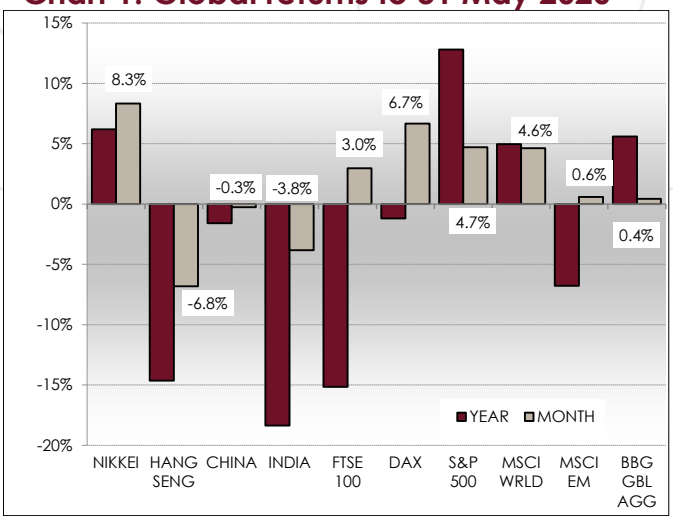
May in perspective – global markets

The behaviour of global equity markets during May is easy to brush aside on the basis that it was "just another strong month". Yet consider the following: the world remains in the throes of a global health pandemic that is far from over; a pandemic which has wrought economic destruction and devastation on an unimaginable scale – most of which is yet to be seen. In addition, the economic catastrophe has obliterated earnings, the ultimate driver of share prices, for at least half of the market, and has completely destroyed a number of industries in its wake. There is no visibility at all as to when economies will return to some form of "normality", and exactly what *that* means is anyone's guess. Add to that the fact that the gains in May followed some of the largest monthly equity returns in living memory, and you can be forgiven for expecting markets to decline sharply, or at least arrest their meteoric rise from their trough on 23 March.

Chart 1: Global returns to 31 May 2020

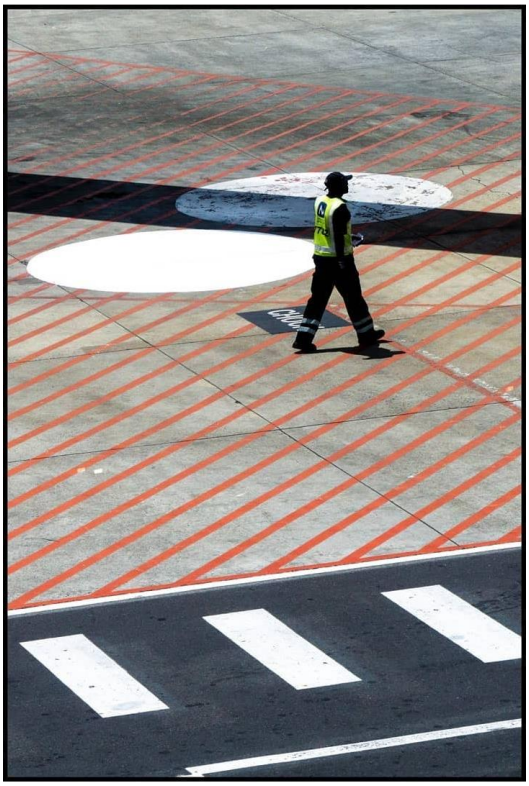


As it turns out, the market did the exact opposite: despite the future being as clear as mud, equity markets around the world posted strong gains, other than a few country-specific exceptions. Had one sat on the sidelines following the sharpest bear market ever in March, the opportunity cost of such a decision is proving to be very costly indeed. While this is not the place to discuss our investment views, suffice to say that we enjoyed respectable returns during May and were able to capitalize on the market strength, notwithstanding the cautious approach we continue to adopt.

Hong Kong continues to be troubled by social unrest. It is rapidly losing its status as the gateway to China; the Hang Seng index there declined 6.8% in May. India is struggling with the Covid pandemic but also with the implementation of appropriate economic policies, both of which are having a negative impact on India's growth outlook. Their Sensex index declined 3.8% in May. China declined 0.3% in May, bringing to only three the number of major equity markets to register declines during the past month. The MSCI World index rose 4.6% and the Emerging Market index 0.6%. Within the developed markets, the US rose 4.7%, Germany's Dax index rose 6.7%, and Japan's Nikkei rose 8.3%. Within emerging markets, the Brazilian and Russian markets rose 8.5% and 8.4% respectively, which is ironic for in these two countries the Covid pandemic is still largely out of control. The S&P Mid and Small cap

indices rose 7.1% and 4.2% respectively, indicative of the increasing appetite for risk that characterized market behaviour during May.

The dollar declined slightly (0.7%) during May, which together with hopes of an economic recovery – somewhere, sometime – supported commodity prices. The oil price continues to struggle through its own crisis – it rose 38.4% but is still down 43.7% during the past year. The price of copper rose 3.5%, iron ore rose 20.2% to above the $100 mark again, the coal price rose 22.8% and soft (food-related) commodities were generally firmer. On the currency front, most emerging market currencies were firmer. Within global bond markets, the returns were positive but modest, following their strong gains during April. The Bloomberg Aggregate Global Bond index rose 0.4%, bringing its annual gain for the year to 2.1%; the MSCI World index is down 8.9% during the past year.



What's on our radar screen?

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

- *The SA economy:* it is tough finding something meaningful to say about the SA economy; there is so much information and data available on other economies, but SA seems to have gone "missing in action" or perhaps that should be "missing in inaction." For understandable reasons, due to mobility and lockdown constraints, the publication of usual reports on inflation, unemployment, and the like have been postponed. In a sense we are "flying blind" although one is able to obtain a much more timeous picture of "what's out there" by following trading updates from listed companies. We have been doing this religiously form some time already, and the picture we see in not a good one. We know the economy is in serious trouble – it's just the extent that we are quibbling about. The country moved into Level 4 of lockdown and subsequently into Level 3, but if our surroundings are anything to go by – and here I am referring to traffic on the roads and in the malls –it seems to us that many South Africans are not that eager to return to work, or return to the office. The longer the lockdown prevails, at any level, the more permanent damage is being done to the economy – a fact that seems to have flown over the heads of politicians.

  To their credit, the SA Reserve Bank seem more attuned to what's happening on the ground. They reduced interest rates by 0.5% in May to 3.75%, bringing the reduction in rates so far this year to 2.75%. The Manufacturing Purchasing Managers Index (PMI – see more comment on PMIs,

below) declined to 32.5 in May, from 35.1 in April. However, one should treat this reading with some caution, given the difficulties, experienced around the world at the moment, of collecting the underlying data. Nevertheless the message is clear from all data and observations: the SA economy is in dire straits, with significant spare capacity due to demand destruction brought on by the lockdown, high and increasing unemployment, declining inflation and interest rates, and a significant deterioration in the balance sheet of the country. The latter has, in turn, dramatically increased the relative cost of borrowing for the country, at the very time its debt seems to be spiralling out of control. In the coming months, the real damage to the SA economy and its prospects will become apparent, and we are preparing for some really bad news in this regard. The 24 June update on the Budget by the Minister of Finance may provide the first glimpse into how bad things really are.

- *The US economy*: We continue to watch respective countries' Purchasing Manager Indices (PMIs) data because they are accurate and early indicators of economic activity, unlike quarterly growth rates which lag badly and are largely "out of date" when they are finalized, especially in a crisis such as the current one where markets, data and even economies are moving so quickly. Recall that PMIs indicate growth where the reading is above 50, and contraction where it is below 50; the higher or lower the reading, the greater the growth or contraction. Under normal economic circumstances PMIs typically vacillate around 50, usually between 45 and 55. Any reading outside this range can consequently be regarded as extreme. There are also typically two PMIs, one for the manufacturing sector and another for the non-manufacturing, or service sector of an economy. We also receive a composite PMI reading, which is an aggregate of the manufacturing and non-manufacturing indices.

With respect to the US economy then, the ISM (PMI) manufacturing reading for May was 43.1, marginally higher than April's 41.5. The services PMI rose to 45.4 from 41.8 in April. Personal spending declined 13.2% in April, much worse than March's 6.9% decline, although personal income rose by 10.5%, which shows that the effects of the government stimulus are now starting to be felt by the man in the street.

After the catastrophic non-farm jobs data in May, which saw the April unemployment rate rise to 14.7% on the back of the loss of 20.7m jobs, the June data confused everyone, with the creation of 2.5m jobs in May and a reduction in the unemployment rate from 14.7% to 13.3%. No one was expecting data of this magnitude, but it shows just how much "noise" there is in the

data. In many instances the collection of data is constrained by lockdowns, and the effects of stimulus is hiding what may well be a very different story on the ground. The protests surrounding the death of George Floyd are only complicating matters, with many states having declared curfews and states of emergency, which will only add to the "noise" in the data. We should brace ourselves for some very noisy data in the coming months, which will only make an accurate analysis of the US, and other economies, more difficult.

Still in the US, April retail sales declined 16.4% versus those in March. The monthly "increase" in consumer inflation was -0.1%, bringing the annual rate of US (headline) inflation in May to just 0.1%. The core rate of inflation is 1.2% - given that the core rate excludes energy (and food) prices, it is easy to see the effect the dramatic collapse in the oil price had on the headline US inflation rate. The effect of the oil price collapse will be a feature in most countries' headline (as opposed to core) inflation rates in May.

- *Developed economies*: The May Eurozone composite PMI reading was 30.5, up significantly from April's extraordinary reading of 13.6. The composite index was derived from a manufacturing PMI reading for May of 39.4 (from 33.4 in April) and for May non-manufacturing (services) PMI of 30.5 (12.0 in April). So there was a big bounce in May but of course both indices are still very far below 50 i.e. deep in contraction territory. Another trend that has emerged, which is understandable, is that the non-manufacturing (services) indices bounced more than the manufacturing indices, but then again they plummeted further than the manufacturing indices in April.

I won't go into the details of each country, but some of the major economies in the Eurozone are worth considering. In France and Germany, the respective May manufacturing PMIs were 40.6 (31.5 in April) and 36.6 (34.5 in April). The respective May services indices for France and Germany were 31.1 (10.2) and 32.6 (16.2), bringing their respective composite PMI readings to 40.3 (31.5) and 36.8 (34.5). The trend is clear: large bounces in the services sectors, reasonable improvements in the manufacturing sectors, but the economies are still deep in contraction mode.

The composite PMI for May in the UK rose from 13.4 in April to 28.9. The Japanese manufacturing PMI for May printed at 38.4 versus 41.9 in April, the lowest reading since March 2009, the bottom of the Great Financial Crisis (GFC) crisis in 2007/9. Its services PMI came in at 26.5 from 21.5 in April, bringing the Japanese May composite PMI to 27.4 from April's 25.8. Australia's May composite PMI reading was only 26.4 from April's 21.7 in April.

