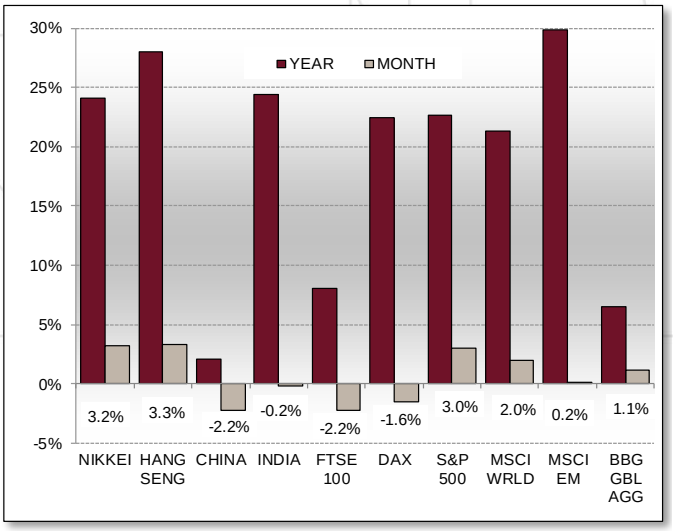
November in perspective – global markets

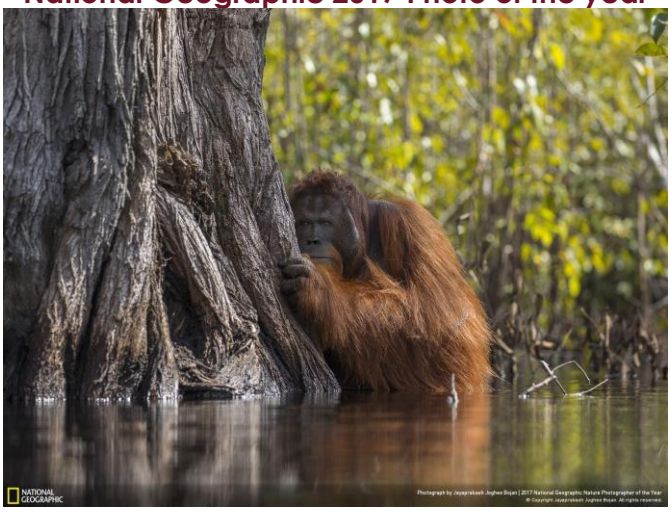
During November, the MSCI World index rose 2.0% and the MSCI Emerging Market index 0.2%. Their respective year-to-date gains are now 18.6% and 30.0%. Strong monthly gains were registered by Japan, which rose 3.2%, and Hong Kong up 3.3%. Brazil and India took a break this month, declining 3.2% and 0.2% respectively. The Germany market also came under some pressure due to the stronger Euro, declining 1.6%. The US market put in another impressive performance, its thirteenth straight month of gains, rising 3.0%. The tech-heavy NASDAQ index rose 2.2%, up an impressive 27.7% year-to-date. It is worth mentioning here that the positive return from the S&P500 is the 13th consecutive month of positive returns, which we understand is a 90-year record.

Chart 1: Global returns to 30 November 2017



The dollar weakened slightly during the month – the (trade-weighted dollar) DXY index fell 1.8%. The euro and sterling appreciated by 2.4% and 1.9% respectively. Supported by the weak dollar, commodity prices were firm: the iron ore price rose 16.5%, palladium 4.8%, platinum 2.9%, and gold 0.8%. Soft (agricultural) commodity prices were a mixed bag with some positive and negative returns. Global bond markets strengthened in November; the Bloomberg Global Aggregate Bond index rose 1.1%, with its year-to-date return an attractive 7.0%.

National Geographic 2017 Photo of the year



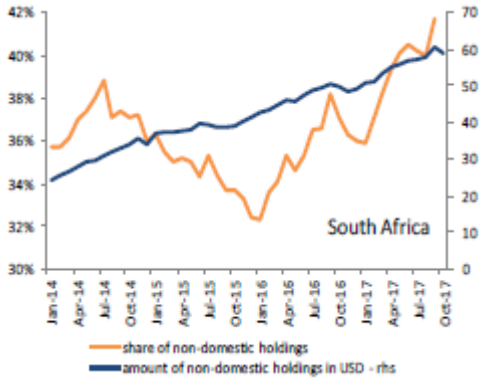
What's on our radar screen?

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

- *The SA Economy:* South Africa's annual rate of headline inflation declined to 4.3%, while core inflation declined to 4.5%, its lowest reading since July 2012. Lower housing and transport costs were offset to some extent by a 0.8% month-on-month increase in food prices. At its November meeting the SA Reserve Bank (SARB) left interest rates unchanged, but warned that the risk to inflation had increased on the back of higher oil prices and a weaker exchange rate. It expressed concerns that certain "event risks" could affect monetary policy in the near term. It increased its inflation forecasts for the future and lowered its growth rate forecasts for 2018 and 2019 to 1.2% and 1.5% respectively. The S&P rating agency downgraded South Africa's foreign and local debt to non-investment grade (read junk), but Moody's elected to wait until

after the Budget in February before pronouncing on the country's rating. Moody's statement was rather negative though, and it would be unrealistic to think SA was not still heading towards total junk status at an alarming rate. More specifically, Moody's criticized the lack of structural reforms, a weak growth outlook (Moody's expects the economy to grow 1.2% next year), the capacity of SA Revenue Services to collect revenues effectively, difficulties involved in meeting the deficit targets, and last but not least, the uncertain political environment. This is hardly the stuff to inspire confidence. Maestro's base case remains that Moody's will downgrade the country's rating to junk status in February. One of the consequences of being downgraded by both S&P and Moody's is that SA will be excluded from major global bond indices. Estimates vary as to how much foreign capital will be forced to leave the country, but the total could be between $10bn and $15bn. The holding of SA bonds by foreigners has increased sharply since the beginning of 2016, from about 10% to the current level of nearly 70%, driven by the search for higher yields by global investors – refer to Chart 2 in this respect.

