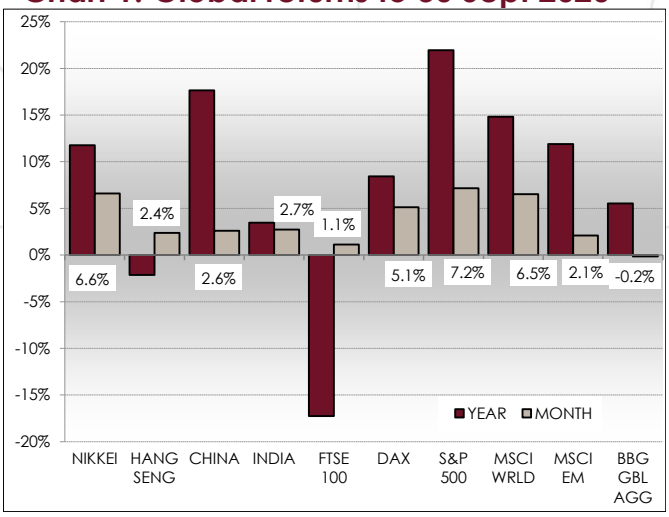
September in perspective – global markets

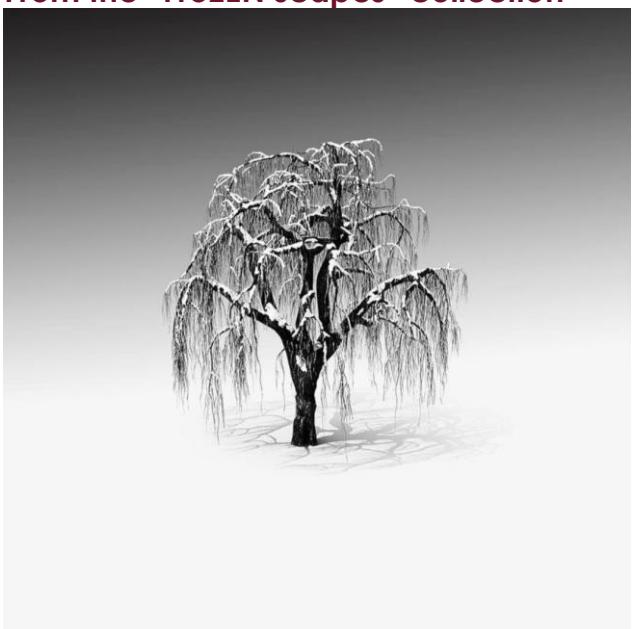
After a few robust and profitable months on global equity markets, it is unsurprising that they paused for a breath during September. The forthcoming US election and the circus that it has become, a clear "second wave" of the Covid-19 pandemic across the Western world, disagreements within governments regarding the extent of financial help for its citizens, a smaller than expected economic rebound off second quarter lockdowns, racy equity market ratings, rising US-China tensions – these are just some of the reasons that gave investors reason to question the resurgent momentum that has characterized global equity markets since they troughed on 23 March. The lull in corporate earnings season also left a void in direction usually provided by management in results announcement, which, given the uniqueness of this year, has become all the more important a guide for investor expectations.

Chart 1: Global returns to 30 Sept 2020



One of the major hurdles facing equity investors at present is the lack of alternatives. If one capitalizes on equity market strength, or as the phrase goes if one "takes profits" following the surge in equity markets, what does one do with the sale proceeds? Invest it in the cash market and pay, instead of receive, interest? Sit with 10-year government bonds generating 0.5% or less per year? That alone has converted many investors into reluctant holders of equity, providing a convenient floor to equity markets despite their apparent high levels.

From the "FroZEN scapes" collection



Source: @vassilis.tangoulis

For all the volatility during the month, the returns were modest even if they were negative. The MSCI World index ended September 3.6% lower, while the MSCI Emerging Market index lost 1.8%. The Hong Kong market was a significant underperformer, losing 6.8% and bringing its year-to-date loss to 16.8%. That isn't as bad as the UK's 22.2% year-to-date loss – that market lost 1.6% last month – but there is a lot happening in the UK at present, very little of which is positive. We should thus not be surprised at its equity market weakness. We have avoided the UK as an investment destination for many years now; this stance has saved our clients a lot of money. The Chinese equity market lost 5.2%, and the US market 3.8%. The Brazilian, Russian and

Indonesian equity markets lost 4.8%, 6.4% and 7.0% respectively, while the Indian market lost only 1.5%. Smaller companies registered greater losses during the month, with the US Large, Mid and Small cap indices losing 3.8%, 3.4% and 4.8% respectively, bringing their respective year-to-date returns to 5.7%, 9.8% and 16.3%.

From the "FroZEN scapes" collection

Source: @vassilis.tangoulis

Turning to the bond market, the Bloomberg Global Aggregate Bond index lost 0.4% while cash continues to generate negligible returns. The dollar (DXY index) rose 1.9%, in a reversal of the past few months' weakness, which resulted in most other currencies weakening against the greenback, as did virtually the entire commodity complex. The gold price lost 3.8%, and oil 8.3%. Somewhat surprisingly the copper price remained flat.

What's on our radar screen?

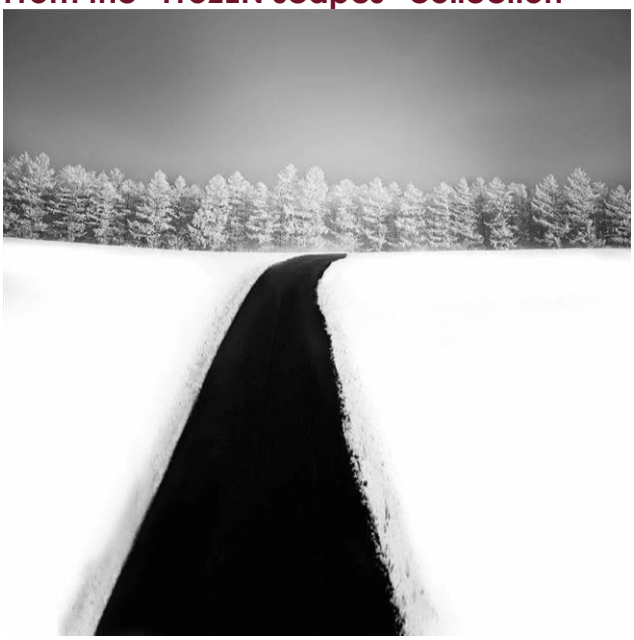
Here is a summary of the things we have been keeping an eye on:

- *The SA economy:* South African's annual inflation rate rose to 3.1% in August, down from July's 3.2%. Core inflation rose to 3.3% from July's 3.2%. The fact that so many people have dropped out of the labour market i.e. they have given up looking for a job, the official unemployment rate in South Africa fell from 30.1% in March to 23.3% in June. Of course, this is a statistical anomaly; no one in their right mind will believe that unemployment fell by a quarter during the peak of a severe lockdown. If one expands the definition of unemployment to include people who have stopped looking for a job, then the unemployment rate rose from 39.7% to 42.0%, which is a more accurate picture of what occurred within the labour market.
- *The US economy*: the bounce the US economy displayed in the immediate aftermath of the initial Covid-19 pandemic lockdown has waned somewhat, resulting in questions being raised about the extent and sustainability of the so-called "V-shaped" recovery i.e. the recovery from the (March) trough of the lockdown-induced economic downturn. 661 000 jobs were created in September, from a revised 1.49m in August. The unemployment rate fell from 8.4% to 7.9% although this is still a long way off its low of 3.5% in February, prior to the pandemic. Despite the monetary support by the US authorities, inflation continues to be conspicuous by its absence: the annual US inflation rate rose to 1.4% in September from 1.3% in August, although that was its highest level since March. The core inflation rate remained steady at 1.7%. September retail sales rose by 1.9%, the fastest pace in three months, up from August's 0.6%. Core retails sales,

which excludes cars, fuel and food services, rose 1.4%. Industrial production however, declined 0.6%, following a 1.2% gain in August.

