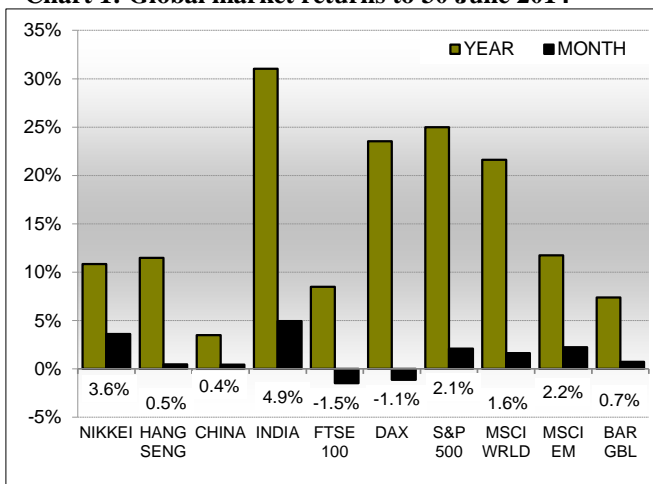




### June in perspective – global markets

June saw the continuation of what we have seen in markets for much of 2014. Equities continued to grind higher while bond yields edged lower. Central bank liquidity was again the main driver of returns; the European Central Bank (ECB) announced a package earlier in the month that they believe will encourage banks to lend to small businesses in the euro area. The package included a negative deposit rate, the first for a major central bank, which essentially penalizes banks for keeping funds with the ECB. The Bank of Japan (BoJ) and US Federal Reserve (Fed) reaffirmed their commitment to keep interest rates lower for longer, all of which played a part in driving equity and bond markets to all-time highs. US economic data remained unconvincing; the final reading of first quarter US economic activity showed a decline of 2.9% - much worse than anticipated. Although more recent data has shown that there has been a rebound in economic activity in the US after the weather-distorted first quarter, a great debate still exists as to whether the US will match the already reduced 2.5% growth forecast for this year. Geopolitical tensions in Iraq and Syria also rattled markets, specifically the oil and gold prices. Tensions in the Ukraine and Russia continued to simmer as both countries reneged on an earlier ceasefire agreement. Despite all of the above considerations the environment continues to be characterised by low volatility and trading volume. The US equity markets have reached all-time highs by posting over fifty consecutive days of sub-one percent moves, the longest streak in two decades, which speaks to the very low volatility prevalent in current markets. These marginal moves have resulted in the S&P500 registering its sixth consecutive positive quarter – one has to go back to the mid-1990s to find a longer positive stretch.

Chart 1: Global market returns to 30 June 2014



The MSCI World index again lagged the MSCI Emerging market index, which rose 2.3%. The rise in emerging

markets was broad based with Russia leading the gainers with a rise of 5.0%; India gained 4.9%, Brazil 3.8%, and China 0.5%. Developed markets were led by US markets which reached all-time highs; the S&P500 rose 2.1%. US mid and small cap indices rose 4.0% and 4.6% respectively. The Japanese equity market continued its recent rebound with a gain of 3.6%, although it is still down 6.9% for the year-to-date. European equities were the laggards, led lower by European banks, which fell 5.0% during the month. The French market fell 2.1%, the UK 1.5% and Germany 1.1%. Global bonds were strong. A number of European sovereign bond prices reached all-time highs. The Emerging Market All Bond Index rose 0.7%, in line with the Barcap Global Aggregate index's gain of 0.7%. Commodities were also strong; silver and gold led precious metals, rising 9.8% and 5.2% respectively. The platinum price declined 0.5% as the 5-month South African platinum miners' strike came to an end. Other notable moves included iron ore's 3.0% gain, oil 2.7%, cotton -8.9% and corn -8.2%. The CRB Commodity Index, a proxy for global commodities, rose 1.1% during the month. On the currency front, the dollar was generally weak; it lost 0.3% against the euro and 1.9% against sterling, but gained 0.4% against the yen.

### What's on our radar screen?

Here are a couple of items we are keeping a close eye on:

- The SA economy:* SA's first quarter (Q1) current account deficit declined to R161bn or 4.5% of GDP. This was better than expected; the consensus expectation was for a deficit of 6.0%. However, the trade deficit, which is included in the current account deficit, deteriorated substantially, declining from R45bn in Q4 of 2013 to R75bn in Q1. The deficit on services, income and current transfers account (effectively net coupons and dividends) narrowed markedly from R134bn to R86bn, largely as a result of increased dividend receipts from abroad. Of interest was the fact that exports of ferrochrome and manganese more than compensated for the decline in exports of platinum, iron ore and coal, to the extent that the volume of mineral exports actually increased during Q1. It is worth pointing out that the trade deficit represents less than half of the current account deficit. The bottom line is that the high current account deficit remains a concern and one of the inherent and structural weaknesses in our economy. In addition, the global economic environment is not conducive to a natural improvement in our deficit; consequently we see the deficit increasing as the year progresses, which will continue to weigh on the rand. The annual inflation rate to May rose to 6.6%, led higher by food prices, which rose at 8.8% in the past year.



