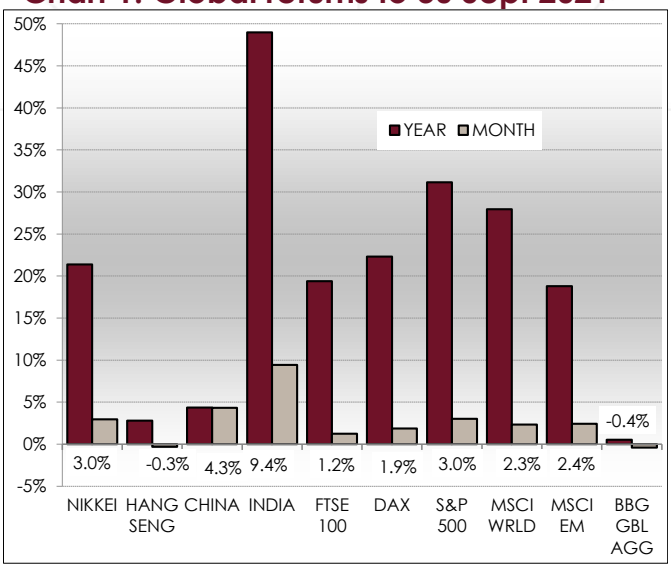
September in perspective – global markets

So many variables weighed on global markets during September that it is hard to touch on all of them. Let me jump right in: clear indications from the US Federal Reserve (the Fed) that the end of very loose monetary policy is in sight (meaning simply that the Fed is now turning its thoughts to ending the era of ultra-low interest rates) resulted in bond yields (interest rates) rising, and bond prices falling. That in turn supported the US dollar, which rose 1.73%.

The strong dollar rippled across multiple asset classes, particularly in the commodity price complex, which came under huge pressure. Add to that rapidly escalating energy prices around the world (coming at the worst possible time, ahead of the northern hemisphere winter), reduced growth forecasts for major economies, the usual pandemic wobbles, increasing evidence of severe supply chain constraints, and the results of some really unintelligent decisions (such as the Brexit decision in the UK) – the "investment cocktail mix" was toxic.

Chart 1: Global returns to 30 Sept 2021



African red-billed hornbill

Source: @pnweingart

Turning to the numbers; starting with the global bond market, the Bloomberg Global Aggregate Bond index declined 1.8% (down 4.1% for the year-to-date). The MSCI World and Emerging Market indices both declined 4.3% in September, but their respective year-to-date returns of 11.8% and -3.0% speak to very different returns from the respective underlying markets. The Hong Kong equity market fell 5.0%, the US market fell 4.7% and the tech-heavy NASDAQ 5.3%. The German equity market fell 3.6%, while Switzerland, a traditionally defensive market, lost 6.2% on the month. Within the emerging market universe, the Indian market rose 2.1%, the Chinese market 0.7%, and the Russian market, boosted by a strong oil price, rose 5.6%. Brazil fell 6.6% and Turkey 4.5%. The (US) S&P Mid and Small cap indices declined 4.1% and 2.6% respectively, although they still boast respective year-to-date returns of 14.5% and 19.0%.

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

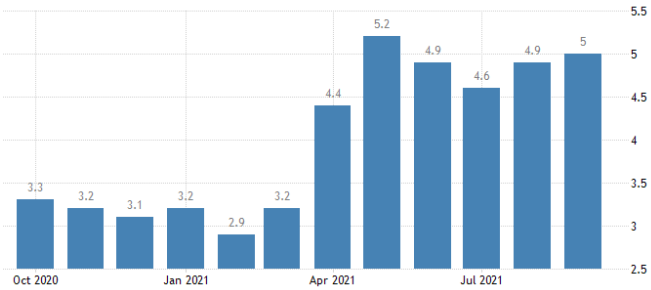
On the currency front, just about all currencies gave up ground against the dollar. The commodity complex bore the brunt of concern about the pace of economic recovery, supply chain issues, and the strong dollar. Apart from the oil price, which rose 9.4% (for an 87.7% annual return), and the coal price, which rose 34.5% reflecting the energy crisis, the iron ore price fell 22.5% on the month, the palladium price fell 21.6%, and copper 6.2%.

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 August retail sales grew 4.9% month-on-month, somewhat less than expected. Retail sales dropped 11.1% in July, following the looting and chaos that month. Manufacturing and retail remain below pre-pandemic levels; in constant, seasonally-adjusted terms, retail sales in 2021 are unlikely to exceed 2016 levels. Headline inflation rose 0.2% month-on-month in September, from 0.4% in August, bringing the annual inflation rate to 5.0% from 4.9% (Chart 2). The annual rate of core inflation, which excludes volatile food and energy prices, rose from 3.1% to 3.2% in September.