- *Developed economies*: Still on the subject of inflation, German inflation fell to a 5-year low of -0.4% in September. Across the Eurozone, inflation slowed to -0.3% versus August's -0.2%, while Eurozone core inflation set a 6-year low of 0.2%. The Singapore economy *shrank* at an annual rate of 7.0% during the September quarter, (Q3) although it rose 7.9% quarter-on-quarter. The Q3 growth was attributed to the performance of the manufacturing sector, which grew by 2.0% in Q3 on an annual basis, reversing from the 0.8% contraction in Q2. The sector's growth was supported by robust global demand for semiconductors and semiconductor manufacturing equipment.

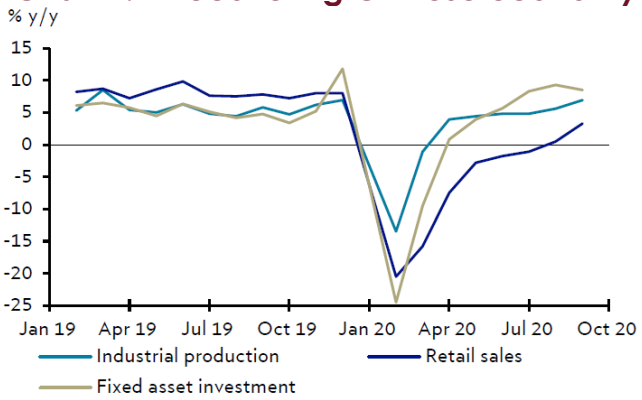
From the "FroZEN scapes" collection



Source: @vassilis.tangoulis

Emerging economies: The Turkish Central Bank increased its official interest rate by 2.0% to 10.25%, somewhat against expectations, ostensibly to counter rising inflationary pressures. Turkey's annual inflation rate was 11.8% in August, the same as in July, while core inflation rose from 10.3% in July to 11.0% in August. The Mexican Central Bank reduced its interest rate by 0.25% to 5.0%, the lowest level since 2016. Evidence continued to emerge from China indicating that it has recovered virtually all of the ground it lost during its "Covid moment". It remains the only economy in the world that is forecast to post positive economic growth for 2020 – a phenomenon that cannot be over-emphasized. The Chinese economy grew at an annual rate of 4.9% during Q3. Retail sales for September grew at an annual rate of 3.3%, while industrial production was also strong at 6.9% year-on-year – refer to Chart 2, which shows just how strong the economic recovery in China has been. The data for September showed that the recovery has become more balanced and broad-based, as private-sector demand gained momentum. What is less clear right now but will become evident in the coming days as Western economies start reporting their Q3 "growth", is that China has resumed its growth trajectory whereas virtually all other economies around the world are likely to still post economic declines on an annual basis. In addition, China will be growing again in Q4 whereas the West is likely to see another setback as the virus spreads again. September trade data showed that exports out of China rose at an annual rate of 9.9% - the fastest rate so far this year – while imports rose 13.2%. The latter is indicative of robust domestic demand and to a lesser extent has been driven by the strong yuan.

Chart 2: A recovering Chinese economy



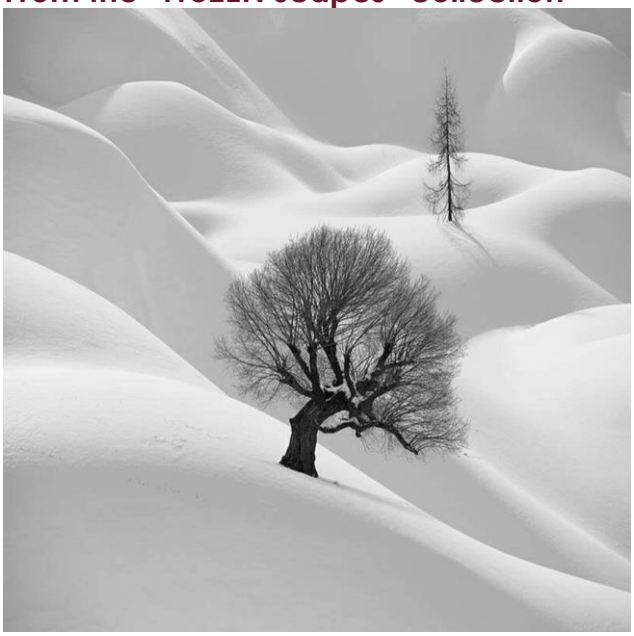
Source: Julius Bär

Argentina's inflation rose by 2.8% during September alone, slightly above August's levels, and pushing the annual inflation rate to 35.2%. The monthly increase was driven by the rise in the price of clothing and shoes, which were up close to 6.0% during the month. Prices of regulated goods, such as utility tariffs, fuel and some food items, which are controlled by the government, increased by only 1.0%. So far this year, the Argentinean peso has depreciated by 29.0% against the US dollar, currently trading at 77.4 per dollar. The unofficial exchange rate however reached 171 per US dollar recently, representing a year-to-date depreciation of 120%. The increased selling of the currency is indicative of investors' loss of faith in government's ability to stabilize the economy, which is expected to contract by almost 12% in 2020.

Quotes to chew on

During the course of a webinar we watched recently, we came across this gem from *Oaktree Capital Management's Howard Marks:* "No amount of sophistication is going to allay the fact that all of your knowledge is about the past and all your decisions are about the future".

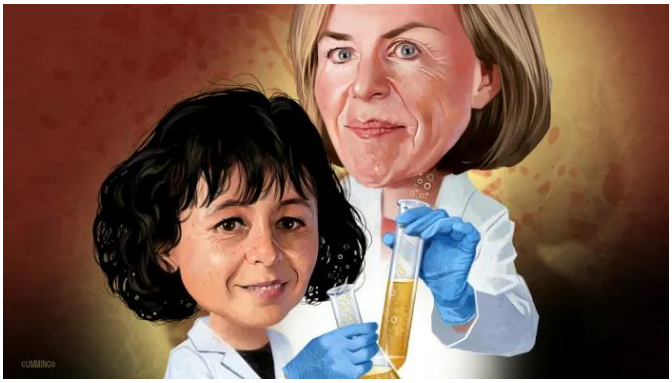
From the "FroZEN scapes" collection



Source: @vassilis.tangoulis

The 2020 Nobel Chemistry prize laureate duo

We don't normally share much on the recipients of the Nobel prizes, but this year's prize for Chemistry was unique in that was awarded to two women. Given the Covid-19 pandemic, I suspect there will be more than a fair degree of interest in the work for which they were recognized, so what follows is a Financial Times article on Professors Charpentier and Doudna.



Source: FT.com

One of the most productive research partnerships in recent science history began on a warm 2011 Caribbean evening. Emmanuelle Charpentier, a French micro-biologist then working in Sweden at Umea University, and Jennifer Doudna, an American biochemist at the University of California, Berkeley, had just met for the first time at a conference in Puerto Rico. Walking around the old town of San Juan, they discussed the way bacteria defend themselves against infection, by targeting and chopping up the DNA of attacking viruses.

From the "FroZEN scapes" collection

Source: @vassilis.tangoulis

This aspect of the bacterial immune system — a combination of genes and enzymes known as Crispr (short for clustered regularly interspaced short palindromic repeats) — had been an obscure curiosity in microbiology. But Profs Charpentier and Doudna saw how it might be transformed into powerful molecular scissors to cut and edit genes in any living creature.

Strolling around the colonial streets, the pair agreed to work together on Crispr. Their "short and intense" transatlantic collaboration, as Prof Charpentier put it this week, had within two years reprogrammed the bacterial scissors into a widely applicable research tool that very quickly took life sciences into a new epoch.

Although Nobel Prizes are often given for work done several decades earlier, Crispr's significance became clear so fast that observers started tipping its developers for an award as early as 2015. This year, the prediction came true. Profs Charpentier and Doudna were awarded the SKr10m ($1.1m) chemistry prize for creating a gene editor that "has not only revolutionised basic science, but also resulted in innovative crops and will lead to ground-breaking new medical treatments", as Claes Gustafsson, chair of the Nobel chemistry committee, put it.

Biologists around the world rose to acclaim the announcement, with an enthusiasm that is rare if not unprecedented for a Nobel science prize — and not just because Crispr has made it so much easier for them to manipulate genes in living cells. The two new laureates are popular personalities, generous with their time to help colleagues and promote science more widely.

