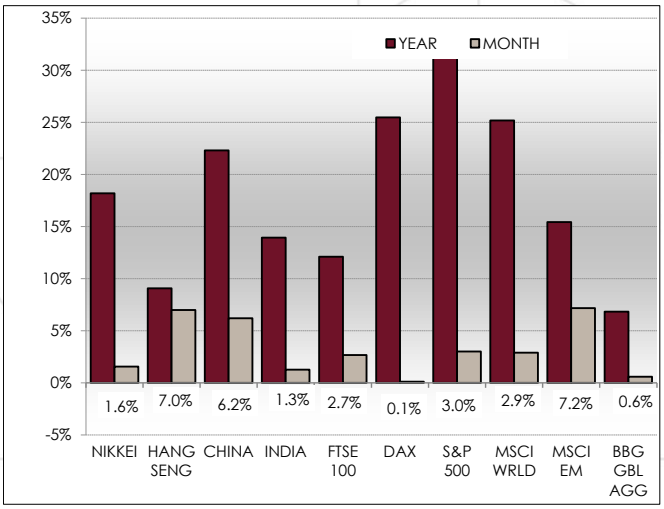
December in perspective – global markets

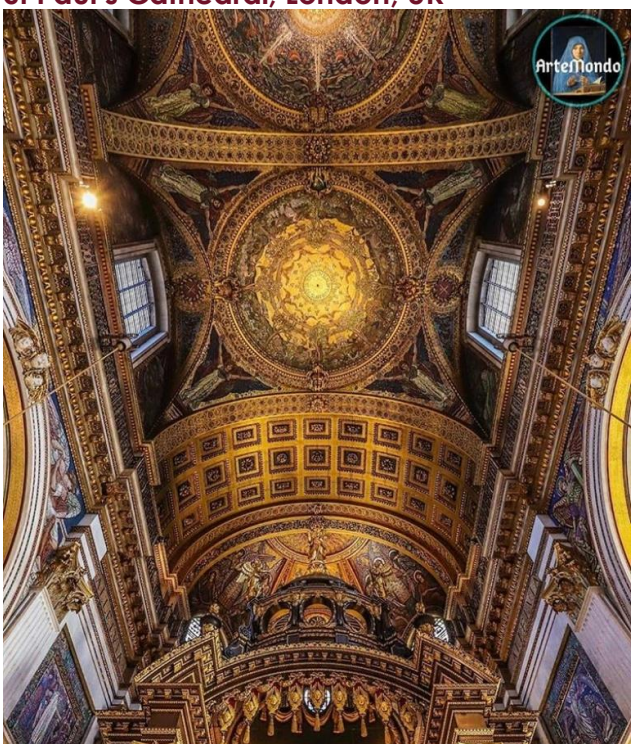
The contrast between December 2018 and December 2019 couldn't be starker. In the former period, it looked like the world was about to end: the US yield curve was on the verge of inverting, thereby signaling the onset of a recession in the US economy; the US China trade talks had stalled and it seemed that a damaging war would wreak havoc on a fragile global economy; and the UK remained mired in its Brexit bubble. Markets registered their concern and discontent with the MSCI World index falling 7.7%, while the US equity market was more emphatic, falling 9.0%. That brought the respective 2018 annual returns to -10.4% and -4.5%.

Chart 1: Global returns to 31 Dec 2019



Fast forward one year to December 2019, despite the mess that Brexit represented, despite the slowing global economy, the unfinished US China trade talks (though much progress has been made), and self-destructing Hong Kong; despite all US President's tweets, negative interest rates around the world, and no material increase in long-term US bond rates, investors voted with their feet. Notwithstanding the strong year-to-date gains, the MSCI World index ended December 2.9% higher and the US markets 3.0% higher. That lifted the MSCI World index to an annual 2019 gain of 25.2%, and placed the US equity market at an all-time high, having registered an annual 2019 return of 31.3%. What a way to finish an extraordinary year!

St Paul's Cathedral, London, UK



Instagram handle: chifsso

The weak dollar was a feature of December's activity. It lifted many other currencies, as well as the commodity price complex. The weak dollar helped lift the MSCI Emerging market index 7.2% higher on the month, supported by strong currencies in Brazil (+5.1%), South Africa (4.8%), and Russia (3.5%). The Swiss franc firmed 3.2% against the dollar, which is relevant, given the large Swiss component in our offshore portfolios. Gold rose 4.1%, oil 8.9%, platinum 7.0%, copper 5.1%, and iron ore 5.4%.

