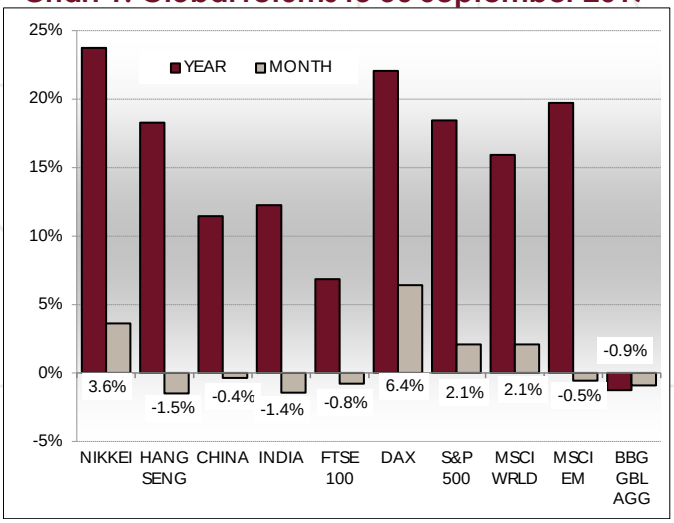
September in perspective – global markets

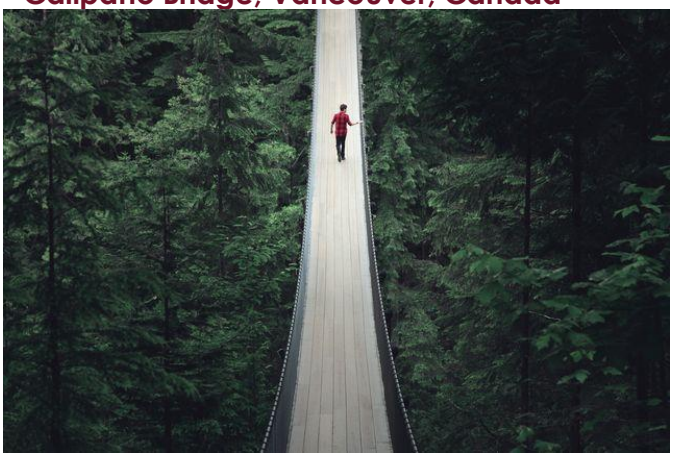
The MSCI World index rose 2.1%, while the MSCI Emerging Market index lost 0.6%. Their year-to-date returns are 14.2% and 25.5% respectively, showing what a profitable year 2017 is proving to be. Notable features on the equity market front were the 3.6% rise in the Japanese market, thanks in part to a weaker yen, and the German market (the Dax), which surged 6.4%, assisted by the 0.6% decline in the euro relative to the dollar. It is worth highlighting the performance of the US (S&P) Mid and Small cap indices, which rose 3.8% and 7.6% respectively. Their gains were fueled by the proposed tax changes in the US – mid and small-sized companies are likely to be major beneficiaries if the proposals come into being, although of course that is a very big "if".

Chart 1: Global returns to 30 September 2017



With the US Federal Reserve (the Fed) signaling their intention to start scaling back the vast quantity of money with which they supported global financial markets since the 2007/9 great financial crisis, together with the expectation of another interest rate increase in December, the dollar firmed against most global currencies and emerging market currencies in particular. Commodity prices were consequently also weaker, although the oil complex was a major exception; the Brent oil price rose 9.0%. The gold price ended the month down 2.2%, despite the war-talk between the US and North Korean leaders. Another consequence of the Fed's utterances last month was an increase in global bond (interest) rates, which of course translates into a decline in prices; the Bloomberg Barclays Global Aggregate Bond index fell 0.9%, although its year-to-date return of 6.3% remains impressive.

Calipano Bridge, Vancouver, Canada



What's on our radar screen?

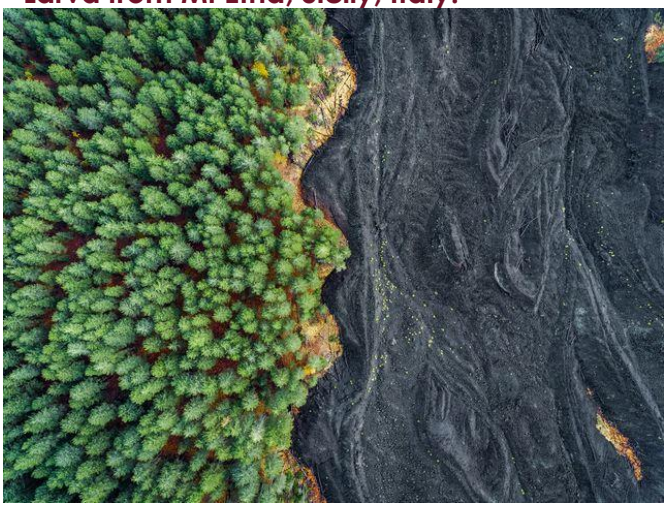
Here are a few items we are keeping an eye on:

- *The SA Economy:* The SA Reserve Bank (SARB) retained interest rates at their prevailing level at their latest meeting, somewhat at odds with market expectations for a 0.25% cut. The SARB cited rising pressure on inflation as the main reason for their decision, although one can't help thinking they are cognizant of the credit ratings agencies' review in November and the ANC elective conference in December, both of which could have a material impact on the rand dollar exchange rate.
- *The US economy*: Second quarter (Q2) US economic growth was revised upwards from 3.0% to 3.1%. All in all, data released during

the month painted a picture of a healthy economy, "chugging along" at an acceptable, if not rapid, rate. This is significant: the economy continues to grow at a decent rate despite none of the much-fêted Trump policies (think tax reform, the abolition of Obamacare, infrastructure spend) having been enacted. It is worth noting that, due to the trio of devastating hurricanes that hit the Caribbean during the month (Harvey, Irma, and Maria), economic data in the coming months will be somewhat distorted, and will make getting a clear picture of the economy just a little bit more difficult. That said, similar to the Eurozone (more on that below), latest readings on manufacturing and non-manufacturing Purchasing Manufacturers' Indices (PMIs) bear testimony to an economy in good shape. The manufacturing PMI, known in the US as the ISM (Institute for Supply Management) index, rose to its highest level since May 2004. The ISM non-manufacturing (i.e. services) index rose by a far greater extent than expected, to the highest level since August 2005. So while the hurricanes may have introduced some "noise" in the US data, there can be little doubt that the global engine that is the US economy is in good shape, with no clear signs of any hiccups (inflation, debt crises, etc) in the offing. This is clearly supporting US and global equity markets, which continued to plod on to record levels during the month.