- *The US economy:* Given the concern that many have about the declining levels of inflation in the US and the Eurozone, the recent inflation data out of the US would have come as a relief – who would ever have thought we would eagerly await the re-emergence of inflation?! The annual rate of US inflation in May rose to 2.1% while the level of core inflation i.e. excluding food and energy prices rose to 2.0%. Inflation in the US has now risen for three consecutive months (at rates of 0.2%, 0.3% and 0.4% respectively), relieving some of the concern about its level. On the other hand, the US housing market is showing signs of slowing; it is still improving, just at a slower rate. The Federal Reserve (the Fed's) meeting held during June didn't contain any surprises, although it is noteworthy that the Fed lowered its range of growth estimates for 2014 from 2.8% to 3.0%, to 2.1% to 2.3%. On the labour market front, the increase in job creation continues but the nagging structural issues in the make-up of the job market remain, namely that the number of people employed in part-time jobs continues to rise and the number of people employed relative to those eligible for employment, the so-called labour force participation rate (LFPR), remains at very low levels – refer to Chart 10 for a graphic depiction of the LFPR.
- *Developed market economies:* The second revision to the **Japanese** first quarter (Q1) growth saw the economy growing at a quarterly rate of 1.6% (the initial estimate was 1.5%) or 6.7% on an annualised basis. The growth was propelled by business spending, which rose 7.6% although most of this was surely ahead of a tax increase on 1 April. Consumer spending lagged at just 2.2%. The **UK** economy grew 0.8% in Q1, in line with the first estimate of growth. In the **Eurozone**, inflation remained steady, if not virtually absent; core inflation rose from 0.7% to 0.8% in May while headline inflation remained the same at 0.56%, the lowest level in four years.
- *Emerging market economies:* Inflation in **China** rose to 2.5% in May, from 1.8% in April; higher food prices were again to blame.

### The crazy bond market – Part 2

We devoted a substantial part of [last month's Intermezzo](#) to the global bond market, noting how unusual conditions are in that market. At the risk of belabouring the point, it's worth sharing an event in the global bond market that once again underlines just how abnormal bond market conditions are at present and the lengths to which investors will go in their search for yield (income).

The event in question took place in Kenya, where on 16 June the Kenyan government issued \$2bn of bonds, the largest

debut for an African country in the sovereign bond market. \$500m of 5-year bonds were issued at a yield of 5.875% and \$1.5bn 10-year bonds were issued at 6.875%. While that may not seem remarkable in and of itself, consider the following:

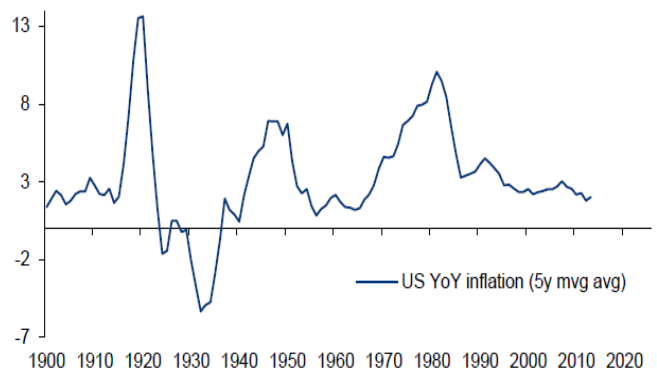
- The yield was a lot lower than expected i.e. investors paid a higher price than most expected
- Bids for more than \$8bn were received i.e. the issue was more than four times over-subscribed, which equates to nearly 11% of the entire Kenyan economy
- The Kenyan president was unable to attend the presentation, given that he was focussing his efforts on the charges of crimes against humanity brought against him
- Halfway through the international roadshow finance minister, Henry Rotich, had to excuse himself to rush back to parliament to explain that the Kenyan current account had just blown out to \$3.8bn i.e. around 5.0% of GDP
- The previous night the country suffered another devastating terrorist attack, which left 48 people dead in a popular coastal town.

I think you now understand just how frenzied the demand is from some quarters for high-yielding bonds and those from perceived higher-risk countries. On a more positive note, the official size of Kenya's economy was recently upgraded by 20.6% higher than the last (2009) estimate, in addition to which Mr Rotich announced that the estimate for economic growth in 2014 was 5.8% and 6.4% in 2015.

### Charts of the month

We have discussed the US inflation rate, or rather the absence of inflation in the US, on numerous occasions in Intermezzo in the past year. I thought you would therefore be interested to see a very long-term chart of US inflation, shown below, to put the current rate into perspective.

Chart 2: The US inflation rate since 1900

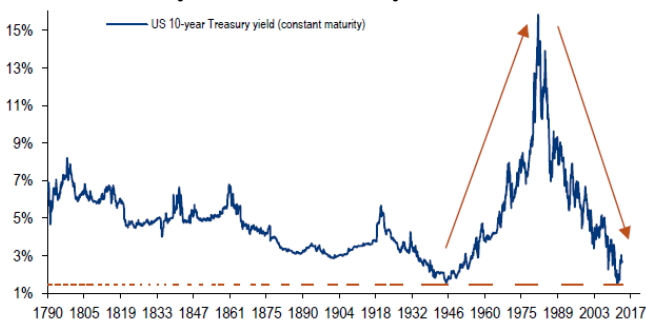


Source: Merrill Lynch



We have also discussed the US bond market, and more specifically, the current abnormal bond market conditions in some detail in recent editions. The chart below also places the current US 10-year bond yield into perspective. When viewed over such a long period, one is able to see just how rapidly yields have declined (and prices risen) since 1979. It is also significant that inflation peaked in this year (refer to chart 2 again) apart from the peaks at the end of the First World War.

