be 25% larger than that of the US. Rather, if the two economies were similar in size at the starting point of the beginning of 2020, China would be 25% larger than the US by 2025 i.e. the rate of growth in China is going to be faster, so their economy will grow in such a way that China will be 25% larger than the US, when measured against the same starting point. This much is clear from Chart 2. China has recovered rapidly from its coronavirus-induced contraction, and is forecast to continue the high level of growth experienced before the pandemic. Other countries, shown in the Chart, contracted far more, so have more "lost ground" to make up

before they reach their pre-Covid levels. The economic effects of this simple mathematical fact are, of course, profound, and give China a huge advantage in terms of its global economic power as it continues its inexorable rise to eventually become the world's largest economy.

Camel foraging, Dubai, UAE

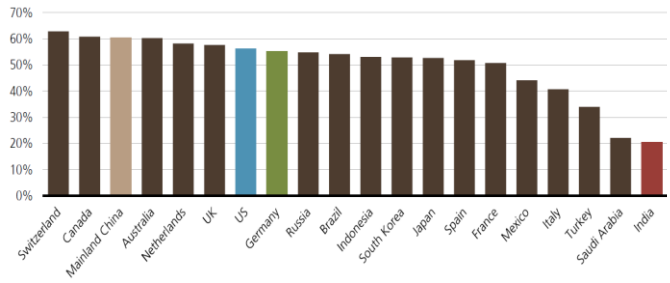


Instagram handle: @abstractaerialart

The "little sisters" theme

We are increasingly focussing on a theme which has come to be termed "the little sisters", and which refers to the rise in purchasing power of women in China. It is partly a function of the fact that, according to the World Bank, among the top 20 economies in the world by 2019 GDP, China has, at 60%, one of the highest female labour participation rates for women aged 15 and above. Comparable ratios are 56% for the US, 55% for Germany, 53% for Japan, and 21% for India – refer to Chart 3 in this regard. This implies Chinese women account for a much larger share of the country's economic output than most other markets, amplifying the Chinese proverb "women hold up half the sky". Rising social standing and incomes are driving steady gains in women's spending power.

Chart 3: Female labour participation by 2019 GDP

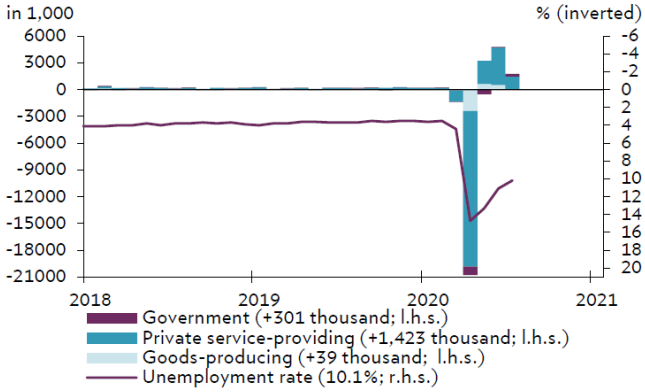


Source: UBS

An improvement – but still a long way to go

We referred earlier to the US labour market, and it's slow but steady improvement. Chart 4 puts the recent labour market data into perspective. The market has certainly recovered from its steep decline in April, but there is an awfully long way to go before one can claim it is anywhere close to "normal".

Chart 4: US labour market: a long way to full restoration



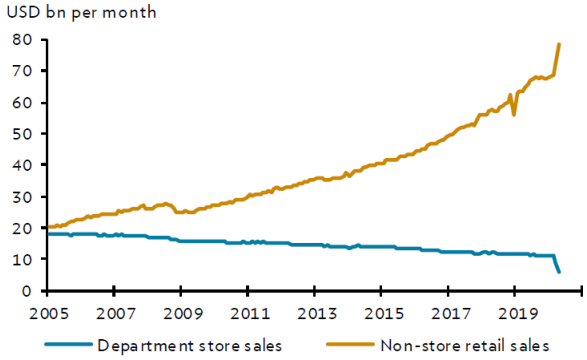
Source: Julius Bär

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

A fleeting review of ecommerce

Ecommerce companies have recently been rolling out some of the most spectacular turnover data. While this hasn't always flowed through the full income statement – many companies are investing heavily into increased or upgraded capacity – it is clear that the Covid pandemic has thrust ecommerce into nearly all consumers' minds. The rate of adoption has accelerated at an unprecedented pace. Chart 5 and 6 provide some insight into this phenomenon and place it into perspective.