The Swiss economy contracted by 2.6% quarter-on-quarter during the first quarter (Q1) of this year, the most since records began in 1980. Private consumption fell 3.5% versus an increase of 0.3% in Q4. Services like trade, transport, hospitality (which declined 23.4%), communications, and healthcare were all large drags on the economy. The Swiss economy is expected to decline by a double digit amount in Q2 – in April retail sales declined at an annual rate of 19.9% as the effects of the lockdown gained traction – before recovering in the second half of this year.

One could be forgiven for questioning why, in the face of very negative economic data, markets are roaring higher. Part of the answer lies in the fact that central banks and governments are rushing to pour billions, in some cases trillions of dollars of relief aid into every corner of their economies. Many countries have already implemented their third or fourth relief packages; others are still working on theirs, but one shouldn't underestimate the eventual effect – and yes, they will take time to have the desired effect – that this monetary (by central banks) and fiscal (by governments) stimulation will have.

By way of example, the Singapore government announced it fourth stimulus package to combat the fallout of the Covid19 pandemic. The SGD33bn budget, called the Fortitude Budget, is targeted at supporting jobs for locals and businesses, and will be funded with SGD31bn from the national reserves. In total, the government has drawn SGD52bn for the crisis. Together with the three budgets announced earlier, SGD96.7bn (equivalent to 19% of Singapore's economy) have been set aside, resulting in a fiscal deficit of SGD74.3bn in the current fiscal year. Key measures announced include an extension of the Job Support Scheme by a month, with more qualifying sectors such as construction, retail and aerospace. Firms in the food and beverage sector, and a wide list of additional sectors like retail, arts and entertainment, land transport, and offshore and marine, will now be able to benefit from a 50% wage subsidy. Rental rebates will be extended, with small and medium enterprise (SME) tenants receiving four months of rental relief under a new bill to be introduced, to be shared equally between landlords and the government. Notwithstanding this massive support, the Singapore economy is still forecast to decline by between 4% and 7% this year.

The Eurozone, not known for its speed of agreement or policy implementation, has been a latecomer to the party. The need to get all 27 members to agree unanimously has proved an impediment to rolling out of relief, but the European Commission has finally got its act together. Late in May it presented a proposal for a €750bn EU recovery package, €500bn of

which would be distributed in the form of grants and the other €250bn in loans to member states. The debt would be repaid through higher future contributions to the EU budget and possible new revenue streams, including an Emissions Trading Scheme, a tax on high-emission imports and a tax on digital companies. The plan still requires the support of EU member states. German Chancellor Merkel and French President Macron offered their support, but some of the northern countries have balked at the idea of offering grants rather than loans. The main opponents of relief packages have been a group known as the "Frugal Four", being Austria, Denmark, the Netherlands, and Sweden.

On the EU's monetary policy front, early in June the European Central Bank (ECB) extended the limit of the Pandemic Emergency Purchasing Program (PEPP) by €600bn to €1.35trn and committed to extending the buying of bonds under the program until at least June 2021. It also revised its forecast for EU "growth" to a projected drop of 8.7% in 2020 and a rebound of only 5.2% in 2021. It sees inflation averaging 1.3% by 2022. On this score Eurozone inflation fell to just 0.1% in May, its lowest level in nearly four years. Core inflation remain unchanged at 0.9%.

- *Emerging economies*: As in developed countries, so too in emerging countries, May PMIs indices rose from their very low April levels, with services PMIs rising the most. However, most of them remain well below the 50 level, indicating that economies are still shrinking at a very fast rate – just not as fast as in April, which is cold comfort to be frank. In China the May manufacturing PMI reading was 50.6, from 50.8 in April, while the services PMI rose to 53.6 from 53.2 in April. India's manufacturing PMI rose to 30.8 in May from 27.4 in April, while its services PMI rose from just 5.4 in April to 12.6 in May.

Central banks continue to cut interest rates as fast as they are able. The Turkish central bank reduced its rate by 0.5% to 8.25%. This reduction brings to 15.75% the extent of rate cuts since June last year. Inflation is running at an annual rate of 10.9%, which means real interest rates are deep in the red, at -2.7%. Turkish President Erdogan continues to live with his head in the clouds (I presume he hasn't heard of the global pandemic?) believing firmly that a growth rate for Turkey of 5% is still possible this year. The central bank has tabled a year-end inflation rate of 7.4%.

The Reserve Bank of India (RBI) cut its rates by 0.4% to 4.0% at an unscheduled policy meeting, and tabled a forecast of negative growth for the economy this year. At the same time, the RBI announced several easing measures, including an additional three-month extension to a loan moratorium, an increase in the group

exposure limits for banks to 30% of their net worth (from 25% currently), and relaxed terms for export credit facilities. The Bank of Korea cut its interest rates to a new low of just 0.5%, Poland reduced its rate by 0.1%, and the central bank of Nigeria cut their rates to 12.5%.

Finally, on the inflation front, producer price inflation (PPI) in China *declined* at an annual rate of 3.7% in May, worse than April's 3.1% decline, showing the impact of the slowdown due to the pandemic. The sharp decline was affected by the 57.6% annual decline in the price of petroleum and gas. At the consumer level (CPI) headline inflation rose at an annual rate of 2.4% in May, from 3.3% in April. A sharp increase in food prices, specifically an 81.7% annual increase in the price of pork, prevented a greater decline in the inflation rate. The headline inflation rate i.e. excluding food and energy prices, showed that consumer prices rose 1.1% in May.

A Tale of Two Markets

Deutsche Bank recently put out an interesting piece of research, entitled "A Tale of Two Stock Markets". It struck a familiar chord with us, largely because Maestro has long favoured many of the shares covered in the report. Our clients have also benefitted from holding these "Mega-cap growth (MCG) stocks". Specifically, while we have held a few more than just three over the past few years, Adobe, Alphabet, and Visa have consistently been in our largest holdings for many years already. We admit that, had we held the likes of Amazon, Apple, Microsoft, Netflix, and Nvidia, our returns would have been even greater. Be that as it may, the performance of these MCG shares over the past decade and specifically since the Covid pandemic began, have been nothing short of spectacular.

Before we look at some of the numbers, the MCG shares, as defined, are Adobe, Alphabet (the parent of Google), Amazon, Apple, Facebook, Microsoft, Nvidia, Netflix, MasterCard, and Visa. What these 10 shares have in common is simply breath-taking: they are all larger than $150bn in size (market cap), and have returned in excess of 20% per annum over each of the last 5 years. The 10 MCG shares now constitute 27% of the total value of the S&P500, while the remaining 490 companies constitute 73%. Forgive the size of Chart 2, but for those interested in the detail, here is it. It makes for interesting reading, especially when you compare it to the S&P500, whose attributes are shown at the bottom of the table.

Chart 2: 10 Mega-cap Growth shares

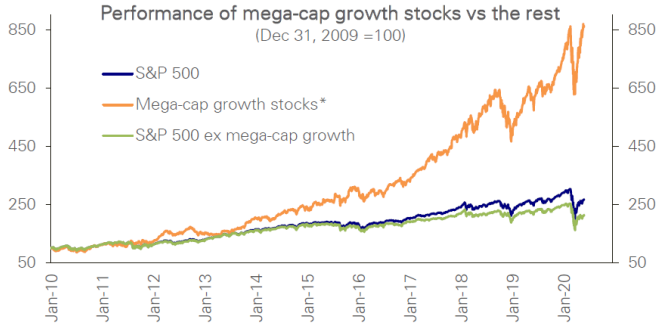
Name	Sector name	Last 5 yr perf (%)	Mkt Cap ($bn)	Sales (LTM, $bn)	Net Income (LTM, $bn)	12m trailing P/E	12m forward P/E	P/B	EV/EBITDA
Microsoft Corp	Information Technology	289.7	1,361	138.7	43.7	31.7	29.1	11.9	17.3
Apple Inc	Information Technology	144.4	1,367	268.0	57.2	24.7	22.6	17.4	12.7
Amazon.com Inc	Consumer Discretionary	469.2	1,195	296.3	10.6	114.4	59.5	18.3	24.9
Alphabet Inc	Communication Services	159.8	961	166.7	33.4	29.5	24.4	4.7	13.9
Facebook Inc	Communication Services	192.7	647	73.4	23.6	27.6	24.6	6.2	12.6
Visa Inc	Information Technology	181.9	372	23.9	12.8	34.2	34.3	12.8	19.8
Mastercard Inc	Information Technology	230.1	298	17.0	8.0	38.0	40.1	55.3	23.8
NVIDIA Corp	Information Technology	1582.2	206	11.8	3.3	62.1	39.3	15.7	42.6
Netflix Inc	Communication Services	371.4	181	21.4	2.2	83.5	51.2	21.6	52.0
Adobe Inc	Information Technology	374.6	178	11.7	3.2	56.1	35.6	17.1	38.0
Average		**399.6**	**677**	**102.9**	**19.8**	**50.2**	**36.1**	**18.1**	**25.7**
Median		**259.9**	**510**	**48.6**	**11.7**	**36.1**	**35.0**	**16.4**	**21.8**
S&P 500		43.3	25,799	12,600	1,057	20.9	21.4	3.4	13.9
Share of mega-cap growth stocks			26.2%	8.2%	18.7%				

* values as of May 27 2020

Source: Deutsche Bank

Let's take a graphic tour of some of the features of these remarkable companies – after all, a picture paints a thousand words, does it not? The charts are all self-explanatory, so I will go through them quickly.

Chart 3: MCG stocks relative to the rest

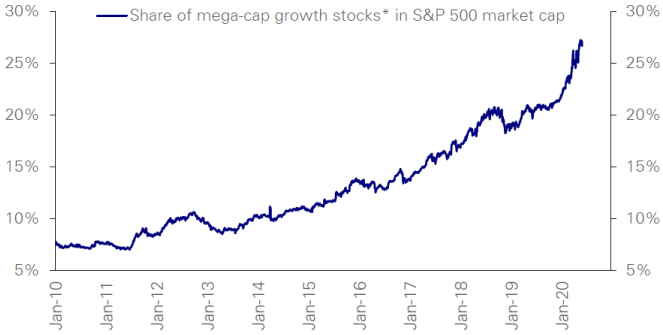


Source: Deutsche Bank

Chart 3 shows the relative performance of the MCG relative to the rest of the market (the S&P500 excluding the MCG, or simply XMCG) over the past decade, based to 100 at the beginning 2010. Had you invested $100 in the S&P500 at the beginning of 2010, it would now be worth about $270. The same amount invested in XMCG would be worth around $200 today and had you invested equally in the MCG at the start of the decade, it would be worth over $850 today.

At the beginning of the decade, the 10 MCG constituted just less than 8% of the S&P500; today they constitute 27% - refer to Chart 4.