Chart 2: Foreign government bond holdings



Source: Deutsche Bank

- *The US economy*: Economic data out of the US continued to reflect an economy growing at a steady pace. The US third quarter (Q3) growth rate was revised from 3.0% to 3.3% on an annualized basis. Headline inflation remains absent by and large although there is a slight pick-up in the core inflation rate in recent months. US consumer confidence is at a 17-year high – refer to Chart 3.

Chart 3: Consumer confidence at 17-yr high

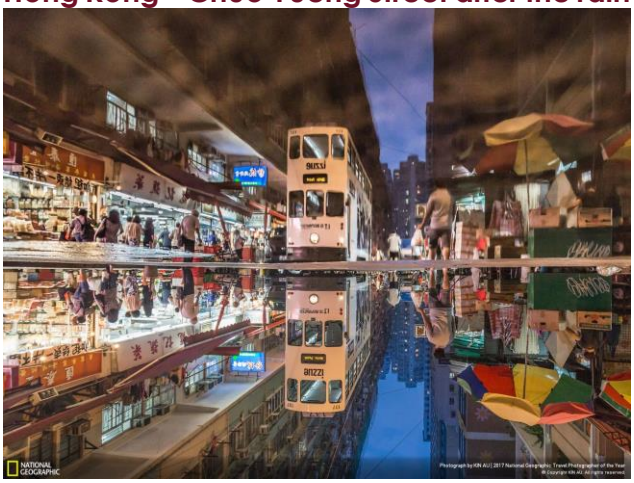
Source: Deutsche Bank

- *Developed economies*: Economic data emanating from the Eurozone continued to reflect a region in good health and experiencing healthy growth – 2.6% annual growth during Q3, to be exact. By way of example the Eurozone November consumer confidence rose to a 16-year high. The composite Purchasing Manufacturers' Index (PMI) was also strong: the November PMI rose to a six-and-a-half year high, led by the manufacturing component, which reached a 17-year high. PMI levels of this magnitude are consistent with annual economic growth rates of 3.5% - no wonder the equity markets are in buoyant mood. And, so far at least, inflation is nowhere in sight – the latest read on headline and core inflation is 1.1% and 0.9% respectively. The unemployment rate is 8.8% in the Eurozone as a whole, but 11.1% in

Italy and 5.6% in Germany. In Germany, the IFO business climate index rose more than expected. The expectations component of the index rose to its highest level since November 2010. On a more general note, the Organization for Economic Cooperation and Development (OECD) issued their semi-annual report, which suggested that global economic growth will strengthen to 3.7% in 2018 before slowing to 3.6% in 2019. They see 2018 as being "the peak of the cycle" and went on to say that the "fiscal and monetary space are too limited to weather a financial downdraft". Elsewhere, the report warned that "financial asset prices are inconsistent with expectations for future growth and the policy stance, exacerbating the risks of financial corrections".

- *Emerging markets*: After five quarters of slowdown, the Indian rate of economic growth accelerated to 6.3% during Q3. Fixed asset investment was a key driver of the increasing growth rate.

Hong Kong – Chuo Yueng Street after the rain



Charts of the month

South Africa – the next few months

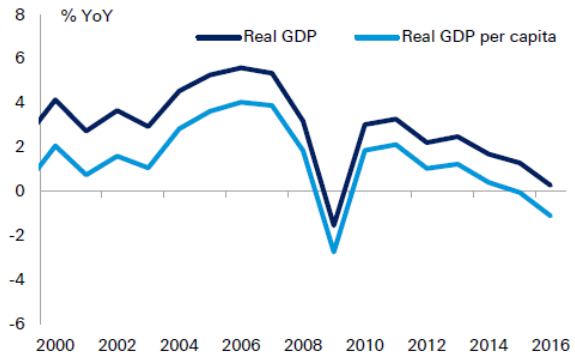
By the time most of us get back to our desks in 2018, the ANC Elective Conference will be behind us and the results, for what they are worth, will be known. We still think there is a small chance that the Conference will not proceed – President Zuma is the past-master of cunning and guile. He may yet decide to pull off a final grand trick. Setting that aside for now though, the outcome of the conference holds great relevance for the future of South Africa.

Sadly, we hold the view that the country is in such a state of disrepair and has been so mis-managed by the Zuma Administration, and so plundered and bedeviled by corruption and ineptitude, that the country's economic problems far outweigh the relevance of the Conference outcome. Irrespective of who emerges as the "winner" of the Conference, with a view to becoming the next ANC and SA president, the country is so broken that their agenda will largely be prescribed by the ailing economy. Debt levels are rising sharply, the state's capacity has collapsed, as has essential infrastructure, we are heading for a credit rating downgrade, making the cost of finance that much more expensive, growth is slowing and all South Africans have become progressively poorer as the Zuma Administration plundered the economy and its state institutions at an unimaginable rate.

If you think I am being harsh, consider the following charts, by way of a summary of where South Africa finds itself economically. Chart 4 shows SA's growth rate and the rate of change in the per capita GDP i.e. the value of the economy divided by its population. While the real GDP is now barely positive, people in SA, as

depicted by the real GDP per capita, is firmly in negative territory i.e. every person in SA is, on average, going backwards in terms of their well-being (wealth). Note the trend since 2009, apart from the bounce following the 2007/7 Great Financial Crisis; Zuma was elected to the Presidency in 2009.