Chart 2: SA annual headline inflation (%)



Source: Tradingeconomics.com

Red shoulder hawk, frog-marching prey

Source: @randy_simplelife

- *US economy:* Job creation in September in the US came in a lot lower than expected. Only 194 000 jobs were created, versus the expectation of 500 000, although the previous month's data was revised upwards by 169 000. The unemployment rate declined from 5.1% to 4.8%. Hourly earnings have increased 4.6% in the past year. Headline inflation rose from 5.3% to 5.4%, while the core rate of inflation remained steady at 4.0%. Reasonable ongoing demand versus supply chain constraints remain the stories behind inflation; this is likely to remain the key area of focus in the coming months. Finally, the US economy grew at an annualized rate of only 2.0% during the third quarter (Q3), lower than the expected rate of 2.7%, and

down from Q2's 6.7%. The economy grew 0.5% quarter-on-quarter. Personal consumption rose only 1.6% versus 12.0% in Q2. Spending on durable goods fell 26.2%, thanks in large part to a decline in auto sales, where supply was hampered by the global semiconductor shortage. Spending on services rose 7.9%, down from an 11.5% increase in Q2.

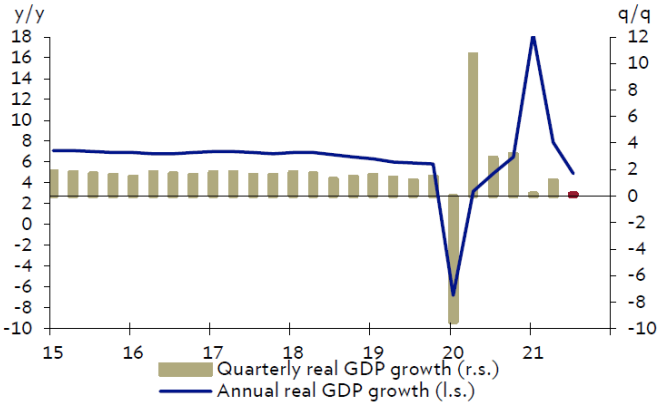
White-tailed eagle, Poland

Source: @michele_bavassano

- *Emerging economies:* The Mexican central Bank continued to increase interest rates, raising the latter by 0.25% to 4.75% at their last meeting. Mexico's annual rate of headline inflation in August was 5.6%. Columbia's central bank raised their policy rate by 0.25% to 2.0% in an effort to curb rising inflation. The bank raised its 2021 inflation forecast to 4.5% and 3.5% in 2022 (the August annual inflation rate was 4.4%) and it increased its 2021 economic growth forecast to 8.6% in 2021 and 3.9% in 2022. Chile's central bank raised their interest rate by 1.25% to 2.75%, ostensibly to curb inflation. The annual headline inflation rate in Chile was 5.3% in September, which compares to the central bank's target rate of 3% with a 1% margin on either side.

Moving to China, their growth rate is slowing; the annual growth rate declined from 7.9% in Q2 to "only" 4.9% in Q3. The annual growth in retail sales rose from 2.5% to 4.4% in September but industrial activity declined from 5.3% to 3.1%. De-leveraging in the property sector, power and production curbs, and renewed outbreaks of Covid all contributed to the lower than expected growth rate. On a quarter-on-quarter basis, the economic growth rate slowed to 0.2%, as seen in Chart 3, below.

Chart 3: Chinese economic growth (%)



Source: Tradingeconomics.com

One of the political clowns on the global stage has been at it again: yes, Turkey's President Erdogan has been interfering in the country's monetary policy framework again, and the results have been extremely negative. Despite inflation remaining very high – September headline and core

inflation at 19.58% and 16.98% respectively – the Turkish central bank cut rates by 2.0% to 16.0%. Erdogan removed all three committee members who voted for an increase in interest rates, which would have been the appropriate policy stance given the prevailing circumstances. Not for the first time, the credibility of the central bank has been left in tatters as it follows an unconventional path under pressure from the President. The latter believes that higher interest rates *cause* inflation, and it seems Erdogan will stop at nothing to impose this view on the country, even if that means the removal of credible central bank governors and replacing them with puppets and "yes-men". Not surprisingly the Turkish lira has been under pressure, declining 12.7% so far since the end of August, and 17.8% during the past year.