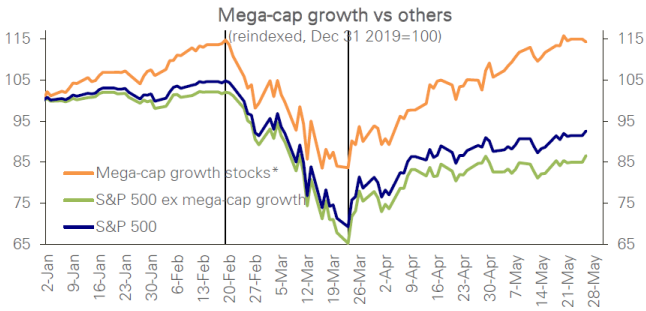
Chart 4: MCG as a percentage of the S&P500



Source: Deutsche Bank

You will not be surprized to hear that the 10 MCG have significantly outperformed the S&P500 since the beginning of the year but even more so during the duration of the global pandemic so far, as seen in Chart 5. Basing the returns to 100 at the beginning of this year, you can see that, as at 27 May, the S&P500 was still 6% off the start of the year level. The XMCG is still down 15% while the MCG shares are actually 15% higher than where they started this year, despite the pandemic. Of course the main reason for the spectacular outperformance is the fact that many of the companies are beneficiaries of the pandemic, given the increased use of digital solutions, work-from-home, stay-at-home, cloud-based computing, social media, and the like.

Chart 5: MCG stocks relative to the rest

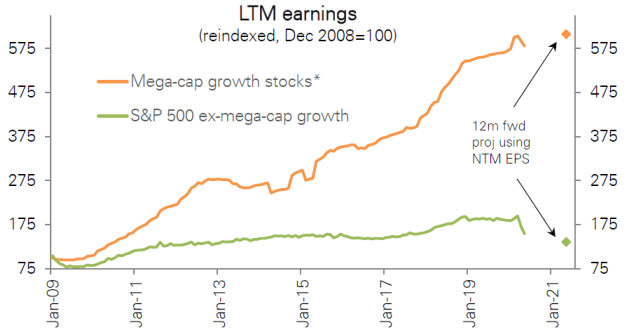


Source: Deutsche Bank

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

It is all good and well to be a "pandemic beneficiary" but most of these companies have been generating earnings growth that has, consistently, been significantly higher than the rest of the market (the XMCG). Chart 6 demonstrates this nicely: once again basing the respective earnings of MCG and XMCG to the beginning of 2010, $100 of earnings in 2010 would have hardly grown to the middle of 2021 (using estimates for the year to mid-2021) while basing MCG earnings to $100 in 2010 will see them grow to over $600 by the middle of 2021. This simply proves the point that "earnings matter"; companies that consistently increase their earnings and profitability more than the rest of the market, will outperform the market.

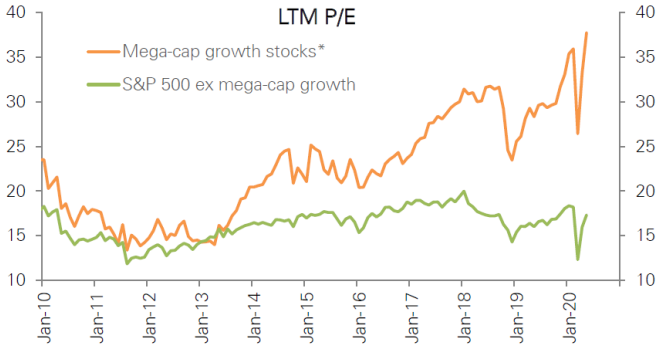
Chart 6: Earnings drive share performance



Source: Deutsche Bank

Of course, there is no such a thing as a free lunch. Simply put, you pay for what you get; companies which increase their earnings faster than the rest of the market, are more expensive than the rest of the market. Chart 7 shows that the historic (in the chart LTM stands for "Last Twelve Months") price earnings ratio (PE) for XMCG is around 17 times. For the MCG it is a pricey 37 times. Our tongue-in-cheek retort to "value managers" is always "companies are cheap for a reason. The discounts to net asset value which value managers love so much, are there for a reason". I say again – you pay for what you get, and there is still no such thing as a free lunch.

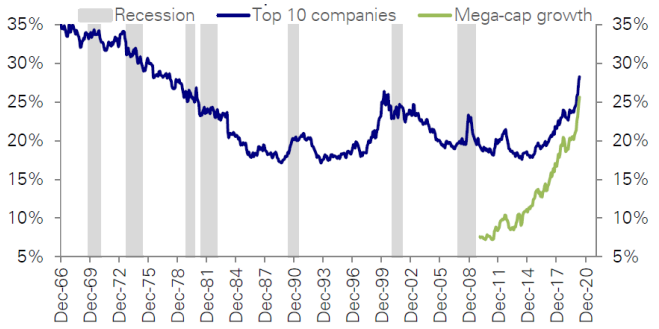
Chart 7: No such thing as a free lunch



Source: Deutsche Bank

Finally, Chart 8 is rather special, stretching over a period of 54 years; the vertical shaded areas represent US economic recessions. It is similar to Chart 4 in that it depicts the MCG as a percentage of the aggregate S&P500 market cap, except over a longer period. It also shows the percentage of the total S&P500 market cap that the prevailing 10 largest shares represented.

Chart 8: Market cap share in the S&P500



Source: Deutsche Bank

Interestingly, the ten largest companies declined consistently into the 1990s as a percentage of the S&P500, before moving sharply higher as the tech bubble of the late 90s gathered momentum – remember the Cisco, Intel, and Microsoft's of that time? Then it declined for the next decade until the 2010s, where the 10 largest companies in the market constituted about 20% throughout that decade. Then the MCG kicked in. As they started to play an increasing role in the 10 largest

shares, so the latter moved sharply higher again. Plotted against the 10 largest shares is the MCG weighting in the S&P500 – you can see just how dramatic their rise has been during the past decade.

I hope you have enjoyed this analysis? Of course there is a serious side to it all, not least of which being the questions as to which are the "next MCG" and where do the current MCG go from here. We will keep that discussion for another fireside chat, but for now I draw just the following conclusions from this exercise:

- The evidence, which speaks for itself, underscores Maestro's belief that there is still a place for active, as opposed to passive, investment managers and stock-pickers.
- Big Picture investing, as we call it, is so, so important. Investors need to get the main themes and driving forces of the economy correct. If you missed the tech boom, which is ongoing and ever-changing, you would have underperformed the market badly.
- You can invest with Maestro with confidence, knowing that we eat, sleep and drink current events and trends, seeking out these opportunities.
- Finally, I can't help but add that I almost feel sorry for value managers. Almost, but not yet.

Quotes to chew on

Digital or nothing

During the presentation of their final results to end-March, *Alibaba CEO Daniel Zhang* summed up the world succinctly, both pre- but even more so post-Covid19, when he said: "The world is moving towards digital first, and digital everything."

Baba black sheep have you any wool?

It's not every day we have the opportunity to have a good laugh these days, but here is one. The *Singapore Trade and Industry Minister, Chan Chun Sing*, admittedly sheepishly that he had erred when trying to explain Singapore's reliance on foreign trade. Citing face masks, which are widely used in the city state to fight the spread of the coronavirus, as an example, he suggested there were not many components that Singapore could produce itself. "(We) don't have too many sheep in Singapore to produce cotton," he said. Right! Internet users quickly lined up to lambast him over the mistake. "Baba black sheep have you any wool? Simple nursery rhymes to remember OK," said one Facebook comment.

What is all the fuss about?

Few things sum up current markets more than the following quote by *Deutsche Bank's Jim Reid* on 9 June. On the one hand, the world is trying to make sense of the most catastrophic period in the global economy's history, not to talk of the social and health crises brought on by the Covid-19 pandemic sweeping across the planet. Yet at the time of writing certain indices are hitting all-time highs or are turning positive for the year-to-date. It is almost inconceivable that these two worlds can co-exist simultaneously! Yet they do. Jim sums it up very well, with some relevant US economic data thrown in for good measure (my italics): "Yesterday we officially waved goodbye

to the longest US cycle in history as the National Bureau of Economic Research declared that *the US has been in a recession since February*, thus ending a 128 month expansion. Whilst we'll never know what would have happened if Covid-19 had not occurred, it's fascinating that the best predictor of recessions, namely the US yield curve, has struck again. More by luck than judgement this time, but the cycle did look increasingly stretched beforehand so this cycle may not have had much life left in it anyway. *However it sums the current financial world up perfectly at the moment when on the day we get the official recession word, the NASDAQ hit a new record high and the S&P500 erased all its declines for 2020. Looking at these indices you'd be forgiven for wondering what all the fuss has been about in 2020".*

Sober comments from a person who knows

I have watched, with intense satisfaction and admiration, the journey which my ex-colleagues at Investec Asset Management, now Ninety One, have undertaken over the past 22 years since we worked together. Against all odds they have taken a small local investment management firm and built it into a global force to be reckoned with, competing with – and in many instances beating – the largest investment names in the business. I am so pleased for their sake, and can only reflect on the work it has taken over the years to put in place what now constitutes Ninety One. I wish them every success for the future.

A large part of their success is attributable to their mercurial and irrepressible leader, *Hendrik du Toit*, who in my view, remains one of the most capable, exciting, and visionary young leaders this country has ever produced. His perspective is global, and his intellect and vision beyond those of his peers. So when he speaks, one should listen, for I have no doubt that he still loves the country of his birth and is committed to its future. Hendrik wrote an article recently, on what South Africa needs in order to "deliver", and I quote some of it below. I encourage you to read the whole article, which you can access by clicking here. The following are but snippets of the article – the italics are my own:

- "For the first time in our lives we are going to witness the significant impoverishment of hundreds of millions of people, primarily in the emerging markets, as a result of the biggest economic contraction in living memory. This will be the first year since 1960 in which this group will record negative growth.
- *The confusion between leading and tweeting is at a record high*.
- In SA the government has found it hard to balance the imperative of saving lives with that of protecting livelihoods. After a brief period of hope under the leadership of President Cyril Ramaphosa, the scale of the problems created by the Zuma era, and the lack of urgency by government

to tackle the economic challenges head-on, have left many South Africans deeply concerned about their future.

- We have to limit the damage of the downturn, but this should not be only about damage limitation. This is the time to dream about the "better life for all" that late president Nelson Mandela spoke about. This is the time to start building a modern, competitive, outward-looking economy able to improve the living standards of all South Africans. It is time to put South Africans' collective prosperity at the very heart of the national agenda. Simply put, we need to replace the "state of disaster" with a "state of emergency for the economy" where we explicitly prioritise economic growth and inspire SA with a new vision.

- Prior to Covid-19 our economic record was already less than impressive. Over the past 25 years, SA has managed to add a mere 30% to its per capita income, while per capita incomes in India and China are now 300% and 760% of what they were in 1995. *SA's performance is simply not good enough*.
- This is not the time for complicated plans. We need a clear vision and the will to deliver. In the near term, all we need is an enabling environment to encourage private-sector investment to get growth going, supported by the national prioritisation of economic growth. This includes dealing decisively with the scourge of corruption. *If we could arrest thousands of people during lockdown for not committing crimes, we can surely put the state capturers and corporate crooks behind bars*.
- Why not declare an open skies policy for our country and rid ourselves of the need to run a national airline?
- A pro-growth, business-friendly environment will create the space to invest heavily in modern education to create the human capital we need to compete in the 21st century and sustainably grow our per-capita income over the coming decades. This is not rocket science. In the near term we need to get through the deep downturn in which we find ourselves. We need to support and protect the productive capacity of the business sector to be in a position to benefit from the recovery when it comes.
- The lockdown, while necessary to protect the nation's health, has been akin to putting the economy into an induced coma. SA faces a once-in-a-generation economic challenge."