- *Developed economies*: Towards the end of September the respective Eurozone members' PMIs were released. The data showed that they were at, or close to, record levels, providing proof that the Eurozone economy is also in good shape and retains its growth momentum. The French and German PMIs in particular were very strong. As if to confirm that, the Eurozone economic sentiment index rose to a fresh 10-year high, with both the business climate and industrial confidence components exceeding expectations.
- Emerging markets: The S&P rating agency downgraded **China's** sovereign credit rating for the first time since 1999. It revised its rating on China one notch lower, from AA-/Negative to A+/Stable, citing that the prolonged period of strong credit growth has increased China's economic and financial risks. The change did not come as a big surprise – Moody's downgraded China in May already. Both agencies effectively now have the same rating on China. On the back of the Chinese sovereign downgrade, S&P downgraded Hong Kong too. However, Hong Kong's rating remains three notches above China's. In **Indonesia**, the central bank, Bank Indonesia (BI) cut rates by another 0.25%, to 4.25%. This follows the ongoing decline in inflation there, where the annual rate now stands at 3.8%.

Larva from Mt Etna, Sicily, Italy.



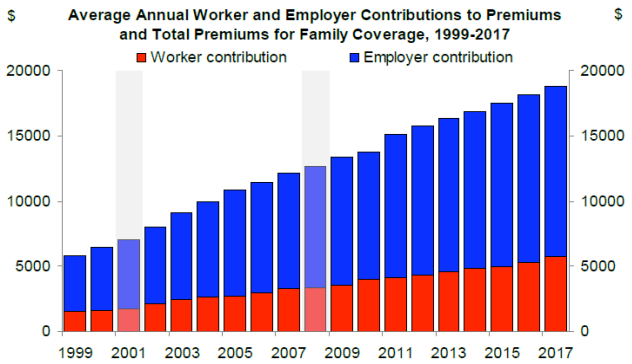
Test your knowledge – the question

Here is a question to test your market knowledge. I will provide the answer at the end of this edition in the File 13 section. If you had invested in the US equity market once it had fully regained its 2007 losses, what would your return have been? In other words, had you invested in the S&P500 only once it reached its October 2007 pre-crash levels (to give you a clue, that was in 2013), what return would you have achieved from then until end-September? A second question: if you invested in UK equities at the peak of the market in 2007 prior to the crash, what would your subsequent dollar return have been?

Charts of the month

I have a mixed bag of charts to share with you this month, so let's dive right in. Starting with the US and President Trump's commitment to remove Obamacare, Chart 2 shows the history of both personal and employer contributions towards annual health insurance premiums. The median household income in the US is $60 000, and the annual household insurance premium is around $6 000, thus 10% of household income. The growth in these premiums has been steady, but not half as dramatic as the increase in the employer contributions – no wonder business warms to the idea of Trump abolishing Obamacare. The question is: will he get it right?

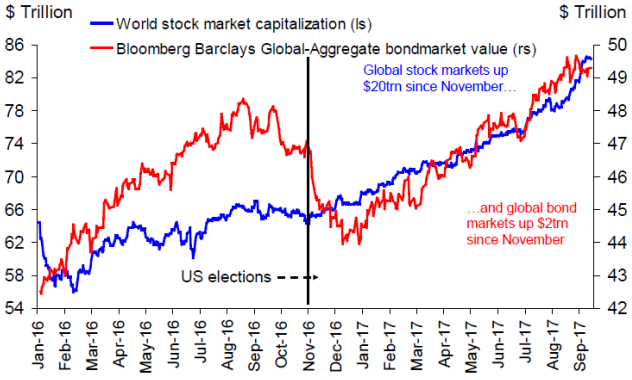
Chart 2: US Health insurance: All is not well



Source: Deutsche Bank

Speaking of Donald Trump, the anniversary of his election is virtually on us – 8 November to be exact. Chart 3 shows how that bond and equity markets have risen by $22trn since his election. Global equity markets have added $20trn in size and bond markets $2trn since 8 November last year. This, despite the fact that the Trump Administration has failed to deliver any notable legislative changes since taking office. The question is: what is driving the equity markets in particular? We will return to this question shortly.

Chart 3: Global markets have risen $22trn



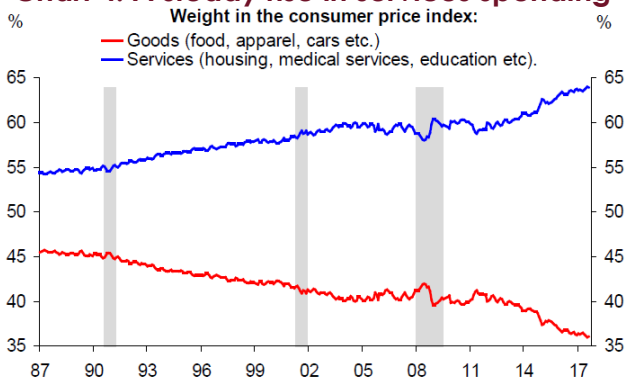
Source: Deutsche Bank

One of the features that the financial world is grappling with at present, and which we have highlighted a number of times in *Intermezzo* before, is the apparent lack of inflation in the developed world. There are numerous views on this important topic, ranging from those who believe that technological changes are in the process of bringing about fundamental changes to the world we live in (Maestro is sympathetic to this view, although we acknowledge it is a multi-faceted and complex issue), to those who believe a significant increase in inflation is just around the corner and we are living in a "false dawn". Without debating the point here, Charts 4 and 5 are rather interesting. Chart 4 shows the weight of goods and services within the "inflation basket" i.e. the proportion of consumer spending

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

on either goods or services. Typically, as economies develop, there is a tendency towards greater spending on services. In addition, the higher the per capita income i.e. the average wealth per person in a country, the greater the weighting towards services. The shaded portions in the charts depict periods of recession in the US.