Chart 5: Covid's impact on a structural trend

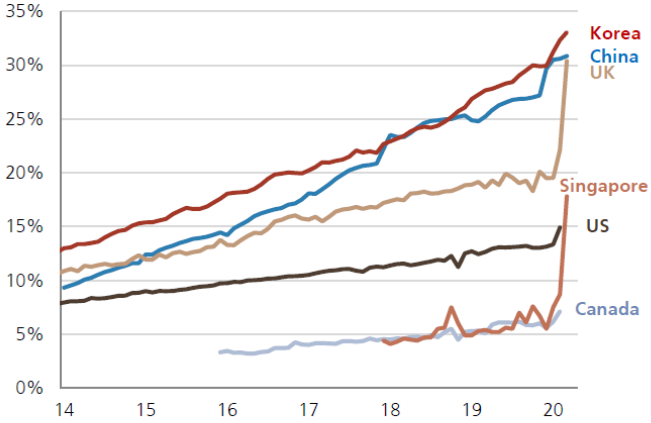


Source: Julius Bär

Chart 5 shows that while the trend in online sales within US retail sales was clearly established, the Covid pandemic has simply accelerated this trend. Chart 6 shows evidence of a similar trend in other countries. In all instances the rising trend is clear and well-established, but the effects of the global pandemic and consequent lockdowns have dramatically affected these trends. It also shows that Korea has one of the highest proportion of online shoppers in the world, followed closely by China. For all the prowess of the Amazon's of the world, and the might of the US consumer, online sales constitute only around 15% of total US retail sales at present.

Chart 6: Share of ecommerce

Percentage of total retail sales

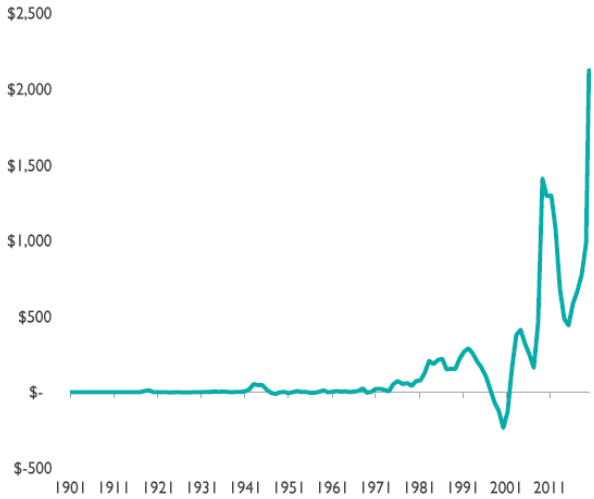


Source: Julius Bär

Up, up and away …

We are all aware of how fiscal deficits around the world are ballooning as governments commit to spend vast amounts of money in an effort to negate the effects of the pandemic and alleviate the hardship of many of its citizens. Charts 7 and 8 place the US deficit into historical perspective.

Chart 7: Annual US Federal Deficit ($bn)

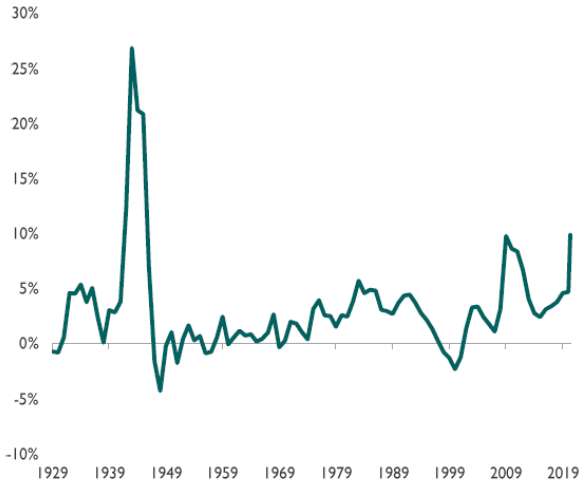


Source: Waverton Investment Management

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

According to estimates the US fiscal deficit is likely to approach $4tn by 2020, which will result in the US government's debt-to-GDP ratio rising well above 100%; at the end of 2019 it was already 106.9% of US GDP.