Crested Hawk-eagle, Pune, India

Source: @yolo_ajinkya

Quotes of the month

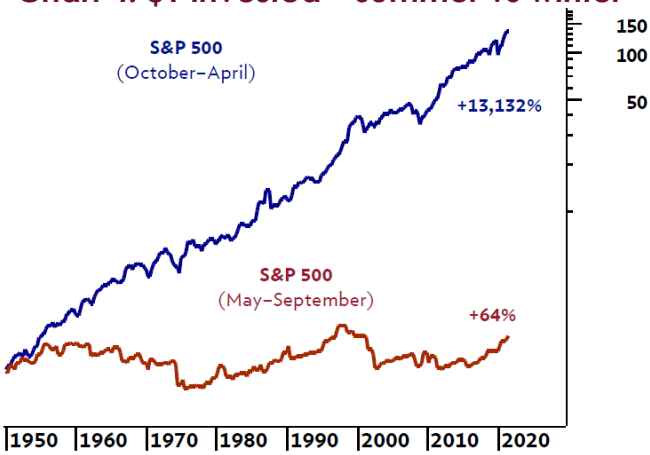
I love autumn

Similar to last month, here are some pearls of wisdom from *Julius Bär's Technical Analyst Mensur Pocinci.*

"My favourite time of year is autumn. Not only is it the best time for hiking in the Swiss Alps or enjoying the end of the summer in the Turkish Riviera, but it is also the best season for equities.

"As seen on the chart below, since 1950, the winter months (October – April) have been kind to investors in the S&P500. The index has averaged 14.5% annualized gains in the winter months versus only 1.3% in the summer months.

Chart 4: $1 invested – summer vs winter



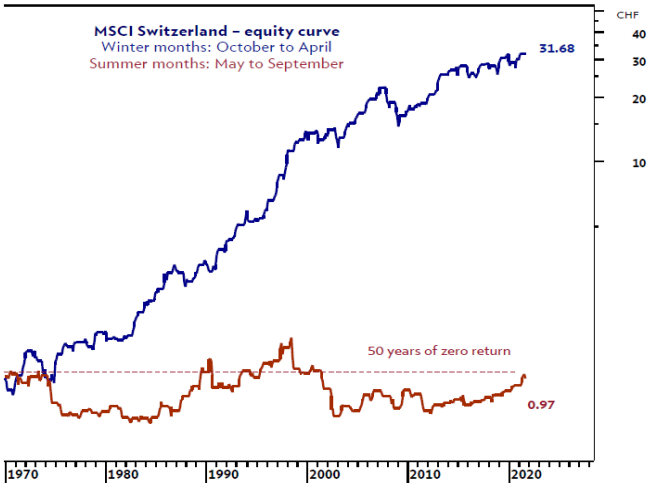
Source: Julius Bär

"In Europe, the difference is even bigger. Since 1959, the DAX has seen negative returns of 2.3% in the summer months and 14% annualized gains in the winter months. The volatility and uncertainty of September lays the groundwork for a year-end rally, with last week recording the largest equity outflows since March 2020. We recommend investors stay invested, as we expect a year-end rally and strong seasonality into 2022, with equity markets continuing to climb the wall of worry."

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

"The seasonal pattern is similar for Switzerland. For the past 50 years, there has been no return in the summer months, including dividends. Thus, investors have to think twice about whether or not they are holding enough equities going into the best period of the year.

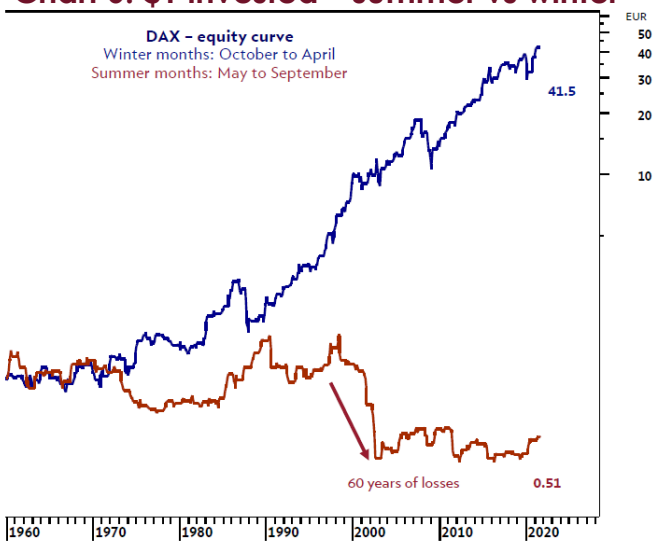
Chart 5: $1 invested – summer vs winter



Source: Julius Bär

"Until the year 1998 the DAX displayed return-free summer seasonality. This changed towards the previous bull market peak. From 1998 to 2002 the DAX lost more than 75% in the summer months".

Chart 6: $1 invested – summer vs winter



Source: Julius Bär

Charts of the month

While on the topic of seasonality, every year around this time I include charts which depict market seasonality over decades. Of course, there is no guarantee markets will do the same this year, but it is worth being informed. There is more than an element of truth in the adage "the trend is your friend".

Chart 7: Ave S&P performance since 1928

Source: Deutsche Bank

Chart 7 depicts the average daily performance of the S&P500 since 1928. In a typical year, markets have two tricky periods. Firstly for around two months from the start of May (so maybe sell in May and go away but be back before July), and secondly from early September until late October.

