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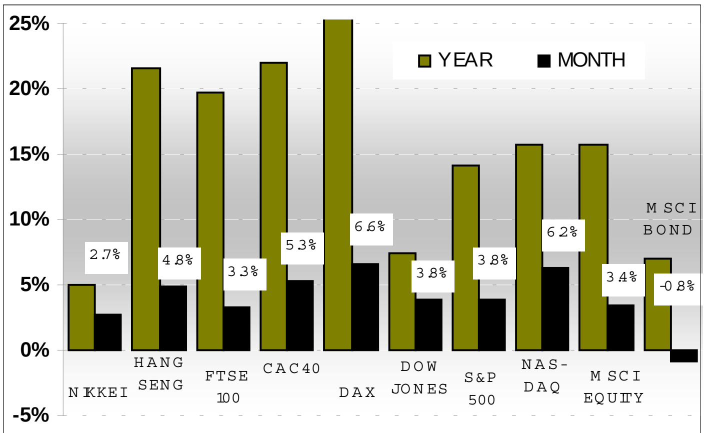
July in perspective – global markets

July proved to be a very rewarding month on global equity markets. Developed markets pushed above three or in some cases four-year highs, supported by ample global liquidity and the ongoing search for yield, particularly in light of the low bond yields. Some developed equity markets now boast a dividend yield higher than the after-tax cost of interest rates, making it more attractive to take on an increased measure of risk. Despite record oil prices and a rather gloomy economic picture in Europe, equity markets there were strong, with the exception of the UK, where the "Footsie" lagged a bit. Many markets now boast annual returns in excess of 20%, which has not been seen for some time. If developed equity markets were strong, emerging ones were even stronger. Mexico for example rose 16% in dollar terms, Hungary 13% and South Korea 12%. The JSE All Share Index gained 9% in dollar terms, but more on that later. In contrast global bond markets, which have been so strong for many years, were weak across most regions, with monthly and quarter returns now firmly in the red.

Chart 1: Global market returns to 31 July 2005



Time for a smorgasbord again …

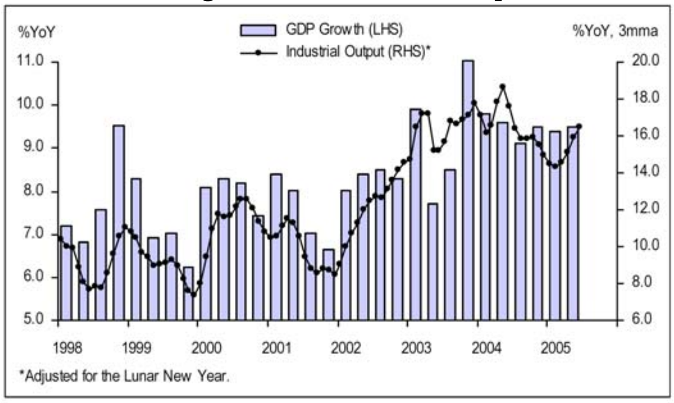
The following recent developments are worth noting:

- *Chinese revaluation*: although it was widely expected, the Chinese revalued their currency, the Yuan, in a very astute manner, simultaneously retaining the initiative for future possible revaluations. The US had demanded, some think unwisely, that the Chinese revalue the Yuan which they did, but only marginally so and in a more symbolic way than anything else. The immediate effect on currency markets was negligible. For the record, the Yuan was devalued by 2.1% from 8.11 to 8.28 to the US dollar. In future the Yuan will be linked to a basket of currencies, the make-up of which was not disclosed in order to thwart speculation against further revaluations.
- *Chinese growth*: China posted a year-on-year growth rate of 9.5% during the second quarter, ahead of expectations – refer to Chart 2 in this regard. The second quarter unemployment rate was 4.2% and the annual inflation rate to June was 1.6%. Industrial output grew 16.8%. As I have indicated many times in the past, the "Chinese story" is a powerful one and is unlikely to screech to an abrupt halt.
- The US in contrast, posted a 3.4% second quarter growth rate. The virtual absence of any inflation pressure there is very encouraging.

Chart of the month

Having already reviewed the Chinese growth numbers, I leave the chart below to tell the full story. Note the sheer scale of the chart – this, from a nation of 1.3bn people. One cannot over-emphasize the power of this phenomenon as an agent of change on the global economy.

Chart 2: Chinese growth and industrial output



Source: Merrill Lynch

"State of the nation" – an update

Many of you are aware that it has been a busy time in the Maestro "head office". Allow me to share some news regarding developments within the company. *Firstly*, we have just about completed a total revamp of the **Maestro website**. I would encourage you to pay it a visit by clicking here. The look and feel has been revised, but more importantly it contains a number of new features, which we hope you will find useful. In future, *Intermezzo* will be "driven" from the website, and the public at large will be able to subscribe to it. However, if you have until now received *Intermezzo* from me directly you will automatically be loaded as a "subscriber" from the outset and need take no further action. You will also be able to access back copies of *Intermezzo* on the site. The returns achieved on the equity portfolios under Maestro's management (see below) have been listed on the site and are now publicly available.