Chart 8: Annual US Federal Deficit (% of GDP)



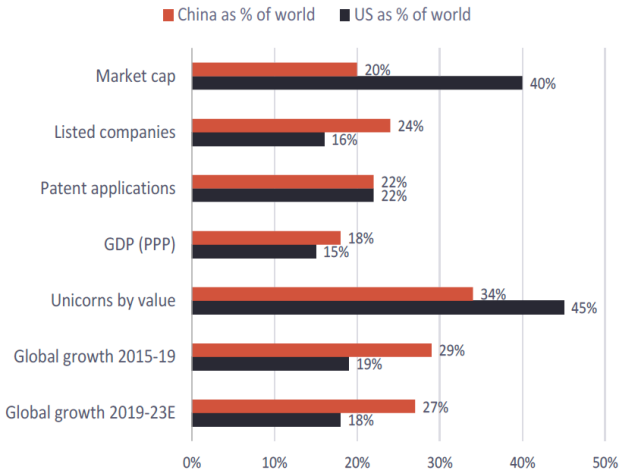
Source: Waverton Investment Management

For the how-many-eth time, my son, go East!

I am aware that many of our readers are investors in the Cederberg Greater China Fund, so forgive the repetition here. We follow the Fund closely and there is a close overlap of holdings in the respective portfolios. For many years now, long before it became popular, Maestro has been investing a large portion of its global assets in China or Chinese companies. We follow their economy closely and are of the view that there are still many profitable investment opportunities to be found there. We found Cederberg's Dawid Krige's recent comments so valuable, I thought I'd share them with you.

Based on Chart 9, Dawid comments as follows: "Based on market cap (size), China is the world's second-largest stock market with a 20% share versus 40% for the US. In terms of the number of listed companies, China has a 24% share versus 16% for the US. Adjusting for purchasing power parity, it has a 24% share of the world economy versus the US's 16%. China is expected to contribute 27% of global GDP growth in 2019-2023 vs 18% for the US. China filed more global patent applications than the US last year; both countries had approximately 22% global market share. And finally, China has 34% of the world's unicorns versus 45% in the US". A unicorn is defined as a "start-up company" whose value exceeds $1bn.

Chart 9: China versus the US



Source: Cederberg

He continues: "while MSCI and other index providers have plausible reasons for not increasing China's position in global equity indices too rapidly, the current 5% weighting represents the past, not the future. In fact, we would not be surprised if the country eventually ends up with a weighting of 20% to 30%, or even more". China's rising allocation in global indices is one thing, but how attractive is the underlying opportunity set today?

While the country does not yet have as many high quality stocks as, say, the US, it has dozens of wonderful companies growing rapidly with

valuations that are often much lower than elsewhere. Moreover, it remains nirvana for active equity investors, with 49% of Chinese equity funds outperforming their benchmark over the past five years versus 19% of US large-cap strategies. This outperformance is partly due to the presence of less rational market participants creating more market inefficiencies: retail investors represent 80% of onshore trading volumes versus only 15% in the US. It is also possible for investors to add value through proprietary research: 61% of Chinese companies have zero analyst coverage vs 8% in the US.

Those facts speak for themselves and we will continue to maintain a strong bias in favour of Chinese companies in our portfolios for the foreseeable future.

While on the topic of unicorns and comparative analysis, Shanghai-based Hurun Research Institute released the Hurun Global Unicorn Index, a survey of global unicorns. The data is remarkable, when you think how much $1bn actually is – remember this is the threshold above which start-up companies have traditionally come to be called unicorns.

The combined value of known unicorns is $1.9tn, or the equivalent of the entire Italian economy. The US and China are home to 79% of all 586 known unicorns, despite constituting a combined total of only 40% of global GDP. China has the second largest number of unicorns, with 227, only slightly behind the US with 233. China is home to four of the five largest unicorns, the largest one being Ant Financial, the start-up within Alibaba, valued at $150bn. The second largest is TikTok owner ByteDance, valued at $80bn, while third is Didi Chuxing, China's biggest ride-hailing service provider, valued at $55bn. Fourth on the list is Lufax Holding, an on-line wealth management and peer-to-peer lending platform, worth $38bn. Elon Musk's SpaceX is fifth on the list, and the first US unicorn, value at $36bn.