**Chart 3: The yield on the US 10-year bond since 1790**



Source: Merrill Lynch

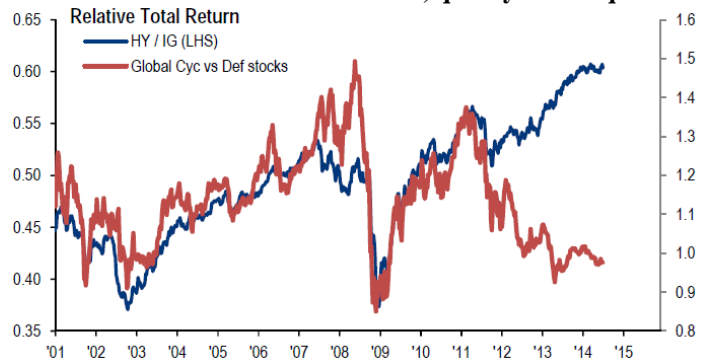
**Are equity markets overvalued or not?**

This is a question that is put to us on a regular basis by clients and potential clients alike. Many have watched the daily new records on local and global markets and are getting increasingly worried about prevailing market levels. To make matters worse this current global economic recovery is the worst on record and there are still many, including the Maestro investment team, that are watching the US economy very closely for any sign that the current rate of economic growth will actually slow rather than increase. So this question is very pertinent and deserves some response.

Space precludes a comprehensive response but we have been consistent in our view that equity markets are not excessively valued and we are not expecting an imminent market correction. However, we are concerned that a bubble is developing in the high yield market, or what we “oldies” used to call the junk bond market. You will realise now that much of what we have written about the abnormal bond markets of late is a reflection of our concern about prevailing levels of bond markets. So we would be bold enough to turn the question on its head and say we are not too concerned about the prevailing level or valuation of equity markets but we are concerned about global bond markets. As a result of central bank activity and the trillions of dollars of liquidity they have pumped into global investment markets, investors have been forced to chase after any form of income, or yield, which we believe has led to excessive valuations in bond markets. Consider the

following charts. This might get a bit technical here, but bear with me and read on. Chart 4 shows that since the Fed’s Operation Twist in September 2011, high yield (HY) bonds (junk bonds) have outperformed investment grade (IG) bonds, as shown by the blue line in the chart. On the other hand, defensive shares (the likes of pharmaceuticals, etc) have outperformed cyclical shares (like basic materials, etc). Astute readers will soon realise that this represents quite a contradiction; there has been increased risk-taking in credit (bond) markets (investors are favouring lower quality junk bonds over high quality ones) and a decrease in risk-taking in equity markets (investors are buying defensive shares rather than cyclical ones). We think this is evidence of just how abnormal conditions are in the bond markets; evidence, too, of a bubble emerging in the HY (junk) bond market.

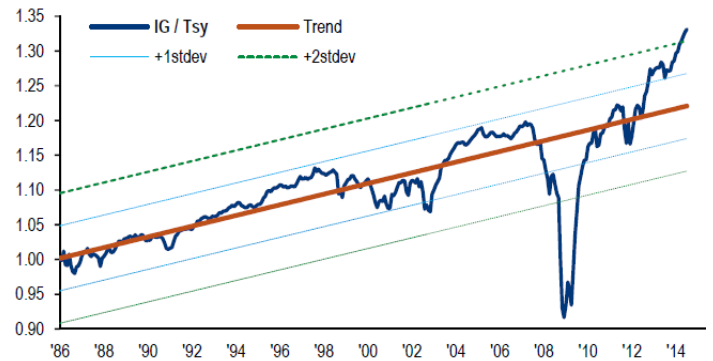
**Chart 4: Risk-on in credit markets, quality-on in equities**



Source: Merrill Lynch

Chart 5 provides one indication of the level of bond market valuation. It depicts the total return of US investment grade (IG) bonds relative to US treasuries (government bonds). The straight trend line depicts the long-term average. It is easy to see just how over-valued IG bonds are relative to US government bonds (note we are not even talking about over-valued junk bonds here – these are investment grade bonds). So we reiterate our view that if any market is excessively valued, it is the bond market and not equity markets.

**Chart 5: Total return of US IG bonds relative to US treasuries**



Source: Merrill Lynch



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Whilst on the topic of valuation, Chart 6 provides on measure of valuation of equity markets, namely the price-to-book ratio. The MSCI All-Country World index now trades at 2.1 times its book value, the highest in six years. However, relative to its history, that is still below its long-term (33-year) average.