As an aside, in reviewing the content on the website, I had to "re-edit" critical aspects such as Maestro's core values, and our investment philosophies and process. With Maestro having been in existence for four and half years now, and having managed clients' assets through terror (9/11, 7/7, etc), wars (Iraq), the better part of an economic cycle and everything else the markets have thrown at us, I was encouraged and amazed to realise just how much those values and philosophies have driven the thinking behind Maestro's investment decisions over the period. I am now more than ever committed to them, and believe them to be a critical part of our business. So, if you have the time, I would encourage you to visit them on the website and review them for yourself in the light of the past five or more years of market behaviour.

Secondly, one of the reasons behind the website overhaul is an exciting development, at least from our point of view, namely the launch of Maestro's new unit trust, the **Maestro Equity Fund**. The website contains the relevant information about the new fund, which started life on 30 June and is now open for investment. All relevant forms and background information for investors and intermediaries is on our website and will be carried there in future. For instance, investors and intermediaries can now access and subscribe to Fund Summaries, *Intermezzo*, the daily unit price, etc, via the website.

Space precludes me from saying more about the **Maestro Equity Fund** now. However, I will during the course of the coming week, circulate a short introduction to the Fund, as well as the July Fund Summary, although it is already available on our website if you just can't wait to see it.

Thirdly, the end of June marked the first anniversary of the overseas mutual fund to which Maestro was appointed. The **Central Park Global Balanced Fund** keeps a low profile, primarily because the Financial Services Board has not approved it for wholesale distribution to the SA retail public. Individual SA investors are however free to invest in it at any stage. Its Fund's first anniversary, however, marks the "end of the beginning". While the dollar performance of 2.8% for the year to June is in my humble opinion disappointing - the Fund's benchmark return was 6.8% - I am looking forward to a more rewarding year ahead. The Fund is just short of $8m in size, which means that future inflows will have a less disruptive influence on the Fund's performance. The Fund remains a competitive option for general "global (offshore) exposure" and the management of the assets remains conservative.

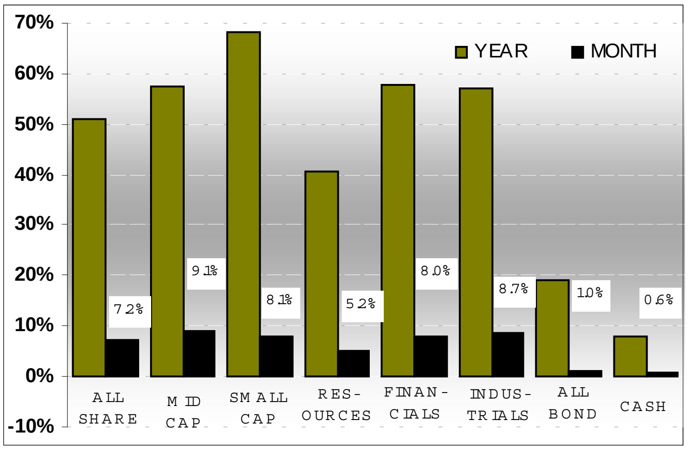
Table 1: Returns for the periods ended 30 June 2005 (%)

SA equity returns	6 months	1 Year	2 Years	3 years
Maestro average	***7.1***	***49.5***	***41.4***	***24.6***
Maestro equity benchmark **	9.9	43.8	36.4	14.1
JSE All Share Index	13.3	43.8	34.1	13.5
Median general equity unit trust *	7.6	44.0	36.2	21.0
Rank in general equity category ***	27/48	5/48	3/43	12/42

* Hugo Lamprechts Unit Trust Survey, June 2005, NAV – NAV
** 50% JSE Top 40 Index, 50% JSE Financial & Industrial 30 Index
*** Assuming Maestro had participated in the unit trust survey

Fourthly, Table 1 lists the performance of the equity portfolios under Maestro's care. The past six months have been both frustrating and disappointing in terms of mediocre performance. We have nevertheless posted "average" performance, not very different from the median return of SA general equity unit trusts over this period. The longer-term returns remain respectable. The main cause for the average performance so far this year emanates from an underweight exposure to resource shares as well as the fact that many of the portfolios' larger holdings rose so sharply in the second half of last year that they were suffering from a mild dose of "indigestion". However, Maestro adopted the view that it was in nobody's interest to chase after resource shares for short-term purposes. So we retained our original view, which incidentally, has proved rather rewarding in July. We continue to monitor the global investment environment carefully, but are cautiously optimistic that the retention of our view will reap rewards for our clients in the longer term, just as it has in the past.

Chart 3: Local market returns to 31 July 2005



July in perspective – local markets
Wow, what a rewarding month July proved to be. With the first half of the year having been dominated by resources shares and a weak rand, it was the turn of industrial and financial shares to lead the market higher. Price gains were widespread, although mid and small cap shares posted the largest gains. Just look at Chart 3 and see how large the annual gains in the SA equity market have been. Five of the six major indices boast annual gains above 50%, and one a gain of close to 70%. And despite the sharp rises in resource shares in the first half of this year, the resource index has been the laggard in the equity market over the past year.

File 13: Information you needn't retain
And now for some fun: what is the world's "financial institution"? It is the world's largest bank ($2 200bn in deposits i.e. more than Citibank, HSBC and Deutsche Bank combined) and insurance company ($1 200 in assets, twice as big as AIG) and has 24 700 branches. I've got you this time! It is Japan Post, the mail delivery service in Japan, which is at the centre of major reform currently being championed by the Japanese PM Koizumi. And you thought the US was always "bigger and better"!