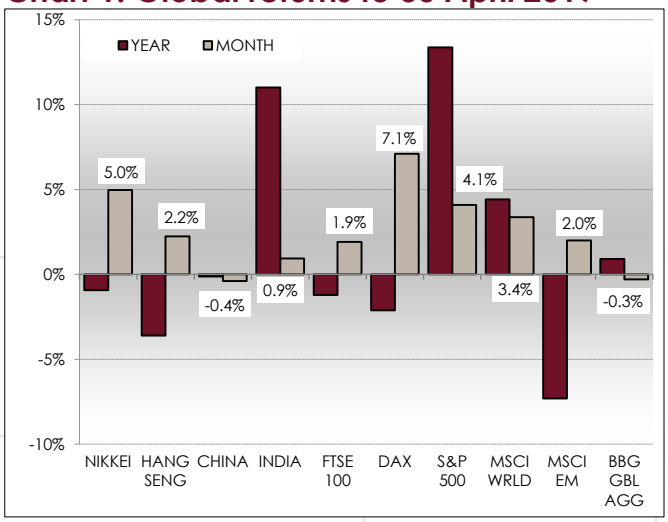
April in perspective – global markets

Within the Maestro office and investment team, we often speak of "the pain trade", by which we mean, at least in this case, that as global equity markets slowly grind their way to record levels, most investors remain on the sidelines, convincing themselves of their reasons for not investing in equity markets.

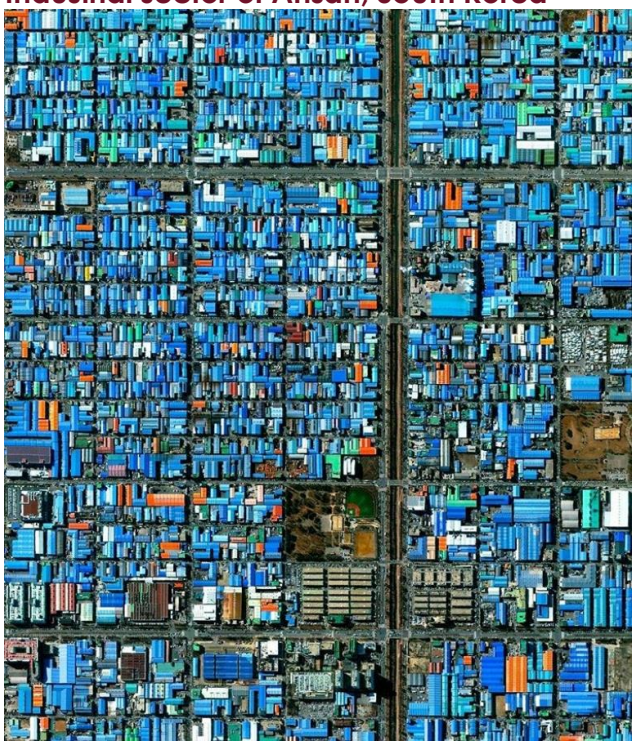
Chart 1: Global returns to 30 April 2019



April proved to be another painful month for investors sitting on the sidelines; many markets posted record highs or, at the very least, are up strongly so far this year. By way of example – and remember these are un-annualized returns – the MSCI World index has risen 15.7% so far this year, the Swiss market 15.9%, the German market 16.9%, the US 18.3% and China 23.4%. In contrast, the global bond market has only risen 1.9% over the same period. These are remarkable returns indeed, even though the base off which they are being measured (end-December) is low. Virtually no major equity market has registered a decline so far this year.

Yet the impression we have, and shared by other commentators, is that many retail and institutional investors remain on the sidelines, earning next to nothing on their cash balances. This pain trade is proving to be very expensive for those who haven't had a full equity weighting.