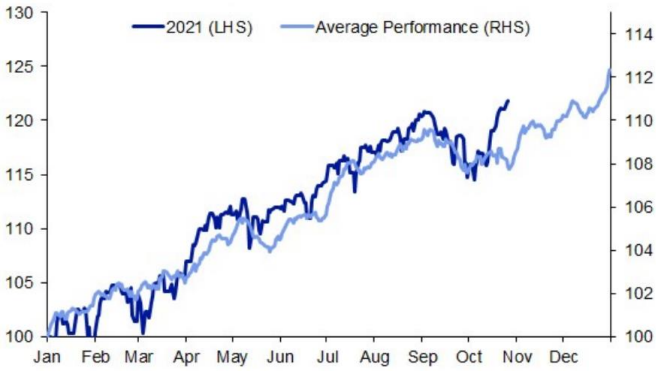
The second period has historically been where more accidents happen, and as can be seen from the standard deviation bars, where more volatility is seen. From late October the market has historically begun its Santa Claus rally and sees its strongest period of the year, with falling volatility, too.

White-tailed eagle, Poland

Source: @michele_bavassano

As Chart 8 shows, 2021 has been remarkably similar to this historical pattern until mid-October, albeit with double the historical performance in percentage terms. Over the past few days the S&P500 has broken out from its historical pattern and rallied a few weeks ahead of schedule.

Chart 8: 2021 vs ave S&P performance

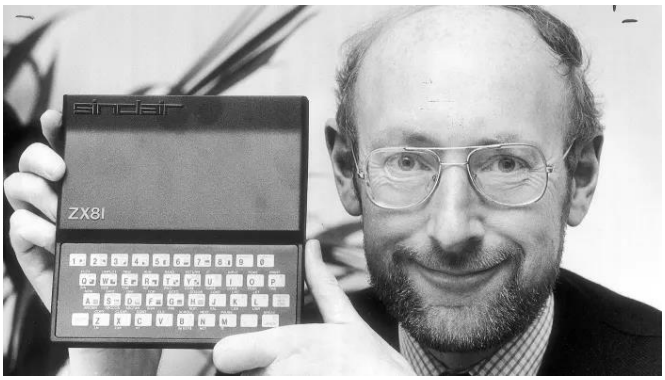


Source: Deutsche Bank

Earnings have helped; US reporting season so far has been better than the long-term average in terms of results above expectations but notably down from the high rate of the extraordinary last four quarters, especially if you adjust for the release of loan loss provisions at banks. Nevertheless, it has still been healthier relative to some of the "stag-flationary" gloom stories seen through September and early October, which has perhaps helped the relief rally. Time will tell if there is more to come, or whether or not Santa has simply arrived early.

Obituary – Sir Clive Sinclair, 1940 – 2021

If Sir Clive Sinclair failed to create an enduring British success story from his pioneering computers, his death at 81 brought forth a host of engineers, entrepreneurs and even tech billionaires who said their careers had been built on his inventions.



Tributes poured in from alumni users of his cheap home computers from the 1980s, led by Elon Musk and the Microsoft chief executive Satya Nadella, who said Sinclair's innovations had democratized computing and "inspired so many, including myself".

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

"I vividly remember my first computer, a ZX80, and the sense of wonder and empowerment I felt. It was your device that sparked my passion for engineering," he said.

The ZX's natural successor today is the UK's Raspberry Pi, the sub-£50 computer designed to make PCs more affordable and help children learn to program. It was Sinclair's ZX80 that originally drove the price of a home computer below £100 in 1980 and triggered the creation of an army of coders and a new era of innovation.

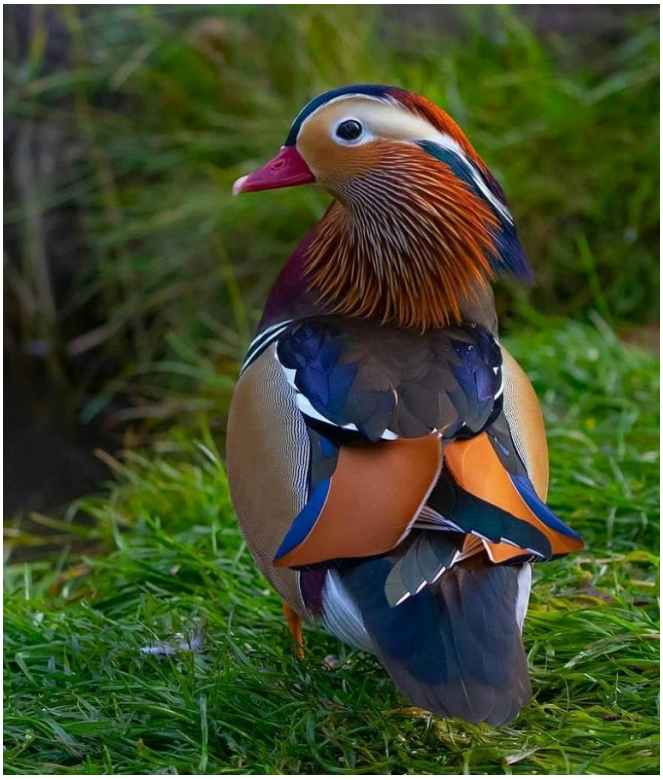
"We wouldn't have anything like the number of engineers that we have in the UK today of my generation if you had to spend £300 to £400 on a computer and that was really an enormous part of his contribution," Raspberry Pi co-founder Eben Upton told the Financial Times.