Even the bitter and unresolved dispute over Crispr's patent rights between UC Berkeley, and the Broad Institute of MIT and Harvard, did not spoil the goodwill. Many had predicted that the Broad's senior researcher Feng Zhang, who was first to show that Crispr worked in mammalian cells, would share the prize. But he was left out. Eric Lander, director of the Broad and a champion of Prof Zhang's work, sent the laureates a gracious message: "Huge congratulations to Drs Charpentier and Doudna. It's exciting to see the endless frontiers of science continue to expand, with big impacts for patients."

From the "FroZEN scapes" collection

Source: @vassilis.tangoulis

The two women have contrasting academic backgrounds. Prof Doudna, 56, has spent her whole career in the US and been a biochemistry professor at Berkeley since 2002. Prof Charpentier, 51, is more restless, working in eight different institutions in five countries since obtaining her PhD from the Pasteur Institute in Paris. She moved from Sweden to Germany in 2013 and is currently director of the Max Planck Unit for the Science of Pathogens in Berlin. But they share a passionate devotion to their research, which showed itself during the peak years of their collaboration at a distance of 8,000km. "It was an extraordinary time for me," Prof Charpentier said this week. "I was up all day and all night, living both in Umea time and California time." Prof Doudna also recalls the period as a "wild ride" of emails, Skyping and phone calls as they shared their results and wrote scientific papers together. The pair are still in touch but no longer collaborate directly.

Each of the women has co-founded companies commercialising the technology, including Crispr Therapeutics, Intellia Therapeutics, Mammoth Biosciences, and Scribe Therapeutics. Some of these start-ups have already begun clinical trials, editing patients' genes to treat diseases such as inherited blood disorders. Prof Doudna is particularly active in explaining Crispr to the public. She has co-written a book, and many articles and interviews for non-scientific publications.

In 2018, when He Jiankui revealed the birth in China of the world's first gene-edited babies, with DNA manipulated to prevent future infection with HIV/Aids, Prof Doudna led the worldwide chorus of scientific denunciation of his experimentation with human embryos. Unlike gene editing of individual patients, this risked passing on unintended changes to future generations.

As the first pair of women to share the Nobel chemistry prize, and just the sixth and seventh female winners since its inauguration in 1901, both are happy to be standard bearers for women in science. It "is a very important message. Recognition is independent of gender", says Prof Charpentier.

Just five years or so after labs across the life sciences started to adopt Crispr on a large scale, the technology is in its infancy. There are still challenges to overcome, Prof Doudna points out, such as improving the efficiency with which Crispr molecules edit their target cells and ensuring that the procedure has no unwanted side-effects. But the possibilities, from agriculture to medicine, are endless, she adds. When the two women set out on their San Juan walk nine years ago, they saw that Crispr would be "a big deal". It turned out even bigger than imagined.

From the "Swans Lake" collection

Source: @vassilis.tangoulis

What can we learn from the things we fear?

I have always enjoyed articles written by *Gillian Tett, Chair of the Financial Times editorial board and US Editor-at-large*. So you can imagine how I enjoyed the following article, which I would like to share with you. I do so because firstly, it sheds a slightly different light on China, about which we remain positive, and secondly, because it touches on an aspect that has surely come to visit each one of us many times this year so far, namely fear, specifically of the future in a Covid world. I found the article fascinating, and I hope you do, too. She writes as follows:

What scares you right now? Some readers might be tempted to reply 'almost everything', given the current grim confluence of political, economic and pandemic news. Each year however, Axa, the large French insurance company, tries to explore this question further. This year, it surveyed 20 000 members of the public and a panel of risk experts around the world with market research group Ipsos and the Eurasia Group, a political risk consultancy. The results are thought-provoking.

Two years ago, pandemic risks were deemed to be the 10th scariest 'emerging' threat — behind the dangers from 'medical advances and innovations' such as genetic modification. Back then, climate change topped the list of terrors, as it has done in most years recently, followed by cyber-security concerns, fears about geopolitics, managing natural resources and local social strife.

Today, unsurprisingly, pandemic concerns top the list, followed in most regions by climate change (except in the US, where this has tumbled way down) and cyber-security issues. "The perception of cyber-warfare risk has increased," Axa notes. "It is seen as the main security threat by 47% of experts compared with 37% last year." Economic and financial risks are the only current 'top 10 worries' that were missing from the list two years ago.

Fears change of course, but what is striking is the regional pattern. Measured overall, 73% of people in the world apparently say they feel more vulnerable today than they did five years ago. But breaking that down tells another story: the figure is 75% in America, 55% in Germany and a paltry 25% in China. This may be because 45% of experts in Asia-Pacific say that they feel 'absolutely or somewhat prepared for pandemics and infectious diseases', compared with 16% in the Americas. That has flipped from 2019 when the rates were 16% and 31% respectively.

By contrast, the Chinese worry more about geopolitics: 69% of experts there fear geopolitical conflict, double the figure for the US. There is also

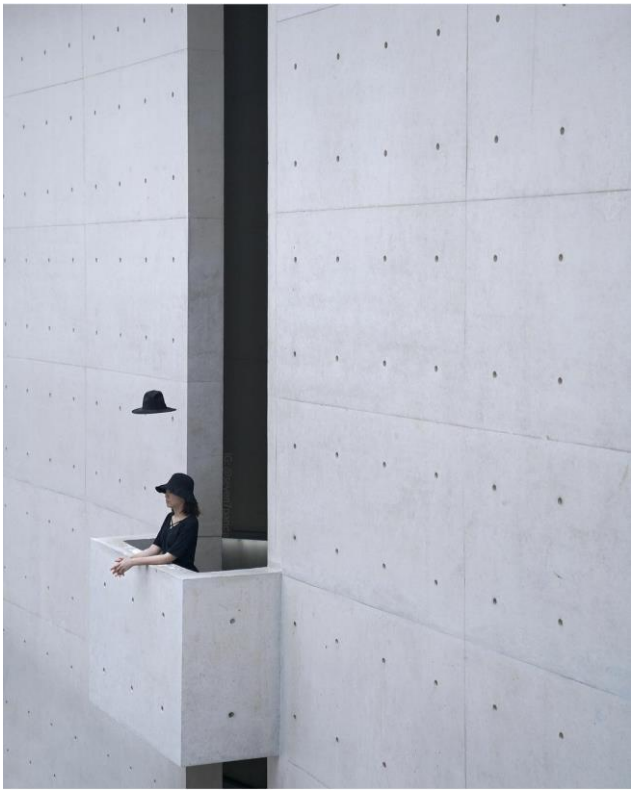
a notable gap in relation to climate change. More than two-thirds of people in Germany, Belgium and Italy worry about this, compared with just 45% of people in the US.

So what should we conclude from such figures? The first — and most obvious — lesson is that our perception of risk is incredibly subjective and apt to be backward-looking, driven by whatever headlines we have read in the previous year. That is not just clear in the Axa survey but can be seen in the World Economic Forum's global risk report as well.

In January, climate change also topped the WEF worry list, with pandemics almost nowhere to be seen. In 2007, with an economic crash around the corner, the potential impact of a financial crisis was similarly missing (but it cropped up in 2009, 2010 and 2011 when the issue was no longer posing the same kind of threat). Cynics might say that one way to work out which threat is about to destabilise planet Earth is to look at what is not ranked high on the WEF list rather than what is.

A second point is that the list shows the cost of national hubris. Paying attention to what other countries worry about is sensible policy in a globalised world, since contagion is an ever-present threat and over-confidence tends to create more, not less, vulnerability. In a striking article for the journal Nature last month, anthropologist Martha Lincoln pointed out: "Just last year, the United States was considered one of the countries best equipped to confront a virus such as Sars-CoV-2. Others included the United Kingdom, Brazil and Chile." Yet these countries have actually performed worse than many others.

Xie Zilong Photography Museum, Changsha City, China



Source: @imclumsypanda

According to Lincoln: "One thing these countries have in common is 'exceptionalism' — a view of themselves as outliers, in some way distinct from other nations." She argued that "their Covid-19 responses suggest that exceptionalist world views can be associated with worse public-health outcomes." If, for example, more US leaders had taken note of Sars or Ebola at an earlier stage, the general public might not feel so vulnerable now.