Industrial sector of Ansan, South Korea



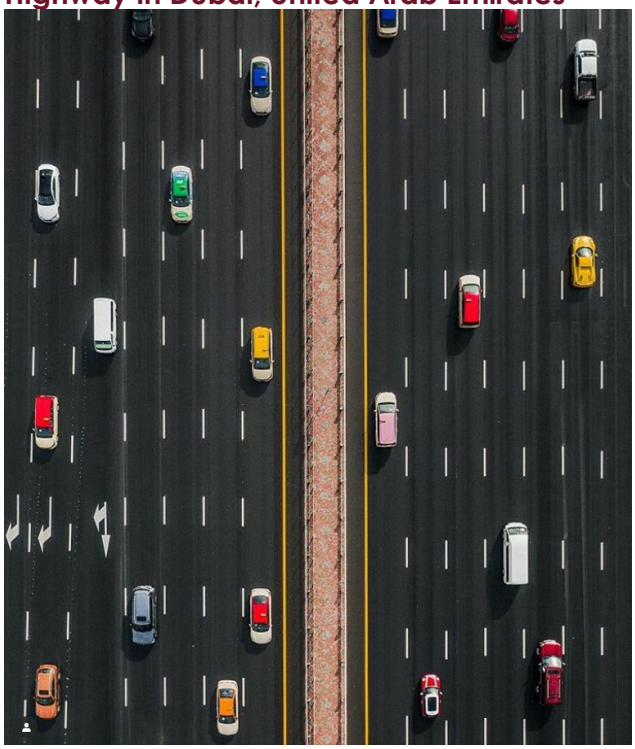
Instagram handle: @dailyoverview

Turning to the specific April returns, despite its large (23.4%) year-to-date return, the Chinese equity market actually declined 0.4% in April. The Indian equity market only rose 0.9% and Brazil 1.0%, but the Russian market rose 4.2%, supported as it always is by the strong (6.9%) rise in the oil price. The culmination of these movements was a 2.0% rise in the MSCI Emerging Market index, significantly lower than the 3.4% rise in the MSCI World index, demonstrating the ongoing outperformance of developed markets over emerging ones. The year-to-date return for the MSCI World index is 15.7% and that of the Emerging index 11.8%, while their respective annual returns to end-April are 4.4% and -7.3%. Returning to the April returns, the German market rose 7.1%, the US market 4.1%, and Hong Kong

2.2%. The tech-heavy NASDAQ market rose 4.7%, bringing its year-to-date return to 22.0%.

The trade-weighted dollar was marginally (0.2%) firmer, and commodity prices recorded mixed performances. As noted, the oil price was strong. The platinum, palladium, and iron ore prices rose in excess of 6.0%, but industrial metals (copper, nickel and aluminium) were weak.

Highway in Dubai, United Arab Emirates



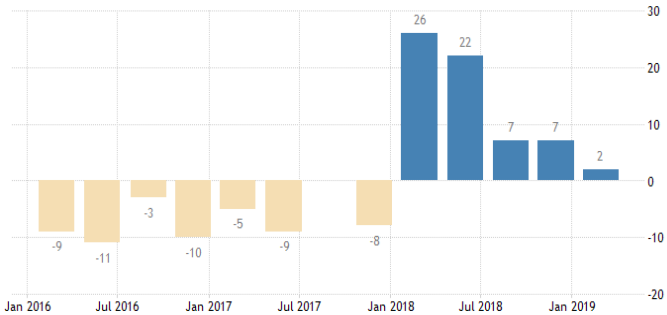
Instagram handle: @abstractaerialart

What's on our radar screen?

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

- *The SA economy:* Consumer confidence in South Africa continued to decline during the first quarter of 2019 (Q1) - refer to Chart 2 – from a level of 7 to only 2; proof that the *Ramaphoria*, the euphoria which accompanied the election of President Ramaphosa in December 2017, has now all but dissipated.

Chart 2: South African consumer confidence

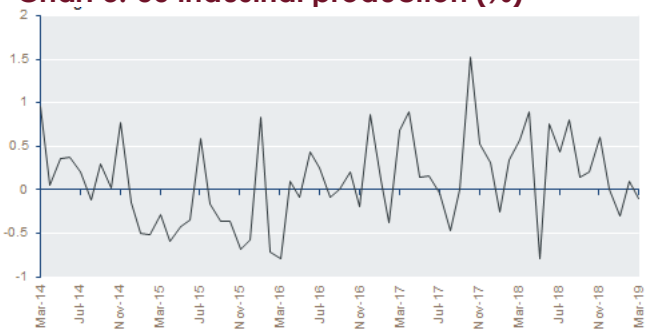


Source: Tradingeconomics.com

SA Producer price inflation (PPI) rose 1.3% in March, significantly higher than February's 0.3%, reflecting the enormous increase in structural prices, such as fuel, and of course the implicit cost of State failures such as load shedding. The annual increase in produce prices rose from 4.7% to 6.2%.

- *The US economy*: Industrial production declined 0.1% month-on-month in March, missing the expectation for a rise of 0.2%. February's data was revised upwardly to a gain of 0.1% - refer to Chart 3, which shows the declining trend that has been place since November 2017.

Chart 3: US industrial production (%)



Source: EFG

Despite weak readings from certain economic indicators – April manufacturing (ISM) Purchasing Managers Index (PMI) declined from 55.3 to 52.8 for example – the US economy grew at an annualized rate of

3.2% during the first quarter of 2019 (Q1), higher than expected, and higher than the 2019 December (Q4) quarter's 2.2% growth rate. However, the high growth rate belies the real growth on the ground. Much of the boost to growth came from a jump in government spending, weaker imports, and a build-up in inventories. Growth in consumer spending, for example, slowed from 2.5% in Q4 (2.9% in Q3) to only 1.2% in Q1. Final consumption, being consumer plus investment spending, rose only 1.3%, while the growth rate of business fixed investment declined from 5.4% in Q4 (6.9% in Q3) to only 2.7% in Q1.