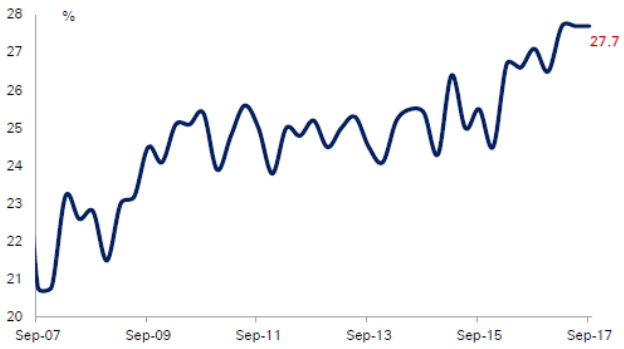
Chart 4: SA citizens are now getting poorer



Source: Deutsche Bank

South Africa's unemployment remains one of the highest in the world, and currently stands at 27.7%. That is a narrow economic definition of unemployment. The real level is much higher. Note the trend since 2009.

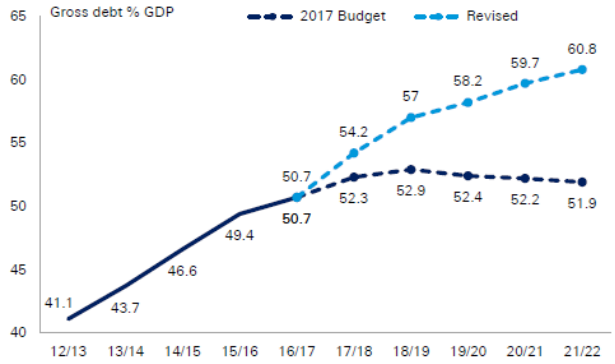
Chart 5: SA unemployment at all-time high



Source: Deutsche Bank

During the October Medium Term Budget Policy Statement (MTBPS), the new Finance Minister was brave enough to admit how bad the state of the economy was and that the country had its work cut out for itself if there was any hope of it improving. What he didn't do, is provide any clue as to what his or Government's plans were to fix it. The reason is very simple (setting aside the fact that they might have no idea what to do): the medicine needed is political poison, especially just ahead of the Conference. Expenditure cuts, no civil servant salary increases, a VAT increase, sale of non-core assets and rooting out corruption are not top of any politician's agenda. It is far easier to fly kites of R1trn nuclear deals, free higher education, etc.

Chart 6: A marked deterioration in debt profile



Source: Deutsche Bank

Chart 6 depicts the deterioration in the country's debt profile. The dark, lower line depicts the profile as forecast in the last Budget by then Finance Minister Pravin Gordhan which, at the time, we said looked rather optimistic. The lighter upper line is the new projection by current Finance Minister Malusi Gigaba. The fiscal deterioration is largely down to poor revenue collection and State-owned Enterprise (SoE) support. Immediate SoE contingent liabilities borne by government equate to between 10% and 15% of GDP, with Eskom accounting for 8% of that alone. Refer again to Chart 2, showing how foreign investors' holdings of SA debt have increased. Clearly, there is a lot of foreign money that is hardly long-term in nature, which will take flight as soon as cracks start to appear.

Hong Kong – Fog in the Harbour

So we are watching the Elective Conference, not by choice but out of necessity. The rand is likely to strengthen sharply in the event of a "favourable outcome", for which most people means the election of Cyril Ramaphosa as the next President of the ANC. However, we make the point that such an outcome will not solve any of our severe, long-term economic problems. Notwithstanding any change in sentiment towards and within the country, the SA economy is in such a deep hole we doubt anyone can really make a meaningful change to it in the short-term. We hold the view that the ANC simply doesn't have the political will to take the hard decisions necessary to implement appropriate remedial policy action.

We have a saying in the office, "economics over politics" which simply speaks to the fact that unless one resolves the important economic issues of the day, politics is largely irrelevant. "It's the economy, stupid", remember? There is a stage where economic hardship becomes so real that people are no longer interested who is in charge. We think that time is rapidly approaching, if it is not on us already.

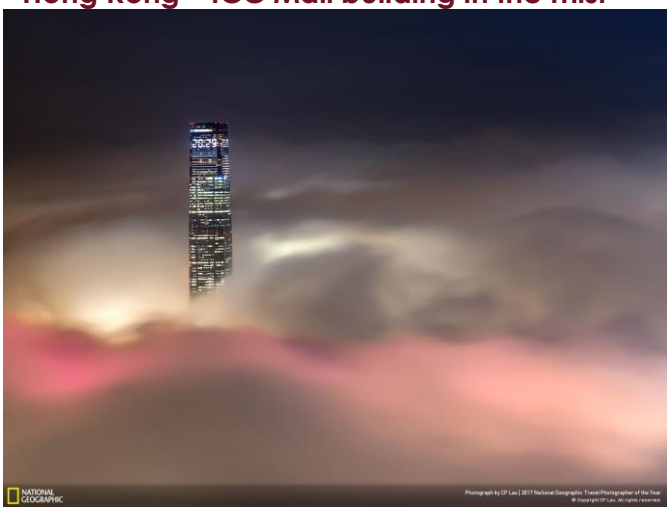
Quotes to chew on

So much for reputable valuation methodology

There are many methods of valuation we use in our profession to assess the valuation levels of markets. Some are "quick and easy", others more difficult and complicated. Some are broadly accepted by most investors, while others are more keenly contested. One method that is often used assess the level of expensiveness or otherwise of markets is the Shiller CAPE ratio. Loosely defined, it represents the cyclically-adjusted price earnings (PE) ratio, and measures the PE ratio based on real earnings per share over a 10-year period. The longer period is used to smooth out short-term cycles.