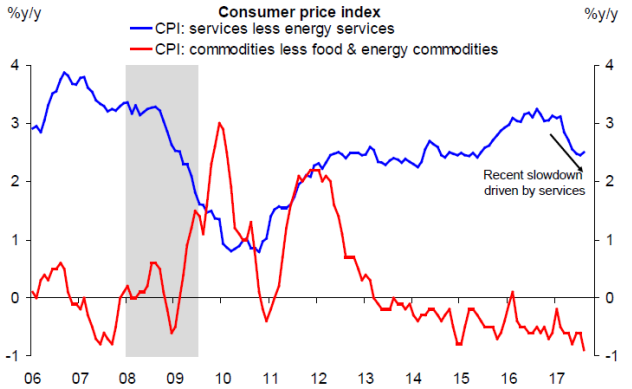
Chart 4: A steady rise in services spending



Source: Deutsche Bank

The largest components in the services category are shelter (think rent), medical care, education, and communication services. The largest components within the goods category are food and beverages, apparel, and new vehicles.

Chart 5: Service inflation higher than for goods



Source: Deutsche Bank

Chart 5 depicts the history of service inflation, excluding energy services, and commodity inflation excluding food and energy commodities. While the downtrend in the latter is clear – in fact prices have been falling since mid-2013, the chart shows that since the beginning of last year, services inflation has actually been declining. Given that it forms such a large part of the inflation basket (refer back to Chart 4), it is understandable that headline consumer inflation has been weak and that prices have not been rising as fast as many had expected.

Due to the enormous (monetary) stimulation that central banks have injected into the global economy, interest rates have remained lower for a lot longer than anyone could have imagined in the aftermath of the 2007/9 Great Financial Crisis. Add to this the fact that there is clear evidence that inflation is neither a current nor imminent problem in most develop economies, and one begins to understand why interest rates across the world have been so low – and seem set to remain low for many months (years?) to come.

Salt flats in California, USA

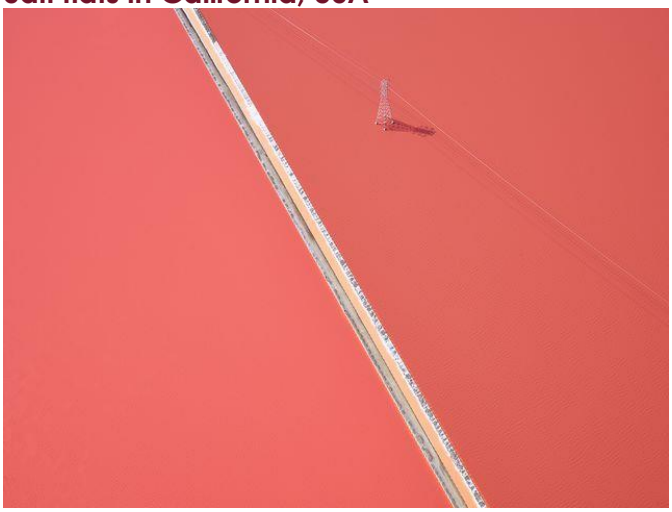
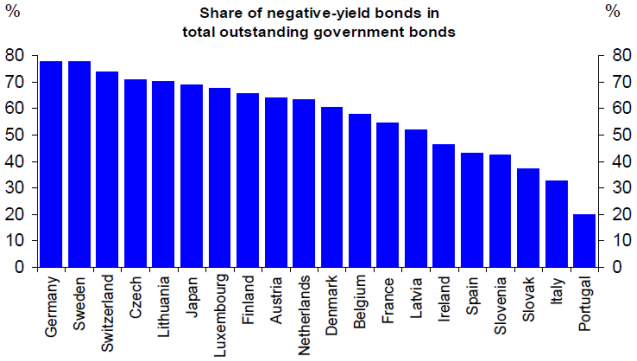


Chart 6 depicts a scenario that no one would have thought conceivable a few years ago. It depicts the percentage of European sovereign bonds that are currently trading in negative yields. Thus, for example, nearly 80% of German and Swedish outstanding bonds i.e. Government

debt, are trading on negative yields (interest rates). That simply means if you want to invest in these bonds i.e. buy German debt, you will have to pay for that privilege. Gone are the days of earning interest on having lent a country money. On nearly 80% of German debt, you will now have to pay Germany for the "privilege" of having lent them your hard-earned money. Even a relatively "emerging" country like Portugal has 20% of its sovereign debt (bonds) now yielding negative rates i.e. you will have to pay them to lend them money. Some $8trn of sovereign debt currently trades at negative yields!

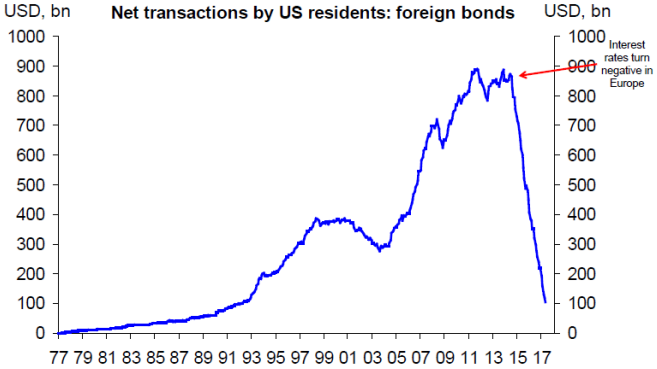
Chart 6: European bonds at negative rates



Source: Deutsche Bank

Given that so much of European sovereign debt trades at negative interest rates, we shouldn't be surprised to see that the appetite for European bonds has fallen off a cliff – refer to Chart 7 in this regard. After all, would you be interested in investing in a 10-year German bond at a rate of 0.3%? In other words, would you lend money to Germany for ten years and only receive 0.3% per year in interest, before receiving your original investment back after ten years? Exactly!