On the equity front, all markets were strong, with the Hong Kong and Turkey markets both rising 7.0%, Brazil 6.9%, China 6.2%, and the US 3.0%. The

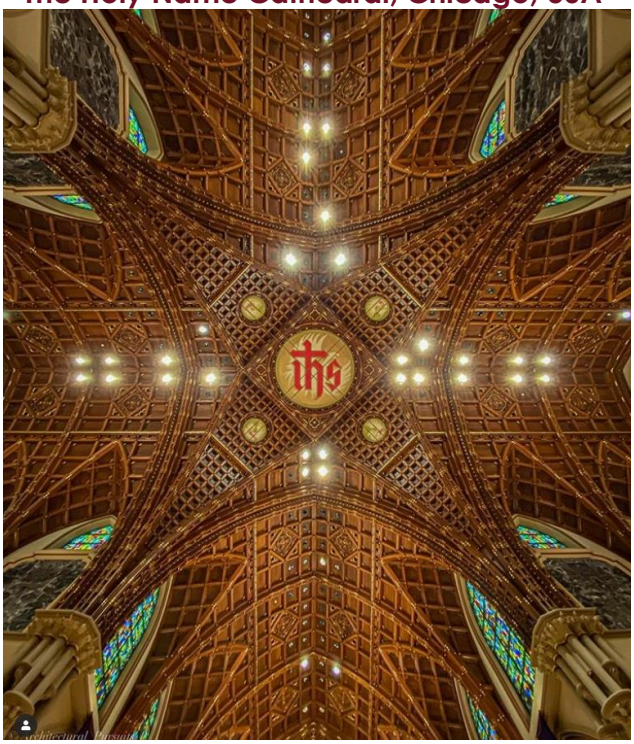
German market was a notable laggard, rising only 0.1%. The Bloomberg Global Aggregate Bond index rose 0.6%, bringing its 2019 annual return to 6.8% (2018 return of -1.2%), some way below the MSCI World index 2019 annual return of 25.2% (2018 return of -10.4%).

What's on our radar screen?

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

- *The SA economy:* there is little new news to convey on the SA economy. It continues to slow, and "muddle along" the bottom. Between failing State-owned Enterprises (SoEs), entrenched incompetence and corruption rooted in and wedded to failed ideologies, and of course rolling load-shedding (black-outs), there is little reason to believe the economy will grow more than 1% per annum for the foreseeable future. A growth rate of at least 4% to 5% is required to make any impression on the chronic unemployment and increasing poverty in the country. Corporate results show a consumer that is surviving, albeit just, and sticking to the basics like food and basic value goods, whilst avoiding discretionary items and durable goods.
- *The US economy*: The US economy grew at an annualized rate of 2.1% during the fourth quarter of 2019 (Q4), bringing the annual growth for 2019 to 2.3%. Inflation remains subdued.
- *Developed economies*: Unemployment in the European Union fell to 7.4% in December, the lowest level since May 2008. German retail sales in November rose by 2.1% but fell 3.3% month-on-month in December. The annual inflation rate rose from 1.1% to 1.5% in December.

The Holy Name Cathedral, Chicago, USA



Instagram handle: architectural_pursuits

- *Emerging economies*: The Chinese economy grew at an annualized rate of 6.0% during Q4, bringing the 2019 annual growth rate to 6.1%. Prior to 20 January, when the first reports of the coronavirus emerged, there were a number of signs which confirmed that the rate of growth in China was accelerating, albeit slowly. The annual rate of inflation in December was 4.5%, while producer inflation rose from an annual rate of -1.4% to -0.5%. The central bank of Mexico reduced its interest rate by 0.25% to 7.25%, its second cut in as many months. On the back of muted inflation, Malaysia became the first emerging market central bank to lower rates in 2020. The central bank lowered their key interest rate by 0.25%, and reiterated their 2019 growth forecast of 4.3% to 4.8%. However, they expect that rate to increase slightly in

2020. At the end of January, the central bank of Sri Lanka cut their rates by a larger-than-expected 0.5% and expect their economy to grow more than 4.0% in 2020.