The US and China this year added 30 and 21 new unicorns respectively, according to Hurun Research. It said the world's unicorns are based in 29 countries around the world, spread across 145 cities. Beijing, with 93 unicorns, led the world's top five cities in which billion-dollar start-ups have flourished. It was followed by San Francisco, with 68 unicorns; Shanghai 47; New York 33; and Shenzhen with 20. As a region, Silicon Valley leads the world with 122 or 21% of the world's unicorns.

Salmon Splurge, Brown Bear, Alaska

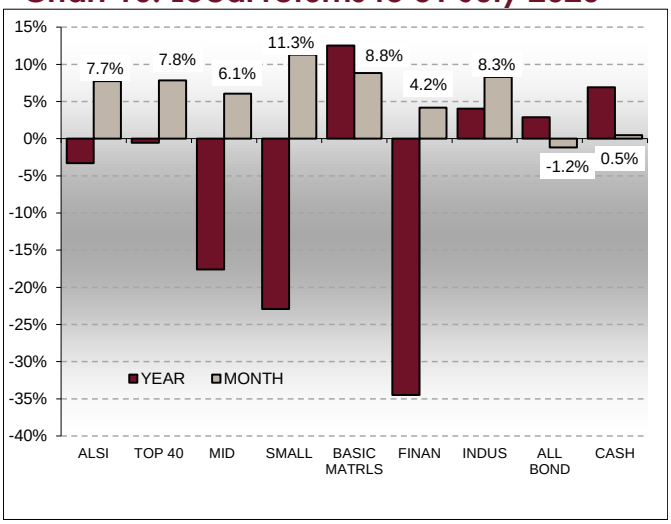
Instagram handle: @seanlophotography

July in perspective – local markets

Against the global background, the SA market movements were rather predictable. The firm gold price supported the Gold index, which rose 23.2% on the month. The Basic Materials sector was firm, ending up 9.1%, while the Financial sector could muster a gain of only 0.4%. The

Industrial sector lost 1.3%. The Large, Mid, and Small Cap indices rose 2.4%, 1.7%, and 1.3% respectively. We have already noted the rand's strength – it rose 2.0% against a weak dollar – and the All Bond index rose 0.7%. It is noteworthy that the All Share index, which rose 2.6% in July, is down only 0.7% so far this year, but it is clear that the large companies (think Naspers and Prosus) have driven the returns so far this year. The Large Cap (Top40) index is up 2.8% so far this year, but the Mid and Small Cap indices are down 24.4% and 19.9% over the same period. This pattern is not dissimilar to the one seen in the US, where a few large companies have driven all the returns so far this year, with smaller companies still down significantly during the same period.

Chart 10: Local returns to 31 July 2020



As we head through August and beyond, Maestro continues to focus on the companies in which it has invested. Many of the overseas companies in which we are invested are still facing exciting growth prospects – indeed many of the companies which rose strongly during July were ones which reported their results. We are a bit concerned that many shares, including those in which we are invested, have run a bit too far, too quickly, and could now be regarded as either fully valued or even over-valued. However, we are living in extraordinary times; many of the factors being brought to bear on companies are simply unprecedented. Consequently, certain criteria and metrics traditionally used to measure valuation and growth are of significantly less value right now. No one has managed money in the presence of such low (or even negative) bond yields before; markets have never felt the effects of this quantum of monetary stimulus before; neither has anyone managed money when the US saving rate is nearly 30%; or during a period when most of the world's population is still in lockdown mode – these are just some examples of how unprecedented the prevailing times are. We remain alert to all the possible and foreseeable risks that could influence markets.

Gatorade, Gainesville, Florida

Instagram handle: @abstractaerialart

One of the key risks many investors have faced in recent weeks and months, is to sit on the sidelines believing that markets are about to crash again – that has been a very costly view to hold, at least for now. At the risk of tempting fate and making complete idiots of ourselves, we are of the humble view that, while many shares are now more than fully valued, we expect developed equity markets, and US markets in particular, to continue grinding slowly higher, climbing the proverbial "Wall of worry" and exacerbating the "Pain Trade" experienced by those waiting for a better entry level into equity markets.

Our intention is therefore to remain relatively fully invested, yet to remain cautious in our actions, expectations and views into the future. This approach has worked well for Maestro's clients so far during the past few years, and we don't see any specific reason why this shouldn't continue in the months to come.