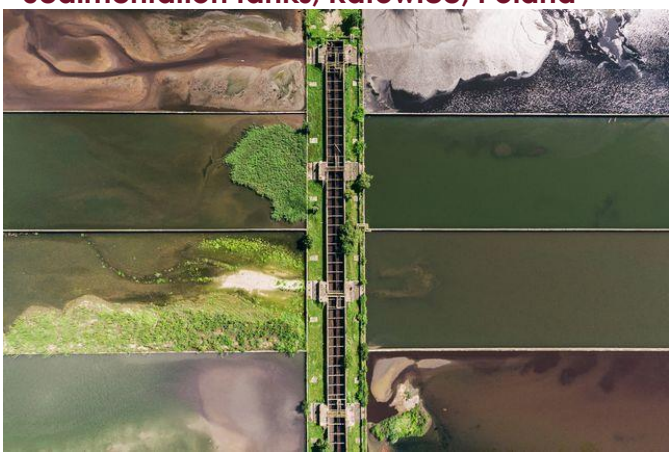
Chart 7: The real fiscal cliff? No US appetite



Source: Deutsche Bank

Having focused for a while on interest rates, let's turn our attention to the global economy for a moment. We have seen that there doesn't appear to be an imminent threat from rapidly rising inflation. Consequently, there doesn't seem to be a major risk of interest rates rising dramatically in the foreseeable future either. What's more, global interest rates are currently at very low absolute levels i.e. money is cheap. Surely these conditions are ideal for an economy – in this case the global economy? We think the answer to that question is an emphatic "yes". We are consequently not surprised to see global equity markets grind higher, slowly but very surely.

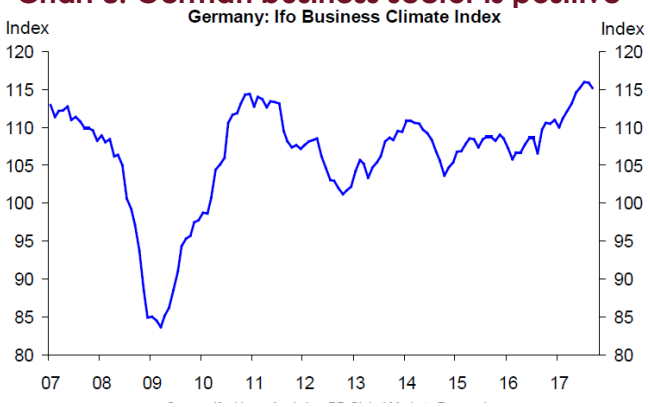
Sedimentation tanks, Katowice, Poland



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

We know that the US economy is growing at a steady pace. So, too, is China, where growth may even accelerate to above 6.5% for the remainder of this year. That said, Europe has now joined the party, resulting in synchronized global economic growth for the first time in many years. Chart 8 show the German IFO Business Climate index – it recently reached an all-time high, having been ticking up nicely since early 2016. This index hardly depicts a picture of economic malaise and lethargy. On the contrary, the business sector is positive about the future.

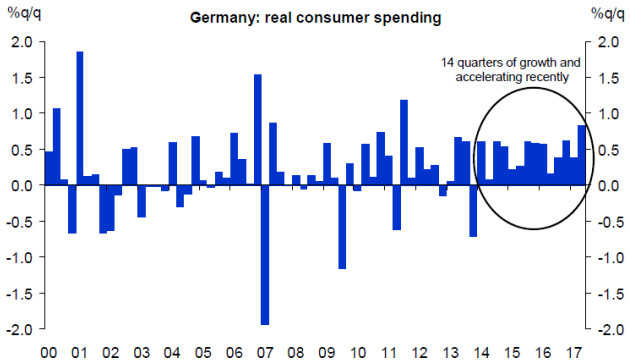
Chart 8: German business sector is positive



Source: Deutsche Bank

Not only is the German business sector positive, but German consumers are positive, too. Chart 9 shows they have been increasing their spending for 14 consecutive quarters.

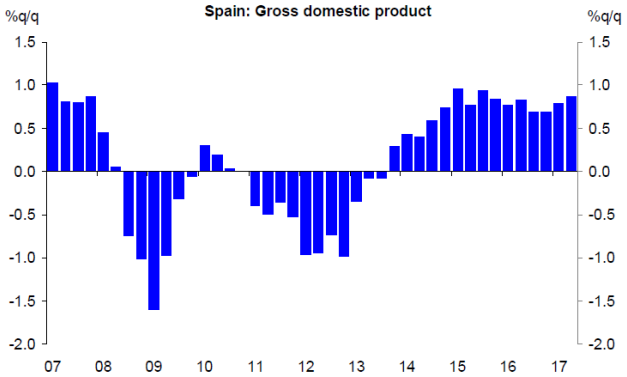
Chart 9: German consumers are spending



Source: Deutsche Bank

The point I would make here is that we are not witnessing the start of an economic upturn: this recovery, as we see from these specific charts on Germany (other European countries show a similar trend), has been in place for some time, and has significant momentum.

Chart 10: Spain, too, is growing strongly…



Source: Deutsche Bank

Given all that is happening in Spain at present, you would be interested to see that even there, the economic activity has considerable momentum. Italy, which always seems to be stuck in the doldrums, has been growing at a healthy rate for some time, too.

Chart 11: … As is Italy

Source: Deutsche Bank

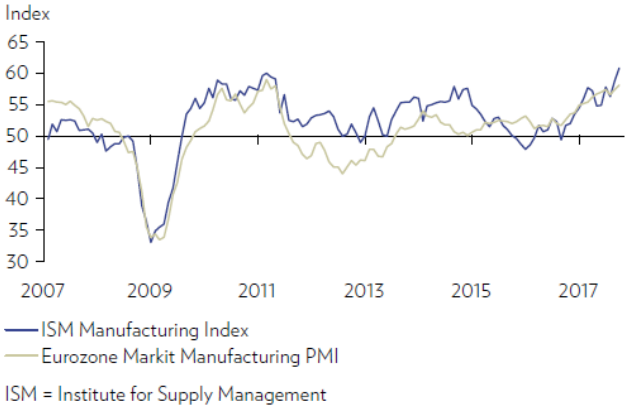
"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

Let me summarize these few charts by sharing our view on the global economy: there is sufficient economic momentum in the global economy to continue providing a favourable backdrop for corporates to operate very profitably. Chart 12 shows the history of European and US Purchasing Manufacturers Indices (PMIs), from which the recent acceleration in growth is apparent. We don't believe inflation is on the verge of a sharp increase; rather, we think it will remain subdued for a while. Consequently, although we expect them to rise slowly and in a controlled fashion, we envisage an environment that will be characterized by low interest rates for some time to come, which in turn is supportive for corporate profitability and hence equity markets.