- *Developed economies*: In Germany, preliminary estimates for the Services PMI rose to 55.6 in April, from 55.4 in March, helping to offset the negative effect from a contracting manufacturing sector. The Manufacturing PMI declined for the fourth consecutive month to 44.5 in April, but slightly above the 44.1 recorded in March. In France the Manufacturing PMI remained unchanged at 49.6, still in contraction territory, while the Services PMI returned to growth levels, rising from 49.1 to 50.5 in April. Overall in the Eurozone, weaker demand drove the Services PMI index lower, from 53.3 to 52.5 in April, although it is still in growth territory. Preliminary estimates showed the manufacturing sector continued to contract, with the PMI index at 47.8. In Canada, the Bank of Canada (BoC) retained its policy rate at 1.75% but removed its bias for a further interest rate increase this year. It also lowered its expected 2019 growth rate for the economy to 1.2%. In Australia, inflation continue to decline. Q1 inflation slowed from 1.8% to 1.3% due to lower fuel prices and a lack of wage pressure. This outcome resulted in the Australian dollar declining (it fell 0.9% against the US dollar during April, and is down 6.8% over the past year) on expectations that the Reserve Bank of Australia (RBA) would to cut interest rates soon.

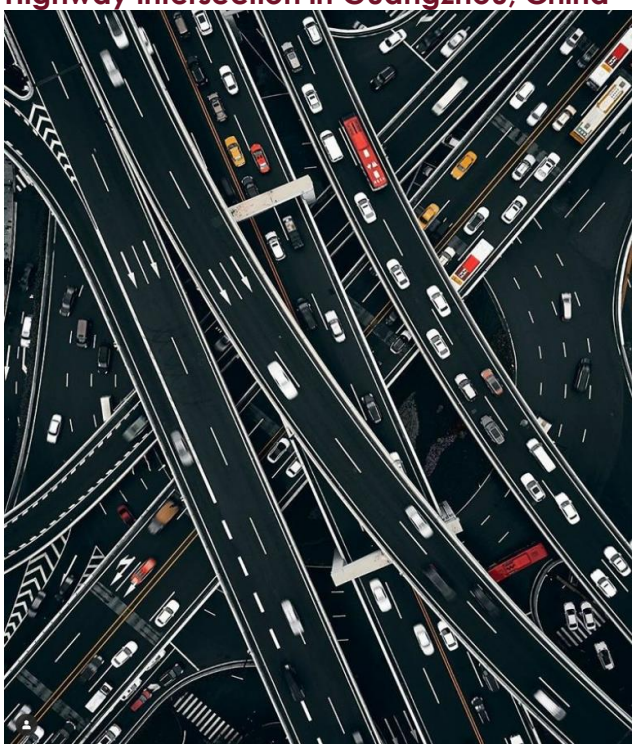
Boca Raton, Florida, USA

Instagram handle: @twenty4sevendrones

- *Emerging economies*: The Chinese economy grew at an annualized rate of 6.4% during the first quarter, marginally better than expectations. March Industrial production rose 8.5% to its highest level since 2014, and fixed asset investment rose 6.3%. Official unemployment across China declined by 0.1% to 5.2%. In contrast to the strong Chinese growth, the South Korean economy contracted by 0.3% quarter-on-quarter during Q1, from 1.0% in Q4, reducing its annual growth rate to 1.8%, from 3.0% in Q4. The Bank of Korea (BoK)

also revised its expected growth rate and inflation for 2019. Turkey was in the news again for all the wrong reasons. Their foreign currency reserves declined sharply, increasing concerns about the country's financial strength and lending support to the suspicion that it had been supporting the lira in the open market. The lira declined 5.4% against the dollar, and has lost 31.9% during the course of the past year. Interest rates in Turkey are now around 24%, higher than the prevailing inflation rate of 19.5%. Their foreign exchange reserves now total $28.1bn, which many fear is insufficient to cover their dollar debt and foreign trade obligations.

Highway intersection in Guangzhou, China

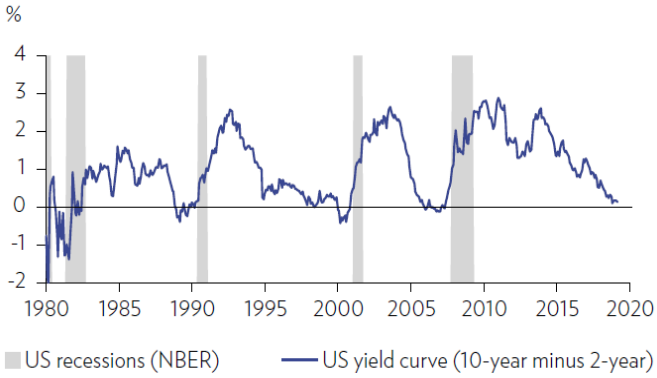


Instagram handle: @blowithand

Chart of the month

One of the reasons equity markets declined so sharply in December last year was the fact that a reliable indicator, known in the industry as the yield curve, approached a level which has in the past been an uncomfortably accurate indicator of an ensuing recession. The chart is derived by subtracting the interest rate on the US 10-year government bond from the rate on the 2-year bond, thus subtracting short-term interest rates from long-term ones. As soon as the 2-year rate rises above the 10-year one, the yield curve becomes negative, or in investment parlance, it inverts. The "inverted yield curve" has come to be a swearword for any seasoned investor, given how accurately the yield curve has predicated US recessions in the past. A long-term history of the "dreaded" yield curve is shown in Chart 4, together with past US recessions. Note that every time the yield curve has inverted i.e. moved into negative territory, a US recession has eventually ensued. This is not the place to expound on the economics underlying the reasons why the yield curve is so accurate and so revered in investors' minds. Suffice is to say that it is a carefully watched and highly respected indicator.