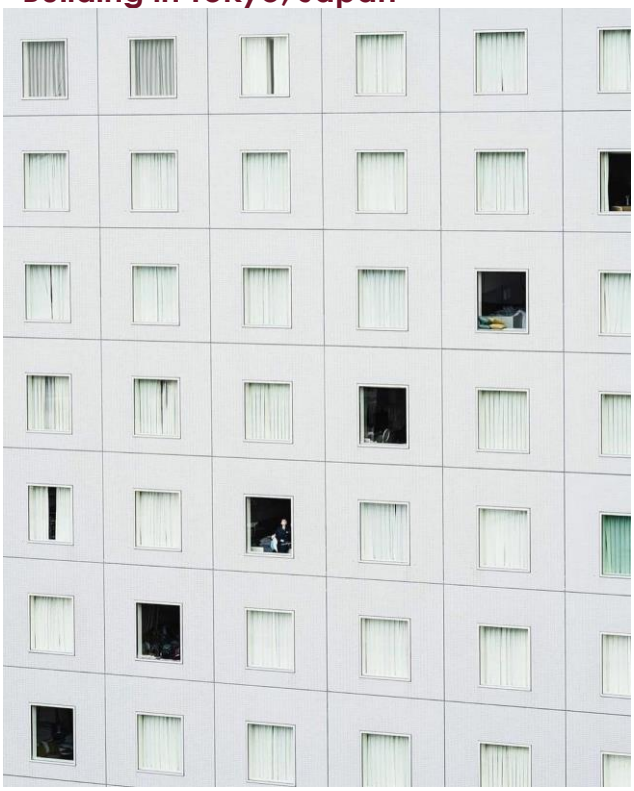
There are also the longer-term consequences of these risk patterns. Three-quarters of Americans feeling more vulnerable than they did five years ago could be a short-term spike driven by this year's ghastly stresses. But if it lasts, will this sense of vulnerability lead investors to take a more

conservative stance and savers to hoard more money in the future, in the way we saw after the 1929 crash?

Might a greater sense of vulnerability also change Americans' career choices or voting patterns? Could it spark more racial division and political polarisation? And could the fact that the Chinese population does not feel such a stark increase in vulnerability, relatively speaking, make the country more prone to risk-taking?

It's hard to predict. And nobody knows how long Covid-19 will last. But one thing is clear — where you live will continue to have a big influence on what worries you most."

Building in Tokyo, Japan

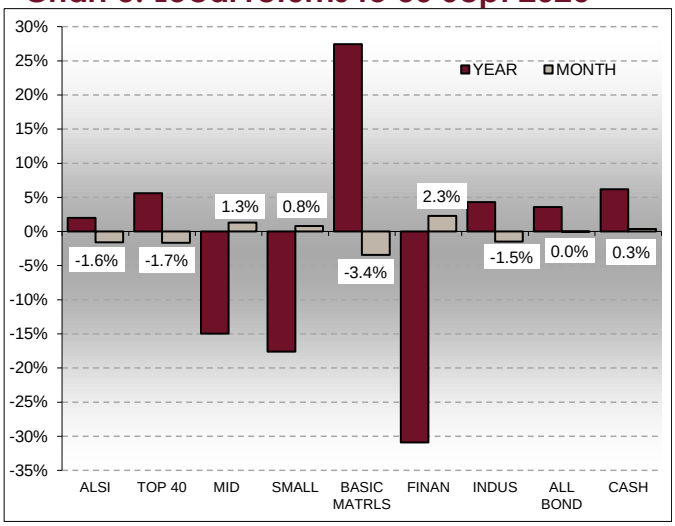


Source: @johnny777

September in perspective – local markets

Turning to the local markets, the All Share index declined 1.6% while the All Bond index fell 0.1%. The Large, Mid and Small cap indices' respective returns were -1.7%, 1.3% and 0.8%. The Basic Materials index fell 3.4%, the Industrial index fell 1.5% while the Financial index rose 2.3%, supported by the slightly firmer rand; despite the dollar's strength, the rand rose 1.6% against the greenback.

Chart 3: Local returns to 30 Sept 2020



At the risk of placing the "commentator's curse" on the markets, we suspect we may well have seen the best returns for this year so far. All eyes are likely to remain on the US election which is now only a month away. Given the shameful behaviour of the two candidates during their first TV debate – it is hard to believe either of these two men are suitable presidential material! – the remaining few weeks before the 3 November election are hardly going to be uneventful.

There are a lot of matters to keep investors concerned, but equally we can identify a number of factors that could unleash more positive sentiment towards equity markets in general. For that reason we are likely to retain our

full weighting towards global equity markets. We also retain our dislike for bond markets at prevailing levels. That said, global investment markets are likely to remain volatile between now and into the New Year, so our focus will remain on the well-being and fortunes of the companies in which we are invested. We think their earnings growth will remain positive, notwithstanding Covid-19 headwinds, and their balance sheets are by and large in good shape.

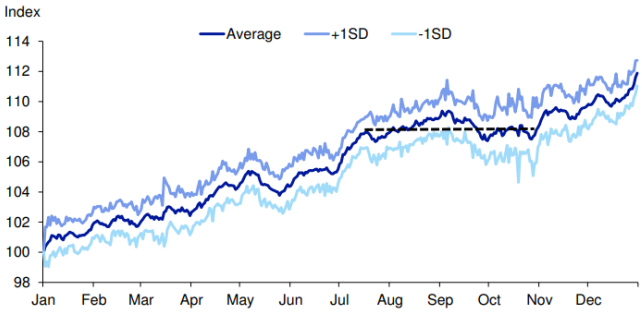
We are far less optimistic about the prospects for the local investment markets, but more importantly for the South African economy. We retain our negative view towards the latter, and don't see any way in which government can get itself out of the hole it continues to dig itself into. The country has no reserves or real resources on which to rely to recover from the Covid pandemic and ensuing lockdown, the latter having buried the economy and society for many years to come. We are well down the road to "Destination Zimbabwe" and see little hope for any other outcome, despite what the eternal optimists would have us believe. We consequently continue to recommend that investors remit as much of their capital abroad as possible, in order to preserve the value of their capital in hard currency terms.

Charts of the month

Seasonality in the market place

We touch on this matter at least once a year, but it continues to influence our thinking and views of possible future market behaviour. History teaches us that global equity markets, and US and Western markets in particular, display a consistent seasonality, apart from the market crises which are experienced from time to time.

Chart 4: Average daily path for S&P500

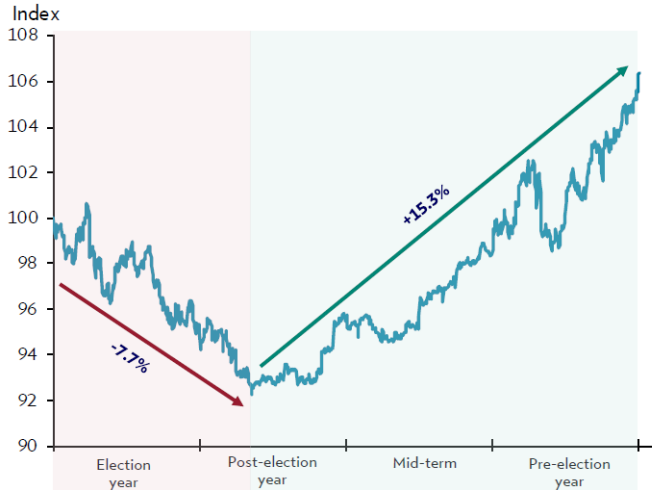


Source: Deutsche Bank

Deutsche Bank recently published a chart (refer to Chart 4) depicting the average path for the S&P500 using daily data since 1928. When measured over nearly a century of data, the S&P500 has been flat on average between July and the end of October. In the final two months of the year the market typically rallies strongly and, as you can see from the standard deviation bars, this occurs with reduced volatility. Interestingly the chart shows that the volatility of outcomes are typically highest in October with a few high profile sell-offs in this particular month through history.