Selective Covid coverage and analysis

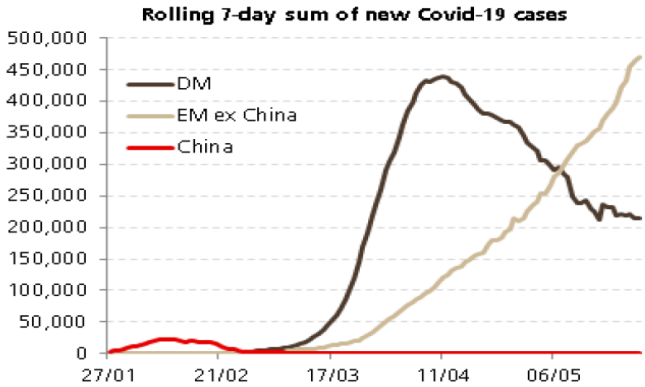
I am sure that like us, you are sick and tired of the media coverage of the pandemic. In this section I include a hotchpotch of items relating to the pandemic, which are hopefully more interesting and a bit out of the ordinary.

You know the world has gone crazy when you hear of events like the following: during May the UK pharmaceutical giant AstraZeneca secured orders for at least 400m doses for a Covid-19 vaccine *that has yet to be approved*! The vaccine is being developed in conjunction with Oxford University, with the company saying it had received $1bn funding from a unit of the US health department.

On 27 May, Deutsche Bank noted the following in their daily coverage of the pandemic. "The latest highlights are that Brazil is now the second most infected country in the world in terms of overall recorded cases with nearly 391 000. Until Brazil's total infections passed New York this past Sunday, the US state has had more total cases than any country in the world since passing Italy in early April. Recently however, case growth and new fatalities in New York State look more akin to Germany and Southern Europe and are now in the 0.1% - 0.5% range".

That draws one's attention to Brazil but also Russia, where the pandemic still seems largely out of control, other than in other countries (Nigeria immediately comes to mind, with a population of 200m but only 12 486 infections and 354 deaths) where the pandemic is so "mild" it's hard to believe the data, other than to conclude that virtually no testing is being done; or if it is, then it is not being reported properly. One wouldn't expect that of Brazil and Russia, which shows just how badly these countries have been affected. Chart 9 depicts the rate of infection (at 28 May) between developed markets (DM) and emerging markets (EM) excluding China. China's infection rate is also shown; the extent of infection there is ironic, isn't it, seeing that the virus's origin was in Wuhan, China?

Chart 9: New Covid-19 cases; EM vs DM



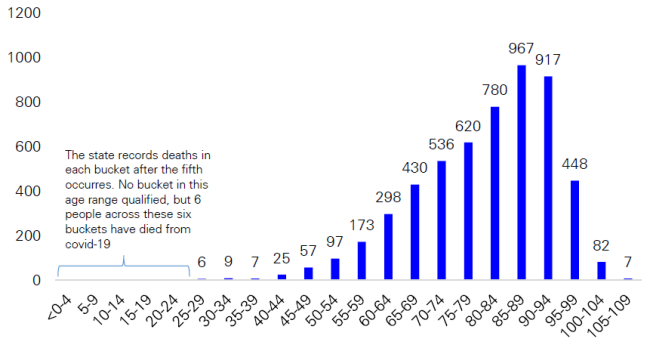
Source: UBS

At the time of writing, Brazil and Russian's Covid infections stand at 772 416 and 501 800 respectively, the second and third highest in the world after the US at 2 000 464. The respective deaths in Brazil and Russia are 39 680 and 6 522 respectively, which can be compared to deaths in the US and UK at the time of writing of 112 924 and 41 213 respectively. It is worth noting China's infections and deaths, seeing that that is where the virus ostensibly began, although there is a lot of conjecture about even this information. China has had 84 210 infections and 4 638 deaths – to put that into perspective 30 542 people in New York City alone have died from the virus. If you are looking for a reliable source of data you will find it at the John Hopkins University website or that of the World Health Organization.

But enough about overall numbers. For many, the devil is in the detail; a deeper analysis is fascinating. I am indebted to Deutsche Bank again for this interesting analysis – the analysis is based on data that prevailed on 21 May.

In the US state of Pennsylvania, with a population of 12.8m more people have died of Covid-19 aged over 100 years old than below the age of 45. The total is 53 deaths under the age of 45 versus 89 over the age of 100. In fact more people have died in the 105-109 year old age cohort (six people) than in any 5-year cohort up to the age of 30. Eight people under 30 have died in total in the state out of 4 493 deaths. It is a tribute to the US, where data is always readily available and is generally of a high quality, that we can learn that there are people in that State between 105 and 109 years old – refer to Chart 10 by way of example.

Chart 10: Covid fatalities in Pennsylvania, US



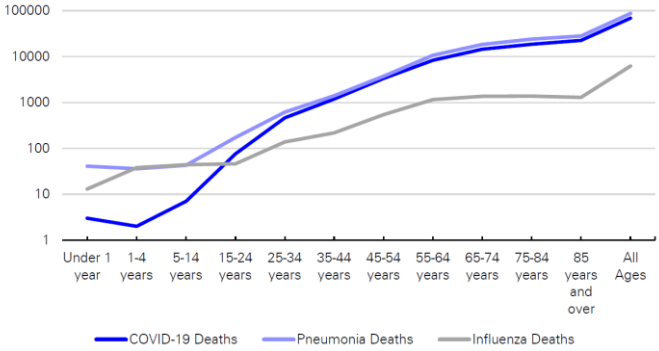
Source: Deutsche Bank

Maestro has consistently draw attention to the irrationality of lockdowns and the obsession with the coronavirus, specifically by governments, in their attempts to curb the spread of the virus. Government actions around the world smack of political expediency more than an honest commitment to and reliance on science, and a large dose of reason and old-fashioned common sense. We don't underestimate the personal tragedy and impact of the Covid deaths, but we like to place the coronavirus fatalities into perspective by comparing them to the far greater fatalities caused by, for example flu, tuberculosis (TB) or HIV Aids, particularly in South Africa. We note that this line of thinking is becoming an increasing focus of attention, particularly as the devastating economic effects start becoming apparent in even the most developed of countries. On 22 May, Deutsche Bank turned their attention to the same issue.

In their last edition of their "Coronavirus Crisis Daily" report they drew some comparisons to fatalities in the US caused by the coronavirus, flu and pneumonia, between the period 1 February and 16 May. In all age cohorts up to at least 24-years old, flu killed more people (141 total) than Covid-19 has (27). In the 25 – 34-year cohort the numbers pivot and are 138 versus 463. By the time one gets to the over 55-year olds the divergence is stark, with 5 184 dying of flu against 63 923 for Covid-19. Across all ages more people have died of pneumonia though than Covid-19 in the US over this period.

Chart 11: Reported US deaths

Period between 1 Feb and 16 May, by age and cause



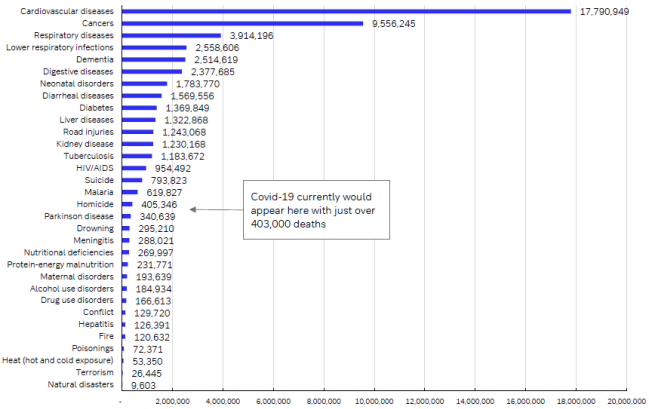
Source: Deutsche Bank

One of the key themes that has become apparent during the last couple of months is how savagely discriminant Covid-19 is, especially by age. It is remarkable to see that flu is seemingly more deadly for under 24-year olds and to note

how susceptible the elderly and those with underlying conditions are relative to the young. Why the young are seemingly so resilient against the coronavirus remains a welcome mystery.

Finally, to place the current number of Covid-19 deaths (417 174 at the time of writing) into perspective, I refer you to Chart 12, which shows the causes of deaths around the world in 2017, the latest available data. Admittedly, the Covid deaths are spread over only a few months, and massive global mitigation has suppressed the numbers. However, using the 2017 data, Covid-19 by itself would register just above Parkinson disease and below homicides for total global deaths in a year, while equalling roughly 10% of all respiratory disease related deaths. Against that one has to measure the trillions of dollars of economic destruction that has been caused by lockdowns, and the tens of millions (if not more) of livelihoods destroyed, many of them permanently. It is against the backdrop of this overwhelming imbalance that we humbly question whether lockdowns are a suitable mitigation tool. We don't think they are.

Chart 12: Globally recorded 2017 deaths



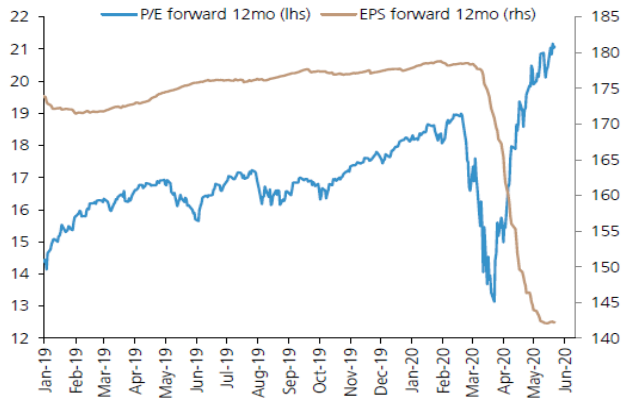
Source: Deutsche Bank

Charts of the month

I again face the challenge of not being able to keep up with the pace of changing events. The more share, the more the exciting news and developments overtake what I write. Perhaps the biggest development is the speed and momentum with which global equity markets, and US ones in particular, have rebounded off their 23 March lows.

While the media and the investment profession, including ourselves, are still talking about the greatest economic catastrophe in living memory, at the time of writing the NASDAQ has just hit an all-time high. Yes, that is an *all-time* high i.e. it has never been higher than its current level before. In addition, the S&P500 has turned positive for the year i.e. it is no longer showing a negative return for the year-to-date. The NASDAQ has now risen 28.2% during the past year, and 44.7% since its low on March 23. The S&P500 has risen 12.5% during the past year and 44.5% since March 23. Many will be left scratching their heads at these contradictory worlds. I hope that some of the following charts in this section will address this paradox.