Chart 4: US Yield Curve - watch closely now



Source: Julius Baer

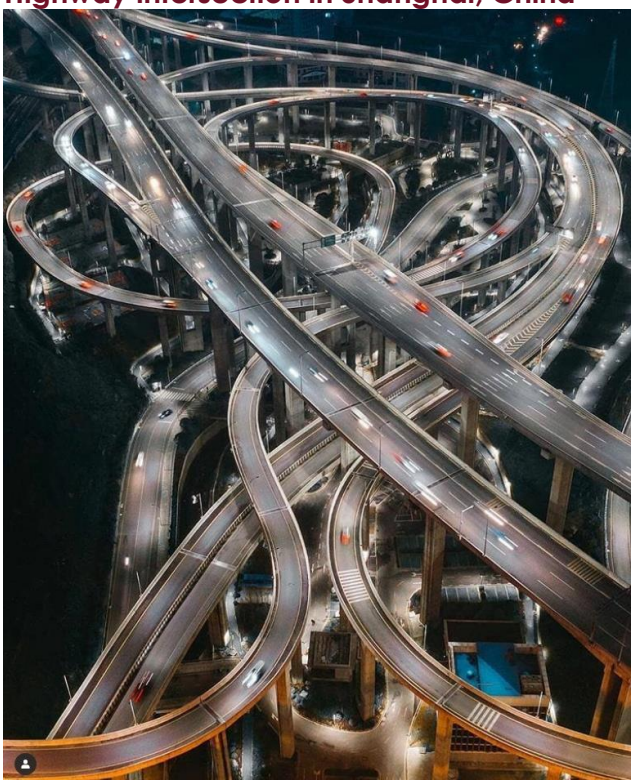
"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

The "problem" with markets in December was that numerous other indicators seemed to reflect a robust US economy, supported by record increases in US corporate profitability. We also had the US Federal Reserve initially promising to stay on "auto-pilot", implying further increases in interest rates, hardly prescribed medicine for a slowing economy – assuming the economy was slowing, as implied by the yield curve.

Acknowledging fully that hindsight is a perfect science, markets have recovered so far this year, and the initial reading on the US economy showed that it grew at an annualized rate of 3.2% during the first quarter - hardly recessionary stuff. Yield curve missionaries will correctly point out that recessions only occur up to two years after the curve has inverted, but most market participants struggle to see the US heading into a recession in the foreseeable future. While bond markets have been a bit more circumspect, equity markets have ground higher to record levels, showing scant regard for the wafer-thin difference between the 10- and 2-year yield, currently 20 basis points (0.2%) but having got down to as low as only 8 basis points (0.08%) in recent months.

So should we write off or ignore the yield curve? Absolutely not, although we do think that after the Great Financial Crisis of 2007/9 bond rates have been significantly distorted by central bank activity such as Quantitative Easing (QE). That said, we will continue to keep a wary eye on the yield curve and the message it sends out. We might be looking at an entirely different global economy in 18 to 24 months' time, when we will again reflect on the value and accuracy of the yield curve at that stage. Watch this space …

Highway intersection in Shanghai, China



Instagram handle: @igchina

Mystery company – which one is it?

Many of our clients struggle to relate to our investment activities, complaining that "they don't understand what we do". On the other hand, many clients have a keen understanding, and follow our every action on their portfolios. We occupy an intimidating world, and it is easy to get lost in the plethora of data, jargon, information, and dare I say it, more than a fair share of the proverbial "BS". So I thought we should have some fun and explain our activities in a different way. I am not trying to make investment analysts out of all or any of you, but rather share with you details of the companies into which we invest your capital, in an unusual and hopefully interesting way.

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

We have long admired this company. It recently reported results, and I will share some of the features of the latter with you. This company noted, amongst other things (some of which are more important than those listed below) the following – see if you can guess the company, and where it is listed.

- Net operating profits rose 77.1% for the year to end-March 2019
- Operating profit attributable to shareholders rose 21.0%
- The Group has filed 15 316 patents so far, up 3 265 since the beginning of this year
- The Group has won global recognition in many areas, including "healthtech" i.e. the application of technology in the healthcare space. It won three "World No.1's" in the competitions of Automatic Cancer Detection and Classification in Whole-slide Lung Histopathology, Endoscopic Artefact Detection, and Pathologic Myopia Challenge among the nine competitions at the IEEE International Symposium on Biomedical Imaging
- The Group's Property and Casualty operation assess losses within seconds using Artificial Intelligence(AI)-based image recognition, and settles claims online via facial recognition
- The Group's Good Doctor division was listed in May 2018
- Autohome, one of its US-listed subsidiaries, has a market cap (size) of $13.7bn
- Its OneConnect fintech cloud platform, servicing the Asian market, has provided fintech services to 590 banks, 77 insurers, and 2 634 other non-bank financial institutions. During the first quarter of 2019 alone, the risk management products on OneConnect's platforms were used 326m times (no, that's not a typo, that's 326 million times)
- The company is rolling out its "Smart City Business" in the country's larger cities, and is starting to deploy the initiative into surrounding countries as well.