Many were lured to the ZX80s and Spectrum by the chance to play games on a TV screen, but it was the flashing cursor on the command line that tempted enthusiasts into their first coding ventures, long before it became obscured by the graphical user interface.

Sinclair, the son of a London machine tools business owner, embarked on his entrepreneurial career soon after he left school at 17. He wrote technical articles and sold transistor radio kits by mail order, before setting up his own company, Sinclair Radionics, at the age of 21, to market a radio the size of a matchbox.

Things took off in 1972 as his transistors found their way into the Executive pocket calculator, a world first for its size, followed by a black-plastic digital wristwatch in 1975 that failed to keep time or to catch on. In 1977, he launched the world's first pocket television before setting up Sinclair Research in Cambridge in 1979, where the ZX computers were developed. They became the world's best-selling computers, making Sinclair a fortune that was subsequently squandered on less successful inventions.

Mandarin duck



Source: @wallmika

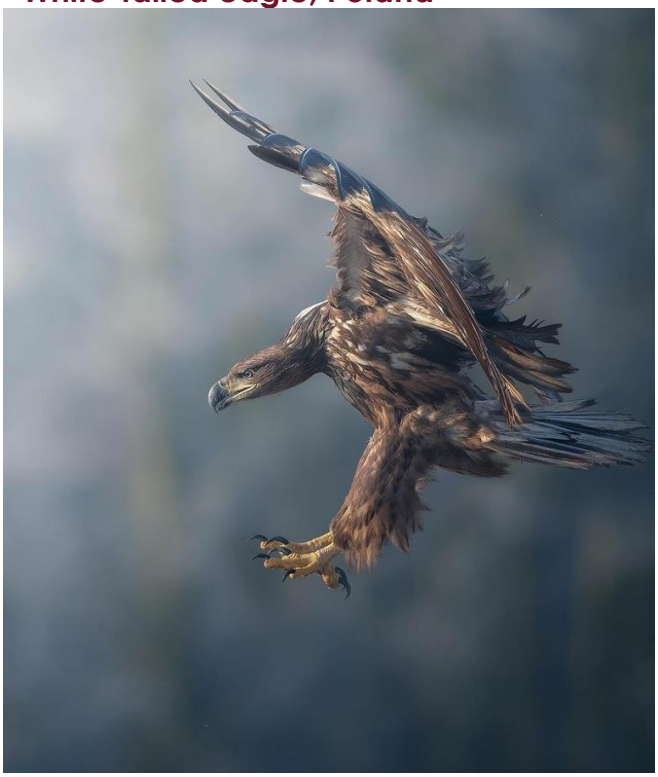
As an inventor, his lack of interest in the nitty gritty of growing a company did not help. "I'm not, at heart, a businessman," he told the FT in 2003. "I don't like running a company — I'm not averse to making money, but I just don't like managing people. It's a distraction."

The ZXs were feeble computers by today's standards. They had barely any memory, data had to be saved to cassette machines and the membrane keyboards were horrible for typing. There were often long delays to orders and quality control issues as Sinclair tried to keep the price down.

"I heard Clive Sinclair's attitude to design was that you take things off the [circuit] board after you've finished it until it stops working. And then you put the last thing back on and if it's working, then you sell that," said Robert Dowell, an educator at the UK's National Museum of Computing, which counts a range of Sinclair products as exhibits. "So that's why things may not have worked as well as they should."

Sinclair also soon faced competition in Cambridge from a former employee Chris Curry at Acorn, which developed the BBC Micro computer and went on to found Arm, the chip designer. IBM and Apple were not far behind in the rapidly developing market.

White-tailed eagle, Poland



Source: @michele_bavassano

His knighthood in 1983 came at the peak of his career as his low-cost business computer, the QL, launched the following year, suffered technical and delivery problems, and 1985 saw the launch of his much-ridiculed C5 electric vehicle. In 1986, he was forced to sell the computer business to his rival Alan Sugar's Amstrad and close his Cambridge offices.