Still on the matter of market behaviour, Julius Bär presented Chart 5, which shows global market behaviour during US election cycles since 1980. More specifically, it shows how growth investing behaves relative to value investing. As can be seen, a value bias tends to work well in the year ahead of a US election, but growth "trumps" value investing in the years following the election. We will have to see if that holds true for the coming election, but we have a high regard for market behavioural patterns *over time*. Consequently, we wouldn't be surprised to see a growth-oriented style of investing outperforming value again into the remainder of this year and 2021.

Chart 5: Growth vs Value in election cycles



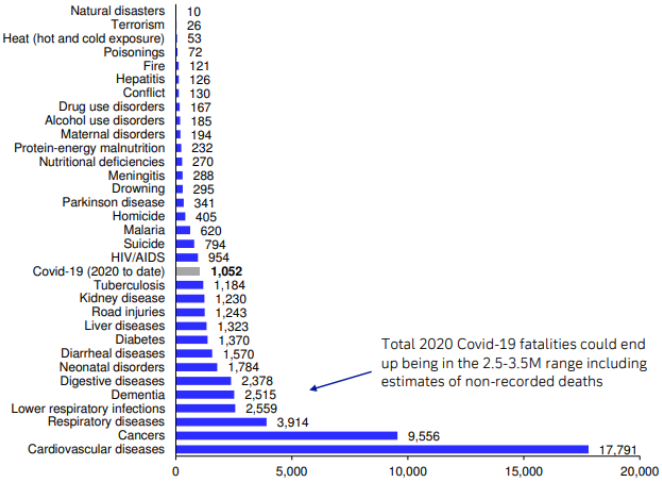
Source: Julius Bär

Covid-19: why all the fuss?

The official Covid-19 death toll currently stands at 1.124m people globally. How does this compare to fatalities from major illnesses in a typical year? Chart 6 depicts the global data from 2017, the last year with full data, and highlights where this year's pandemic stands on a relative basis and where it might be by the end of the year.

Chart 6: Daily recorded deaths by cause

2017 deaths (000s) with Covid in 2020 for comparison



Source: Deutsche Bank

If the increase in fatalities lies between the growth rate seen over the last month and that seen during the local peak in July and August we will end up with between 1.8m and 2.3m fatalities by year end. However we know from excess mortality numbers that in some areas total deaths are as much as 50% higher. Many other nations also under report. It is therefore likely that you may need to add an extra million deaths globally by the end of 2020 to the official numbers but the reality is that we'll never know the exact figure.

We also don't know if the other illnesses in the graph should be higher as many deaths might not be fully accounted for either. Be that as it may, a number between 2.5m and 3.5m is a crude estimated range for the actual global Covid-19 fatalities in 2020. Such a number would likely put it in the top five causes of deaths in a typical year and in the same ball park as other respiratory infections and diseases. It would still be well behind annual cancer (9.6m) and cardio-vascular disease (17.8m) deaths.

Some will say this shows how serious Covid-19 is and only mitigation has stopped fatalities being notably higher. However we don't believe these numbers, whilst high, are high enough to justify the economic devastation caused, especially when the average age of fatalities is close to 80 years old. I guess we'll never know how many lives restrictions and lockdowns cost, or the cost of those restrictions going forward.

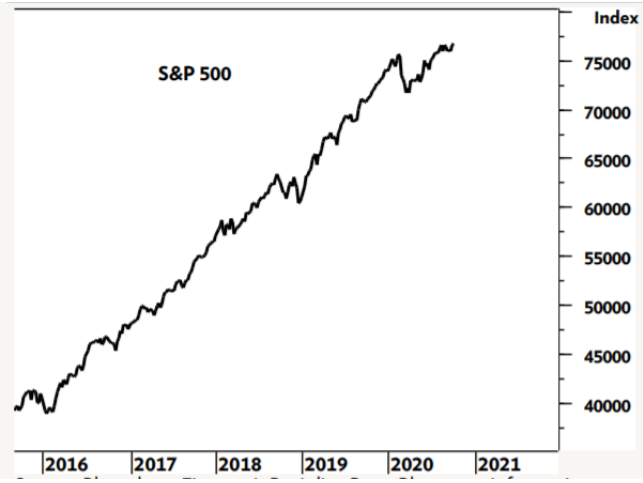
US Equity market strength

Notwithstanding short-term market movements, there have been a number of important technical indicators in recent weeks that give us reason to believe markets are, by and large, in "good shape" and are likely to continue rising.

One such indicator is what technical analysts call the advance/decline (A/D) line. Investopedia defines an A/D line as a technical indicator that plots the difference between the number of advancing and declining shares on a daily basis. The indicator is cumulative, meaning that a positive number is added to the prior number, whereas a negative number is subtracted from the prior number. The A/D line is used to convey market sentiment; it tells traders whether more stocks are rising than falling. It is used to confirm price trends, and can also warn of reversals when divergence occurs.

Chart 7: Strength in US equity markets

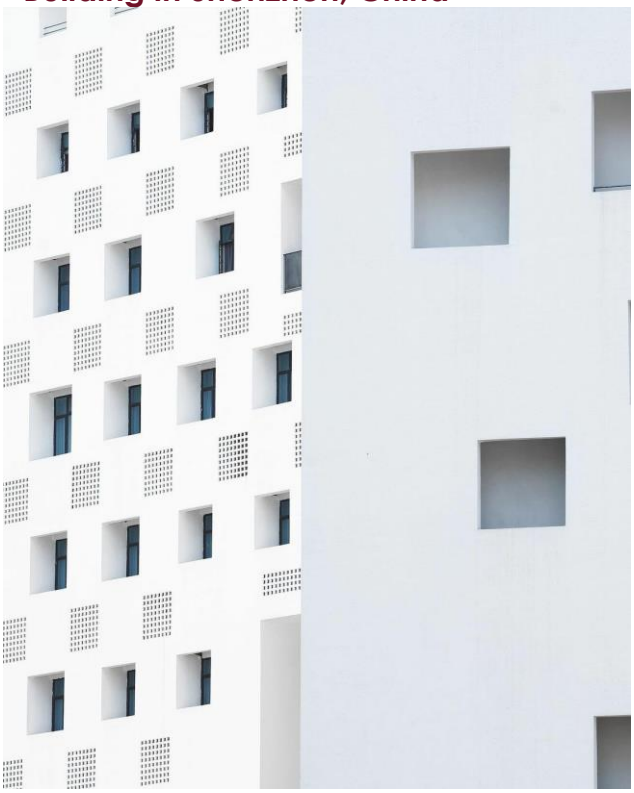
The S&P500 Advance/decline line



Source: Julius Bär

Recently, the S&P500 saw its cumulative A/D line hit a new record high, signaling that the market remains in a healthy bull market. It is not unreasonable, therefore, to expect the market to reach new all-time highs and overcome its September correction. Julius Bär noted that "dominant trends of investment styles are also important. With the recent rise of US interest rates, the risks for an at least temporary under-performance of US growth stocks has increased. Thus, over the coming weeks, we will be much more on alert about a shift in investment styles. Even a temporary change in leadership might be massive and not even change the long-term patterns". It is worth highlighting that US tech shares are up 26% for the year-to-date, while the oil and gas sector is down 50% and financials down 20%. So, as important as it is to remain in a rising market, *it is equally important to hold the right shares.* I refer you to the returns shown elsewhere in this letter, and will leave you to decide for yourself if Maestro has been correctly positioned in recent months and years.

Building in Shenzhen, China



Source: @seven7panda

Obituary: Edward Lodewijk Van Halen (1955 - 2020)

This is probably the first time you have ever read a rock star's obituary in an investment letter, but hey, why not? I am sure many of you, like me, remember Eddie van Halen with fondness, not to talk of the remarkable sounds he produced on his guitar. So it was with sadness that I learned of his passing. I list below an extract from the Financial Times's tribute to this remarkable musician.

"Where's your little magic black box?" Ted Nugent barked at the young guitarist whose band was supporting him at a Los Angeles show in 1978. The guitarist was sound-checking at the time, running through his tricks before the performance, a dazzling series of solos and riffs. Mr Nugent, an older rocker, grabbed the younger man's guitar but wasn't able to repeat the tricks. "You just removed your little black box, didn't you? Where is it?" he shouted. But there was no pedal box with sound effects, a common aid for lead guitarists. "It's all in the fingers, man," Eddie Van Halen explained.