Chart 13: US equity market valuation



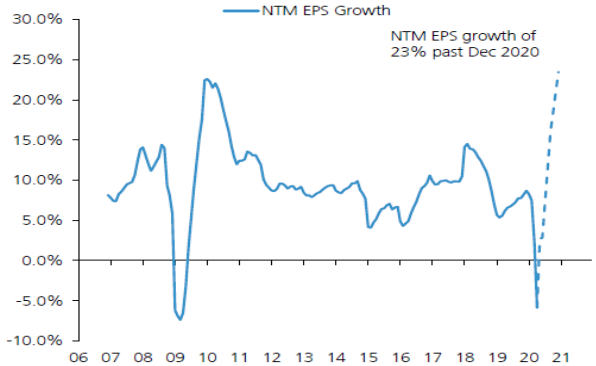
Source: UBS

Chart 13 shows the "forward" price earnings ratio (PE) of the S&P500 index, the most representative of US share market indices. The adjective "forward" simply indicates the line is based on expectations of what the earnings will be *in 12 months' time*. The higher the PE, the more expensive the market. Clearly, as the US equity market has surged off its March low, it has become more and more expensive (shown in the blue line and left hand scale). The "E" in PE represents earnings, which is the aggregate earnings of all the S&P500 constituents. This is depicted in the brown line in the chart; more accurately it depicts what earnings are expected to be *in 12 months' time*. You don't need to be a rocket scientist to see that investors are expected a huge collapse in corporate earnings in the coming months, which of course partly explains why the PE, and consequently the market, has suddenly become more expensive.

Chart 14 expands on this argument, showing expected earnings in 12 months' time, but over a longer historical period (NTM designation in the chart refers to "next twelve months"). The shock to earnings and the subsequent recovery during the Great Financial Crisis of 2007/9 is evident. The volatility during 2018/9 has to do with the "distortion" in corporate earnings brought about by the tax rate reduction in the US during this period.

Although the "Covid-collapse" in 2020 is obvious, this chart shows what analysts are expecting for the whole of 2021. Analysts are expecting US corporate earnings to increase 23% off the very low base created by the pandemic. It is this expectation which is partly, but only partly, behind the dramatic rise in the market. It is as though investors are looking through and beyond the pandemic's effects on corporate earnings, believing them to be temporary, before resuming their long-term uptrend. Only time will tell whether or not this view is correct.

Chart 14: Expectations of US earnings growth



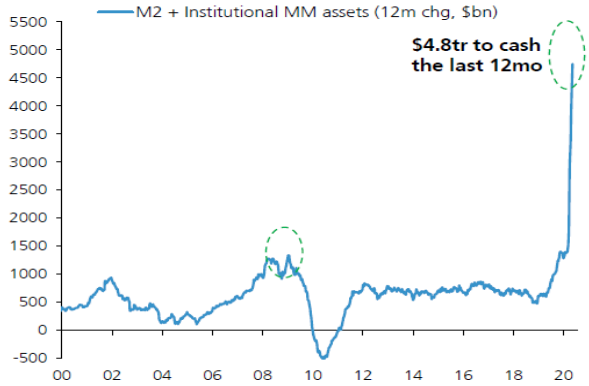
Source: UBS

Expectations of a rebound in corporate earnings are certainly a factor driving the market higher. An additional factor is the sheet weight of money "floating around the system". Central banks have been pumping money into global capital markets at an unprecedented rate in an attempt to keep interest rates low and stimulate consumer demand.

Chart 15 depicts a crude definition of the US Federal Reserve's balance sheet, from which it is obvious to see how accommodative the Fed has been of late. It was extremely accommodative

through the 2007/9 GFC, but that hardly even shows up on the chart, given how large the Fed's monetary stimulation has been in this crisis. Other central banks of major economies have been in similar expansionary mode. You can thus imagine just how much money there is looking for a home. As we can see from the chart, the Fed alone has injected more $4.8tn into US capital markets during the last year.

Chart 15: The Fed is priming the cash markets



Source: UBS

With interest rates so low, bond markets are hardly attractive; many are trading in negative territory (so you pay the borrower for the privilege of holding his debt) and in any event, if and when we emerge from this crisis, interest rates on bonds are likely to move higher and bond prices lower. So with the prospects for bond markets looking decidedly unattractive, and interest rates on cash also in negative territory in most developed countries, where does the money find a home? One answer is that the money finds its way into global equity markets; this adds another reason for their strong gains in recent weeks. Ironically, as central banks do their utmost to stimulate demand, the net effect is to force investors to take on more risk by buying into equity markets in order to generate at least some positive returns on their assets.

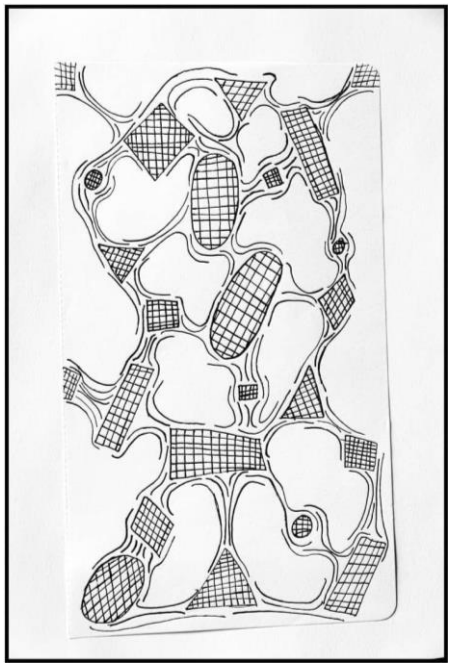
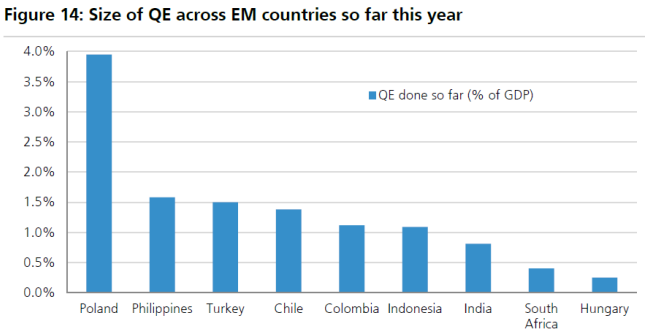


Chart 16: Size of QE across EM so far this year



Source: UBS

Whilst on the topic of monetary stimulus, part of which is also referred to as Quantitative Easing (QE), Chart 16 shows how small these stimulus measures have been in emerging markets (EM), primarily because they don't have the capacity to stimulate their economies as much as developed economies. Poland looks impressive, having committed to supporting their economy to the extent of nearly 4% of size of their economy (GDP). South Africa hardly features on the chart. By way of comparison, the Fed in the US has spent the equivalent of 19% of GDP on their QE and the European Central Bank 21% of GDP.

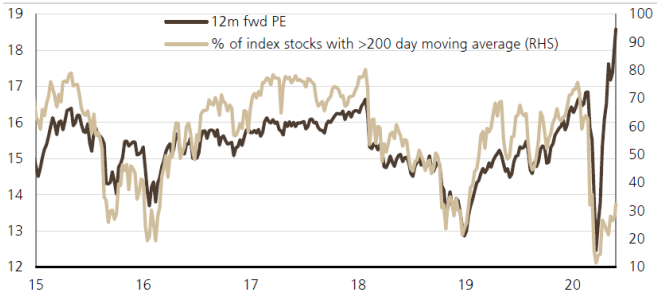
Ironically, the substantial gains in share markets have not been widespread. Bigger companies, which are more heavily weighted in the respective indices, have driven markets higher, leaving a lot of smaller companies languishing at lower levels. So unless you held the "right shares" one could easily have missed this large rally.

Chart 17 shows the percentage of index stocks which are higher than their 200-day moving average, which is market speak for saying their share prices are in an upward trend. From the right-hand scale, you can see that only about 35% of companies in the MSCI ACWI, a proxy for global equity markets, of companies are in a strong upward trend, yet markets are powering ahead to new highs, or closer to them. In other words, the market leadership i.e. the shares that are leading the markets higher, has been very narrow. This, at a time when the markets have become increasingly expensive.

A comparison to the 12-month forward PE ratio, i.e. the same ratio we considered earlier, shows the disconnect in the markets between the number of shares rising and the valuation of the markets. The two indicators have largely tracked each other over time, but currently the market has got significantly more expensive while far less companies are rising than those falling. That alone makes the current market rally not only different from previous ones, but it also makes stock selection i.e. picking the "right" companies, very important. Once again, despite markets rising so strongly, many investors who have not benefitted to the same extent as the overall market, not because they weren't invested in the market, but because they held the "wrong" shares. This highlights the importance of active investment management and appropriate stock selection once again.

Chart 17: Expensive markets, narrow leadership

MSCI AWCI forward PE versus % of shares above their 200-day moving average

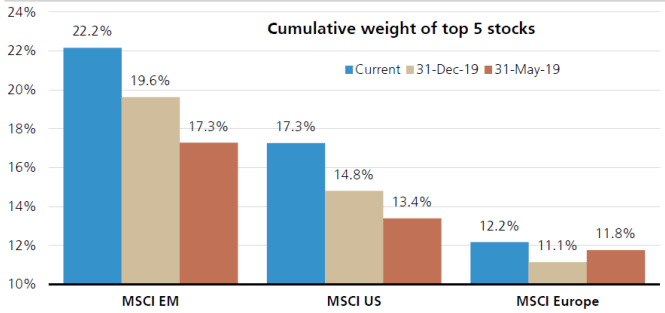


Source: UBS

Speaking of "narrow" markets, I came across the following chart, which depicts the extent to which large companies dominate major indices, in this case Emerging Markets (MSCI EM), and the US (MSCI US) and European markets (MSCI Europe). The data is depicted at the end of May 2019, the end of last year, and current (data cut-off 5 June). By virtue of the fact that tech and growth stocks have outperformed so much in recent weeks (refer to A Tale of Two Markets, above), the concentration of larger holdings across all markets has only intensified. What may

come as a surprize to many is just how narrow, or concentrated, emerging markets are. You don't have to think much further than the South African market, where Naspers constitutes about 20.0% of the All Share index, and that was *after* Prosus (3.0%) was spun out of the Group.

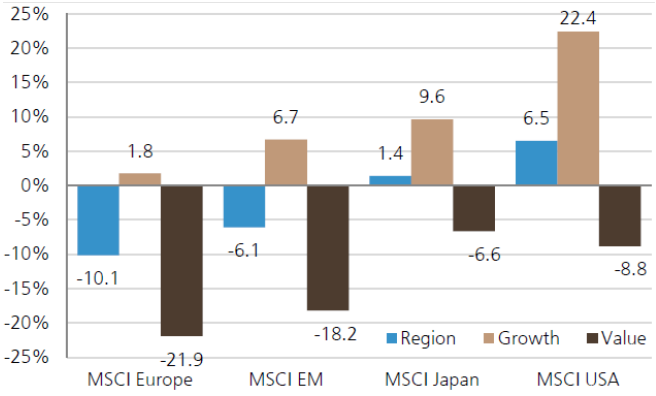
Chart 18: Top 5 shares in MSCI indices



Source: UBS

Still on the topic of growth (to a large extent you can read "tech" into that) shares, Chart 19 depicts the extent to which growth shares i.e. those whose earnings have and are forecast to rise (grow) faster than the overall market, have consistently outperformed value shares across multiple regions. Growth shares have also outperformed the overall market during the past year, and, notably, have all risen i.e. posted *positive* returns notwithstanding the market collapse experienced during February and March this year.