Notre Dame de Fourvière Basilica, France

Instagram handle: cburion

Quotes to chew on

Calling a spade a shovel

George Soros, the financier and philanthropist, has long championed freedoms frowned on by certain political leaders. During the recent World Economic Freedom, he pledged $1bn to support a global network of higher education to train students in civic engagement in response to resurgent nationalism around the world.

In typical fashion, he lambasted certain global leaders. His utterances are listed at length here so that you can appreciate his point of view. In a speech at Davos, Soros lambasted rising populism internationally. "I believe that as a long-term strategy our best hope lies in access to quality education, specifically an education that reinforces the autonomy of the individual by cultivating critical thinking and emphasizing academic freedom."

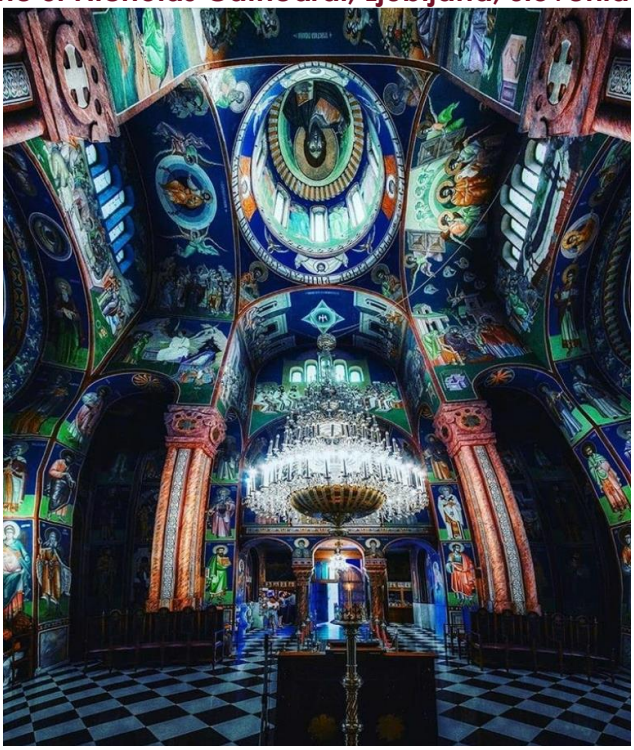
In remarks specifically directed at the US President Mr Soros said: "President Trump is a conman and the ultimate narcissist who wants the world to revolve around him. When his fantasy of becoming president came true, his narcissism developed a pathological dimension."

He said that Mr Xi had "abolished a carefully developed system of collective leadership in China and had become a dictator as soon as he gained sufficient strength to do so".

Mr Modi was creating a Hindu nationalist state in India, Mr Soros said. Not leaving Western Europe untouched, he said: "The fight to prevent Brexit – harmful both to Britain and to the EU – ended in a crushing defeat."

Mr Soros said "the tide turned against open societies after the crash of 2008 because it constituted a failure of international co-operation. This in turn led to the rise of nationalism, the great enemy of open society." Some signs of a turnaround last year towards greater international co-operation had been "dashed as the strongest powers, the US, China and Russia remained in the hands of would-be or actual dictators and the ranks of authoritarian rulers continued to grow".

The St Nicholas Cathedral, Ljubljana, Slovenia



Instagram handle: @chrisngage

Soros's Open Society Foundations organization will develop partnerships between leading universities, think tanks and cultural institutions in the west and those in more remote, poorer and less stable countries. The fledgling network, to be called the Open Society University Network, builds upon the $32bn he has donated over the years to education and social causes. This included the creation of the Central European University, which has now moved to Vienna after coming under strong pressure from Hungarian authorities, including visa restrictions on students and personal criticism of Mr Soros himself from the Hungarian Prime Minister Viktor Orban.