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

	Period ended	Month	Year to date	Year
Maestro Equity Prescient Fund	**Jul**	**3.3%**	**3.2%**	**0.5%**
JSE All Share Index	*Jul*	*2.6%*	*-0.7%*	*1.6%*
Morningstar sector ave	*Jul*	*2.8%*	*-5.2%*	*-2.4%*
Maestro Growth Fund	**Jul**	**3.0%**	**12.7%**	**14.4%**
Fund Benchmark	*Jul*	*1.9%*	*2.9%*	*5.7%*
Morningstar sector ave	*Jul*	*2.2%*	*0.3%*	*3.6%*
Maestro Balanced Fund	**Jul**	**2.8%**	**11.5%**	**13.5%**
Fund Benchmark	*Jul*	*1.7%*	*3.4%*	*6.3%*
Morningstar sector ave	*Jul*	*1.7%*	*1.2%*	*4.2%*
Maestro Cautious Fund	**Jul**	**0.6%**	**4.6%**	**6.5%**
Fund Benchmark	*Jul*	*1.1%*	*2.1%*	*5.0%*
Morningstar sector ave	*Jul*	*1.1%*	*1.5%*	*4.3%*
Maestro Global Balanced Fund	**Jul**	**3.9%**	**32.1%**	**39.6%**
Benchmark	*Jul*	*2.0%*	*23.6%*	*28.4%*
*Sector average **	*Jul*	*2.7%*	*18.0%*	*23.3%*

* Morningstar Global Multi Asset Flexible Category

For the record

Table 2 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.

Notwithstanding the returns listed in Table 2, we thought it would be appropriate to list our longer-term returns for our various investment solutions, shown in the following tables. All returns are for periods to 31 July 2020, and are taken from Morningstar's monthly unit trust survey. Returns are shown net of fees i.e. after all fees have been deducted, other than in Chart 11, which depicts returns gross of fees i.e. before fees have been taken.

Table 3: The Maestro Equity Prescient Fund

Morningstar (ASISA) South Africa Equity General- July 2020						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Equity Fund	***8.7%***	***3.2%***	***0.4%***	***-3.1%***	***-2.4%***	***6.1%***
Maestro Equity Fund benchmark	7.6%	0.7%	-0.4%	2.3%	3.7%	12.0%
SA Peer Group Average	8.5%	-3.9%	-2.4%	-0.1%	1.3%	7.6%
Maestro position within Group	79	26	58	112	97	46
Number of participants	170	170	164	146	110	60
Quartile	2nd	1st	2nd	4th	4th	4th

Table 4: The Maestro Growth Fund

Morningstar (ASISA) South Africa Multi-Asset High Equity - July 2020						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Growth Fund	***6.4%***	***9.9%***	***14.4%***	***5.9%***	***3.6%***	***8.5%***
Maestro Growth Fund benchmark	8.1%	2.8%	5.7%	6.3%	6.4%	10.2%
SA Peer Group Average	5.8%	-0.5%	3.6%	3.2%	3.9%	8.4%
Maestro position within Group	80	6	8	17	77	25
Number of participants	202	199	194	170	120	53
Quartile	2nd	1st	1st	1st	3rd	2nd

Table 5: The Maestro Balanced Fund

Morningstar (ASISA) South Africa Multi-Asset Medium Equity - July 2020						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Balanced Fund	***6.0%***	***9.1%***	***13.5%***	***4.9%***	***3.4%***	***7.9%***
Maestro Balanced Fund benchmark	7.2%	3.1%	6.3%	6.7%	6.7%	9.8%
SA Peer Group Average	5.0%	0.2%	4.2%	3.9%	4.2%	7.8%
Maestro position within Group	18	1	1	22	50	18
Number of participants	95	94	94	82	63	35
Quartile	1st	1st	1st	2nd	4th	3rd

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

Table 6: The Maestro Cautious Fund

Morningstar (ASISA) South African MA Low Equity - July 2020						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Cautious Fund	***2.4%***	***3.6%***	***6.5%***	***5.6%***	***4.8%***	***8.2%***
Maestro Cautious Fund benchmark	5.8%	2.0%	5.0%	6.6%	6.7%	8.3%
SA Peer Group Average	3.7%	0.4%	4.3%	4.8%	5.1%	7.6%
Maestro position within Group	139	14	38	47	67	16
Number of participants	157	156	151	135	98	48
Quartile	4th	1st	1st	2nd	3rd	2nd