The three-wheeler, 15mph, C5 was viewed as unstable, unable to mount a serious hill or travel any significant distance at all before its battery packed up. And yet it was ahead of its time, given today's ubiquitous electric bikes and scooters. When he launched the C5, he spoke of self-driving cars that would reach 200mph and eliminate crashes.

In his later years, Sinclair devoted himself to personal transport, coming up with the Zike electric bike in 1992 and the Zeta electric engine for an ordinary bicycle in 1994.

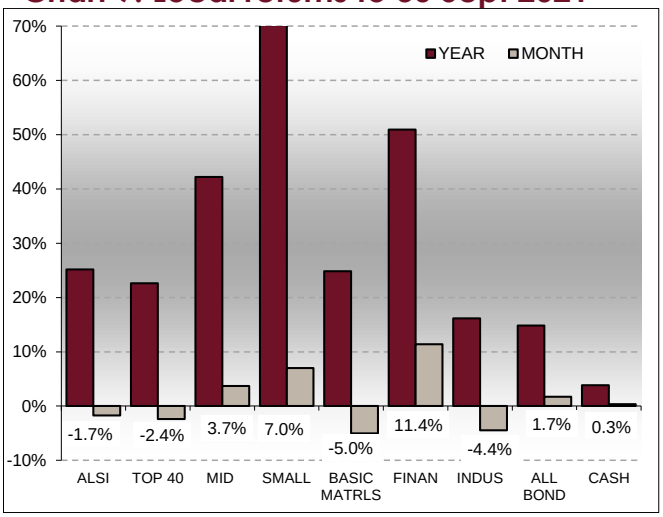
He went back to his roots with a radio the size of a 10p piece in 1997 and came up with an electric motor to power wheelchairs and a folding bike in the following decade.

If none of these were notable successes, he continued to be revered as a visionary inventor and enjoyed a colourful public and private life, including chairing Mensa and marrying, in 2010, a former Miss England and Stringfellows club lap dancer Angie Bowness, in a seven-year second marriage.

September in perspective – local markets

The local markets largely followed in the footsteps of global ones, with the All Bond index losing 2.1% and the All Share index 3.1%. The Basic Materials, Financial, and Industrial indices posted returns of -9.8%, 1.7%, and -0.8% respectively; the Financial index rose despite the rand losing 3.9% against the dollar – financial shares are usually weak when the rand loses ground.

Chart 9: Local returns to 30 Sept 2021



It is hard to believe, but many are already counting the shopping days to Christmas, the point being we are rapidly approaching the end of the year. Am I the only one that feels like time flies faster in the pandemic world? With little left of the year, there is not too much time for markets to make up lost ground and recover some of their composure.

As mentioned at the start of this letter, there are many different variables influencing equity and bond markets at present, most of which are negative. That said, the remaining quarter of the year is typically a firm one if history is anything to go by. We hope that as many of the current market "unknowns" became clearer – think for example of the debate about the "transitory" nature of inflation, or the scale and inception date of central banks' retreat from ultra-easy monetary policy – global investment markets will stabilize and many of the long-term, secular (as opposed to cyclical) themes will reassert themselves. This will support our funds and portfolios, as we have a strong, growth-oriented thematic approach, having invested in companies which will benefit from themes such as clean energy, technology transformation and disruption, electric vehicles and new forms of mobility (think e-scooters and e-bikes), ongoing semiconductor (chip) shortages, the restoration to a more conventional form of monetary policy (a fancy way of saying "higher bond yields" [interest rates]), to mention but a few.

While we continue to prefer equities as the long-term asset class of choice to drive capital growth, we expect the current market volatility to continue for some time. So expect a bumpy ride into the year-end. That said, we are comfortable that the companies in which we have invested are robust and in many cases, market leaders and "best in class". This provides a sense of comfort as we continue to make sense of what remains one of the craziest and toughest environments in which to operate and survive, not only as investment managers, but also as humans and ordinary people going about our daily lives.

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**	**-0.9%**	**11.8%**	**19.5%**
JSE All Share Index	*Sept*	*-3.1%*	*12.3%*	*23.2%*
Morningstar sector ave	*Sept*	*-1.2%*	*16.5%*	*27.8%*
Maestro Growth Fund	**Sept**	**-1.3%**	**4.0%**	**3.7%**
Fund Benchmark	*Sept*	*-2.2%*	*9.6%*	*17.2%*
Morningstar sector ave	*Sept*	*-0.6%*	*12.2%*	*18.8%*
Maestro Balanced Fund	**Sept**	**-1.3%**	**3.7%**	**3.8%**
Fund Benchmark	*Sept*	*-1.9%*	*8.6%*	*15.2%*
Morningstar sector ave	*Sept*	*-0.7%*	*10.0%*	*15.0%*
Maestro Cautious Fund	**Sept**	**-0.9%**	**2.0%**	**3.6%**
Fund Benchmark	*Sept*	*-1.5%*	*6.5%*	*12.2%*
Morningstar sector ave	*Sept*	*-0.4%*	*8.1%*	*12.0%*
Maestro Global Balanced Fund	**Sept**	**-3.7%**	**-6.3%**	**-12.5%**
Benchmark	*Sept*	*0.6%*	*7.8%*	*3.4%*
*Sector average **	*Sept*	*0.6%*	*8.4%*	*5.3%*