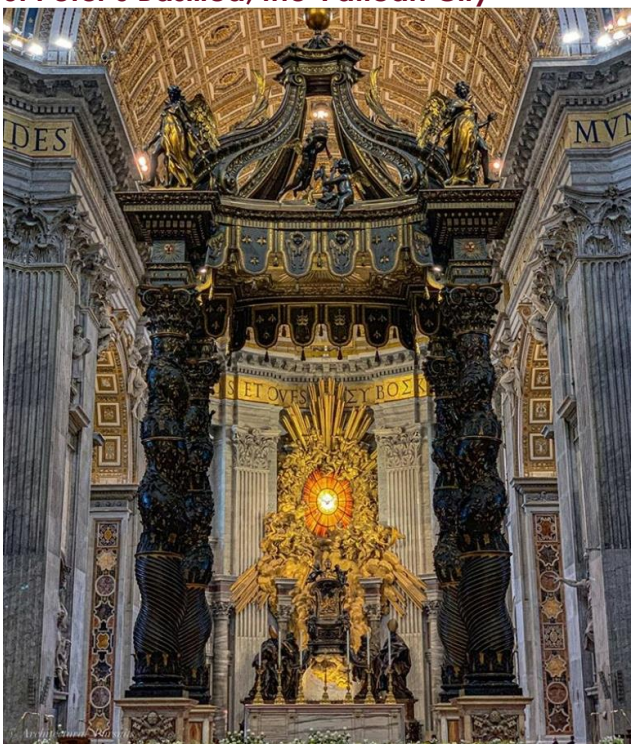
The initiative will work with Bard College, New York, which has pioneered a system of supporting high school education for disadvantaged children in inner cities, and educational work in prisons, while offering college credits that can be transferred and recognized by other institutions. Institutions that have already received funding or worked with Open Society will co-operate more closely, offer dual degrees, and work with Arizona State University, which has developed online and remote learning. Others include Sciences Po in Paris, London University's Birkbeck and SOAS, the University of Central Asia in Kyrgyzstan, Ashesi University in Ghana, BRAC University in Bangladesh and Fulbright University of Vietnam. The move will also involve the Carnegie Council for Ethics in International Affairs in New York, Chatham House in London, the Institute for New Economic Thinking in New York and Oxford, the Institut für die Wissenschaften vom Menschen in Vienna, and the Rift Valley Institute in Kenya.

Charts of the month

How did IPOs fare in 2019?

2019 may not have been a particularly profitable year for technology companies' Initial Private Offerings (IPOs) but it *was* fascinating. If nothing else, it lifted the lid on the world of private equity, where valuations at times bear little resemblance to reality. A case in point was the aborted IPO of WeWork, which had a rumoured value of $47bn prior to the listing, but had the valuation cut dramatically to $10bn in the lead up to the planned IPO. The company eventually abandoned the IPO, as they failed to garner sufficient market interest, and fired their controversial Founder and Chief Executive Officer (CEO), Adam Neumann. A few weeks after the planned listing date, the company had to be bailed out by one of its largest shareholders, Softbank, who assigned a value of $5bn to the company at the end of the third quarter.

St Peter's Basilica, the Vatican City

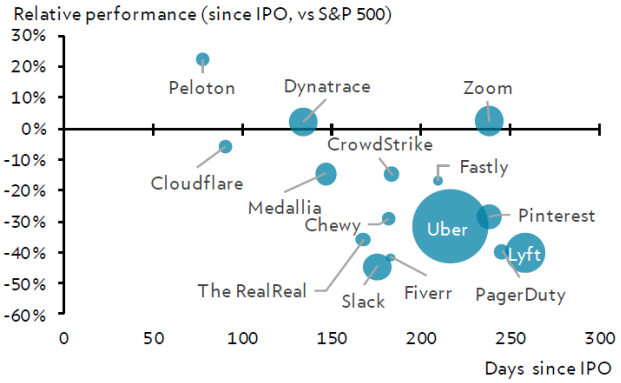


Instagram handle: @architectural_pursuits

Only 1 out of 15 tech IPOs has outperformed the market by more than 3% since listing and at the end of 2019 the average relative performance stood at around -21% i.e. the average IPO had underperformed the US equity market by 21%. All big Tech IPOs last year were of companies that are currently loss-making. Two decades since the 'dot-com' crisis, investors today seem to be more focused on companies that are either already profitable or at least on a clearer path towards profitability. For at least some of these Tech-IPOs, the outlook towards longer-term profitability is questionable.

Chart 2, published on 16 December, provides a useful summary of the tech IPOs in the US, and how they have performed relative to the S&P500 index i.e. large cap US companies. The size of the bubbles represents the market capitalization (size) of the respective companies.