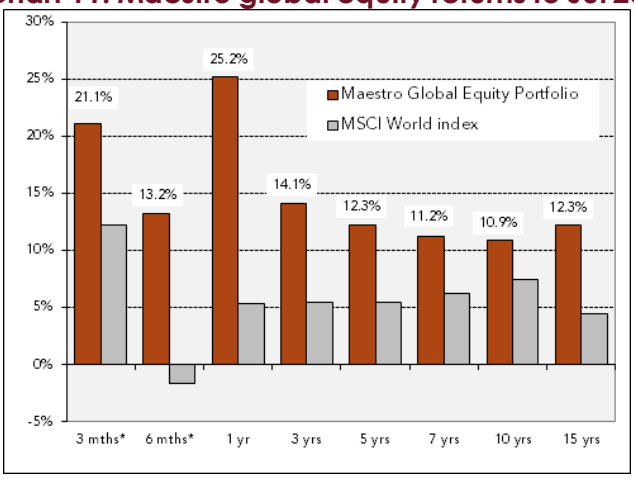
Table 7: Maestro Global Balanced Fund

Morningstar (ASISA) Global MA Flexible - July 2020						
	3 mths	6 mths	1 Year	3 Years	5 Years	10 years
Maestro Global Balanced Fund	***7.4%***	***24.3%***	***39.6%***	***N/A****	***N/A****	***N/A****
Global Balanced Fund benchmark	1.2%	15.1%	28.4%	14.7%	11.4%	14.4%
SA Peer Group Average	1.7%	11.2%	23.3%	12.3%	9.9%	13.2%
Maestro position within Group	2	1	1	N/A	N/A	N/A
Number of participants	36	34	31	26	19	11
Quartile	1st	1st	1st	N/A	N/A	N/A

Table 8: Central Park Global Balanced Fund

Morningstar USD Moderate Allocation - June 2020							
	3 mths	6 mths	1 Year	3 Years	5 Years	10 years	15 years
Central Park Global Balanced Fund	***15.9%***	***3.7%***	***11.5%***	***8.8%***	***3.6%***	***3.3%***	***4.4%***
Central Park Fund benchmark	12.5%	-2.5%	2.8%	4.7%	4.6%	6.0%	6.5%
Global Peer Group Average	11.1%	-4.2%	0.1%	2.2%	2.5%	4.7%	N/A

Chart 11: Maestro global equity returns to Jul 20



File 13: Information almost worth saving

It's hard to substitute intelligence

Many of our clients and readers will be aware of Maestro's view of the current lockdown. I won't repeat it here, other than to say we find it problematic for a number of obvious reasons. One of the most significant reasons is that so many of the rules are simply devoid of any logic and reason, and seem to have been cobbled together by people of, well, low or no intelligence. Watching their updates at news conferences would have confirmed as much to even a child. We continue to have a low view of politicians, one of the reasons being that their actions so often speak of a lack of understanding or grasp of even the most basic forces at play. The pandemic more than any other challenge has shown up politicians for their lack of understanding, lack of reason and in many cases a terrifying lack of intelligence. Sadly, that is as true in South Africa as it is in other parts of the world, including the US (recall Trump's exhortation to citizens to inject themselves with disinfectant?), to the UK, and to India. If you think I am exaggerating, consider the following.

None other than the Indian Prime Minister, Narendra Modi, on a number of occasions in March and April appealed for people to light candles and clang metal plates to "defeat the despair of coronavirus". Worse still, a minister from his ruling BJP Party told the Assam state assembly in March that cow urine and cow dung could cure Covid-19. It is awfully reminiscent of SA's late Health Minister Manto Tshabalala-Msimang's belief that HIV Aids could be cured through a diet which included alcoholic beverages, beetroot and garlic.

Polar flame-thrower

Instagram handle: @joshanon

The size of the Chinese equity market
On 6 August, this interesting fact appeared in the South China Morning Post: China's total market cap (size) was $9.74tn, the highest since October 2015, and 2.6%, and only $258bn from topping $10tn. As at the end of June 2020, the total market cap of all US equity markets was $35.5tn.