**Chart 6: Global equities: the price-to-book ratio**



Source: Merrill Lynch

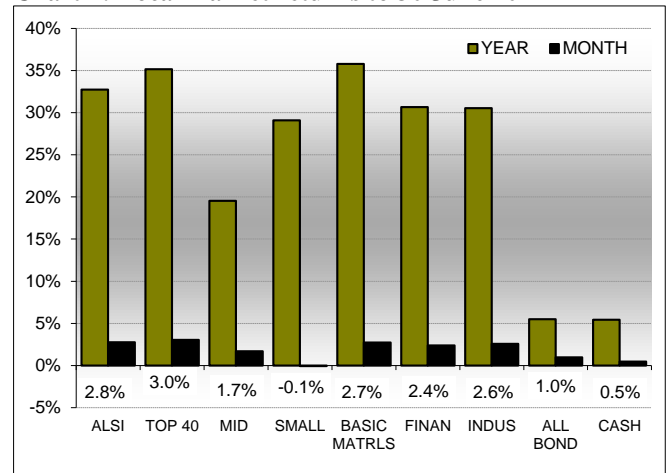
Chart 6 is also quite useful in that it affords us the ability to compare the price-to-book valuation that prevailed in 1987, 1999 and 2007, market peaks prior to the most dramatic market crashes in living memory, and in that respect the news is encouraging. Current market valuations, at least the price-to-book valuation, are far below these peaks. This brief but important analysis provides some comfort and supports our view that global equity markets are not excessively valued. Of course, they are not massively undervalued either; at current levels they may well mark time for some time to come, or perhaps even decline slightly. We hope that we have allayed any of your concerns that we are in a 1987, 1999 or 2007-like scenario.

### June in perspective – local investment markets

Turning to local investment markets, during the course of the month the S&P ratings agency downgraded South Africa’s sovereign rating to one level above junk status, on concerns that labour unrest would ultimately retard tax collection, making it harder for the country to cut debt and improve its budget deficit. Despite the downgrade, the All Bond Index had a reasonable month, rising 1.0% despite the rand’s 0.5% decline. On the equity front, the All share index rose 2.8%, continuing its impressive year-to-date returns, which now stand at 11.8%. Gold miners were particularly strong during the month; they rose 7.2% (they fell 12.9% last month). The strength in the gold miners drove up the basic material index, which led the major sectors’ performances with a gain of 2.7%. Industrials rose 2.6% and financials 2.4%. Large caps were the best performers, rising 3.0%, while the mid and small cap returned 1.7% and -0.1% respectively. With the JSE sectors, the best-performing sectors were fixed line telecoms (read Telkom), which rose

18.2%. The tech hardware and equipment sector rose 16.5%, while the household goods sector rose 10.7%. The worst performing sectors were the non-life insurance sector, which declined 8.9%. The industrial engineering sector fell 8.4% and the automobiles and parts sector 8.3%.

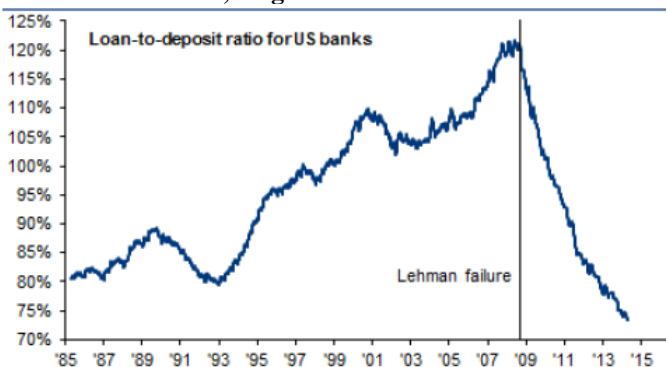
**Chart 7: Local market returns to 30 June 2014**



### A few quotes to chew on

*Putting the current market conditions into perspective*  
We thought the following synoptic comment by Merrill Lynch Chief Investment Strategist, Michael Hartnett, summed up the current crazy markets very nicely.

**Chart 8: No credit, no growth**



Source: Merrill Lynch

“More than 5 years after the Global Financial Crisis it’s still a ‘lukewarm’ recovery. The ‘fire’ of zero interest rates and central bank liquidity continues to be doused by the ‘ice’ of consumer and corporate deleveraging & the deflationary disruption of increased regulation and tech innovation. We are not living through an era of big economic growth upgrades. Instead we are living in a world of...

- Minimal spending, lending & leverage (note the ongoing collapse in the US loan-deposit ratio – Chart 8) and a paltry economic recovery (in the past



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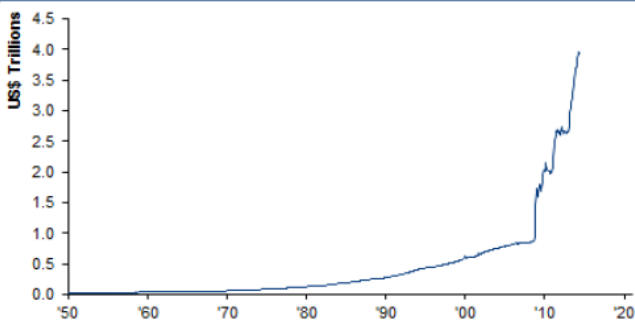
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5 years US nominal GDP is up just 19% versus an average 45% in prior recoveries).

- An extreme monetary response from central banks that includes surging liquidity (Chart 9), now negative deposit rates in the Eurozone and a Fed balance sheet that is larger in dollar terms than every economy in the world bar Japan & China.
- A world where Wall Street and the owners of capital boom while Main Street and the workers struggle (Chart 10).