While it is frequently referred to, it is not without its detractors. Those who lay a great deal of store by it, have been telling us for some time now that the current (bull) market is beyond its useful shelf life and markets are significantly over-valued. I thought they would find the following comment from *Deutsche Bank* in their *db140weekend* interesting: "A Santa Claus rally may be all that is needed for 2017 to become the first year US equities record a positive return in every calendar month. Yet amidst that hope, Janet Yellen warned on Wednesday of high asset valuations. That may seem prudent, particularly when metrics such as the Shiller ratio show equity prices are now 31 times ten-year average earnings. That is double the long-term average and almost the level reached just before the 1929 crash. Yet, while the Shiller ratio has its uses, it does not give simple buy or sell signals. In fact, if you had bought when the Shiller ratio fell below its long-term average and sold when it rose above, you would have held shares for just eight months in the last three decades, and missed out on most of a 20-fold total return."

Hong Kong – ICC Mall building in the mist

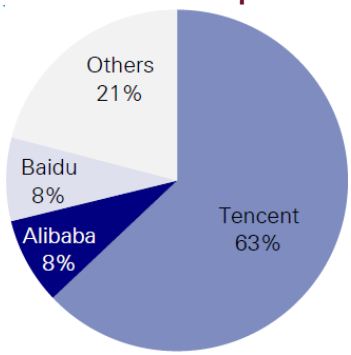


More on tech – we are "holding the faith"

We have written a lot about technology shares in recent editions of *Intermezzo*, so I will not dwell on it here. However, we have a few more thoughts to share. During the last two days in November, our global portfolios lost 2.5% of performance as an aggressive sector rotation occurred out of the tech sector and into the financial, retail and energy sectors. It was very annoying to experience, and driven largely by the market warming to the sectors which would benefit the most from the new tax US regime. However, we don't believe the bull market in technology shares is over – not by a long way. For sure there are certain tech-related valuations that beggar belief, but we don't hold any of those names.

We retain our positive view on our largest holdings, which include China tech giants Alibaba and Tencent. We frequently wonder how long these behemoths can keep growing so fast, but find instances like the following encouraging: Chart 7 shows the percentage of time spent on the 30 largest Chinese mobile apps. Not surprisingly, with its ubiquitous WeChat app, which over 900m users log into daily, Tencent dominates, with some 63% market share.

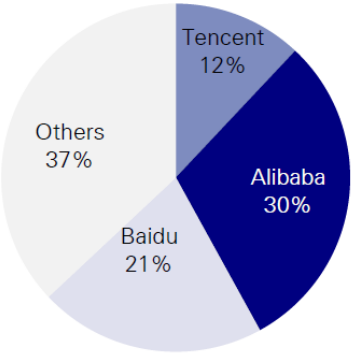
Chart 7: Share of time spent of China apps



Source: Deutsche Bank

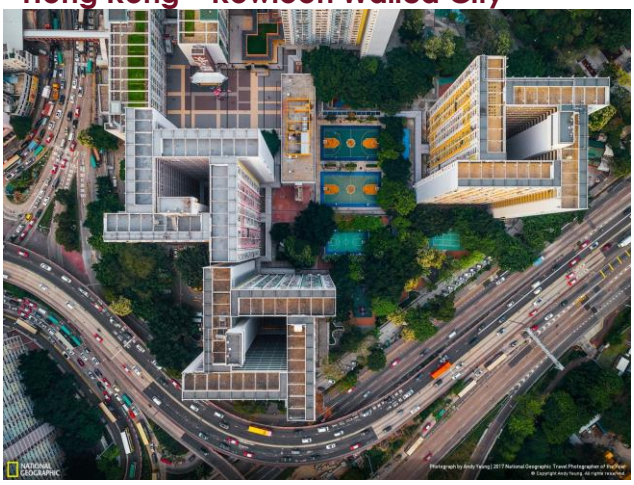
However, when you consider the share of advertising revenue, Tencent lags other players such as Alibaba and Baidu quite significantly – refer to Chart 8. While we acknowledge that a social media app like WeChat is not exactly the same as an ecommerce one like Alibaba's TMall or Taobao, the difference between 63% and 12% is still huge, providing some comfort that there is still a lot that Tencent can squeeze out of their operations before the growth starts slowing.

Chart 8: Share of China online ad revenue



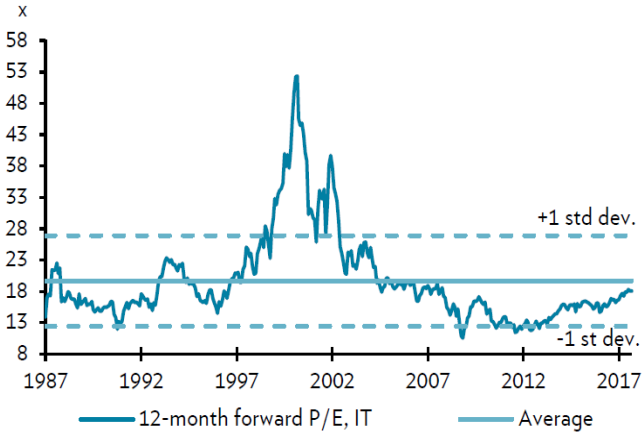
Source: Deutsche Bank

Hong Kong – Kowloon Walled City



We have heard many commenting about the "tech bubble" and in the same breath drawing parallels between 2000 and now. We beg to differ. Tech shares in general are benefitting from massive structural changes throughout the world, especially in the populous emerging markets and in Asia in particular. They are also benefitting from a favourable macro-economic environment of synchronized growth, where rising interest rates support tech growth companies due to their low financial, and high operational, leverage. Chart 9 places their current valuation into perspective: the (12-month) forward price earnings (PE) ratio of about 18 times is nowhere near the 2000 levels. In fact it is only just at the average valuation levels over the past 30 years. We thus feel that our bias in favour of tech and growth shares is an appropriate stance to adopt, notwithstanding the frustrating phases of aggressive sector rotation, the likes of which "stole" some performance from us at the end of November.