Apartment block, Shanghai, China

Instagram handle: @shanghaicomune

Can you guess which company I am referring to? I will give you a clue – it has long been one of the core holdings in our global portfolios. Still not sure? The following further features should give the company's identity away:

- The company boasts 561m internet users
- During the first quarter of 2019, it secured 11m new customers, 31.3% of whom were secured via the internet, bringing its total number of retail customers to 191m
- It's banking operation alone has 87.0m customers

- The Group's has 1.31m life insurance sales agents, and has an objective of increasing this to 2.0m by 2020
- The Company's insurance portfolio is $426.7bn in size
- During the first three months of 2019 the company generated an operating profit of $5.0bn

By now you must have realized this is a Chinese company. Judging by the size and scale of its operations, is a very large company. Yet I wonder how many Westerners have even heard of it.

The company is **Ping An**, or to use its formal name "Ping An Insurance (Group) Company of China, Ltd". Ping An has long been one of our core holdings, and has delivered a 22.2% return during the past year, and 36.6% so far this year. It has a market cap (size) of $230bn (HKD1.79tn) and its recent price history is shown in the chart below.

Chart 5: Ping An share price history (HKD)

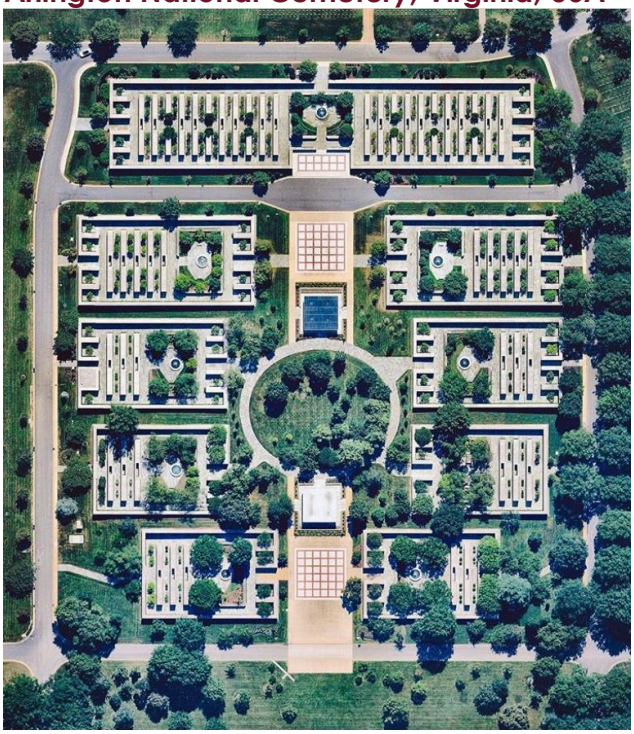
Source: Saxo Bank

Quotes to chew on

Market melt-up – according to Fink

When the Chief Executive Officer (CEO) of BlackRock, the world's largest asset manager with $6.5tn under management, speaks, we think it is worth listening. Over and above that, we enjoy Larry Fink's utterances, as they usually prove to be correct over time. Besides, given his unique position and the insight it affords into the global investment industry, one can do worse than to listen to his comments and market views.

Arlington National Cemetery, Virginia, USA



Instagram handle: @dailyoverview

According to Fink, "global equity markets are poised for a 'melt-up'" as signs of healthier economic growth in the US and China reassure investors that have largely stayed on the side-lines of the 2019 market recovery. Fink said he is optimistic that a Goldilocks scenario of improving economic data and more dovish central banks will compel institutional investors, which have kept exiting equity markets this year, to reverse course. The 2019 stock market rally has been dubbed the 'flowless recovery'. Equity funds continue to suffer outflows, even as the MSCI World index has risen 15.7% so far this year, its best start to a year since 1998. "There's too much global pessimism," Mr Fink said. "People are still

very underinvested. There's still a lot of money on the side-lines, and I think you'll see investors put money back into equities." Bond funds have attracted $112bn of inflows so far this year, but equity funds have suffered almost $90bn of investor withdrawals. During the first quarter of 2019, BlackRock attracted inflows of $65bn.

Port of Los Angeles, USA

Instagram handle: @dailyoverview

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.

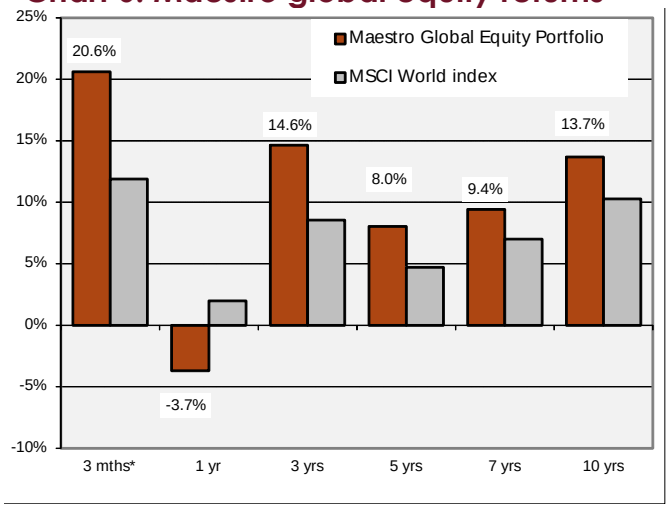
Table 1: The returns of funds in Maestro's care