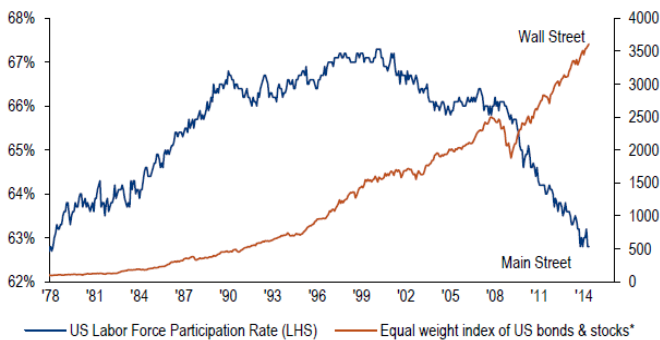
**Chart 9: Fed monetary base**



Source: Merrill Lynch

The longer it takes for growth and rates to normalize, the greater the risk of speculative excesses and ultimately a policy response aimed at curbing speculation in asset markets *before* the economy has fully healed”.

**Chart 10: Wall Street versus Main Street**



Source: Merrill Lynch

And more about the current markets' abnormal behaviour Deutsche Bank market commentator Jim Reid had the following to say a day into the second semester of 2014. I thought it summed up the prevailing mood on markets very well: "Following on from H1's near universal asset price climb, the S&P 500 (+0.67%) hit fresh highs again yesterday. In spite of this fresh high and H1's near universal rally I would have to say that this is a fairly miserable synchronised bull market. There's not a lot of happiness and a lot of nervousness with markets at the moment. It's tough to say whether this is mainly because bond yields have

surprised the vast majority, or because the economic recovery still generally disappoints, or because trading liquidity is very low, or that regulation hurting certain markets, or fears that the Fed is soon to become more hawkish, or that liquidity not fundamentals are the main drivers of markets, valuations are becoming more stretched in many markets, or finally simply that there is little in the way of volatility. In truth all of these factors are preventing the champagne corks from popping at the moment. Maybe it's better for markets to feel like this rather than be euphoric and complacent but it's fair to say that we continue to live in fairly unique financial markets with a lot of uncertainty.”

**For the record**

Table 1 below lists the latest returns of the mutual and retirement funds under Maestro's care. You can find more detail on our website at [www.maestroinvestment.co.za](http://www.maestroinvestment.co.za). Returns include income and are presented *after* fees have been charged. Fund Summaries for each respective fund listed in the table are available on [our website](#).

**Table 1: The returns of funds under Maestro's care**

|                                       | Period ended | Month | Year to date | Year  |
|---------------------------------------|--------------|-------|--------------|-------|
| <a href="#">Maestro Equity</a>        |              |       |              |       |
| <a href="#">Prescient Fund</a>        | Jun          | 1.8%  | 6.1%         | 26.6% |
| <a href="#">JSE All Share Index</a>   | Jun          | 2.8%  | 11.8%        | 32.8% |
| <b>Retirement Funds</b>               |              |       |              |       |
| <a href="#">Maestro Growth Fund</a>   | Jun          | 2.0%  | 5.6%         | 21.8% |
| <a href="#">Fund Benchmark</a>        | Jun          | 2.0%  | 8.5%         | 22.8% |
| <a href="#">Maestro Balanced Fund</a> | Jun          | 1.9%  | 5.3%         | 19.6% |
| <a href="#">Fund Benchmark</a>        | Jun          | 1.8%  | 7.6%         | 20.0% |
| <a href="#">Maestro Cautious Fund</a> | Jun          | 1.7%  | 5.8%         | 15.5% |
| <a href="#">Fund Benchmark</a>        | Jun          | 1.3%  | 5.7%         | 13.2% |
| <a href="#">Central Park Global</a>   |              |       |              |       |
| <a href="#">Balanced Fund (\$)</a>    | May          | 0.9%  | 1.4%         | 10.1% |
| <a href="#">Benchmark*</a>            | May          | 1.0%  | 2.6%         | 11.5% |
| <a href="#">Sector average **</a>     | May          | 1.3%  | 2.1%         | 6.1%  |

\* 40% MSCI World Index, 20% each in Barclays US Aggregate Bond Index, Credit Suisse Tremont Hedge Index and 3-month US Treasury Bills  
 \*\* Lipper Global Mixed Asset Balanced sector (\$)

**Personal Finance Quarterly Comment: Trusts in focus**

In [the April edition of Intermezzo](#) David Pfaff contributed the first Personal Finance quarterly article on the means to save for retirement. This month he turns to the topic of trusts, which have come under much scrutiny of late:

Trusts are set up for a number of reasons, including preserving family assets over time, protecting assets from creditors, taking care of beneficiaries after the founder's death and or maintaining a spouse or child after a divorce. The founder, who must be a natural or legal person, is the party that creates the trust.



A trust's founder transfers assets or investments to a trust and must relinquish control over those assets. The founder is bound to hand over this control to the trustees, who have a fiduciary duty to manage the investments of the trust for the benefit of the beneficiaries of that trust.

In a discretionary trust, trustees can, in terms of the trust deed, exercise their discretion and distribute income or capital (in the form of an actual asset or a capital gain) from the trust to a beneficiary or beneficiaries. When the income or capital of a trust is distributed out of the trust, the amounts will no longer be subject to tax in the trust, but be taxed in the hand of the recipient beneficiary.