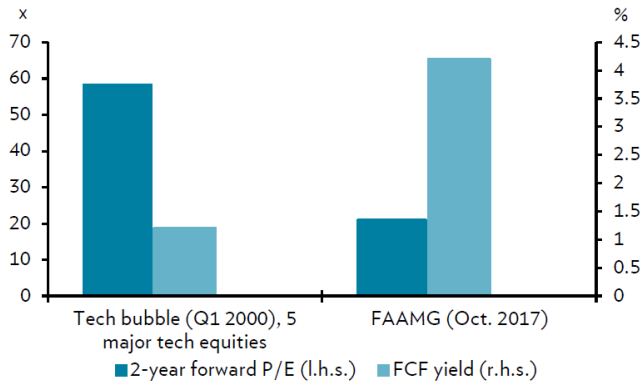
Chart 9: IT sector valuation based on fwd PE



Source: Julius Bär

Whilst on the topic of valuation, another valuation comparative which places the difference between current market conditions and those that prevailed during the height of the 2000 tech boom, is shown in Chart 10. The chart compares the Q1 2000 and October 2017 forward price earnings ratio (FPE), two years into the future, as well as the free cash flow (FCF) yield. Free cash flow is the amount of cash flow from the operations of a business after having taken capital expenditures into account i.e. the amount of money a company generates after it has maintained or expanded its business.

Chart 10: FAAMG relative to 2000 tech bubble



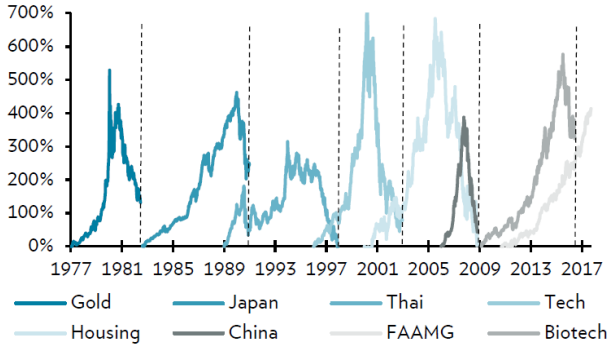
Source: Julius Bär

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

It is clear from the chart that the valuation metrics of the FAAMG stocks (Facebook, Apple, Amazon, Microsoft and Alphabet [Google]) are significantly better today than they were in 2000. FCF is much greater and the valuation levels (FPE ratios) much lower than in 2000. We thus retain the view that we are not in a tech bubble and any comparisons between 2000 and now are neither factually based nor correct.

Whilst of the topic of bubbles, we found the following chart useful, showing as it does the major bubbles that we have experienced during the past 40 years. The comparison in terms of pure returns might lack a bit of intellectual rigour, but it is a useful "quick and dirty" comparison nonetheless.

Chart 11: Notable market bubbles since 1977

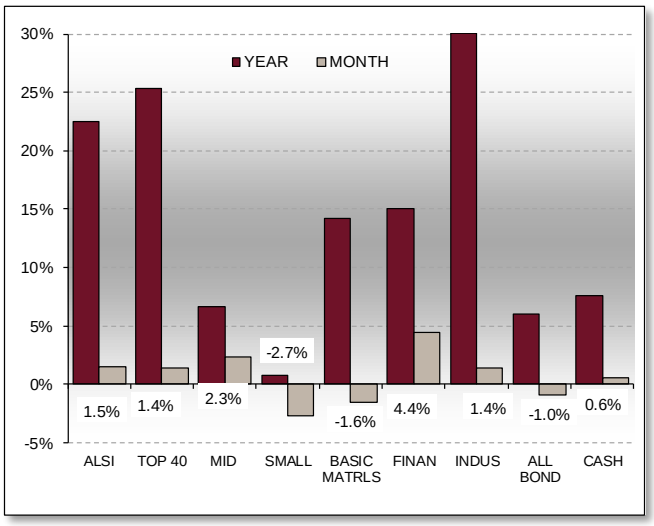


Source: Julius Bär

November in perspective – local markets

The rand experienced a mini relief rally after the downgrade announcements, appreciating 3.7% against the greenback. Its gains against the euro and sterling were less impressive, rising 1.7% and 1.3% respectively. As one could imagine the Basic Materials index came under pressure, declining 1.6% while the Financial index rallied 4.4%. The Industrial index, which is dominated by rand hedge shares, managed to rise 1.4% despite the stronger rand. The Mid cap index rose 2.3% while the Small cap index fell 2.7%. Both these indices have been struggling the last year, which is indicative of the sluggish growth we have been experiencing as a country. The All Bond index lost 1.0%, reducing its year-to-date return to 4.4%.

Chart 12: Local returns to 30 November 2017



The best-performing sector during November was the Industrial Metals sector, which rose 15.5%. The Support Services index rose 8.8% and General Retailers 8.4%. The worst performing sectors were Software and Computer Services, which declined 11.5%, Personal Goods, down 10.2%, and Household Goods 8.4%.