* Morningstar Global Multi Asset Flexible Category

Notwithstanding the returns listed in Table 1, our longer-term returns for our investment solutions are listed in the table below. 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 2021						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Equity Prescient Fund	***2.0%***	***3.7%***	***19.5%***	***5.1%***	***1.9%***	***7.5%***
Maestro Equity Fund benchmark	-1.2%	-0.8%	21.1%	7.7%	7.0%	12.8%
SA Peer Group Average	3.0%	3.6%	27.8%	7.1%	5.5%	9.6%
Maestro position within Group	110	76	134	102	105	53
Number of participants	169	168	161	144	116	63
Quartile	3rd	2nd	4th	3rd	4th	4th

Table 3: The Maestro Growth Fund

Morningstar (ASISA) South Africa Multi-Asset High Equity - September 2021						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Growth Fund	***0.2%***	***1.7%***	***3.7%***	***6.0%***	***5.0%***	***8.2%***
Maestro Growth Fund benchmark	0.2%	1.8%	17.2%	9.0%	8.4%	10.8%
SA Peer Group Average	2.5%	4.5%	18.8%	7.2%	6.3%	9.0%
Maestro position within Group	196	187	200	133	120	45
Number of participants	205	205	201	178	148	63
Quartile	4th	4th	4th	3rd	4th	3rd

Table 4: The Maestro Balanced Fund

Morningstar (ASISA) South Africa Multi-Asset Medium Equity - September 2021						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Balanced Fund	***0.1%***	***1.6%***	***3.8%***	***4.7%***	***4.5%***	***7.6%***
Maestro Balanced Fund benchmark	0.3%	2.1%	15.2%	8.8%	8.3%	10.3%
SA Peer Group Average	2.1%	4.2%	15.0%	6.7%	6.1%	8.4%
Maestro position within Group	98	98	96	82	70	31
Number of participants	100	100	98	89	75	38
Quartile	4th	4th	4th	4th	4th	4th

Table 5: The Maestro Cautious Fund

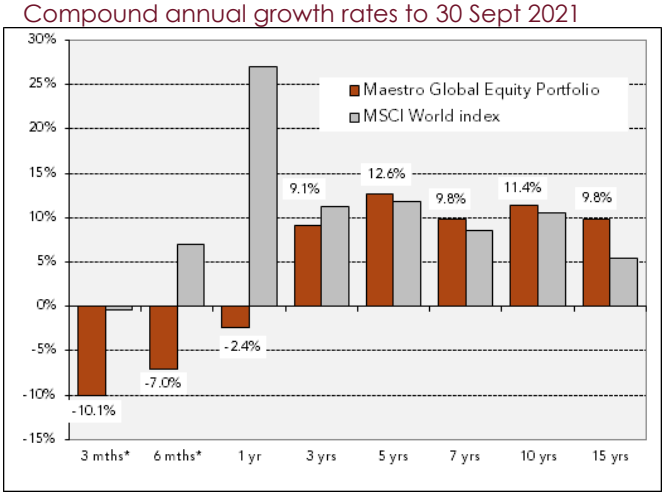
Morningstar (ASISA) South African Multi-Asset Low Equity - September 2021						
	3 mths	6 mths	1 year	3 years	5 years	10 years
Maestro Cautious Fund	***0.4%***	***1.3%***	***3.6%***	***5.4%***	***5.1%***	***7.9%***
Maestro Cautious Fund benchmark	0.3%	2.7%	12.2%	8.0%	7.8%	8.6%
SA Peer Group Average	2.0%	4.5%	12.0%	6.5%	6.2%	8.0%
Maestro position within Group	155	156	154	111	100	34
Number of participants	159	159	155	137	117	59
Quartile	4th	4th	4th	4th	4th	3rd

Table 6: Maestro Global Balanced Fund

Morningstar (ASISA) Global Multi-Asset Flexible - September 2021						
	3 mths	6 mths	1 Year	3 Years	5 Years	10 years
Maestro Global Balanced Fund	***-4.2%***	***-4.7%***	***-12.5%***	***7.6%***	***N/A****	***N/A****
Global Balanced Fund benchmark	4.8%	6.3%	3.4%	10.8%	10.1%	13.4%
SA Peer Group Average	3.8%	5.3%	5.3%	9.3%	9.5%	12.8%
Maestro position within Group	46	44	39	20	N/A	N/A
Number of participants	47	46	40	29	22	12
Quartile	4th	4th	4th	4th	N/A	N/A

Chart 10: Maestro global equity returns

Compound annual growth rates to 30 Sept 2021



* Un-annualized

File 13: Info almost worth remembering

Data that dazzles

R14m for losing client money and a holiday?