Chart 2: US Tech IPOs underperform the S&P



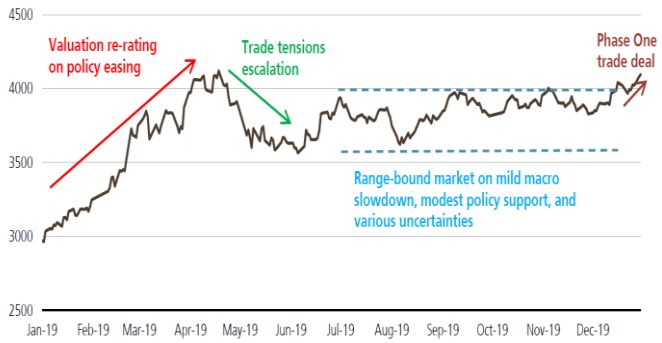
Source: Julius Bär

How did Chinese equities performed in 2019

I came across Chart 3, which I thought portrays the stages through which Chinese equity markets moved during 2019, specifically how they moved in relation to the US-China Trade War that prevailed throughout the year. The chart depicts the movement of the CSI 300 index, which is a stock market index designed to replicate the performance of 300 largest stocks on the Shanghai and Shenzhen stock exchanges. The chart was drawn to the end of 2019; markets moved even higher in early 2020, to reach a peak level just above 4 200 before news of the coronavirus emerged. Markets were subsequently closed on 23 January, where the CSI 300 index ended at a level of 4 004. At the time of writing, these markets remain closed.

Chart 3: 2019 Chinese equity performance

The CSI 300 index



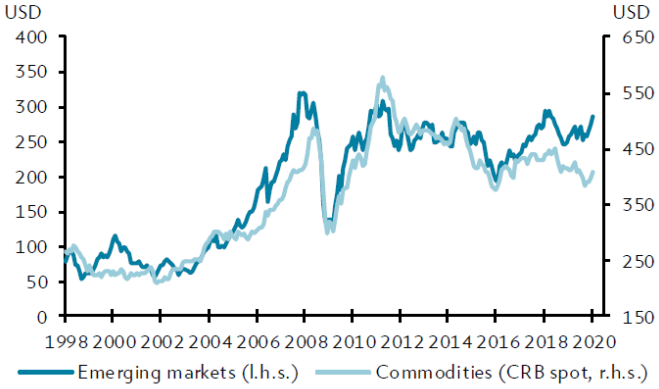
Source: UBS

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

Not quite what it used to be …

In the past, emerging market (EM) equities had a close relationship with commodity prices, given that some of the bigger commodity-exporting economies, such as Brazil and Russia, tend to benefit from an upswing in commodity prices. However, this relationship has weakened in recent years, and EM equities have started to decouple from commodity prices, as can be seen in Chart 4. While the 5-year rolling correlation was as high as 0.6 five years ago, it has dropped to only 0.1 today i.e. five years ago movements in commodity prices explained 60% of the movement in emerging equity market, but today they only explain 10% of the movement in these markets.

Chart 4: The changing nature of EMs



Source: Julius Bär

The reason for this fundamental shift is the addition of new stocks, mainly concentrated in China and technology-related stories, to the MSCI benchmark index over the years. This has resulted in a considerable change in the sector composition of the index. The weighting of the oil and gas and materials sectors in the overall index has declined substantially, from almost 40% in 2011 to 15% today, not far away from the 11% weight of both sectors in the Developed Markets (DM) index. Owing to the rise of the information technology (IT) giants in China, the EM benchmark index is now dominated by IT, which makes up almost a third of the overall index. As a result of this changing face of emerging market equities over the last few years, emerging markets equities are today less dependent on commodity price cycles.

Major index providers, such as MSCI and FTSE, will continue to increase the weight of Chinese assets in their benchmark indices as China opens up its financial markets to foreign investors. Currently, the foreign ownership of Chinese domestic-listed (A) shares is still very low, at around 2%, which compares to 40% and 38% for Taiwan and Korea respectively. The increased weight of China in the benchmark index will continue to lead to forced buying by fund managers who track the benchmark index, which will in turn support the Chinese equity market over the coming years.

Saviour on the Spilled Blood Cathedral St Petersburg, Russia

Instagram handle: @maik.wtf

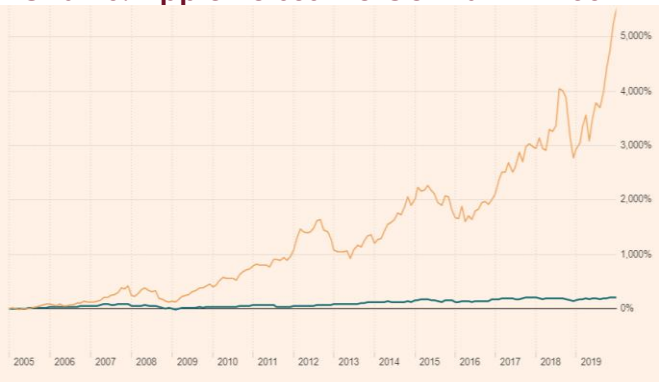
"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

How big is big?