	Period ended	Month	Year to date	Year
Maestro Equity Prescient Fund	**Apr**	**4.1%**	**10.3%**	**0.3%**
JSE All Share Index	*Apr*	*4.2%*	*12.5%*	*3.9%*
Maestro Growth Fund	**Apr**	**3.7%**	**12.1%**	**7.7%**
Fund Benchmark	*Apr*	*2.9%*	*9.6%*	*6.1%*
Maestro Balanced Fund	**Apr**	**2.6%**	**7.8%**	**3.2%**
Fund Benchmark	*Apr*	*2.5%*	*8.6%*	*6.5%*
Maestro Cautious Fund	**Apr**	**-0.5%**	**0.0%**	**2.0%**
Fund Benchmark	*Apr*	*1.8%*	*6.0%*	*5.8%*
Central Park Global Balanced Fund ($)	**Mar**	**1.9%**	**15.9%**	**-5.2%**
*Benchmark**	*Mar*	*1.1%*	*8.0%*	*1.3%*
*Sector average **	*Mar*	*0.7%*	*7.2%*	*0.4%*
Maestro Global Balanced Fund	**Apr**	**4.1%**	**24.3%**	**15.2%**
*Benchmark**	*Apr*	*1.3%*	*9.7%*	*18.6%*

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

You would be aware by now that global markets have been "on the charge" so far this year. I thought it would be appropriate, while we are considering returns, to show you the returns Maestro has achieved on its global equity portfolios. Most of our portfolios are similar, other than we hold specific shares to accommodate client preferences, but that hardly accounts for 5% of the total portfolio i.e. there is at least a 95% overlap across all our global equity portfolios. Where we have full discretion, our global equity portfolios are identical. The returns shown below are those of the equity component of our offshore unit trust, Central Park Global Balanced Fund. The Fund's equity portfolio is run along the same lines as our segregated portfolios, so the data below is an accurate reflection of the returns achieved on all our global portfolios. The returns shown are for periods to 31 March 2019.

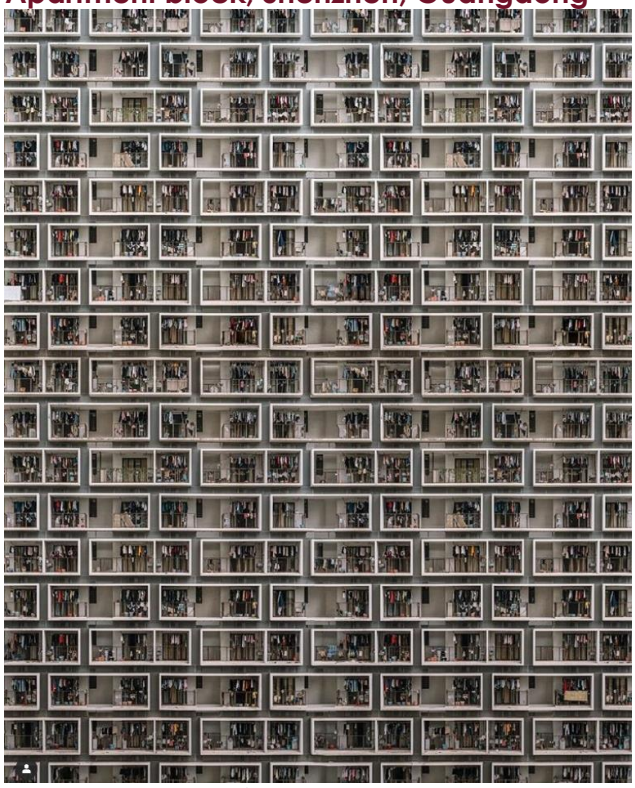
Chart 6: Maestro global equity returns



The final quarter of 2018 was a torrid time for global markets; the MSCI World index declined 13.7%, while our global equity portfolios fell 15.8%, so we were not that far behind the market. Our portfolios underperformed the global equity market between July and October though. Our third quarter return was -6.6% whereas the MSCI World index rose 4.5%. We know why we underperformed, but we stuck to our views and we have just about made up all of that "lost ground" so far this year. The returns in Chart 6 are to end-March, but I can report that April proved to be another rewarding month for our clients. Portfolios under our management rose more than 5.0% whereas the MSCI World index rose "only" 3.4%.

I have gone into detail here in order to explain why our 3-month return looks so good yet the 1-year return is below the market. However, taking a longer-term view, you can see that Maestro's portfolios have consistently outperformed world markets over all periods longer than a year. We are looking forward to soon being in a position to post a 15-year return, which will hopefully show that even over this period, we have comfortably outperformed global equity markets.