The future of trusts as an investment vehicle has recently come into question. Trusts have been under the tax authority's microscope for some time now. As with most capital markets around the world, loop holes are exploited and over time they are closed by regulatory authorities. The South African Revenue Service (SARS) is concerned about potential taxable capital gains and income that is currently not being disclosed, which has brought into question the debate around tax avoidance and evasion. Sadly, trusts in general, find themselves at the forefront of this debate.

If used correctly, trusts have some wonderful qualities that can help owners of capital plan for retirement and beyond. The founder's wishes can even be carried out despite him no longer being around to implement them. The trust deed can be structured for the mutual benefit of the underlying beneficiaries well into their own lives and even beyond that.

As with many complicated issues, there is a fine line between the wishes of the founder and the abuse of the trust as a vehicle to control his personal assets, during his life time, for tax reasons. Problems may arise if the founder's intentions are not honourable. The integrity of trust as a legal entity needs to be honoured according to the nature and intent of why the trusts exist. Signs that the founder is abusing his or her power would be exhibited by the independent trustees having to consult with the founder in order to get resolutions passed, when only a majority vote is required, or the founder may have special powers to block certain actions from being taken.

A number of the benefits of setting up a trust have slowly been erased over time. This has occurred as governments have got more aggressive and founders more creative. We still believe that a trust represents a great vehicle in which to house one's family assets. The primary benefits are protecting your assets from not only the state and executors but creditors, too. This can be done knowing that the conduit principle, when used correctly, allows trustees to distribute

capital and income to the beneficiaries of the trust as events or needs arise. Trusts, for the time being, remain the investment vehicle of choice for individuals with substantial balance sheets.

Maestro has developed an excellent working knowledge of trusts over the years, given that so many of our clients use trusts as the vehicle through which to secure and manage their investments. We are very comfortable working with trusts and can arrange for the establishment of new trusts and even the audit of old trusts, where necessary.

### **File 13. – Things almost worth remembering**

#### *Equities, bonds, art, buffaloes and now instruments*

Last month we highlighted an unusual asset class in the form of game i.e. wildlife, specifically the record of R40m paid for Mystery, the wide-horned buffalo. As many of you would have thought, "that's a lot of money to pay for a whole lot of bull!" Moving on...

I ran out of space last month and couldn't bring you news of another possible record, this time in the world of musical instruments. In the past we have highlighted the world where musical instruments and investment intersect; here is another fascinating chapter in this rare market.

The instrument in question is a viola; previously we have only reported on violins. Although I'm sure you all know this, a viola looks like a violin but has a deeper sound. The viola in question goes by the non-Italian name of "MacDonald", but shares the same master craftsman as the violins that regularly secure record prices, namely Antonio Stradivari. Stradivari made around 600 violins, but only ten violas, two of which were made at the peak of his career. The MacDonald is one of these two violins; the other one is in the possession of the Russian government but is apparently in poor condition. There is also a privately-owned "Strad" viola currently held at the Library of Congress in Washington. The 300-year old instrument has been lying in a safe for several decades and will apparently take a number of years before reaching its peak "voice". Ahead of [the auction later this year](#), the instrument is slowly being "brought to life" by regularly playing on it. The MacDonald, made in 1719, has been owned by a marquis, a duke, a baron and, most recently, the late violist of the Amadeus Quartet, Peter Schidlöf, who described the instrument as "utter perfection". Those who are interested – and, er... sufficiently "resourced" for the purchase – can start getting their proverbial cheque book out; the viola is expected to secure a price of \$45m, almost three times the highest amount ever paid for a musical instrument. More details on the instrument can be obtained by [clicking here](#).



*And while on the matter of record prices....*

Seeing we are considering record prices I can't resist throwing in one additional record, in this case what now stands in history as the most valuable object ever sold by weight and size.

The object in question is a 2.5cm by 3.2cm stamp auctioned in June by Sotheby's in New York for \$9.5m (yes, that's R100m!) The item, the only one of its kind left in the world, is an 1856 One-Cent British Guiana stamp and has not been seen in public for nearly 30 years.

**The world's most expensive object by weight and size**



At the risk of rambling on, there is such a fascinating story behind the ownership of this stamp that I just have to share it with you. I read the following on [npr.org](http://npr.org): "The price, nearly one billion times the stamp's original face value, obliterates the previous single-stamp record of the 1855 Swedish 'Treskillig Yellow,' which sold for about \$2.2m in 1996.

"It has always been the world's most famous stamp. It is one of these objects around which a huge mystique has grown up over the years," said David Redden, the worldwide chairman of books and manuscripts at Sotheby's. The stamp was printed 16 years after the introduction of postage stamps. The postmaster in British Guiana (now Guyana), facing a stamp shortage, asked the colony's newspaper to print an emergency supply while awaiting a shipment of stamps from London. Displeased with the quality of the printing, the postmaster asked each postal clerk to initial the stamps upon sale to prevent fraud. The One-Cent bears the initials 'EDW,' those of clerk E.D. Wight, and a postmark of April 4, 1856, from the town of Demerara. The stamp's first owner was a Scottish boy named Vernon Vaughan who found it in 1873 among his family's letters. He sold it to a local collector for 6 shillings (said to be the equivalent of about \$1.50 back then). From there, the stamp passed through the hands of many philatelists, including Philipp von Ferrary, one of the world's greatest stamp collectors. It also spent some time in a Berlin museum and in the hands of the

French as World War I reparations. The stamp nearly ended up in the hands of King George V, but he underbid. It is the one major piece absent from the Royal Family's heirloom collection of stamps, said David Beech, recently retired curator of stamps at the British Library. The outbidder was Arthur Hind who was later anonymously accused of buying a second One-Cent and burning it, making the first more valuable. The accusation is unproven.