The Great Crossing

Instagram handle: @joysafaribay

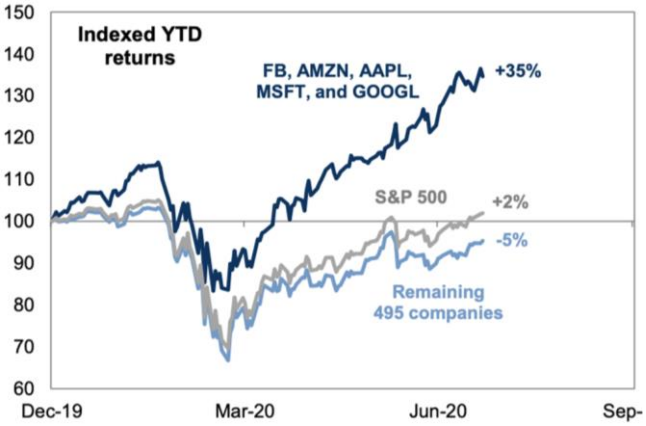
No room for error
We have previously drawn attention to the asymmetrical nature of the current equity bull market. It has been driven by a handful of large, predominantly tech stocks, while most companies are still substantially lower since the start of this year.

With this as background, I found the following comments by the *Julius Bär Chief Investment Officer, Yves Bonzon*, informative: "Since the beginning of the year, the 'S&P 495' has lost about $1.6tn in market capitalization and the five largest stocks of the S&P500 index have gained as much. Admittedly, their business models have held up well and even benefited from the second quarter's confinements, as their latest results have shown, and their valuations have been enriched.

These five digital platforms belong to a larger group of about 100 listed companies worldwide, including about 80 in the US, 15 in China and 5 in Europe, which have massively outperformed the rest of the market for several years now. The common denominator of these 100 stocks is their above-average growth in turnover, which is why they are referred to as 'high growers'. The recent environment of low growth followed by a recession due to the pandemic, which triggered a tsunami of central bank liquidity, has been extremely favourable for them.

After the recent increase, their equally weighted trailing price to earnings ratio is five times that of the rest of the market. Their free cash flow generation is historically unprecedented, but these valuations leave little room for error in the event of tighter liquidity conditions (unlikely) or sector rotation due to a stronger or faster economic recovery than currently discounted".

Chart 12: The 5 largest stocks versus the rest



Source: Goldman Sachs

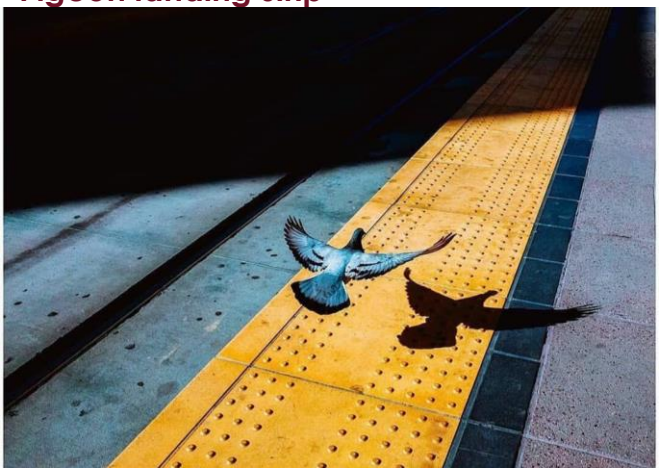
Chart 12 is a bit old now – the dichotomy has only got more extreme since this chart was compiled about two months ago – but it shows the so-called FAAMNG stocks (excluding Netflix) and how they have performed relative to the rest of the S&P500 and the "S&P495", recall that the former index is essentially the US Large Cap index.

The companies which comprise FAAMNG are Facebook, Amazon, Apple, Netflix and Google (in reality Alphabet, Google's parent).

Still on the issue of size

As these five giants have grown larger by the day, some truly mind-boggling records have been set. On 19 August Apple briefly passed the $2tn mark in terms of size before ending the day marginally lower – it has subsequently surpassed that mark, and at the time of writing its market cap was $2.13tn. The following day, *Deutsche Bank's Jim Reid*, commenting on the previous day's market movements, made the following observation: "By the close of play the S&P500 finished 0.44% lower, falling 0.71% in the last two hours of the session after the release. The NASDAQ also lost 0.57%, however not before Apple's market cap had briefly passed the $2tn mark for the first time ever – the first US company to do so. Keep in mind that Apple's market cap dipped below $1tn on March 23rd. So that works out to over $6.7bn of value added for every business day since, which is staggering. For context it took four decades for Apple to reach a $1tn market cap in 2018".