Van Halen, who has died aged 65, was the pre-eminent rock guitarist of his era. His band, also called Van Halen, specialized in party-hearty anthems, uncomplicated paeans to the Californian good life. But their music was transformative. Their lead guitarist was the axe hero's hero, a pioneer who brought new techniques to this most flashy of instrumental skills. He popularized double-tapping, a method whereby the player uses both hands to manipulate the strings on the top part of the neck of a guitar. Playing at great pace, he was able to unleash splashy feats of technique — dive-bombs, whammy bar work, tremolo-picking — while remaining true to the melodic requirements of a song. "I am not a rock star," he said in 1988. "I'm a musician."

Born in Amsterdam in 1955, he moved with his family to California as a child. His father was a saxophonist and clarinetist who struggled to make ends meet on the club circuit. Lack of funds was one reason for his son's dexterousness as a guitarist. "I couldn't afford the pedals, you know?" Van Halen recalled in 2015. "I couldn't afford a wah-wah pedal. I couldn't afford a fuzz box and all the toys that everybody else had. So I did everything I could to get sounds out of the guitar with my fingers."

In 1974, he formed Van Halen with his older brother, Alex, as drummer, Michael Anthony on bass and David Lee Roth as singer. They established themselves as a formidable live act in Los Angeles before landing a record contract and releasing their self-titled debut album in 1978. The guitarist announced himself to the world on an instrumental track called *Eruption*, an aptly titled masterclass in baroque fretwork pitched somewhere between Bach and Jimi Hendrix. (*Ed*: You can listen to a live recording of *Eruption* – all 11 minutes of it - by clicking here). Eddie van Halen was twice married, with a son by his first wife.

Half Man, Berlin, Germany

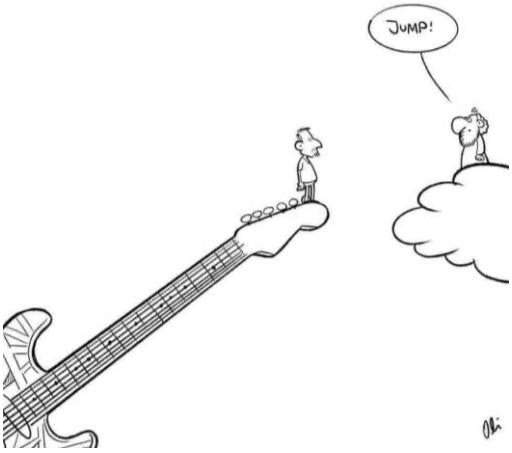
Source: @kaiziehl

As a guitarist Van Halen had the necessary axe hero poses, casually blowing smoke circles from a cigarette before reeling off impossibly fast flurries of notes at shows. But he didn't lapse into self-indulgent displays of technique like many of the guitar heroes who followed in his wake — "typewriter players", in his dismissive phrase.

The real exhibitionism in Van Halen was provided by its frontman, Mr Roth, a witty narcissist with a leonine mane of hair, shirts split to his navel and impossibly tight trousers ("Somebody get me a doctor," as he hollered on one of their songs). The pair's relationship soured in the mid-1980s, when Mr Roth left the band, but for a decade they represented the perfect mix of stage extroversion and intense inner drive. Rock's history abounds in rivalries between singers and guitarists. One of Van Halen's guitarist forebears, Jeff Beck, went so far as to create a guitar tone that mimicked the human voice so as to do away with the tiresome need for a prancing lead singer. Van Halen wasn't immune to similar resentments. "I'm not saying the lead vocal detracts, but in general the first thing people focus on is the vocal," he complained in 2012. But his ego was sufficiently flexible to allow him to be a versatile and inquisitive musician. Among his best-known solos came from a guest appearance on Michael Jackson's "Beat It" in 1983, a far-reaching fusion of rock and pop.

Meanwhile, his band's biggest hit, 1984's "Jump", swapped guitar riffs for synthesizers, to Mr Roth's dismay ("Dave said that I was a guitar hero and I shouldn't be playing keyboards," Van Halen said). After Mr Roth left the group, Van Halen were relaunched with a new vocalist, Sammy Hagar. Such personnel changes often prove fatal to bands, but under their guitarist's aegis Van Halen maintained their place at the pinnacle of rock music.

"Eddie Van Halen is the most amazing musician I've ever been around," his regular producer Ted Templeman once marveled. "He's like Charlie Parker, man — he's a monster. He can do things with a guitar that other people just can't do." Almost as rare, these lavish instrumental gifts were placed at the service of his band, not vice versa.



Source: Unknown

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

For the record

Table 1 lists the latest returns of the mutual and retirement funds under Maestro's care. Returns include income and are presented *after* fees have been charged. Fund Summaries for each respective fund listed in the table, as well as all the historic returns, are available on our website.

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

	Period ended	Month	Year to date	Year
Maestro Equity Prescient Fund	**Sept**	**-1.7%**	**3.6%**	**2.9%**
JSE All Share Index	*Sept*	*-1.6%*	*-2.5%*	*2.0%*
Morningstar sector ave	*Sept*	*-1.5%*	*-6.9%*	*-2.9%*
Maestro Growth Fund	**Sept**	**-2.5%**	**12.0%**	**12.3%**
Fund Benchmark	*Sept*	*-1.3%*	*1.9%*	*4.9%*
Morningstar sector ave	*Sept*	*-1.8%*	*-0.7%*	*1.9%*
Maestro Balanced Fund	**Sept**	**-2.4%**	**10.9%**	**11.7%**
Fund Benchmark	*Sept*	*-1.1%*	*2.7%*	*5.4%*
Morningstar sector ave	*Sept*	*-1.5%*	*0.6%*	*2.5%*
Maestro Cautious Fund	**Sept**	**-0.7%**	**4.5%**	**6.0%**
Fund Benchmark	*Sept*	*-0.4%*	*2.1%*	*4.7%*
Morningstar sector ave	*Sept*	*-1.0%*	*1.3%*	*2.8%*
Maestro Global Balanced Fund	**Sept**	**-4.4%**	**30.1%**	**32.4%**
Benchmark	*Sept*	*-3.8%*	*22.8%*	*19.0%*
*Sector average **	*Sept*	*-3.5%*	*17.1%*	*16.0%*

* Morningstar Global Multi Asset Flexible Category

Notwithstanding the returns listed in Table 1, we thought it would be appropriate to list our longer-term returns for our investment solutions, shown in the following tables. All returns are for periods to 30 September, and are taken from Morningstar's monthly unit trust survey. Returns are shown on a net basis i.e. after all fees have been deducted.

Table 2: The Maestro Equity Prescient Fund

Morningstar (ASISA) South Africa Equity General - September 2020						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Equity Prescient Fund	***3.8%***	***20.1%***	***2.9%***	***-3.2%***	***-1.3%***	***5.7%***
Maestro Equity Fund benchmark	-0.8%	19.5%	0.8%	1.1%	3.7%	11.1%
SA Peer Group Average	1.1%	20.8%	-2.9%	-1.0%	1.8%	7.0%
Maestro position within Group	20	94	36	106	95	45
Number of participants	169	168	164	146	113	62
Quartile	1st	3rd	1st	3rd	4th	4th

Table 3: The Maestro Growth Fund

Morningstar (ASISA) South Africa Multi-Asset High Equity - September 2020						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Growth Fund	***2.4%***	***12.8%***	***12.3%***	***4.8%***	***4.2%***	***8.0%***
Maestro Growth Fund benchmark	1.0%	18.1%	4.9%	5.3%	6.5%	9.7%
SA Peer Group Average	1.3%	14.9%	1.9%	2.3%	4.0%	7.8%
Maestro position within Group	33	155	9	19	63	25
Number of participants	203	201	195	173	127	55
Quartile	1st	1st	1st	1st	3rd	2nd

Table 4: The Maestro Balanced Fund

Morningstar (ASISA) South Africa Multi-Asset Medium Equity - September 2020						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Balanced Fund	***2.2%***	***12.0%***	***11.7%***	***3.8%***	***3.8%***	***7.5%***
Maestro Balanced Fund benchmark	1.0%	15.9%	5.4%	5.8%	6.8%	9.4%
SA Peer Group Average	1.1%	12.6%	2.5%	3.1%	4.4%	7.4%
Maestro position within Group	14	50	1	29	49	17
Number of participants	96	94	94	82	65	35
Quartile	1st	3rd	1st	2nd	4th	2nd