Before the auction in June, the One-Cent's last owner was John E. du Pont, an eccentric American multimillionaire and heir to the DuPont chemical fortune. Du Pont was also a generous sponsor of amateur wrestling and allowed his friend David Schultz, a champion Olympic wrestler, to live in a guest house on his estate. In 1996, du Pont shot Schultz three times, and then locked himself in his mansion, holding police at bay for two days. Du Pont was eventually captured and convicted of murder. He died in prison in 2010. Relatives who later unsuccessfully contested du Pont's will said du Pont alternately claimed to be the Dalai Lama, Jesus Christ and a Russian czar." Now, who ever said the world of investing was boring?!

*An Easter egg like none other*

Speaking of investing and of extraordinary objects of value, I found the following story irresistible. It is a few months old but have only now had the opportunity to share it with you.



One of the eight missing imperial Faberge eggs went on show in London in April after it was purchased by a scrap metal dealer in a flea market in the US. The man apparently bought the egg a few years ago for about \$14 000, completely unaware that it was worth about \$33m.



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Fortunately the man was unable to find a buyer and so the egg was saved from being melted down. One evening, he typed “egg” and “Vacheron Constantin” into an Internet search engine and found an article which highlighted the egg’s background. The article was based on work done by Kieran McCarthy, a director of Wartski, who are experts on the works of Carl Faberge. The owner was so astonished by what he had read that he flew to London to show it to McCarthy, who was left speechless. Wartski bought the egg for a private collector for an undisclosed sum.

The egg, which contains a Vacheron Constantin watch, sits on a jewelled gold stand and was given by Alexander III to his wife Empress Maria Feodorovna in Easter 1887. It is one of only 50 imperial Faberge eggs ever made.

The egg was last seen in public 112 years ago at an exhibition of the Russian Imperial family’s Faberge collection in St Petersburg. In the chaos of the Russian revolution, the Bolsheviks confiscated the valuable egg from the empress. There is a record of it in Moscow in 1922 when the Soviets decided to sell it, but its fate was then unknown and it was long feared that it could have been melted down for its gold value. But in 2011 Faberge researchers found the egg had been sold in New York in March 1964 for just \$2 450, or \$18 500 in today’s prices. It was sold as a “gold watch in egg form case” without its provenance being known, sparking its extraordinary journey to the Midwest of the United States.



Table 2: MSCI returns to 30 June 2014 (%)