Sand dunes in Namibia

In conclusion, we are relatively comfortable about the current state of global equity markets, and do not share the current popular view that markets are on the verge of a collapse. There are most certainly risks inherent in markets at present – there always are – and we will be the first to admit that, in historic terms, they are not cheap. However, all things considered, we remain of the view that global equity markets are likely to provide reasonable returns for some time to come. Consequently, they remain our asset class of choice, over bonds and cash.

Chart 12: US and EU growth now in sync



Source: Julius Bär

Quotes to chew on

The beginning of the end …

In years to come September 2017 will probably go down in history as the month in which central banks began scaling back their enormous balance sheets. Since the 2007/9 great financial crisis, the major global central banks have poured trillions of dollars into global financial markets in order to keep them "running smoothly" (it's a bit more complicated than that, but you get the idea). One of the effects of this support (which we refer to as Quantitative Easing or QE) has been to distort interest rates and keep them artificially low. Global investors are now used to this false environment – can you believe the crisis was more than 10 years ago? – a world which we have continually maintained is anything but normal. In recent years these central banks, led by the US Federal Reserve (the Fed), have been scaling back the support by injecting less and less money into the system. At their September meeting, the Fed decided to begin the process of slowly withdrawing some of the funds they have injected into the market. The significance of this decision is that the Fed is now – pro-actively – going to reduce the quantity of funds, rather than just stop adding to it.

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

Of course, this is a complicated process. Just how complicated is shown by Deutsche Bank's (Jim Reid) comment the day following the decision. More than anything else, it gives one the idea of how large some of these numbers are: "QE withdrawal – And they're off. But where is the finish line? In 2008, the Federal Reserve's balance sheet was 6% of annual US output. Hitting that level now requires shrinking by two-thirds to $1.5trn. Assuming 4% nominal output growth and a $50bn monthly reduction, QE wind-down takes till end-2022. However, by then the currency in circulation alone will likely exceed $2trn, leaving no room for bank excess reserves. And the Fed's mechanism for controlling the funds rate requires over $1tn of excess reserves by Ben Bernanke's estimates. That puts the finish line of $3trn at 2020. Even that might be too much. In over a century, the Federal Reserve's balance sheet has never fallen by more than 17%. That implies a $750bn reduction, meaning QE withdrawal will end within two years with a $3.7trn balance sheet."

Fruit vendor nap - India

What do foreign investors think of SA?

Deutsche Bank recently released a note of their recent trip to institutional clients, specifically those interested in emerging market debt. I thought their feedback on these clients' view on South Africa was enlightening – their feedback covered a wide range of topics, but I include below only feedback in the category Economy/Fiscal/Downgrade: "All clients saw the big challenges South Africa is facing at the moment as: a) weak growth, b) a lack of structural reform, c) negative Foreign Direct Investment, d) the deterioration in institutional quality (particularly following Gordon's removal), and e) the deterioration on the fiscal side. Most clients (but not all) foresee a downgrade as a done deal, but tend to agree with us that it will most likely happen in Q1 18 rather than ahead of the ANC meeting in December. Investors were particularly concerned that 2018 could be a 'lost' year, with increased political noise, but limited reforms leading to growth improvements. To sum up, *we could not find any clients with a very constructive view on the South African economy*" (my italics).

The inflation conundrum

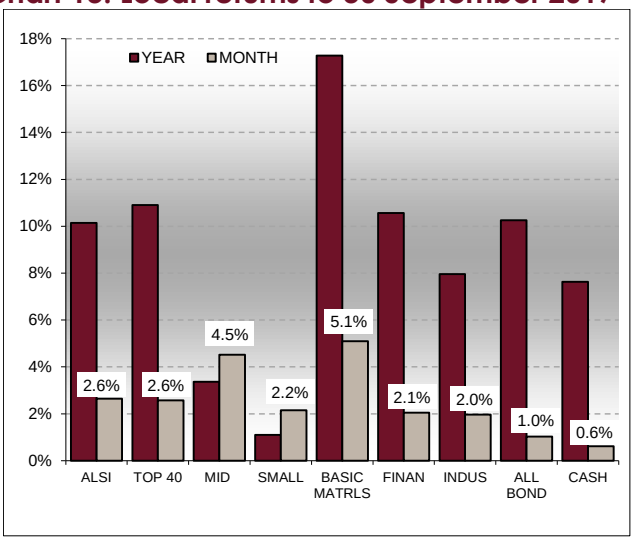
We have repeatedly drawn your attention to the strange phenomenon of the apparent lack of inflation in the world today. In light of the ongoing debate around this important but perplexing issue, the following quote from *Deutsche Bank's db140weekender* publication, is apt. It was distributed on the day that US September inflation data was released, which came in lower than expected, for the fifth consecutive month: "Whatever today's US inflation number, most investors believe we live in a low inflation world. History suggests otherwise. In the 120 years to 1913, when the Federal Reserve system was created, American prices little more than doubled. Since the central bank's founding, prices have risen over 2 000%. The UK shows a similar picture. In the 700 years to 1918, prices only doubled five times or about 3,000% with the last doubling taking two centuries. Indeed on the eve

of the First World War, prices were only slightly above the levels seen in 1650 – that is over 250 years of zero inflation. In the 100 years since, prices have doubled more than six times or 7 500%. So don't be fooled. In these inflationary times, the conditions for rising prices, such as fiat currencies and money-printing central banks, remain firmly in place."

September in perspective – local markets

Turning to the local investment environment, headlines continue to be dominated by the plundering of state assets on an unprecedented scale, the collapse and insolvency of numerous state-owned enterprises, and the lack of any form of governance by the ruling party as it stumbles towards its elective conference in December.