News just in is that the Public Investment Corporation (PIC), Africa's largest Investment Manager and which manages, inter alia, the state retirement funds, has just terminated the

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

employment of their erstwhile Chief Financial Officer (CFO) Matshepo More. The latter was suspended by the PIC two years ago, *on full pay*, which just happened to be R7m per annum, following allegations that she signed off the deal that saw the PIC invest R4.3bn into AYO Technology Solutions. At the time, the PIC invested the capital at a price of R43.00 a share, which is quite a way from its current price of R3.00; a 93% loss to be precise. AYO is the creation of Iqbal Survé, a prime example of the worst kind that "the new South Africa" has to offer; he still owes the PIC billions, over and above the AYO sham. Setting Survé aside for the moment, let's see where that left ex-CFO More: that's R7m per annum, over a two-year period, and no work commitments – not bad considering she lost 93% of the client's capital!

Snowy owl

Source: @vanlamphotography

Mark-up magic – or simply corrupt?

Speaking of data that dazzles, a recent investigation revealed just how extravagant the SA Police Service (SAPS) was in procuring Personal Protective Equipment (PPE) when the pandemic first began. SAPS sourced 90 000 25-litre containers of sanitizer and disinfectants at R5 405 per 25l unit, resulting in a payment of R486.5m. Industry experts estimate that the cost of the sanitizer wouldn't be more than R500. If there was a 50% mark-up on the part of the manufacturers, to say R750, that leaves some fortunate vendor of the sanitizers with a mark-up of around 620%. And the poor taxpayer carries the can again!

Practice what you preach, Mr President

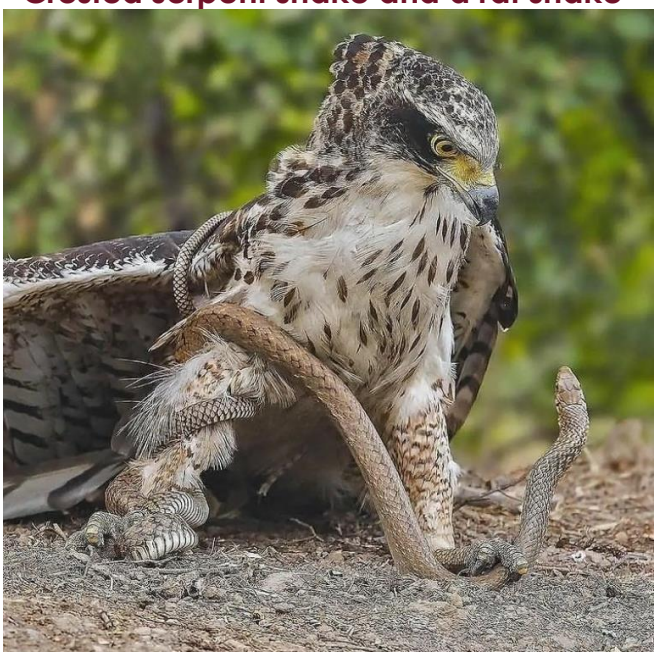
I was struck by the irony of US President Biden's current trip to Italy, ahead of the Cop26 summit on climate change. I wonder if, just for a moment, Biden gave any thought to the emissions created by his *85-car cavalcade*, not to speak of the planes that brought them to Europe in the first place. No wonder politicians are held in such low regard, and have become the laughing stock of the ordinary man and woman.

Straight from the horse's mouth

As all South Africans try and get to grips with increasingly severe and destructive power outages – we refer to them in the office as "load-shredding", for they literally shred the economy to pieces – few would not appreciate what the real cause of the outages is, and who is responsible. Few, that is, other than our dear politicians. We know by now that words such as accountability, responsibility, and, dare I say it, maintenance, are simply not in government's vocabulary, let alone within their comprehension. During the past week, we heard the

following gems from none other than the Deputy President. Speaking about load-shedding, he went on to say "I understood Eskom's problems to be the maintenance of plants that are old. They can break any time. *You can't plan maintenance; it just happens* (my italics)." Er, ja well, no fine. I rest my case!

Crested serpent snake and a rat snake



Source: @ashish_inamdar1979

So what's with the pics?

The theme this month is clearly of birds. I continue to encourage you to seek out the work of the remarkable photographers who provide so much enrichment and learning through their efforts.

Crested Hawk-eagle, Pune, India

Source: @yolo_ajinkya