Chart 19: Annual index returns across styles

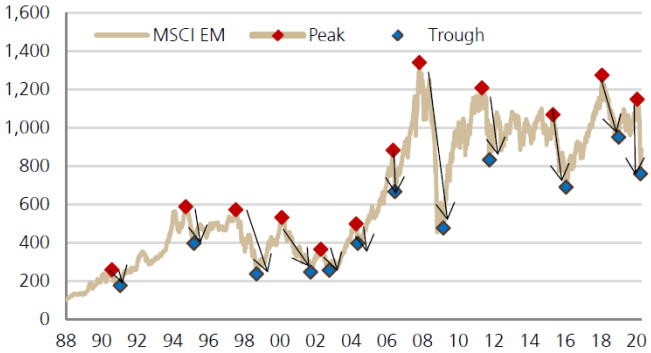


Source: UBS

To repeat our tongue-in-cheek retort to value managers: "companies are cheap for a reason. The discounts to net asset value, and high dividend yields, which value managers love so much, are there for a reason. You pay for what you get; there is no such thing as a free lunch".

The next few charts are rather random but I thought worth sharing. Firstly we have long advocated investing money outside of South Africa for a number of reasons. One of those is simply that developed markets are less volatile and more profitable. I came across Chart 20 which depicts the bear markets in emerging markets since 1988, where a bear market is defined as a correction of 20% or more in the index.

Chart 20: MSCI EM index bear markets

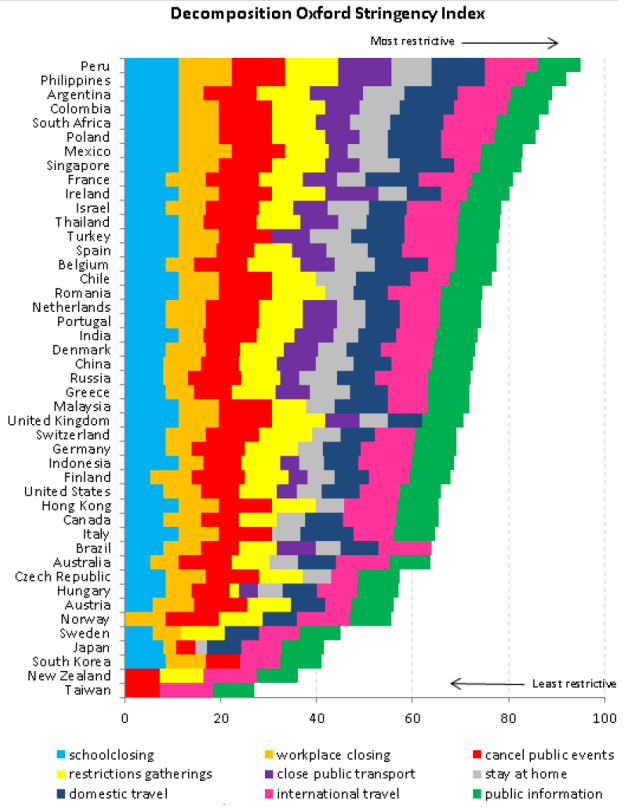


Source: UBS

Based on emerging market behaviour during the past 36 years, on average you will experience a bear market every two and a half years if you continue to invest in emerging markets! For those who can stomach that risk, good luck to them. We continue to believe there are less volatile, more profitable markets abroad, specifically in the developed markets of the world.

Back to the Covid-19 pandemic for a moment, I found Chart 22 informative; it shows the degree of Oxford's mobility restriction (lockdown) Stringency Index. You might like to see where your country sits on this index. South Africa's restrictions (still Level 5 when the chart was compiled) are pretty severe based on this index. I note the preponderance of emerging markets at the top of the chart.

Chart 21: Oxford University Stringency index

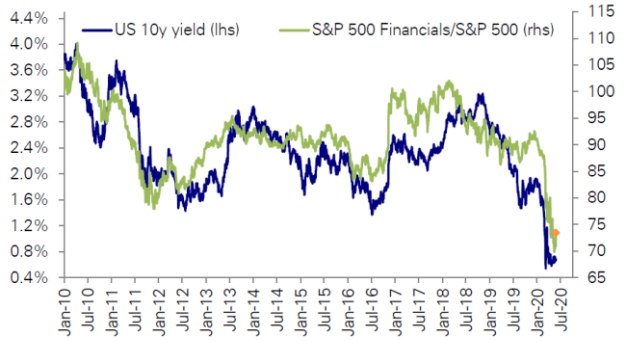


Source: UBS

Chart 22 provides an opportunity to review the course of US interest rates, using the 10-year bond yield as a proxy, together with the performance of US banks *relative to* the S&P500 index, during the past decade. One of the reasons our global unit trust, Central Park Global Balanced Fund, has performed well, is that we have not held many banks. As yields (interest rates) have declined, so banks have underperformed the overall market.

This serves as a timely reminder that as South Africa heads into a structurally low interest rate environment, banks are going to struggle to do as well as they have done in the past (admittedly the composition of their income statements are different to US banks). That said, *if* US yields have reached a low point (and that is a big "if") and *if* inflation is heading higher in years to come (another big "if") then it might be worth considering (US) banks as possible investments again. If that proves correct, you really don't want to hold any bonds, because the higher yields go, the lower their prices go. For what it's worth, Central Park has only 1% of its assets invested in bonds, and we hold no US banks – yet.

Chart 22: US yields and banks relative returns



Source: Deutsche Bank

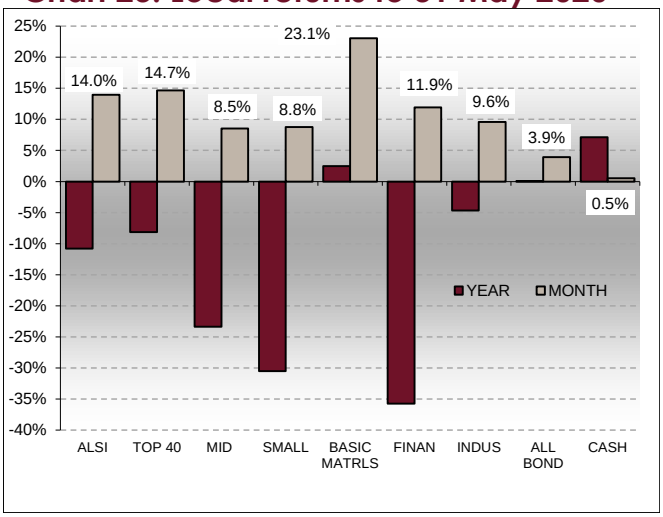
May in perspective – local markets

Turning to the South African market behaviour during May, one would have thought that the SA equity market would've been firmer. As it happened, it rose only 0.3%, but was dragged down by the Financial index (-3.2%) and the Industrial index (-1.8%). The Basic Materials index rose 5.5%, boosted by expectations of a global economic recovery, a weaker dollar, and a very low base. The Financial sector was weak, although the reasons for the weakness were fascinating: concern about the effects of the economic catastrophe on their earnings (all the major SA banks issued profit warnings) had a mixed impact on banks' share prices: Investec (-

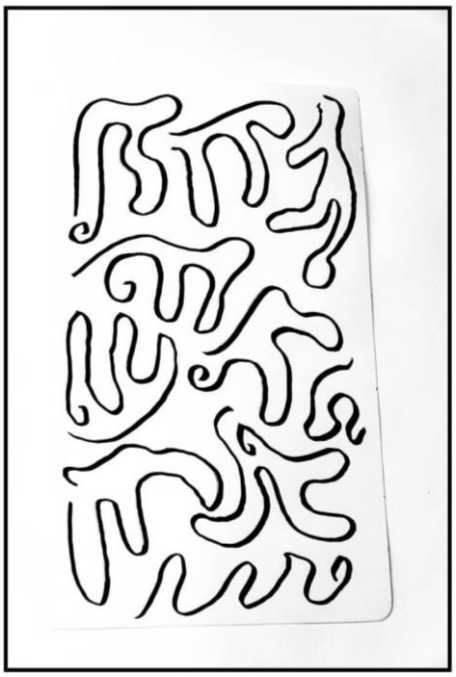
20.8%), Absa (-11.1%) and Capitec (-6.2%) led the declines, but the remaining banks ended the month roughly where they started. The weakness in the Financial sector really came from the life insurers (Old Mutual -16.3% and Sanlam -4.6%) and property companies (Hyprop -10.3%, Growthpoint -10.4%, and Redefine -15.4%).

The Mid and Small cap indices ended the month up 0.2% and down 3.2% respectively. The rand firmed 4.2% against the dollar, and this, together with the relative attraction of South Africa's high yields (interest rates) in a zero interest rate environment, had a positive impact on the bond market. The All Bond index rose 7.1% although its annual return to end-May is only 1.6%. The All Share index is down 6.0% in the year to end-May.

Chart 23: Local returns to 31 May 2020



You can see for yourself that equity markets maintained the strong momentum that began in April, through into May, to the extent that many markets are at all-time highs at the time of writing. This is extraordinary, when you think of the state the world finds itself in: a global health pandemic, in the throes of the greatest depression in living memory, protests and social unrest across the US and in Hong Kong, an increasingly acrimonious trade war between the world's two super-powers, and over and above that no visibility or certainty regarding economies and corporate earnings, not to talk of the total collapse of many industries across the world.



You will consequently not be surprised to hear that we are somewhat uncomfortable with the present levels of equity markets. We understand why they have risen so strongly, but while we don't know the exact effect of the zero or negative interest rate environment (we do know it is exerting a strong positive effect on equity markets), we are of the view that markets have probably "overshot the mark". That said, we don't really expect markets to decline sharply soon, although we would be a bit relieved if they stopped rising so strongly. Our time horizons have become both shorter (there are a lot of "trading opportunities" in these markets) and longer (we may not be able to see the immediate earnings outlook for many of our companies, but we know they will survive the current crisis better than most and are likely to dominate their sectors even

more in the future) – if that makes sense? What hasn't changed is our cautious approach and our diligence in ensuring we are constantly up to date with global events that matter to markets.

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	**May**	**1.3%**	**-3.9%**	**-4.7%**
JSE All Share Index	*May*	*0.3%*	*-10.1%*	*-6.0%*
Morningstar sector ave	*May*	*-0.3%*	*-12.9%*	*-9.6%*
Maestro Growth Fund	**May**	**0.7%**	**6.6%**	**10.2%**
Fund Benchmark	*May*	*1.5%*	*-3.4%*	*1.3%*
Morningstar sector ave	*May*	*0.5%*	*-4.7%*	*-0.5%*
Maestro Balanced Fund	**May**	**0.8%**	**5.9%**	**9.9%**
Fund Benchmark	*May*	*1.5%*	*-2.1%*	*2.7%*
Morningstar sector ave	*May*	*0.9%*	*-2.7%*	*1.3%*
Maestro Cautious Fund	**May**	**0.7%**	**2.9%**	**6.0%**
Fund Benchmark	*May*	*2.4%*	*-1.2%*	*3.3%*
Morningstar sector ave	*May*	*1.1%*	*-1.1%*	*2.9%*
Maestro Global Balanced Fund	**May**	**-0.3%**	**22.7%**	**34.1%**
Benchmark	*May*	*-1.2%*	*20.7%*	*28.0%*
*Sector average **	*May*	*-1.6%*	*14.0%*	*20.8%*

* Morningstar Global Multi Asset Flexible Category

Notwithstanding the returns listed above, 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 May 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.