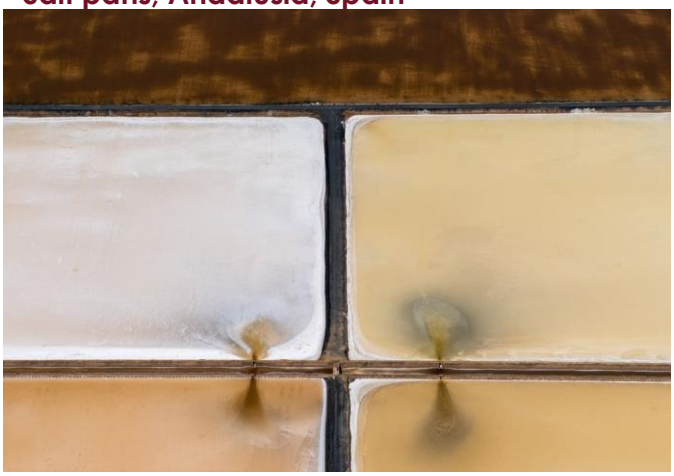
Chart 13: Local returns to 30 September 2017



In light of this background, it is hard to believe the SA equity market is not a lot lower. The weak rand continues to support numerous companies which form a major part of the SA indices and whose earnings are derived offshore – the likes of Naspers and Richemont come to mind, which alone account for just over 26% of the All Share index. The performance of these companies hides a weaker market, evidence of which can be seen in the Mid cap index return of -5.1%. The Large cap (Top40) index declined 0.4% but a lot of the weakness emanated from Basic Material shares, which ended the month 1.1% lower (the Gold index lost 7.5%), and Financials, which ended 1.9% lower. The Industrial index lost 0.3%. Surprisingly, particularly in the light of weak global bond markets and the weak rand, the All Bond index rose 1.1%, bringing its year-to-date return to 7.9% versus the 12.6% of the All Share index.

The best-performing sectors during September were the Personal Goods sector, which rose 8.4%, Industrial Metals, up 4.5%, and the Pharmaceuticals sector, which rose 3.9%. The worst-performing sectors were Platinum, which declined 11.1%, Software and Computer Services, down 7.7%, and the Gold Mining sector, which fell 7.5%.

Salt pans, Andalusia, Spain



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	**Sept**	**-0.5%**	**3.1%**	**1.1%**
JSE All Share Index	*Sept*	*-0.9%*	*12.6%*	*10.2%*
Maestro Growth Fund	**Sept**	**1.4%**	**8.3%**	**7.2%**
Fund Benchmark	*Sept*	*0.2%*	*10.6%*	*9.4%*
Maestro Balanced Fund	**Sept**	**1.4%**	**8.4%**	**7.3%**
Fund Benchmark	*Sept*	*0.4%*	*10.0%*	*9.2%*
Maestro Cautious Fund	**Sept**	**0.4%**	**5.8%**	**6.5%**
Fund Benchmark	*Sept*	*0.3%*	*8.4%*	*8.7%*
Central Park Global Balanced Fund ($)	**Sept**	**2.2%**	**25.8%**	**20.9%**
*Benchmark**	*Sept*	*0.9%*	*11.0%*	*10.3%*
*Sector average **	*Sept*	*0.8%*	*8.3%*	*8.1%*

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

While on the topic of returns, we have been drawing your attention to the profitable year that Maestro clients have been enjoying in global equity markets. By way of an update, Charts 7 and 8 illustrate the year-to-date returns and our annual returns to end-September. While we would never suggest investors consider short-term performance when making important investment decisions (although we humbly point out that Maestro's returns have exceeded those of the MSCI World index over every period during the past ten years), it does provide an opportunity to show how much more profitable global markets have been in recent months than local markets. We retain a strong preference for global markets and remain very concerned about the long-term prognosis of South African equity markets – refer to the Big Picture section, below.

Chart 14 depicts the un-annualized year-to-date returns of the equity component of Central Park Global Balanced Fund, Maestro's global balanced fund and the destination for our clients' offshore exposure. The segregated global equity portfolios that Maestro manages mirror the returns shown in these charts.

Chart 14: Year-to-date (end-Sept) returns

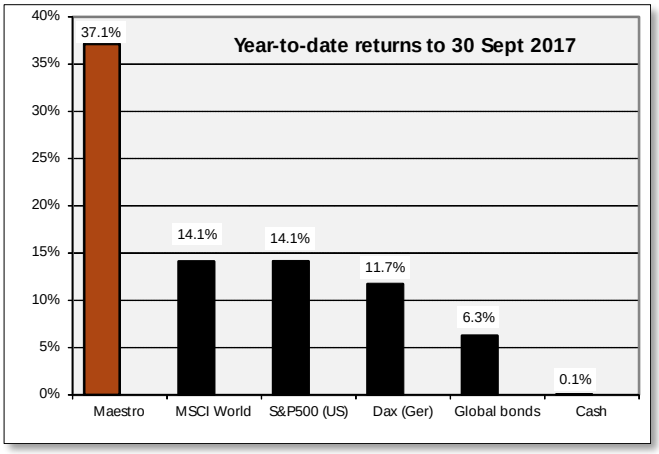
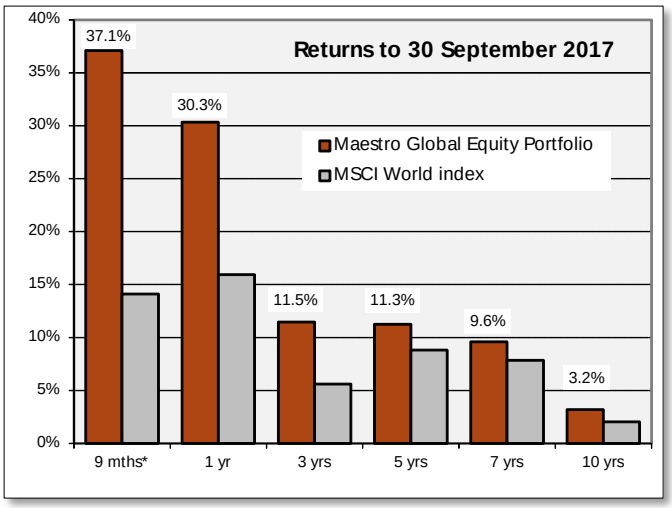


Chart 14 depicts the returns achieved by Maestro, together with major global equity markets and benchmark, while Chart 15 below depicts the same returns, except on the annualized basis over longer-term periods to end-September. Note that the 9-month returns are un-annualized.

Chart 15: Maestro global equity returns



Obituary: Liliane Bettencourt, L'Oréal heiress, 1922 – 2017.

This is an edited version of the Financial Times obituary that appeared on 23 September, written by Paul Betts.