Table 5: The Maestro Cautious Fund

Morningstar (ASISA) South African Multi-Asset Low Equity - September 2020						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Cautious Fund	***0.5%***	***4.9%***	***6.0%***	***5.1%***	***4.9%***	***7.9%***
Maestro Cautious Fund benchmark	1.1%	11.7%	4.7%	6.0%	6.9%	8.0%
SA Peer Group Average	1.0%	9.3%	2.8%	4.1%	5.1%	7.4%
Maestro position within Group	115	147	22	42	69	19
Number of participants	158	156	153	135	102	50
Quartile	4th	4th	1st	2nd	3rd	2nd

Table 6: Maestro Global Balanced Fund

Morningstar (ASISA) Global Multi-Asset Flexible - September 2020						
	3 mths	6 mths	1 Year	3 Years	5 Years	10 years
Maestro Global Balanced Fund	***2.0%***	***14.2%***	***32.4%***	***N/A****	***N/A****	***N/A****
Global Balanced Fund benchmark	1.4%	11.0%	19.0%	13.1%	10.5%	14.5%
SA Peer Group Average	1.8%	10.6%	16.0%	10.7%	9.8%	13.1%
Maestro position within Group	17	11	1	N/A	N/A	N/A
Number of participants	36	34	32	26	20	11
Quartile	1st	1st	1st	N/A	N/A	N/A

Table 7: Central Park Global Balanced Fund

Morningstar USD Moderate Allocation - September 2020						
	1 Year	3 Years	5 Years	7 years	10 years	15 years
Central Park Global Balanced Fund ($)	***22.8%***	***8.0%***	***7.2%***	***4.6%***	***2.9%***	***3.0%***
Central Park Glbl Balanced Fund benchmark	8.2%	5.4%	6.4%	4.9%	5.0%	4.5%
Global Sector Average	3.4%	2.7%	4.6%	3.1%	3.4%	N/A

File 13: Information almost worth saving

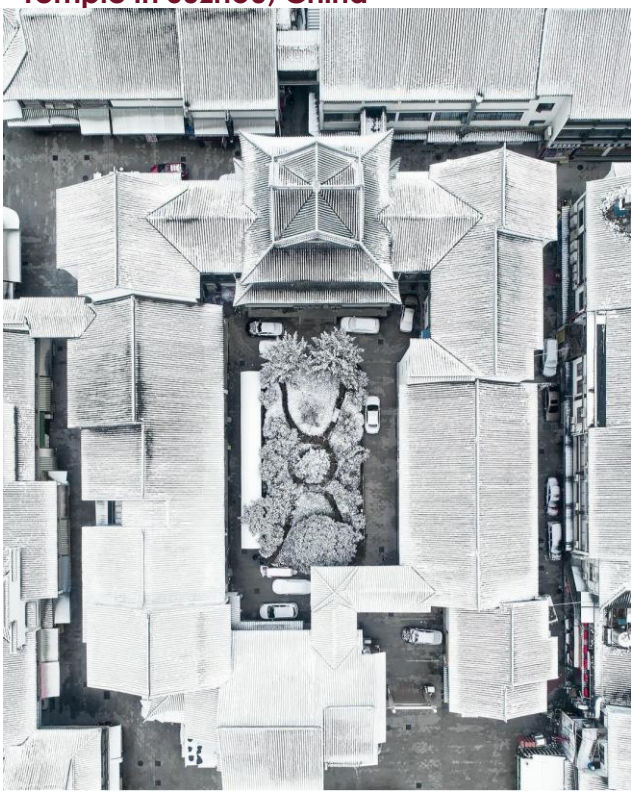
Individual stocks are risky

In the past we have included comments from various technical analysts whose work we follow. We have always said that within Maestro, we have a "more-than-healthy" respect for technical analysis, which, just to remind you, ignores all the fundamental factors usually considered when investing into a company, and concentrates only on the share price history, and the volume of shares traded. It ignores all other factors surrounding the investment decision. As

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

heretical as that sounds, we use technical analysis as a roadmap of the markets; we often consider it when trying to decide on the future, short-term direction of markets.

Temple in Suzhou, China



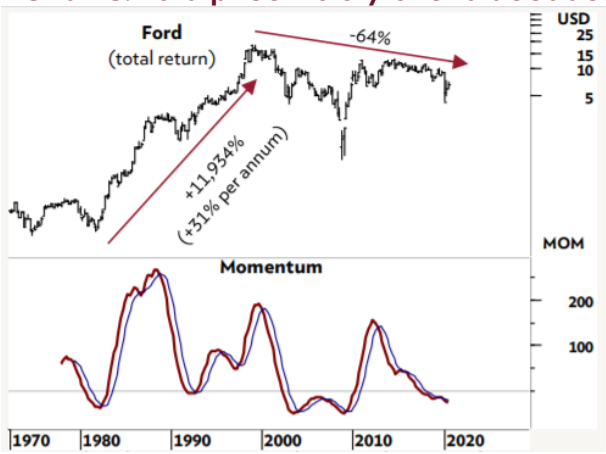
Source: @seven7panda

Julius Bär has a strong team of technical analysts and this month I would like to share two examples of their work. Their comment and conclusions are clear enough and require no additional comment. Note that the italics are mine and that the scale on both charts is a logarithmic scale.

"112 years ago, Henry Ford introduced the Model T and brought the car to the average consumer. I always remember his quote about his customers: 'If I had asked people what they wanted, they would have said faster horses.' Looking at the stock price performance of Ford, it becomes clearer why most investors underestimate the risks of individual stocks. As seen on the chart, the Ford stock increased by 31% per annum from 1981 until its peak in the year 2000.

"Since then, the stock has declined by 64%, including dividends. Today, Tesla is 15 times larger than Ford. Thus, the anniversary of the Model T is a good time to review the performance of the Ford stock over the past fifty years and to *remember that individual stocks are riskier than most investors believe, even if you hold the stock for decades*. Technical analysis can be a useful tool for recognising when long-term trends are broken".

Chart 8: Ford price history over 6 decades



Source: Julius Bär

Beware of lagging stocks

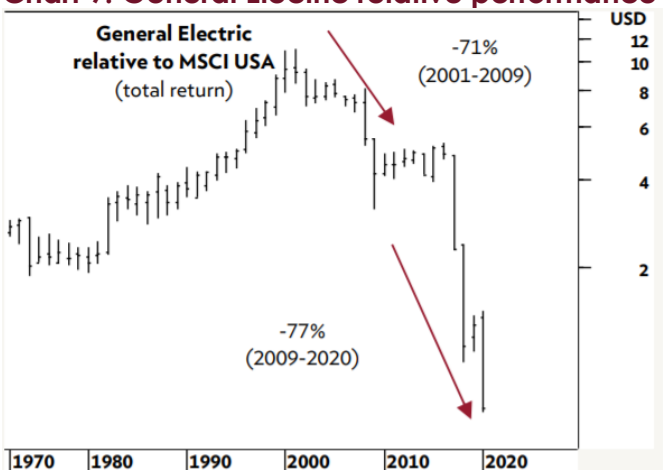
"A sobering joke for investors looking to buy cheap stocks is the following: How can a stock underperform by 93%? It is easy, it underperforms by 71% and then by another 77%. This joke is of course a good reminder that there is no limit to underperformance. The trend remains intact as long as it does not change.

"A perfect example is General Electric. From 1981-2001, it managed to outperform by 8% per annum or by 436% overall. Nevertheless, after peaking in 2001, the stock underperformed by

71% to the lows of 2009 and since then by another 77%. Thus, a massive decline / under-performance is no guarantee for a rebound or improvement, even for a blue chip stock. A relative chart can help to detect these 'invisible bear markets', as these stocks underperform constantly.

"Lagging stocks have the tendency of going sideways in an overall equity bull market, and once the overall equity market declines, they decline much more".