Apple versus Germany

From time to time we comment on the matter of size, specifically around the size of companies or economies. With the passing of time we become too familiar with words like billion and trillion; one fails to appreciate just how big "big" is. I recently came across a tangible example of this, when it was brought to my attention that the US giant Apple is now larger than the aggregated (combined) size of all the companies that constitute the German equity market index, the DAX30 index.

Chart 5: Apple versus the German DAX30



Source: Julius Bär

It is said that the compounding effect is the eighth wonder of the world. Looking at the Chart 5, where both entities are based to zero on 31 December 2003, we see the power of compounding. As the chart shows, Apple has outperformed the DAX by 32% per annum since 2004. The ratio of Apple to the DAX has increased by a factor of 87. Another way of understanding this is to note that while the DAX has risen 205.1% during the 16-year period, the Apple share price has risen just more than 5 300%. At the time of writing Apple is the largest company in the world, with a market capitalization (cap) of $1 350bn or $1.35 trillion. That's big in anyone's language.

Santos Juanes Cathedral, Valencia, Spain

Instagram handle: angelartlife

Amazon – big, but now even bigger

Whilst of the matter of size, during the past week US tech giant Amazon reported results that were much better than expected. The following day it rose to end up 7.4% (up 16.9% for the year versus Apple's gain during the past year of 86.0%). During the day it was up more than 10%, at which stage its market cap (size) rose above $1tn, only the fourth company to achieve this landmark in history. It traded off its peak levels of the day, to close the day with a market cap of $995.9bn – let's round it up to $1tn. Having emphasized how large "big" is, and tried to comprehend what a "billion" is, here are two thoughts to ponder. Firstly, the day's move saw the size of Amazon rise by close to $100bn – *in one single day*! Secondly, Amazon's daily gain increased the worth of founder Jeff Bezos, by an astonishing $8.0bn (R120.0bn) *on the day*; not bad considering it was the worst daily declines in the market since October last year. At the time of writing, Bezos remains the richest person on the planet by some margin, with at least $124bn to his name.

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

St Andrea della Valle Basilica, Rome, Italy

Instagram handle: @roberto_fraddosio

Obituary: Richard Maponya (1910 – 2019)

"I will die with my boots on." That's how business pioneer Richard Maponya wanted to see his days out, he told the Mail & Guardian in 2005, as construction was about to begin on the eponymous Maponya Mall. The Soweto-based shopping centre, which he spent 27 years fighting for, now stands as a testament to a life of "dignity and wisdom", according to those who knew him. Maponya died early on 6 January, shortly after celebrating his 99th birthday.

Maponya and his wife, Marina, built a business that spanned everything from retail to property development to vehicle dealerships, and did so despite apartheid laws expressly designed to stifle black businesses.

It is this pioneering spirit that he will be remembered for, says family friend and businessperson Peter Vundla. "He was our inspiration."

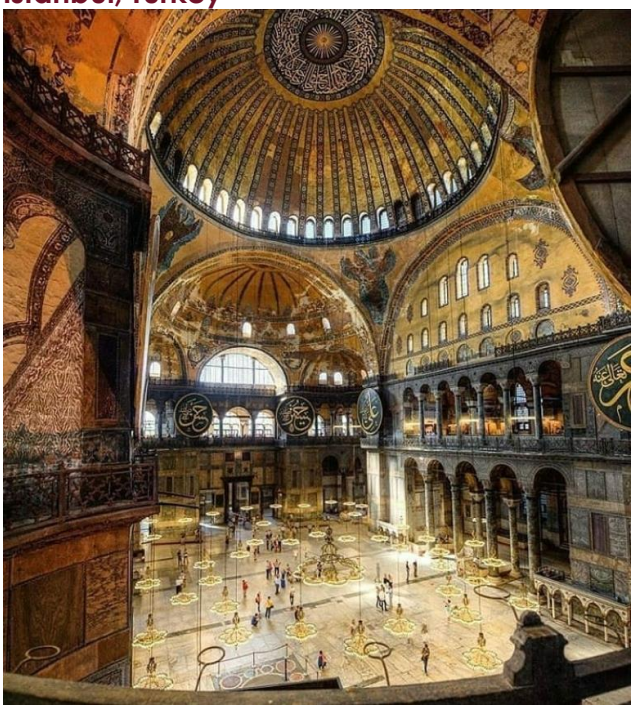
After qualifying as a teacher and leaving his home in Lenyenye, Limpopo, Maponya made his way to Soweto, where he began his business career in the 1950s selling clothing samples after hours. Despite enlisting the help of lawyers Oliver Tambo and Nelson Mandela, Maponya failed to obtain a licence to set up a fully-fledged clothing store in Soweto. He did, however, get authorisation to sell "daily necessities", so he established a door-to-door bicycle milk-delivery business.