Table 2: The Maestro Equity Prescient Fund

Morningstar (ASISA) South Africa Equity General - May 2020					
	3 mths	6 mths	1 year	3 years	5 years
Maestro Equity Prescient Fund	***3.6%***	***-3.6%***	***-4.7%***	***-5.1%***	***-3.9%***
Maestro Equity Fund Prescient benchmk	0.3%	-5.4%	-6.0%	0.5%	2.3%
SA Peer Group Average	-4.0%	-10.8%	-9.6%	-2.3%	-0.6%
Maestro position within Group	12	24	40	104	97
Number of participants	168	168	161	139	109
Quartile	1st	1st	1st	4th	4th

Table 3: The Maestro Growth Fund

Morningstar (ASISA) South Africa Multi-Asset High Equity - May 2020					
	3 mths	6 mths	1 year	3 years	5 years
Maestro Growth Fund	***5.8%***	***6.3%***	***10.2%***	***4.6%***	***2.4%***
Maestro Growth Fund benchmark	2.0%	-1.4%	1.3%	4.9%	5.2%
SA Peer Group Average	-0.9%	-3.7%	-0.5%	2.0%	2.9%
Maestro position within Group	7	8	9	22	79
Number of participants	201	196	194	169	117
Quartile	1st	1st	1st	1st	3rd

Table 4: The Maestro Balanced Fund

Morningstar (ASISA) South Africa Multi-Asset Medium Equity - May 2020					
	3 mths	6 mths	1 year	3 years	5 years
Maestro Balanced Fund	***5.3%***	***5.8%***	***9.9%***	***3.8%***	***2.3%***
Maestro Balanced Fund benchmark	2.2%	-0.2%	2.7%	5.6%	5.7%
SA Peer Group Average	-0.2%	-1.9%	1.3%	3.1%	3.5%
Maestro position within Group	1	1	3	31	49
Number of participants	94	93	93	79	59
Quartile	1st	1st	1st	2nd	4th

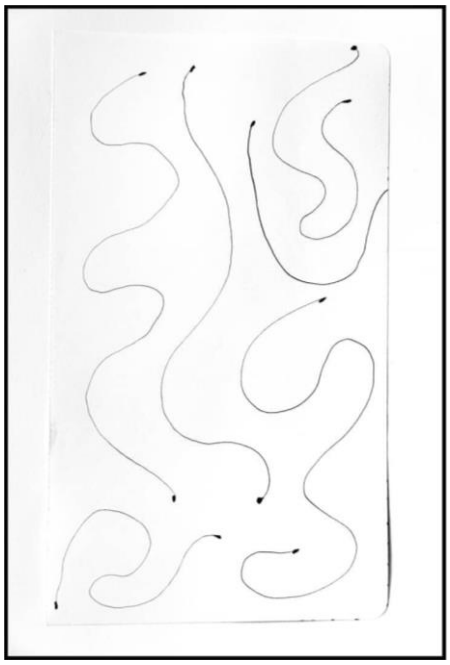
Table 5: The Maestro Cautious Fund

Morningstar (ASISA) South African MA Low Equity - May 2020					
	3 mths	6 mths	1 year	3 years	5 years
Maestro Cautious Fund	***2.1%***	***3.2%***	***6.0%***	***5.4%***	***4.5%***
Maestro Cautious Fund BMK	1.3%	0.6%	3.3%	6.1%	6.2%
SA Peer Group Average	-0.1%	-0.5%	2.9%	4.4%	4.8%
Maestro position within Group	22	13	24	41	65
Number of participants	155	154	149	131	93
Quartile	1st	1st	1st	2nd	3rd

Table 6: Maestro Global Balanced Fund

Morningstar (ASISA) Global MA Flexible - May 2020					
	3 mths	6 mths	1 Year	3 Years	5 Years
Maestro Global Balanced Fund	***13.0%***	***21.3%***	***34.1%***	***N/A****	***N/A****
Global Balanced Fund benchmark	12.6%	17.4%	28.0%	15.2%	12.4%
SA Peer Group Average	8.6%	11.9%	20.8%	11.6%	9.3%
Maestro position within Group	4	3	1	N/A	N/A
Number of participants	33	32	30	23	17
Quartile	1st	1st	1st	N/A	N/A

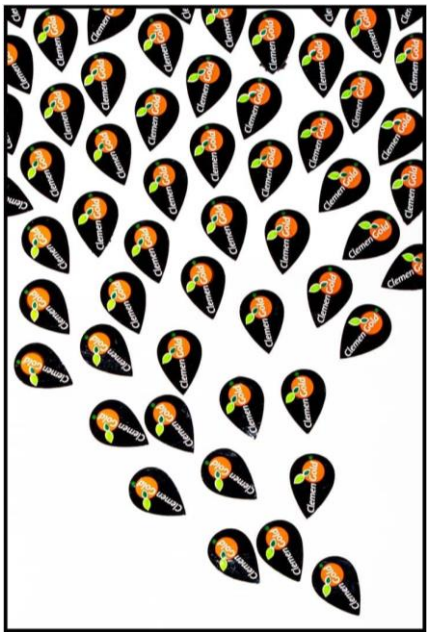
"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein



OroAgri – A brief review

Many of Maestro's clients participated in a unique investment opportunity that presented itself towards during the second half of 2013. We were introduced to the management team of an unlisted agri-chemical company called OroAgri. In the interests of space, I will keep the details brief, but suffice to say that we regarded the opportunity as quite unique. After a careful analysis of the company, we took the view that it could prove to be a very profitable investment over time. OroAgri was in the process of raising capital (it listed on the Cayman Islands Stock Exchange at the same time), and clients who accepted our recommendation to invest in the company were able to buy shares in the company at a price of $1.50 in January 2014. The rand dollar exchange rate at the time was around R10.76, resulting in an initial rand cost of R16.13. The market capitalization (size) of the company at the time of our initial investment was $25.5m.

The company was growing at a rapid rate, and undertook a second round of capital raising in August 2015. This allowed clients a second opportunity to buy shares, this time at a price of $2.50. The rand was then trading around R13.26, which translated into an effective rand price, including all costs, of R35.40. No dividends were paid by OroAgri throughout the period of our investment, because all capital was deployed back into the business, given that it was growing so strongly.



In March 2018, OroAgri was sold to the SA-listed Omnia Holdings for an amount of $100m, or about R1.2bn. This equated to a price per share of $4.22. The deal was structured in such a way that shareholders received an initial payment of $2.20 in May 2018, a second payment of $1.27 in November 2018, and a final payment in May 2020, which would equate to the remainder of a $15m retention (worth about $0.66 per share) put in place at the time of the deal.

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

Last month clients received the "retention pay-out", which equated to an amount of $0.54. Ignoring the time value of money for the moment, Maestro clients' initial investment of $1.50 thus yielded a dollar return of $4.01, an increase of 167.3% in absolute terms, over a period of six and a half years. The MSCI World index produced a return of 25.6% over the same period, and the S&P500 index rose 47.9%.

As though that was not juicy enough, of course the rand weakened substantially during those six and a half years. Following the sale of the company to Omnia in March 2018, the initial, second and final payments received in rand terms equated to R27.52, R18.21 and R10.07 respectively, or a total of R55.80. This can be compared to an initial investment of R16.13. Once again, ignoring the time value of money (if you take the latter into account, it increases the size of the return considerably) the OroAgri investment thus generated a return of 245.9% in absolute terms over the six and a half years. During that same period the All Share index, including income, rose 20.2% in absolute terms.

It is no wonder our clients talk so fondly of OroAgri. Not only was it a very profitable investment, many clients took a keen interest in the company and met with management on numerous occasions. So the return was more than just financial.

Finally, with no disrespect to Omnia, which has subsequently fallen on hard times, the market cap of the company at the time of the OroAgri purchase was R18.3bn. OroAgri thus constituted around 6.5% of the Omnia's market cap at the time of the deal in March 2018. Since then, OroAgri has continued to go from strength to strength, broadening its global reach and continuing to invest in its own growth and future. Its current value can only be estimated – as a wholly-owned subsidiary of Omnia its financial statements are no longer available. However, its current value must be significantly higher than R1.2bn. The rand devaluation alone would put the $100m paid by Omnia at R1.8bn. Let's say OroAgri is now worth around $150m, which translates into R2.7bn at the present rand dollar exchange rate. Omnia's current market cap is now just R4.1bn, meaning that OroAgri is worth, at a guesstimate, around 65.2% of Omnia's market cap.

File 13: Information almost worth saving

More from the crazy Covid-19 world

Maestro is predominantly an "equity house", meaning our coverage of other asset classes such as bonds and credit is not extensive. We do understand and follow them, but we would not hold ourselves out to be specialists in bonds or in fixed income markets. That said, I thought the following was sufficiently amusing to share.

A key factor in the world of credit is the matter of collateral; the security the borrower offers to ensure the creditor receives his money back, particularly when the risk of a bond default i.e. the borrower not repaying the loan, looms. The more valuable and marketable the collateral, the lower the cost of the credit, all things being equal. Given the complete and rapid collapse of some industries in a Covid-19 world, including industries such as airlines and cruise lines, the collateral offered – and accepted it must be noted – has taken on some interesting forms. Norwegian Cruise Lines issued $700m of junk bonds in May. Included amongst the items of collateral was the 268-acre Great Stirrup Cay, their own island in the Bahamas. No wonder there were so many takers for the bond! Other assets offered as collateral for the same issue of debt included a second island in Belize, and a couple of ships. Cruise liner Carnival earlier issued $4bn of debt, backed by 86 cruise ships. Atlanta-based Delta Airlines raised $5bn in May without offering any planes as collateral. Rather, they pledged their rights to operate the departure gates and fly aeroplanes to and from airports such as Heathrow in London and JF Kennedy in New York. As companies get more desperate to shore up balance sheets that are rapidly running out of cash, there are now a host of items up for collateral, including over 100 cruise liners, theme parks, hundreds of cinemas, and airport landing rights. Who would ever have thought it possible?!

Who would ever have thought it possible?
Speaking of things that no one would have thought possible, I was reading through the unit trust returns for the year to end-May, and couldn't help noticing that the best return, note the best, return of the SA Real Estate – General category, was -34.4%. The worst annual return in the sector was -51.6%.