As billionaire heiress to the L'Oréal cosmetics empire, Liliane Bettencourt might have preferred to have spent her twilight years in tranquil retirement at her lavish homes in Paris, Brittany and on her private island in the Seychelles. Instead, the world's richest woman and a pillar of polite French society, who has died at the age of 94, was caught at the centre of a national scandal and a bitter public feud with her only daughter. Liliane Henriette Charlotte Schueller was born on October 21 1922, the only child of Louise Madeleine Berthe and Eugène Schueller, the brilliant entrepreneur who founded what was to become the world's largest cosmetics, shampoo and beauty group after developing a revolutionary hair dye in the family kitchen. Her mother died when she was just five years old and she formed a close bond with her father whom she adored. At 15 she joined her father's company as an apprentice and in 1950 married André Bettencourt, a politician. He was a close friend of her father, served as a minister under Charles de Gaulle and became deputy chairman of L'Oréal.

If money cannot buy happiness, a huge fortune can buy silence, helping the Bettencourt family to escape scrutiny over the more suspect aspects of its history. André Bettencourt was a member of La Cagoule, a fascist organization that Liliane's father funded and supported in the 1930s and that collaborated with the Nazis during the Second World War. He wrote for a vehicle of Nazi propaganda, the anti-Semitic magazine La Terre Française. In 1944, the year of the Allied landings in Normandy, André Bettencourt saw the error of his ways and joined the Resistance. Schueller, however, faced prosecution for collaboration after the war but escaped conviction thanks to Bettencourt claiming he had also been in the Resistance and had saved the lives of Jews.

Liliane and André settled in their Art Moderne mansion in the wealthy Paris suburb of Neuilly-sur-Seine. They had one daughter, Françoise, born in 1953. After the death of her father in 1957, Liliane inherited the L'Oréal fortune. The company went public in 1963 with Liliane maintaining a majority stake. In 1974, fearing the company might be nationalized after the election, she exchanged nearly 30% for a 3% stake in Nestlé, the food multinational. She developed a partnership with the Swiss group, entering into a controlling shareholders pact that expired in 2014.

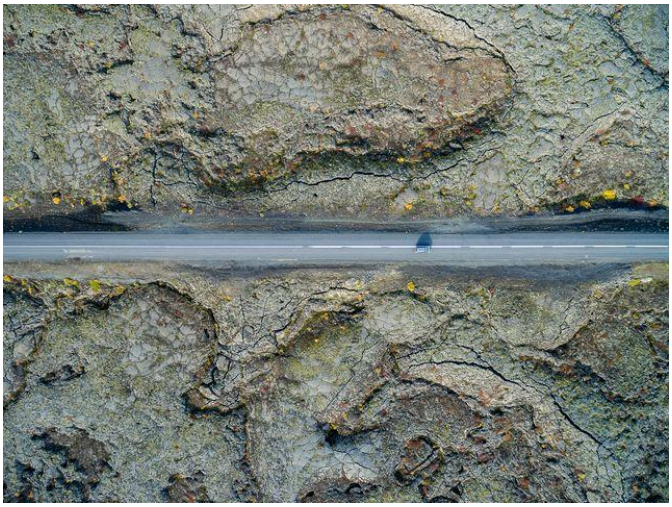
While the Bettencourt home in Neuilly became a focal point of Paris society with famous politicians, financiers and artists all regular visitors, Liliane preferred to keep out of the limelight and shunned media attention. The couple were said to conduct "the ordinary life of the very rich". Together with her husband and daughter, Liliane set up the *Fondation Bettencourt Schueller* to support medical, cultural and humanitarian projects.

In the meantime, her daughter married Jean-Pierre Meyers, the grandson of a rabbi killed at Auschwitz. If this was not already a remarkable twist in the Bettencourt family history, Françoise gave up her Roman Catholic upbringing to adopt her husband's religion, raising her sons in the Jewish faith. The Bettencourt family seemed to enjoy a charmed life. But under the veneer of this existence, passions were already running high between mother and daughter. Liliane was a glamorous, socialite, old-style Hollywood-star mother — she once claimed even Mao Zedong had taken a fancy to her — disappointed by a daughter she described as "always a cold child". The daughter could not have been more different — an intellectual, brilliant pianist and author of an anthology of Greek gods. As long as André, whom they both adored, was alive, the mother-daughter tensions remained under control.

But soon after he died in 2007, hostilities erupted in the open on a grand operatic scale. What seems to have sparked the feud was Liliane's friendship with François-Marie Banier, a celebrity photographer and society dandy, on whom she lavished gifts estimated at more than €1bn including her island in the Seychelles, works of art and life assurance policies. To her daughter's dismay, Liliane felt she could do what she wanted with her fortune. She doled out cash and presents to what her daughter described as her "predatory" entourage. Liliane also became one of Bernard Madoff's biggest European victims, losing €22m.

The daughter wasted little time after her father's death to lodge a criminal complaint against Banier, accusing him of taking advantage of the psychological weakness of her mother for personal gain. The daughter subsequently sought to place her mother under legal guardianship, claiming her mental faculties were declining and that she was being manipulated and swindled by her entourage. The old heiress resisted these efforts, accusing her daughter publicly of being "deranged". The feud developed into a national scandal with allegations that Liliane had made illegal political donations to Nicolas Sarkozy's 2007 presidential election campaign. Everybody claimed her political donations were quite proper, but spying butlers and tell-tale secretaries suggested otherwise.

Route 1, Iceland



Just before her 89th birthday in October 2011, Liliane lost her long and bitter battle against her daughter. A court placed her under the control of her daughter and her two grandsons after doctors concluded she was suffering from "mixed dementia" and "moderately severe" Alzheimer's and was in the midst of a "slow and progressive process of cerebral degeneration". The judge also had harsh words for her entourage and her lawyer and wealth manager for allowing her to sign donations, close bank accounts and modify the beneficiaries of life assurance when her absence of lucidity was known. Banier, for his part, was convicted and

given a four-year suspended prison sentence. He returned much of the largesse he received and the private island in the Seychelles was sold in August 2012. It was a sad end to an otherwise extraordinary privileged life.

Liliane Bettencourt sat on top of a $39.5bn fortune, ranking 14th in the 2017 Forbes list of the world's wealthiest people. She was the richest woman in the world. But money, even on such an enormous scale, was ultimately unable to buy her happiness.

Man feeding swans in the snow

The Big Picture – can you afford to ignore it?