Source: SA History online

From these beginnings, Maponya and his wife – "one cannot speak of Richard without speaking of Marina", says Vundla – went on to establish a family business that would inspire other black entrepreneurs. Despite being "a dapper, affable man", Maponya was tough, fearless and streetwise. He was also resolute in the face of apartheid laws that would not allow black people to own shops within four miles of each other and only allowed the sale of perishables.

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

Hagia Sophia (Church of the Holy Wisdom), Istanbul, Turkey



Instagram handle: @zana_rettie_649

Despite these trials, he epitomised dignity and wisdom, evident in a generation of unsung black businessmen who persevered under apartheid, says the Free Market Foundation's Leon Louw.

His efforts to fight for black business would see Maponya become the founding president of the National African Federated Chamber of Commerce & Industry (Nafcoc) in 1964. And he would continue to advocate the needs of black businesses, particularly small and medium-sized ones, throughout his life.

In the foreword to the 2014 book A Legacy of Perseverance by academic Kwandiwe Kondlo, Maponya called on Nafcoc "to continue advocating for the interests of the small, micro, medium enterprise sector and black business in general".

Says Vundla: "Our country still, and government especially, doesn't take small business seriously. Only through small business can we create jobs, can we create wealth, can we get out of this economic quagmire … Richard represented small black business … he was indeed the father of black retailing in SA, no question."

Everything Maponya achieved was done without the financial backing available to his white counterparts, says family spokesperson Mandla Sibeko. "Everything was set up to make him fail," he says. But Maponya would nevertheless rack up numerous honours during his life – including having tea with the queen of England, seeing the establishment of the University of Johannesburg's annual Dr Richard Maponya lecture and the Dr Richard Maponya Soweto conference, and being awarded the national Order of the Baobab.

St Francis of Assisi Cathedral, Vienna, Austria

Instagram handle: @grandegae

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

Church of St Louis of the French, Rome, Italy

Instagram handle: @cbuiron

His broader contribution to business included his appointment in 1992 to the King committee, which wrote the first version of the King codes on corporate governance.

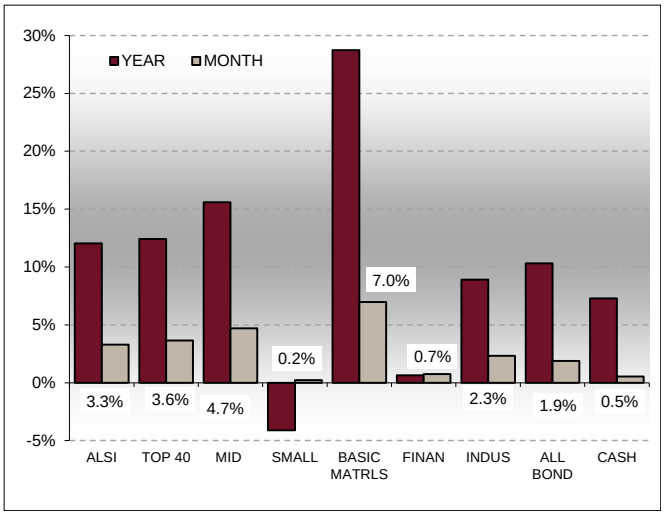
Maponya, who was tech-savvy, engaged and had a gift for "turning pain into laugher", also advocated ethical leadership, says Sibeko. "At a time like this in SA, there is confusion, there is just so much bling out there. Dr Maponya said: 'Live a full life. Definitely live, but respect those around you, respect the community; don't throw your wealth at them, be humble.'"