Hong Kong - Moonrise

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

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	**Nov**	**-0.7%**	**6.3%**	**8.5%**
JSE All Share Index	*Nov*	*1.5%*	*21.4%*	*22.6%*
Maestro Growth Fund	**Nov**	**-1.0%**	**11.6%**	**12.4%**
Fund Benchmark	*Nov*	*0.5%*	*15.6%*	*16.6%*
Maestro Balanced Fund	**Nov**	**-1.0%**	**11.1%**	**11.9%**
Fund Benchmark	*Nov*	*0.5%*	*14.2%*	*15.1%*
Maestro Cautious Fund	**Nov**	**-0.3%**	**6.8%**	**8.1%**
Fund Benchmark	*Nov*	*0.4%*	*10.4%*	*11.5%*
Central Park Global Balanced Fund ($)	**Oct**	**3.2%**	**29.8%**	**27.4%**
*Benchmark**	*Oct*	*0.9%*	*12.0%*	*12.9%*
*Sector average **	*Oct*	*1.1%*	*9.5%*	*10.3%*

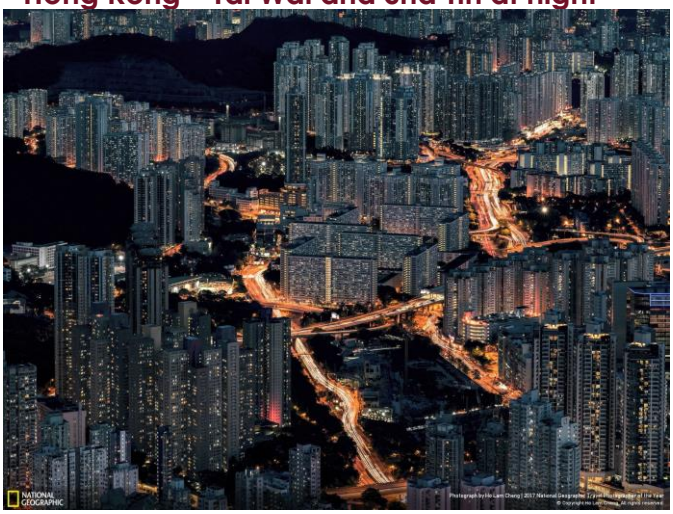
* 60% MSCI World Index and 40% Bloomberg Barclays Global Aggregate Bond Index
** Morningstar USD Moderate Allocation ($)

There is Naspers – and then there are the rest

For a while now and on numerous occasions we have drawn clients' and readers' attention to the distortions created by the large weighting that Naspers has in the All Share index, and the resultant distortions and misperceptions that are being created as a result. Just to remind those who aren't aware of it, Naspers' value is largely determined by its 30% stake in Chinese tech giant Tencent. Tencent has more than doubled in price on the Hong Kong stock exchange this year – 112.8% to be exact at the time or writing. Of course this has driven the Naspers price higher, too – at the time of writing its rise during the past year has been 75.4%. Naspers' weighting in the All Share index is close to 20%, which means it has accounted for nearly 15% of the 21% rise in the All Share index to the end of November. In other words the rest of the entire SA equity market accounts for only 6% of the 21% increase in the All Share index during the past year. Clearly, this implies that a lot of companies have actually posted declines during the year.

A comparison between any diversified SA equity portfolio and the All Share index is thus not entirely appropriate, because few investors or investment managers would feel comfortable holding 20% of their portfolio (the weighting of Naspers in the index) in one share, especially a tech company that has more than doubled in the past year. In fact, many unit trusts are precluded by law from retaining such a large holding in one share in their portfolios. So they are doomed to underperform the All Share index before they even apply their views to the portfolio.

Hong Kong – Tai Wai and Sha Tin at night



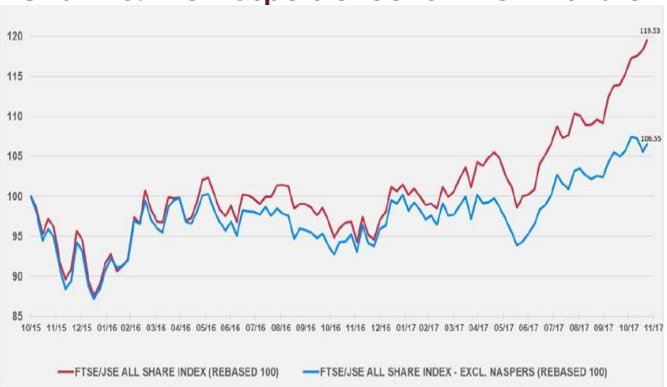
Another way of illustrating the structural reason behind investment managers' increasing inability in recent years (and specifically during the past year) to outperform the All Share index is to compare the average return of the SA general equity unit trust with that of the index. The average return of the 168 unit trusts for the year

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

to end-November was 15.2% versus the 21.4% return of the All Share index over the same period. The JSE Large Cap index return was 25.4% - much higher than the All Share index, showing the influence Naspers has on the index – while the respective annual returns for the Mid and Small cap indices was 6.6% and 0.7%. I can't recall seeing a 25% difference between the Large and Small cap indices in my 30-year career, highlighting just how unique the current conditions are and the extent to which it is almost impossible, for structural reasons, to outperform the All Share index. I would encourage you to bear this important aspect of the market in mind when evaluating recent returns, especially as we approach the end of the year, when returns are typically compared across the board.

Finally, I am not sure what the source of Chart 13 is but it shows the All Share index based to 100 in October 2015, including (the red line) and excluding (blue line) Naspers as an index constituent. Notice how Naspers has influenced the All Share index since December 2016.