Earlier in this edition I asked what your return would have been had you invested in the US equity market after it reached its pre-2007 crash peak, which was in March 2013. Using month-end values, the S&P500 peaked in October 2007 at 1549; it subsequently declined 52.6% to 735 in February 2009. Using September 2017 as the most recent month-end peak, the index ended the month at 2519, yielding a return of 60.6% for the period between March 2013 and September 2017. However, adding dividends into the equation, the return increases to 77.0% in absolute i.e. un-annualized terms. I suspect that would come as a surprised to most people. Of course, if you were lucky enough to pick the very bottom of the market – it turned at a level of 666 on 9 March 2009 – your return to the end of September 2017 would have been 278.3% in absolute terms, excluding dividends.

Chart 16: US equity market

Source: Saxo Bank

The other question yields a no less surprising answer, although it is far less profitable. Had you invested in the UK equity market, for which we will use the FTSE100 index as a proxy, at the peak of the pre-2007 crash peak (of 6721.60), your return in absolute terms to end-September 2017 (7372.76), excluding dividends, would be only 9.7%. Of course that return would be in sterling terms. If you measure the return in dollar terms, it would be an astonishing -29.2% i.e. your investment would be nearly one third lower than what it was worth in October 2007.

Sometimes it is worth taking a look at the Big Picture. We get caught up in all the noise and detail of everyday events, rather than concentrating on the Big Picture, macro events that dominate investment markets. Choosing the correct market, for example the US over the UK equity market, sounds so simple but can have profound results. One's decision is then amplified by selecting the appropriate currency.

So far this year, our global equity returns have impressed (refer to Charts 14 and 15 above). A major contributor has been "Going East" (refer to last month's *Intermezzo* for an elaboration of this important factor) i.e. to focus on Chinese markets, where much of our "excess return" i.e. the return over and above what traditional indices such as the S&P500 or MSCI World index would have delivered, has been generated. We are of the view that markets have, during the past decade and in all likelihood for the coming decade, too, presented the proverbial "once in a lifetime" opportunity to benefit from the re-emergence of China as a major global economic powerhouse. It is a wonderful example of what we refer to as a "Big Picture" event.

Painting the rail of a ship

We think South African investors are faced with another such an opportunity, although I would argue that it is not so much a choice but rather an imperative for their own financial survival. Here I am referring to the opportunity, while it still exists, of externalizing their capital. Without going into detail, we are of the view that investors need to externalize their assets in the interests of preserving them into the future. We are increasingly concerned about the future of the South African economy and hence also concerned about the ability of the SA equity market to generate attractive returns into the future. Given that global markets offer far more investment opportunities, and that they are, by and large, not dogged by the socio- and political problems South Africa faces, the case for establishing a global portfolio is compelling.

While there is a good chance the rand dollar exchange rate could firm in the coming months, we think its long-term decline in well-entrenched and is unlikely to be reversed. As the discussion above proves, an appropriate evaluation and assessment of a Big Picture decision can only be assessed after many years, by which time the opportunity will be long gone and it will be too late to "wind back the clock". For that reason, we do not want to face our clients in ten, or perhaps even five years' time, when the rand is trading at R25.00 or higher and the SA equity market trading 50% lower in dollar terms, and regret not having externalized their assets when we had the chance to do so.

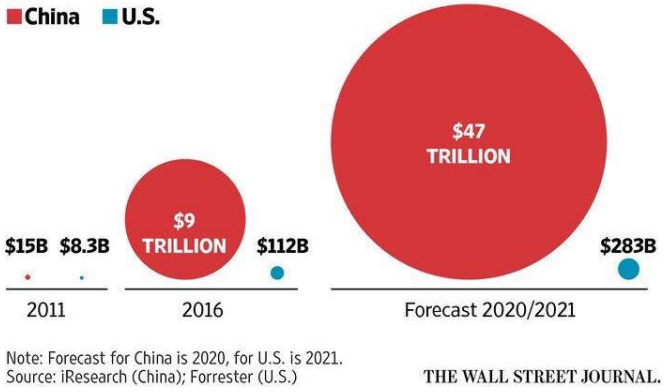
Finally, in this regard Maestro has just finalized the opportunity for investors to remit their funds offshore, with no minimum amount, either as a lump sum or through regular monthly payments. We think this represents a unique opportunity. The remitted funds will be invested into Central Park Global Balanced Fund - refer to the above return charts for more perspective of the Fund's performance. Should you with to inquire further about this opportunity, you welcome to contact us by clicking here or sending an email to andre@maestroinvestment.co.za.

File 13: Things almost worth remembering

How big is big? The US versus China

I have shared sufficiently in recent months, and in this edition, about the importance of China in the investment world today and more importantly the investment opportunities that have arisen as a result of China's re-emergence as the world's leading economy. I continue to find charts and evidence to support this view, such as the one below, highlighted in a Wall Street Journal article a few weeks ago. It depicts the current and projected size of the mobile payments market i.e. payments transacted via mobile devices likes smartphones and tablets.

Chart 16: Mobile payments – China vs the US



Source: Saxo Bank

I think the chart speaks for itself – there is simply no contest. As if to underline the point, data just released from China's Telecommunications ministry showed that there are 947m 4G users in China, and 142m 3G users i.e. there are over 1bn users with mobile internet connectivity. This compares to 337m with fixed-line broadband. We again humbly point out that our two largest equity holdings in our global equity portfolios, and Central Park Global Balanced Fund, are Alibaba and Tencent, companies whose very existence – and future – is based on and driven by the Chinese mobile world.

What's a "rebrand" worth?

Herewith another lovely gem from *Deutsche Bank's db140weekender*: "Was it a coincidence that (listed luxury goods company) Coach announced it will rebrand as 'Tapestry' just one day after an auction date was set for the art world's biggest rebranding? Indeed, the painting once sold 60 years ago for £45 as a Boltraffio has now been rebranded as an authentic Leonardo da Vinci. That name change adds $100m to its value, the equivalent of a 27% internal rate of return. But for the most extreme rebranding value creation, nothing beats the late-1990s internet mania. One study found that adding 'dotcom' to a company name produced returns of 74% in the ten days after the announcement. And following the technology stock crash, investors rewarded firms that removed the moniker from their name. Doing so produced returns of 64% in the 60 days after the superficial but sneaky twist."

So what's with the pics?

The theme of the pictures this month, as you would surely have notice by now, is that are all characterized by strong horizon or vertical implied divisions. Nothing more special than that, but they make for powerful contrasting pictures, don't you agree? All pictures are sourced from National Geographic's "Photo of the Day" series.