| 30-Jun-2014              | Mkt cap US\$bn | US\$ perf (%) |       |      | PE (x) |       |       |
|--------------------------|----------------|---------------|-------|------|--------|-------|-------|
| Region/Country (# Co)    |                | 2013          | 1M    | YTD  | CY13   | CY14E | CY15E |
| North America (712)      | 19,891         | 27.6          | 2.2   | 6.4  | 17.1   | 16.6  | 14.9  |
| Canada (95)              | 1,456          | 3.3           | 5.7   | 10.4 | 16.8   | 15.7  | 14.2  |
| US (617)                 | 18,434         | 29.9          | 2.0   | 6.1  | 17.2   | 16.7  | 14.9  |
| Europe (436)             | 9,205          | 21.7          | -0.3  | 3.4  | 16.0   | 15.1  | 13.4  |
| Austria (8)              | 36.6           | 10.9          | -1.0  | -4.6 | 16.5   | 13.8  | 10.5  |
| Belgium (11)             | 167            | 24.6          | 1.4   | 5.9  | 19.5   | 18.0  | 15.9  |
| Denmark (13)             | 205            | 23.4          | 3.8   | 18.1 | 22.0   | 19.4  | 16.9  |
| Finland (12)             | 117            | 41.6          | -1.5  | 0.7  | 19.7   | 16.9  | 15.4  |
| France (73)              | 1,389          | 23.3          | -1.8  | 2.7  | 16.5   | 15.0  | 13.1  |
| Germany (54)             | 1,275          | 28.2          | -0.7  | -0.7 | 15.3   | 13.9  | 12.2  |
| Ireland (4)              | 40.6           | 38.9          | -6.1  | 2.8  | 78.4   | 22.6  | 15.9  |
| Italy (26)               | 358            | 16.9          | -0.9  | 12.6 | 17.5   | 16.2  | 12.6  |
| Netherlands (24)         | 369            | 28.5          | 1.0   | 0.5  | 17.6   | 15.5  | 13.5  |
| Norway (10)              | 119            | 5.3           | -0.2  | 8.6  | 12.9   | 12.8  | 12.0  |
| Portugal (4)             | 24.9           | 7.5           | -2.5  | 4.5  | 22.6   | 21.5  | 16.0  |
| Spain (22)               | 504            | 27.7          | 1.5   | 11.4 | 17.2   | 17.2  | 14.2  |
| Sweden (30)              | 418            | 21.4          | -1.8  | -0.9 | 15.3   | 16.6  | 14.5  |
| Switzerland (38)         | 1,241          | 23.8          | -0.6  | 4.6  | 17.2   | 16.8  | 15.0  |
| UK (107)                 | 2,941          | 16.2          | 0.4   | 3.1  | 14.6   | 14.1  | 13.1  |
| Israel (9)               | 71.6           | 8.0           | 3.3   | 19.7 | 10.0   | 10.8  | 10.4  |
| Asia Pac (990)           | 7,005          | 9.3           | 2.8   | 3.1  | 14.4   | 13.3  | 12.1  |
| Japan (311)              | 2,777          | 24.9          | 5.2   | -0.3 | 16.3   | 14.3  | 13.1  |
| Australia (69)           | 1,060          | -0.3          | -0.4  | 6.5  | 15.8   | 14.8  | 13.9  |
| New Zealand (6)          | 18.8           | 6.2           | 1.1   | 12.1 | 19.8   | 21.2  | 19.4  |
| Asia Pac ex-Japan (679)  | 4,227          | 0.5           | 1.3   | 5.5  | 13.3   | 12.7  | 11.6  |
| Asia ex-Japan (604)      | 3,148          | 0.7           | 1.9   | 5.1  | 12.6   | 12.1  | 10.9  |
| China (140)              | 753            | 0.4           | 1.9   | -2.6 | 9.4    | 9.2   | 8.4   |
| Hong Kong (39)           | 389            | 8.1           | 0.4   | 2.6  | 15.7   | 15.6  | 14.2  |
| India (69)               | 281            | -5.3          | 3.7   | 20.9 | 16.9   | 17.5  | 15.2  |
| Indonesia (30)           | 101.1          | -25.0         | -1.3  | 19.7 | 15.5   | 14.9  | 13.1  |
| Korea (104)              | 639            | 3.1           | 0.8   | 3.2  | 11.3   | 9.9   | 8.8   |
| Malaysia (43)            | 161            | 4.2           | 0.5   | 1.6  | 17.0   | 16.4  | 15.0  |
| Philippines (20)         | 40.3           | -4.3          | 2.6   | 18.6 | 20.7   | 19.8  | 17.6  |
| Singapore (29)           | 196            | -1.8          | -0.2  | 3.0  | 14.6   | 14.3  | 13.1  |
| Taiwan (101)             | 499            | 6.6           | 4.6   | 11.3 | 15.9   | 14.8  | 13.6  |
| Thailand (29)            | 90.0           | -16.9         | 6.8   | 13.4 | 12.7   | 13.3  | 11.9  |
| EMEA (159)               | 763            | -8.0          | 0.4   | 1.4  | 8.9    | 9.8   | 8.9   |
| Czech Republic (3)       | 9.7            | -14.9         | 1.1   | 7.7  | 10.7   | 13.1  | 13.9  |
| Egypt (4)                | 8.0            | 6.2           | -2.5  | 7.9  | 18.0   | 11.0  | 9.5   |
| Greece (10)              | 32.1           | 46.2          | -0.8  | 5.1  | nm     | 41.3  | 15.7  |
| Hungary (3)              | 9.2            | -9.0          | -7.1  | -7.3 | 9.6    | 12.2  | 9.3   |
| Poland (23)              | 68.1           | -1.7          | -1.5  | 1.1  | 14.4   | 13.9  | 12.7  |
| Qatar (10)               | 16.8           | 23.9          | -21.8 | 4.2  | 15.8   | 16.1  | 14.2  |
| Russia (22)              | 221.5          | -2.6          | 4.6   | -6.0 | 4.8    | 5.4   | 5.2   |
| South Africa (50)        | 308.0          | -8.8          | 2.8   | 8.0  | 15.9   | 15.4  | 13.7  |
| Turkey (25)              | 69.7           | -28.1         | -2.4  | 18.7 | 8.9    | 11.7  | 9.5   |
| UAE (9)                  | 19.5           | 84.7          | -24.1 | 15.7 | 20.2   | 16.5  | 15.0  |
| Latin America (141)      | 779            | -15.7         | 3.9   | 5.3  | 13.4   | 13.7  | 11.9  |
| Brazil (74)              | 447            | -18.7         | 5.1   | 7.8  | 11.0   | 11.5  | 10.1  |
| Chile (20)               | 62.5           | -23.0         | -1.0  | -1.6 | 18.9   | 18.0  | 14.4  |
| Colombia (14)            | 42.3           | -23.7         | 4.6   | 10.7 | 15.1   | 14.3  | 13.2  |
| Mexico (30)              | 210            | -2.0          | 3.1   | 0.9  | 20.4   | 20.3  | 17.3  |
| Peru (3)                 | 17.9           | -31.0         | 1.5   | 12.1 | 15.3   | 15.2  | 12.7  |
| Developed Markets (1611) | 33,609         | 24.1          | 1.6   | 5.0  | 16.6   | 15.9  | 14.2  |
| Emerging Markets (836)   | 4,105          | -5.0          | 2.2   | 4.8  | 11.6   | 11.5  | 10.3  |
| World (2447)             | 37,714         | 20.3          | 1.7   | 4.9  | 15.9   | 15.2  | 13.7  |

Source: Merrill Lynch





# INTERMEZZO

MAESTRO

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