Pigeon landing strip



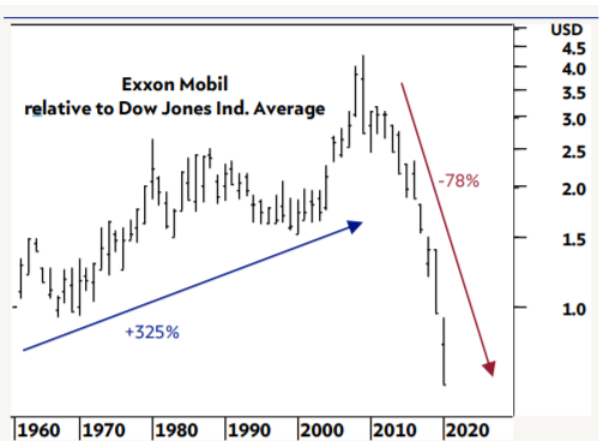
Instagram handle: @boombayeeaah

How the mighty have fallen

There were three recent changes in the Dow Jones Industrial Average. The latter is an *average*, consisting of 30 companies, and not a properly constituted *index* such as the S&P500, which is calculated on the proportional weightings of its 500 constituent companies. The exiting companies are Exxon Mobil, Pfizer, and Raytheon Technologies, while the companies entering the "Dow Jones" are salesforce.com, Honeywell International, and Amgen.

Julius Bär's head of Technical Analysis, Mensur Pocinci, made the following interesting comments: "Exxon Mobil, or originally Standard Oil, had been a member of the Dow Jones Industrial Average since 1928. This membership is coming to an end and is a good reminder for investors that the only constant is change. Secondly, it is always the invisible that kills investment returns, i.e. flat stock price returns, while the overall equity market is in a bull market. Thirdly, if you have to wait for the official news to know that something is past date, it is way too late. Look at the chart, Exxon Mobil will be kicked out of the Dow Jones Industrial Average at a 58-year low in relative terms and only after it underperformed by 78% from its 2009 peak".

Chart 13: Exxon Mobil's relative return



Source: Julius Bär

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

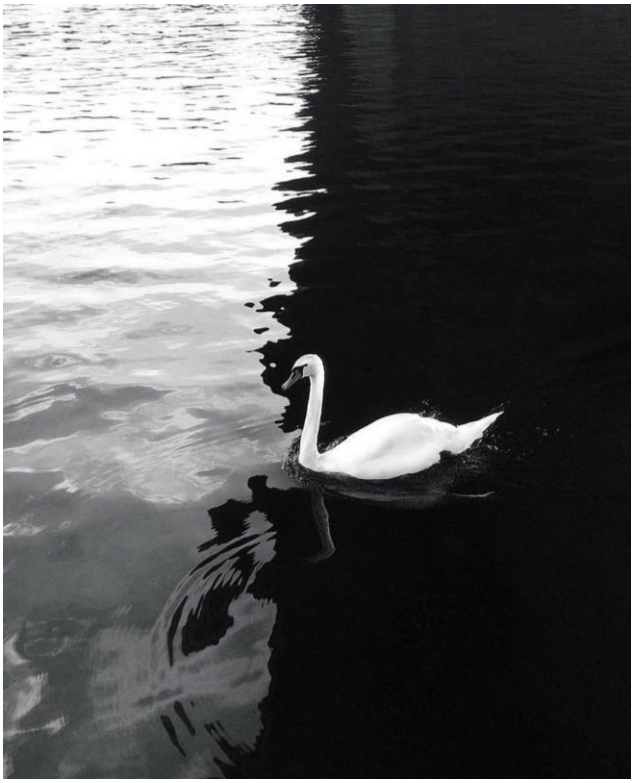
So what's with the pics?

We have shared a host of pictures in recent months from all sources and based on varying themes. This month I selected a few photos, primarily around animals, that I have saved off Instagram. I hope you enjoy them.

King of the Beasts, Pilanesberg, South Africa

Instagram handle: @martinmeyer_wild

Swan on the Danube River



Instagram handle: @bnw_planet