Maponya is survived by his 10 children and was buried beside Marina in Johannesburg's West Park cemetery.

December in perspective – local markets

Notwithstanding the slowing economy, rolling load-shedding and collapsing SoEs, the SA equity market was lifted along with the rising tide. The All Share index rose 3.3%, buoyed by the Basic Material index, which rose 7.0%. The Industrial index rose 2.3%, while the Financial index rose only 0.7% despite the firm rand. The All Bond index rose 1.9%, bringing its 2019 annual return to 10.3% (2018 return of 7.7%), not far below the All Share index's 12.0% comparable return (the 2018 return was -8.5%).

Chart 6: Local returns to 31 Dec 2019



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

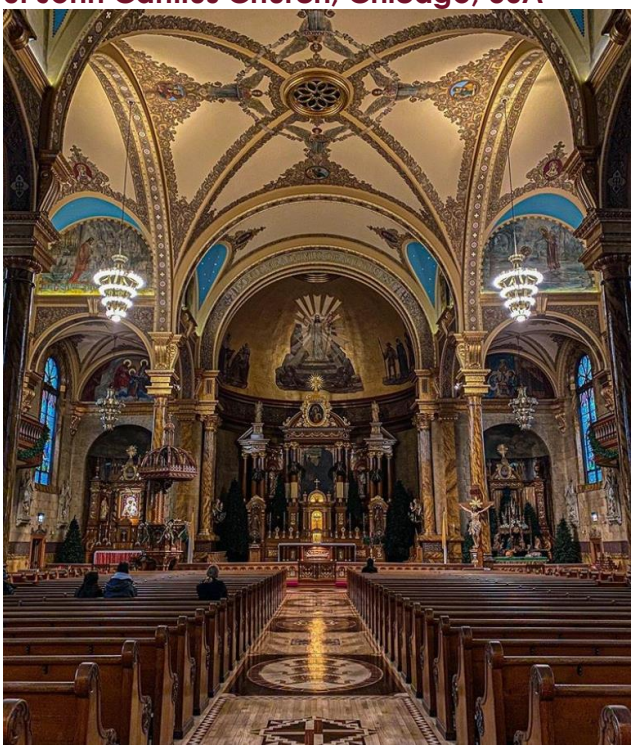
	Period ended	Month	Year to date	Year
Maestro Equity Prescient Fund	**Dec**	**0.4%**	**4.4%**	**4.4%**
JSE All Share Index	*Dec*	*3.3%*	*12.1%*	*12.1%*
Morningstar sector ave	*Dec*	*2.5%*	*8.3%*	*8.3%*
Maestro Growth Fund	**Dec**	**-0.3%**	**10.5%**	**10.5%**
Fund Benchmark	*Dec*	*2.1%*	*11.7%*	*11.7%*
Morningstar sector ave	*Dec*	*1.1%*	*8.3%*	*9.6%*
Maestro Balanced Fund	**Dec**	**-0.1%**	**7.9%**	**7.9%**
Fund Benchmark	*Dec*	*1.9%*	*11.2%*	*11.2%*
Morningstar sector ave	*Dec*	*0.9%*	*9.5%*	*9.5%*
Maestro Cautious Fund	**Dec**	**0.4%**	**5.7%**	**5.7%**
Fund Benchmark	*Dec*	*1.8%*	*9.7%*	*9.7%*
Morningstar sector ave	*Dec*	*0.6%*	*8.4%*	*8.4%*
Central Park Global Balanced Fund ($)	**Dec**	**3.4%**	**26.7%**	**26.7%**
*Benchmark**	*Dec*	*2.0%*	*17.8%*	*17.8%*
*Sector average **	*Dec*	*1.8%*	*14.6%*	*14.6%*
Maestro Global Balanced Fund	**Dec**	**-1.1%**	**26.2%**	**26.2%**
Benchmark	*Dec*	*-2.7%*	*14.6%*	*14.6%*
*Sector average ***	*Dec*	*-1.8%*	*15.5%*	*15.5%*

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

So what's with the pics?

Following the theme last month of pictures of the inner sanctuaries of beautiful churches around the world, there are so many more pictures to share, I thought I would continue the theme this month, but display pictures specifically from around the world i.e. in different countries and on different continents. I hope you enjoy them.

St John Cantius Church, Chicago, USA



Instagram handle: @architectural_pursuits