Apartment block, Shenzhen, Guangdong

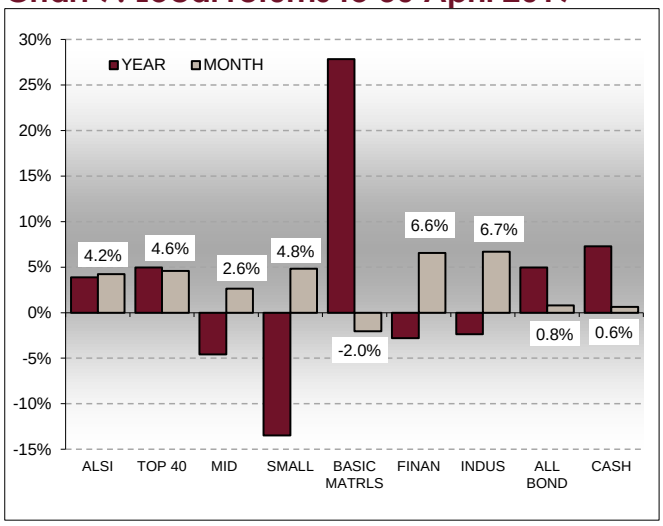


Instagram handle: @trystane

April in perspective – local markets

Turning to local markets, the equity market posted strong gains, while the All Bond index gained only 0.8%, bringing its year-to-date return to 4.6%. The All Share index rose 4.2% (its year-to-date gain is 12.5%), boosted by the Industrial index's 6.7% gain (year-to-date gain of 14.6%), and the Financial index's 6.6% (6.1% year-to-date), while the Basic Materials index lost 2.1% (15.6% year-to-date). The All Gold index lost 7.6%. Small caps were relatively firm, rising 4.8%, as were large caps, up 4.6%, but mid caps lagged, rising only 2.6%. The rand was relatively weak during the first part of the month, but recovered its composure to end 0.6% higher against the dollar.

Chart 7: Local returns to 30 April 2019



File 13 – Information almost worth knowing

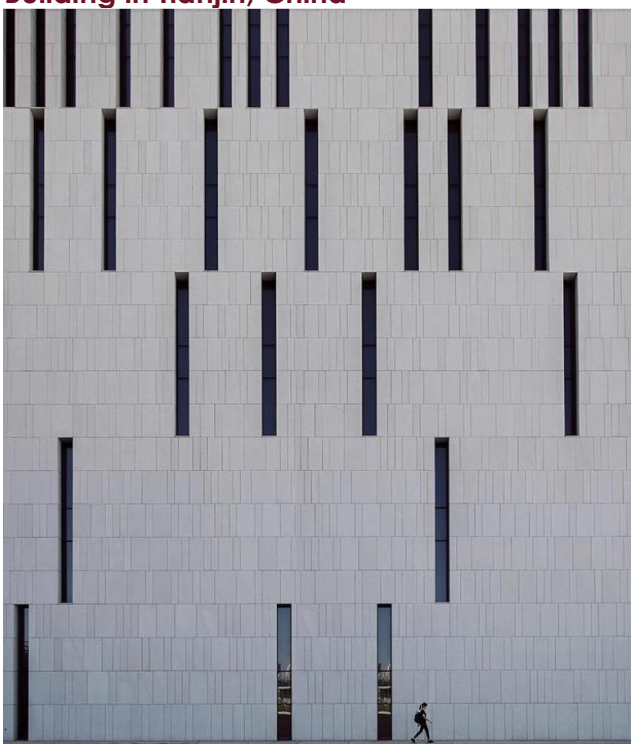
5G – a revolution on the horizon

Many of you have heard of 5G, the new generation of telecommunications network being rolled out across various geographies. It is of interest to us as investment professionals due to the number of investment opportunities that it will spawn. We are already invested in a few companies benefitting from the activities surrounding the "5G journey" so far. We are eagerly awaiting an acceleration of the rollout, and being able to exploit more opportunities for our clients.

The Chinese telecoms equipment giant Huawei has been in the news a lot lately in connection with providing equipment to various countries rolling out 5G networks. Our understanding of the state of play is that, while many countries have concerns about the security threats posed by Huawei and its perceived proximity to the Chinese government, Huawei is far more advanced in terms of 5G technology than any other equipment supplier in the world. Thus, while governments debate about the extent to which Huawei will be involved in their respective roll-outs, the reality is that unless they involve Huawei and use their equipment, they will not be able to extract the full technological benefits of 5G and will literally start off at a disadvantage from the outset – that is why the "Huawei issue" is so topical.

I may summarize some of the characteristics and advantages of 5G in another edition of *Intermezzo*, but suffice for now is to say that they are substantial. They are literally almost hard to believe.

Building in Tianjin, China



While it will come at a huge cost to governments and operators, 5G's advantages lie, inter alia, in aspects such as the speed and cost of data, as well as the latency, being the "lag" in the download of data, which of course relates back to the speed of data being transmitted on the network. The International Telecommunication Union, the United Nations agency overseeing development of the "IMT 2020" global standard

for 5G, said the new wireless technology would support 1m connected devices per square kilometre, 1 millisecond latency (representing the nearly instant time a packet of data takes to get from one point to another), greater efficiency in terms of power and use of radio spectrum, and a peak data download rate of up to 20 gigabits per second.