Just take some time to take that on board. This Real Estate sector was the darling of the market not too long ago. It was believed to be "stable" – bricks and mortar, after all – and of course there was that juicy dividend yield that supported the sector. These two attributes were sufficient to pull in the most conservative investors into the sector, who have been rewarded during the past year, with having lost at best one third of their money, at worst half of their money. It would be unimaginable were it not fact. It just goes to show that in the activity of investment, nothing is certain34. With the best return over the year being a loss of more than one third, you will appreciate that many of the sector stalwarts are down far more, between 60% and 80% lower than a year ago. And here's the terrible truth – this virtually excludes any effect from the Covid-19 pandemic. Many of these declines were firmly in place long before the horrible little virus poked its head up in Wuhan. The future of the real estate sector is surely little better than terrifying.

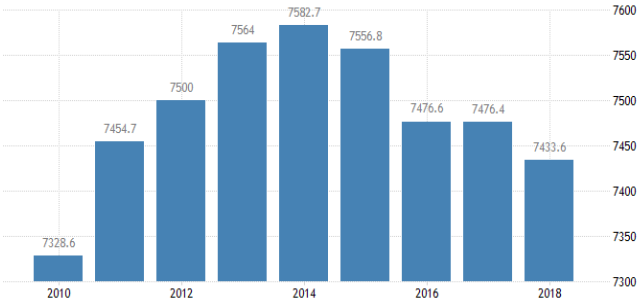
One can never rest of your laurels, believing to have found the ultimate, secure and bullet-proof investment. Sadly, many South African investors have learnt this lesson at a significant cost. The concept of "a permanent loss of capital" comes to mind, which is the most frightening concept for any investor to be forced to face, even more so if you are in your twilights years, looking for a stable investment able to generate a decent income into your retirement.

Interesting data emanating from China

You may be aware that China publishes 5-year plans at its annual National People's Congress, the most recent one having been held in May. It is into its 13th 5-year plan already, which spanned 2016 to 2020. That consequently gave reason for reflection on whether or not the plan's objectives had been met. Arising out of this review, some interesting data are worth noting. While the market has been debating whether or not some stimulus measures would be necessary to boost growth, it was noted that one of the objectives remained to double the per-capita income between 2010 and 2020. (This measure is derived by dividing the size of the economy, or GDP, by the countries' population to arrive at the amount of economic value or output per person; this is often used as a measure of citizens' wealth or well-being.) However, that target, together with many others, has already been achieved, so there is no major pressure to stimulate growth in 2020. The targeted per capita annual income for urban and rural residents, was RMB38 000 ($5 375 or R91 372) and RMB11 800 ($1 670 or R28 373) respectively, in 2020. However, in 2019 these metrics reached RMB42 000 ($5 941 or R100 990) for urban and RMB16 000 ($2 263 or R38 472) for rural residents already.

By way of comparison, South Africa's per capita GDP in 2018 was $7 434 or R126 378, as shown in Chart 24.

Chart 24: South Africa's per capital GDP



Source: Trading economics

So what's with the pics?

I am sure that by now you are wondering what on earth is "up with the pictures?" You can be forgiven for thinking that, so let me put you out of your misery. The photos represent a combination of talent, boredom, creativity and fun that arises when you are stuck in a flat during lockdown, with nowhere to go, and not much to do. I am indebted to my son Benson for allowing me to showcase some of the pictures he has posted on

Instagram since the lockdown began. I think the pictures would do his mother proud; if they are anything to go by, he doesn't seem to have given up on his fruit and green vegetables just yet! You can see more of them on his Instagram handle *@coffeewithacamera*.

With that, I would like to invite you to submit photos of what *you* got up during the lockdown – I dare you! I'd love to showcase what you got up to, or did, or took photos of, during the lockdown. Let's see what we can include in *Intermezzo* next month.

In closing: our take on the lockdown

We have been asked by a number of clients what our view of the prevailing lockdown in South Africa is. We hold strong views and they are probably not too politically correct, but we hold them nonetheless. They have been informed by reviewing the data on an ongoing basis, and considering the consequences of this lockdown for the SA economy. If you are brave enough to read through them you are welcome to get in touch with me and I will send them to you. The presentation of our case is simply too long to include here.

In formulating them, we came across an article by *Dr Michael Cosser*, who expressed a lot of what we felt, but in a far more eloquent and scientific way. Dr Cosser is part of the *Human Sciences Research Council's Developmental, Capable and Ethical State research division*. I have copied his article here in its entirety for your convenience, but you are welcome to read it in the Daily Maverick, where it first appeared.

Covid-19 in SA – perspective is needed

By Dr. Michael Cosser

Covid-19 has caused us to lose perspective on various fronts. One main front is the burden of disease. In a country in which many thousands of people die each year from treatable diseases like TB and Type 2 diabetes, an exclusive focus on the mortal impact of Covid-19, while understandable, is misplaced.

This is not another piece about the epidemiology of Covid-19 by an amateur epidemiologist, but an article about the need to place the pandemic in perspective.

A recently released estimate of possible deaths due to Covid-19 is that up to 48 000 people in South Africa may die from the pandemic by November 2020 (Kahn & Paton, 2020). At the time of writing (24 May 2020), 340 196 people worldwide have died from Covid-19 (Johns Hopkins University Coronavirus Resource Center) – 407 in South Africa. This means, in the worst-case scenario (if 48 000 deaths is worst-case), that the country can anticipate a 47 900 percentage point increase in Covid-19-related deaths over a six-month period – an increase of truly epidemic proportions.

But we need to place a scenario of 48 000 possible deaths due to Covid-19 in perspective. A total of 446 544 people died in South Africa in 2017 (Statistics South Africa, 2020) – 395 380 (or 86%) of natural causes. Of these, 28 687 6.4%) died of Tuberculosis (TB) and 25 336 (5.7%) of Diabetes mellitus. From a numerical perspective then, more people died from TB and diabetes (54 014) in 2017 than are projected, in the worst-case scenario, to die from Covid-19 in 2020.

Table 1: The ten leading underlying natural causes of death in South Africa, 2017

Causes of death (based on ICD-10)	Rank	Number	%
Tuberculosis (A15-A19) *	1	28 678	6,4
Diabetes mellitus (E10-E14)	2	25 336	5,7
Cerebrovascular diseases (I60-I69)	3	22 259	5,0
Other forms of heart disease (I30-I52)	4	22 098	4,9
Human immunodeficiency virus [HIV] disease (B20-B24)	5	21 439	4,8
Hypertensive diseases (I10-I15)	6	19 900	4,5
Influenza and pneumonia (J09-J18)	7	18 837	4,2
Chronic lower respiratory diseases (J40-J47)	8	13 167	2,9
Other viral diseases (B25-B34)	9	12 766	2,9
Ischaemic heart diseases (I20-I25)	10	12 622	2,8
Other natural causes	...	198 278	44,4
Non-natural causes		51 164	11,5
All causes		**446 544**	**100,0**

* Including deaths due to MDR-TB and XDR-TB
... Category not in top ten
Source: Redrawn from Table 4.5

Perhaps more tellingly, more people (51 164) died in South Africa in 2017 from non-natural causes than are projected to die from Covid-19 in 2020.

What are the implications of these statistics for how we view the Covid-19 pandemic? Three present themselves.

First, because of its immediacy and its propensity to crowd out other priorities – or at best to colour our frames of reference – Covid-19 has caused us to lose perspective on various fronts. One main front is the burden of disease. In a country in which many thousands of people die each year from treatable diseases like TB and Type 2 diabetes, an exclusive focus on the mortal impact of Covid-19, while understandable, is misplaced.

A recent World Health Organisation (WHO) Information Note cites modelling that predicts that a global reduction of 25% in expected TB detection for three months, because of a focus on Covid-19 testing would issue in a 13% increase in TB deaths – returning the world to TB mortality levels of five years ago.

"Between 2020 and 2025 an additional 1.4m TB deaths could be registered as a direct consequence of the Covid-19 pandemic," according to the Information Note.

Given this play-off, the WHO urges health systems to ensure that TB prevention and care continue without any interruption. As past epidemics like influenza and Ebola have shown, the reassignment of personnel and hospital in-patient facilities for patients with serious respiratory complications that accompanies emergency outbreaks of such diseases has compromised TB care. South Africa is no different: a recent NICD report reveals that there has been a large decline in TB testing since the first lockdown was instituted – from an average of 47 520 TB tests per week before lockdown, to an average of 24,574 tests per week during the lockdown – a 48% reduction.

A total of 21 439 people (Table 1) died from underlying HIV disease in South Africa in 2017 (though the number may be considerably higher, as it is estimated by scientists [South African National Burden of Disease Study team] that 93% of Aids deaths in the country are misattributed to other causes). But in a country in which HIV and TB intersect (around 301 000 people developed TB in 2019, nearly 60% of whom were also HIV-infected – Newman, 2020), a higher proportion of the population than might otherwise be the case may manifest with severe symptoms if they contract Covid-19.

Second, while comparing Covid-19 with TB is instructive, comparing it with other diseases broadens our perspective even further. Covid-19 has arrived amidst a "pandemic" we have been living with for some 40 years (Newman, 2020 – though the WHO now classifies HIV as

an epidemic) – at the epicentre of which is South Africa. According to the WHO, more than 32m people worldwide have died of HIV since the early 1980s, and at the end of 2018 about 37.9m people were living with HIV – albeit that the majority of them have been kept alive by antiretroviral therapy.

The last 700 years have witnessed a number of other pandemics (Newman, 2020): the Black Death, which in the 14th century killed 75m to 200m people – and possibly (according to Spyrou, Tukhbatova et al., 2016) half of the entire population of Europe; cholera, which over the past 200 years has reached pandemic proportions seven times and has killed thousands of people; the 1918 Spanish Flu, which infected around 500m people (about one in three people on earth) and killed around 50m people worldwide; and severe acute respiratory syndrome (SARS), which infected an estimated 8 000 people (LeDuc & Barry, 2004) in 29 countries and had a mortality rate of about 10% – at this stage higher than that of Covid-19 (Newman, 2020).

And third, the sudden arrival and the swift and ubiquitous spread of Covid-19 has not only focused the mind, but has fixated it on the present moment. Covid-19 colours our vision to the point of framing how we see everything, from events on the world stage to – in the context of lockdown – the most banal everyday events at home.

The loss of perspective the pandemic produces is not confined to the sphere of health, therefore. We are locked in a time warp in which the "distortion of space-time" (Collins English Dictionary) alters our perception of history. While millions have died over the last 700 years from pandemics, millions have also died from – and many more millions have suffered the repercussions of – natural disasters. There is not the space to enumerate these deaths and losses here; but in South Africa, in just short of a 40-year period (1980-2016), there were 89 declared natural disasters (Van Niekerk, Wentink & Shoroma, 2018) killing 2 022 people but affecting more than 21m.

And in the bigger scheme of things – the kind of historical sweep taken by historians Ian Morris in Why the West rules – for now (2010) and Yuval Noah Harari in Sapiens (2011) – Covid-19 is but a moment in time. This is cold comfort for those living in the midst of a pandemic from which many thousands have died and many more have suffered – and the full trajectory and end-point of which we cannot know. But it does appear that, as for Wordsworth (in The World is Too Much With Us) lamenting the materialism of his age and the lack of synchronicity with nature which it spawned, "For this, for everything, we are out of tune."