Chart 13: The Naspers effect on the All Share



Source: Unknown

Obituary: Dmitri Hvorostovsky (1962 – 2017)

It was with a great sense of loss that the music world heard of the sad news that Russian baritone Dmitri Hvorostovsky had died of a brain tumour at the age of 55.

Mr. Hvorostovsky was born in October 1962 in Krasnoyarsk, Siberia, and made his debut (in a small role in Verdi's *Rigoletto*) in his hometown before rising to international prominence following several major competition victories, including a now legendary battle with fellow baritone Bryn Terfel at the 1989 Cardiff Singer of the World Competition.

Source: http://hvorostovsky.com

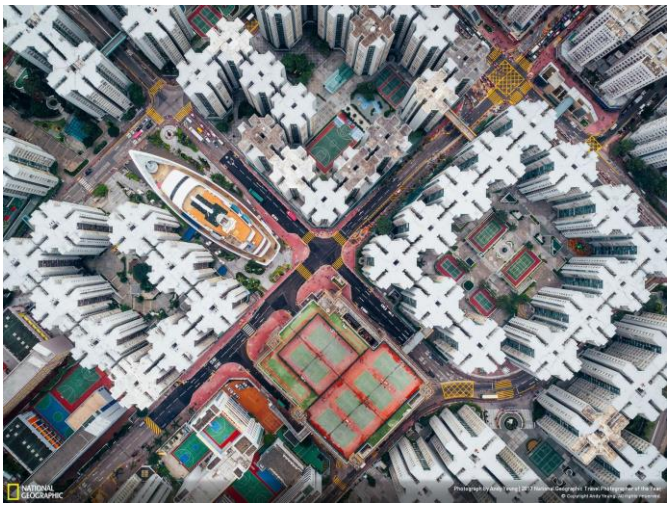
After spending his early career focusing on Mozart and bel canto roles Hvorostovsky went on to have enormous success in operatic roles in Verdi's operas and in Russian opera, particularly as Eugene Onegin. Hvorostovsky effectively 'owned' this role for a quarter of a century. He also championed Russian song repertoire in the concert-hall and recording studio, winning special acclaim for his interpretations of Mussorgsky's Songs and Dances of Death, works by Tchaikovsky and Rachmaninov, and folk-songs from his native country. His 2015 album of songs by Shostakovich and Liszt was shortlisted for

a Gramophone Award, while a recital of Mussorgsky, Borodin and Rimsky-Korsakov received a Grammy nomination 20 years earlier.

Charismatic and strikingly glamorous on stage, his sensuous baritone was underpinned by almost superhuman breath-control and paired with an electrifying dramatic instinct which won him legions of admirers in opera houses all over the world. He was diagnosed with cancer in 2015 and retired from the operatic stage a year later, after treatment for the tumour which would claim his life began to affect his balance and mobility, but continued to sing in concert until this summer – one of his final performances was a surprise appearance at this year's Met Gala, where his impassioned account of Rigoletto's vicious 'Cortigiani' monologue received a lengthy standing ovation.

A statement released by Hvorostovsky's family confirmed that he died peacefully, surrounded by family in London, where he had been receiving treatment. He is survived by his wife Florence and four children.

Hong Kong – Whampoa Garden Walled City



The Steinhoff saga – Maestro's position

Like just about every investment manager in South Africa, and a reasonable number in Europe, the latest developments at Steinhoff have come as a great disappointment to us and our clients. At the time of writing, the whole saga remains very fluid although we note that the company itself has released little public information. One wonders if the Steinhoff Board itself is still trying to get to the bottom of it all.

Of course, there are now plenty of wise people around, who "saw the smoke", or who believe investment managers never did their homework properly. We have strong views on these kinds of people who are now blessed with incredible knowledge, no doubt with the help of a little bit of hindsight. Be that as it may, although the whole development has made us angry, and we find it very annoying, we have already learnt a number of important lessons from it. We note that the auditors of 18-years tenure, the Directors and even – apparently at least – the Chief Financial Officer, never knew anything about the reasons that led to the Group's (effective) collapse. So it must be clear to all rational and reasonable people that it was just about impossible for any investment manager, working on publically available information, to understand the issues or even see this bombshell coming.

Sadly, that is no consolation to us, neither is it any use to our clients. For the record, we would like to quantify our position in terms of exposure to the Steinhoff Group, as best we can, However, do remember that very little is certain right now, and we reiterate the fact that very little public information has been forthcoming from the firm itself. A lot of information doing the rounds is thus either pure conjecture or speculation, which is of little use to anyone trying to make sense of it all

or take a rational investment view on the company. It is also a highly complex situation, with many moving parts. There are local and global entities and listings, multiple jurisdictions, various auditors of different entities, and multiple regulators soon to be involved. There are listed subsidiaries and associates, each with respective cross-financing, and guarantees that are in place across various Group entities; there are bonds involved, preference shares and ordinary shares. You will agree the challenge to "make sense of it all" is far from easy. It is going to take the relevant parties, including regulators and governments, years to get to the bottom of it all and obtain some certainty as to what happened and what the consequences are going to be.

Hong Kong – High-rise from above

Maestro held Steinhoff shares in its unit trust, the Maestro Equity Prescient Fund. By virtue of the fact that this Fund is used as a building block for our retirement funds, the latter also have Steinhoff exposure. Certain segregated client portfolios also had exposure – at similar levels to that of the Maestro Equity Prescient Fund – and a very few clients held Steinhoff preference shares. Table 2 lists the exposure we had to the ordinary shares in our respective funds. Only direct exposure to the JSE-listed Steinhoff entity is shown, and as at the end of November.