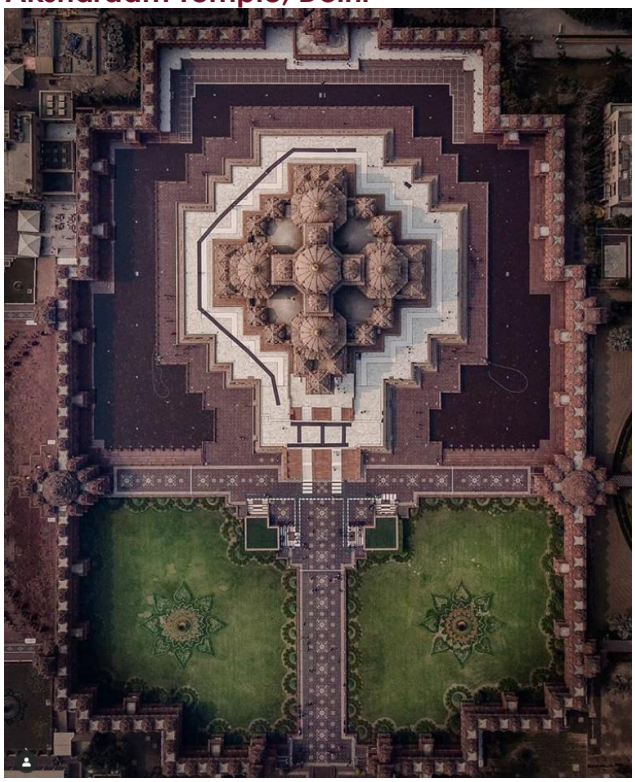
Lest you think this is all "pie in the sky" and theoretical, don't be fooled. 5G is being rolled out in certain parts of China and is a reality for many people already (though again, mainly in China). To give you one example, I recently read that in March, China conducted its first remote surgery using robots with the support of a 5G network deployed by telecoms operator China Mobile and supplied by Huawei Technologies. During the three-hour procedure, a surgeon implanted a neurostimulator device into the brain of a Parkinson's disease patient in Beijing with the aid of robotic arms, which were remotely controlled from about 3 000km away.

Remote surgeries are but one of thousands of applications of the benefits of 5G. In Hangzhou, capital of eastern China's Zhejiang province and one of the country's major technology hubs, evidence of the city's smart infrastructure can be seen in how its public services function. Police officers are notified of major car accidents soon after they happen, traffic lights automatically adjust to changes in the volume of vehicles on the road, and in emergencies, fire trucks and ambulances are not stopped by a single red light until they arrive at the scene. Those advances are enabled by Hangzhou's City Brain project, a cloud computing and artificial intelligence-driven urban traffic-management system. It covers a total area of 420 square kilometres – that's an area seven times the size of New York's Manhattan Island.

The "Internet of Things (IoT)" market alone is forecast to be some $1tn by 2022. It is fair to say that 5G will herald in another global revolution across virtually every walk of life – we are already drooling at the mouth thinking of all the investment opportunities it will spawn.

For those who would like to read more about 5G, I can refer you to a very useful and interesting supplement in the South China Morning Post, which you can access by clicking here.

Akshardam Temple, Delhi



Instagram handle: @street.of.india

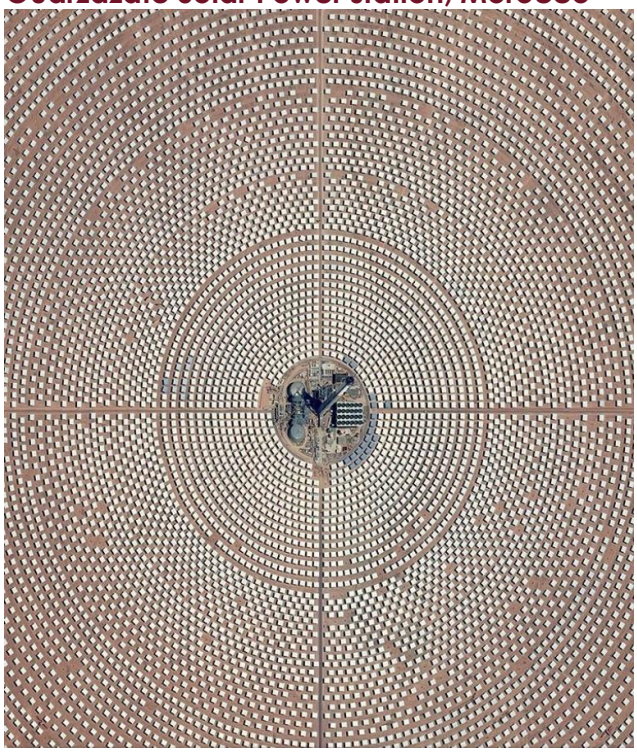
So what's with the pics?

In recent months I have received favourable comment on the Instagram-sourced pictures included in *Intermezzo* - so much so that I wonder if anyone is reading the remaining content. Be that is may, I have again included photographs sourced off Instagram and provided their respective handles, should you be interested in following their creators.

Burning Man Festival, Black Rock Desert, Nevada

Instagram handle: @dailyoverview

Ouarzazate Solar Power station, Morocco



Instagram handle: @ dailyoverview