Chart 9: General Electric relative performance



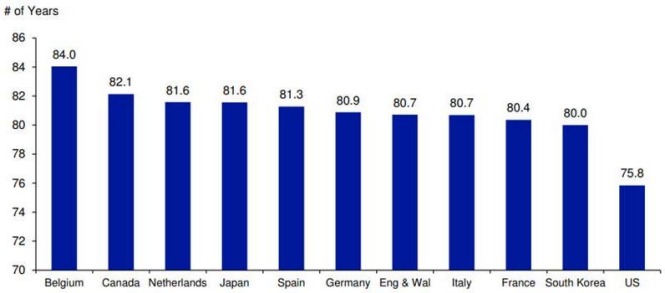
Source: Julius Bär

Covid -19: the ultimate discriminatory virus

Two features were immediately apparent from an early analysis of the Covid-19 virus that made it the ultimate discriminatory virus. Although not a perfect one, there is a very strong correlation between age and health on the one hand, and fatalities on the other. If you are old and or unhealthy, the chances of survival after contracting the virus are very slim. This is still borne out by data being produced on the virus.

This much is clear from the average age of fatalities from the virus. For most countries, it is remarkably consistent around the 80 – 82-year old mark.

Chart 10: Average age of Covid fatalities



Source: Deutsche Bank

The country that stands out is the US where the average age of Covid fatalities is just under 76 years old. A small part of this might be down to many of the other countries having an older population. For example, Italy's median age is 45 (43 in Europe), whereas it is 38 for the US.

However, some of it is likely due to the higher prevalence of comorbidities in the US. For example, in global data from 2016, the US has the highest obesity rate of any major country. It ranks 12th (36.2% of the population are obese) out of 196 countries. The 11 higher were mostly South Pacific Islands such as Tonga, Samoa and the Cook Islands. The highest in Europe is Turkey in 17th (32.1% are obese), followed by the UK in 36th (27.8%). For reference, Germany is 79th (22.3%), France 87th (21.6%), Italy 107th (19.9%), China 169th (where only 6.2% of the population is obese), and India 189th (3.9%).

Lingyin Temple, Hangzhou, China

Source: @seven7panda

How large are China's stock markets?
In early October, China's stock market exceeded US$10tn (trillion) in total capitalisation for the first time since the infamous rout in 2015.

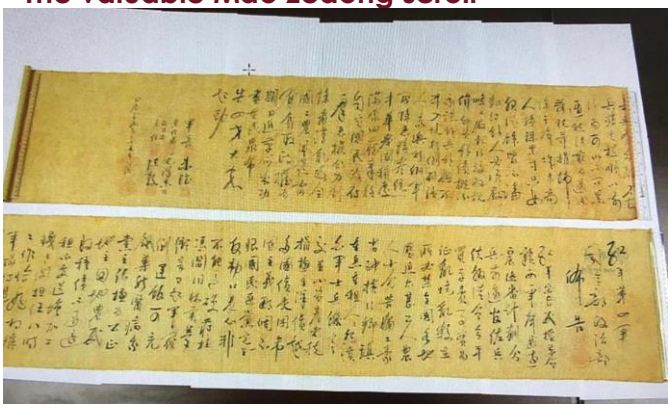
The combined values of shares trading on the Shanghai and Shenzhen exchanges reached US$10.04tn. The market value briefly touched US$10.05tn in June 2015, the only other time it has reached the threshold, before a catastrophic meltdown erased half that value in the subsequent three months.

China's market is now the world's second-largest behind the US, which is capitalised at US$38.3tn. Japan and Hong Kong are ranked third and fourth, with market caps of US$6.2tn and US$5.9tn respectively.

Want a small fortune? Start with a big one!
A calligraphy scroll by China's former leader Mao Zedong, estimated to be worth $300m, was cut in half after it was stolen last month in Hong Kong, police have said.

The scroll was found damaged when police arrested a 49-year-old man in late September on suspicion of handling stolen property. The South China Morning Post, reported that the scroll was cut in two by a buyer who purchased it for about $64 and believed the scroll to be counterfeit. "According to our investigation, someone thought that the calligraphy was too long. It was difficult to show it, to display it, so it was cut in half."

The valuable Mao Zedong scroll



Source: South China Morning Post

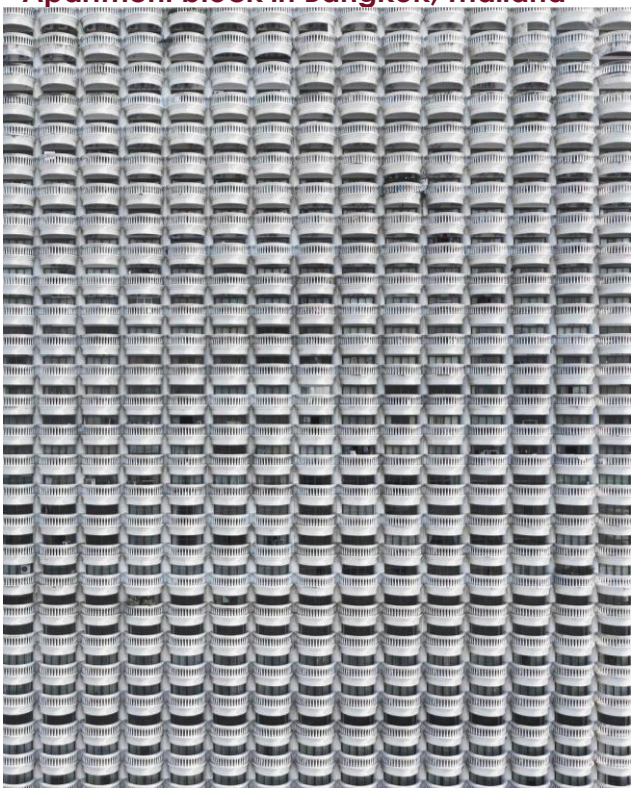
Police said the scroll was taken as part of a multimillion-dollar theft by three burglars from a collector's apartment in September. The collector, Fu Chunxiao, was in mainland China at the time and has not been to Hong Kong since January because of the coronavirus pandemic. The burglars also took 24 000 Chinese postage stamps, 10 coins and seven calligraphy scrolls from Fu's apartment.

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

So what's with the pics?

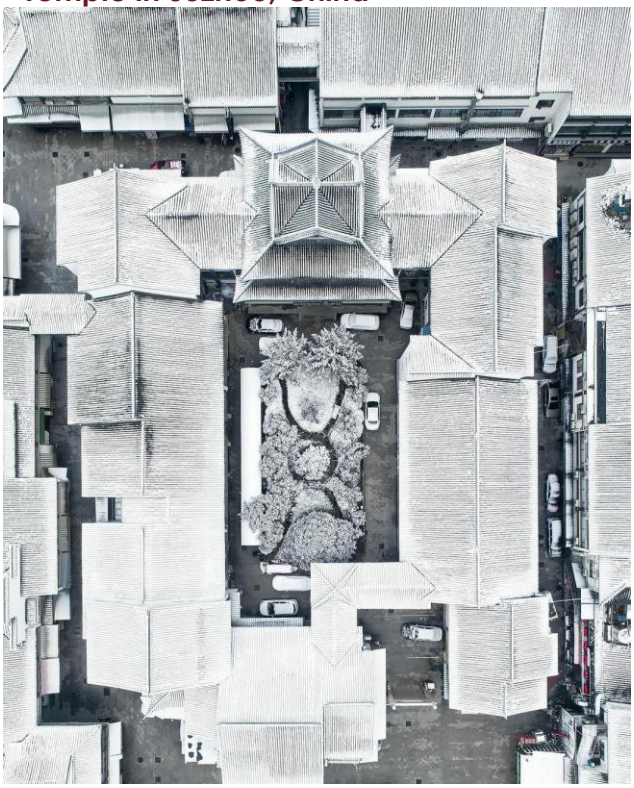
This month I selected a few photos off Instagram that are predominantly black and white photos. The first few are the work of a Greek photographer, Vassilis Tangoulis, whose work consists mainly of black and white photos. There is always something dramatic about black and white photography - I hope you enjoy them.

Apartment block in Bangkok, Thailand



Source: @seven7panda

Temple in Suzhou, China



Source: @seven7panda