Table 2: Maestro funds - Steinhoff exposure

Maestro Fund	Steinhoff exposure at 30 November 2017
Maestro Equity Prescient Fund	4.4%
Maestro Growth Fund	2.4 %
Maestro Balanced Fund	2.0%
Maestro Cautious Fund	1.6%
Central Park Global Balanced Fund	No exposure

While we are incredibly disappointed at the loss that our clients will inevitably suffer, the situation is still developing rapidly and anything can happen. It may be inaccurate to expect the exposures reflected in the table to be the effective cost of the Steinhoff share price collapse to our clients; it could be slightly more, or even a lot less. With volatility the order of the day not only in Steinhoff, but also in other related companies such as KAP (we hold KAP in our portfolios as well), Steinhoff Retail and PSG (we have no exposure to the two latter companies), the situation is changing by the day and it is impossible to draw any concrete conclusions at this stage. Anyone who insists any investment manager provide a clearer picture (and we have already had such requests from the Financial Services Board) totally underestimates the complexity of the current situation.

What we do think is that the Steinhoff exposure reflected above will virtually all be worthless in due course, so in a worst case scenario these exposures represent the losses to clients from the total collapse of Steinhoff. In the absence of any meaningful public information, we cannot say whether or not Steinhoff will survive. What we do know is that most of the underlying Steinhoff entities, including related companies such as KAP and Steinhoff Retail, are robust companies that are currently trading well. Most of them are blessed with, at worst, reasonable cash flows, so we doubt that every Steinhoff-related company will be negatively affected. Only time will tell, but

it is going to take a long time before clarity is obtained as far as Steinhoff specifically, as a separate company, is concerned.

Hong Kong – The bright lights of Big City Life

File 13. Things almost worth remembering

For the motor aficionados amongst us

Those who love fast cars may enjoy the following extract from *Deutsche Bank's db140weekender*: "Some see Mercedes' new $2.4m 'hypercar' as another vanity project but out-of-reach sports cars help fuel demand for the company's regular performance cars marketed under the AMG brand. Indeed, five years ago, Mercedes sold only one-fifth the number of AMG cars as did rival Porsche. This year, it will sell three times that proportion, while maintaining AMG's estimated operating margins of 15%, one-half higher than parent Daimler's margins. As a result, AMG has become critical to Daimler's market value. If AMG sells 140 000 cars at €90 000 each, they will generate €13bn of revenue. Assume 15% margins and 30% tax for a net profit of €1.4bn. Apply a multiple of 18 times (similar to Porsche) and the implied market value is €24bn or one-third of Daimler's market value, despite only selling one in every 20 cars that Daimler produces".

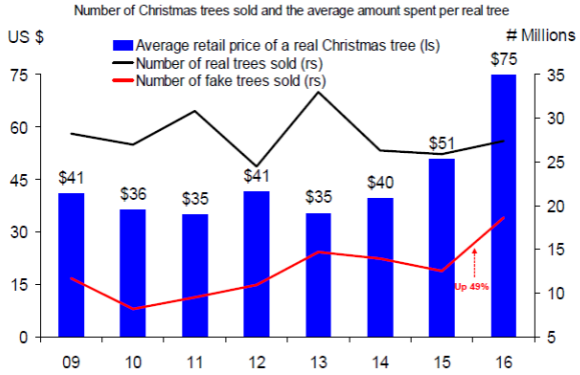
Fewer people, higher wages, lower output

South Africa accounted for 4.4% of global gold production in 2016, down from 10.1% in 2007. While the number of people employed in the gold sector in South Africa has been on the decline since 2007, total employee earnings have increased from R14.7 billion in 2007 to R28.5 billion in 2016.

Its official – inflation has reached Christmas Trees

Herewith some bad news at just the wrong time: Christmas trees are getting more expensive, having not escaped the elusive inflation we are all looking for! The latest release from the US National Christmas Tree Association is that the price of trees has risen sharply. Worse still, more fake trees than ever are now being sold! And you thought you had heard it all! Only in the US!

Chart 14: More fake Christmas trees than ever



Source: Deutsche Bank

So what's with the pics?

As regular readers would be aware, our global portfolios have had an exceptional year. Although it is not finished yet, the returns are approaching 40% on certain portfolios and in some cases equity returns have exceeded 50% - all in dollar terms. These returns are due to a number of investments performing very well, particularly those listed in Hong Kong or who, at the very least, generate the bulk if not all of the

revenue and profits out of China. So I thought it would be fitting if we end off the year with pictures of Hong Kong. They are all sourced from National Geographic and were all entries into their "Photo of the Year" competition.

Of course, the "odd man out" in the photos is the remarkable photo of the orangutan on the first page. I have specifically included this photograph as National Geographic have just announced it as the overall winner of their 2017 Photograph of the Year competition. It is a truly exquisite photo; the piercing gaze of the ape holds an unsettling resemblance to that of a human. The Singapore-based photographer was Jayaprakash Joghee Bojan and you can read more about him by clicking here.

Hong Kong – Alone

And so the year has come to an end

All that remains is for me to wish you a wonderful Festive Season. I hope you travel safely if you are travelling anywhere, and that you are able to enjoy a good break with friends and family. 2017 has been a tough year for the majority of people I know. There have been disappointments, frustrations, the loss of family and loved ones in certain instances, illnesses and setbacks. In other areas there have been reasons to celebrate – success on the academic front, the blessing of the newborn children and grandchildren, good health and other special occasions.

Whatever your circumstance, I thank you for your loyal readership, your support and friendship. My sincere hope is that 2018 be a special year for you and your love ones. May it be filled with safety, good health, contentment and joy.

Many challenges lie ahead of us all in 2018. I look forward to navigating the waters together.