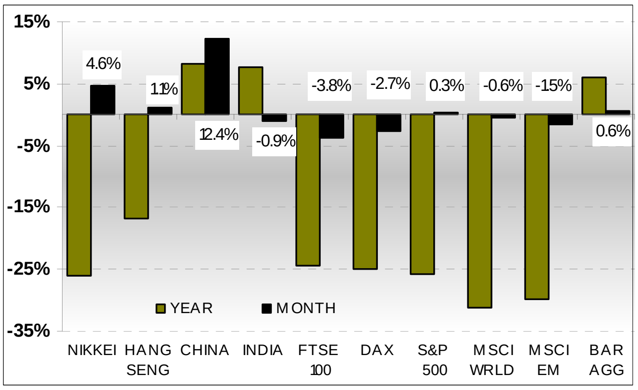
MAESTRO INTERMEZZO
Investment Letter | 9th Edition | July 2009

June in perspective – global markets

After a whirlwind three months, which began on 9 March and during which many developed equity markets posted the most dramatic rises since the 1930s (in terms of extent and duration), global investments marked time in June. As usual there were a few exceptions; Russia declined 9.3% but this was balanced by China's 12.4% gain, which left the MSCI Emerging market and World index down 1.5% and 0.6% respectively. Chart 1 lists selected market returns; note that the annual returns are still deep in the red. The sharp rise in commodity prices abated somewhat; gold declined 4.2% although oil rose 6.7%. The CRB Commodity index declined 1.4%. There was a lot of focus on currency markets during the month although the movements were relatively small; the euro declined 0.9% but sterling gained 2.1% against the dollar respectively. One of the more significant movers, at least from a South African point of view, was the strength in the rand, which gained 4.1% against the dollar, bringing its 5-month rise to 30.1%.

Chart 1: Global market returns to 30 June 2009

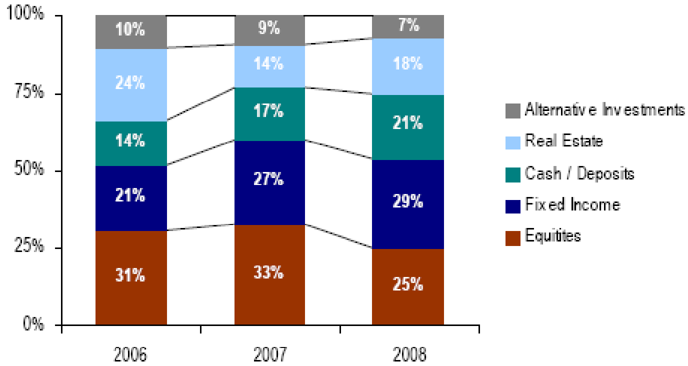


What's on our radar screen?

We remain focussed on the changing economic landscape and list below a couple of developments in this regard:

- *The SA economy:* Our impression from anecdotal discussions in the course of our business is that the SA economy is slowing more than expected; we are building that into our current investment view. SA's current account deficit widened to 7.0% in the first quarter of 2009 from 5.8% in the last quarter of 2008. We have always maintained that SA's current account deficit i.e. the extent to which SA imports more than it exports, adjusted for the services account such as dividend flows, is SA's Achilles' heel. A deteriorating deficit should add downward pressure on the rand, but the exact opposite is currently happening. In addition, one would have thought the decline in SA interest rates in recent months would have added pressure to the rand but we have not seen that yet, largely because there are more powerful factors in the global environment affecting the rand at present. Speaking of rates, the SA Reserve Bank surprised the market by maintaining interest rates at their current levels - the consensus forecast was for a 0.5% cut.

Chart 2: Breakdown of HNWI Financial Assets

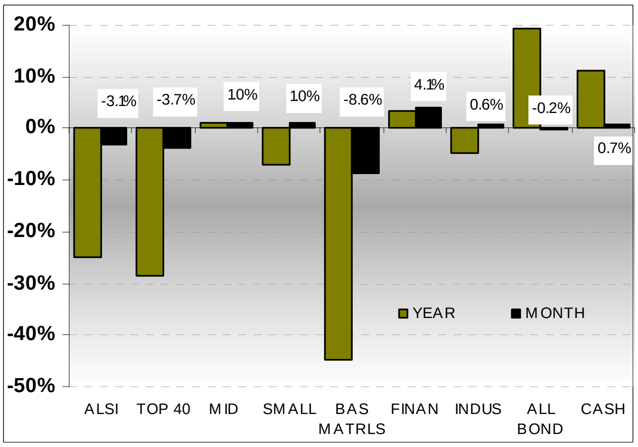


Source: Merrill Lynch

Chart of the month

The Annual Merrill Lynch Capgemini "World Wealth Report – 2009" has just been released. It provides more confirmation that High Net Worth Individuals (HNWI) are sitting on a lot of cash at present – refer to Chart 2. This is understandable under the circumstances, but it is worth pointing out that, at the current rate on the US 3-month Treasury Bill, it will take 360 years to double your money.

Chart 3: Local market returns to 30 June 2009



June in perspective – local markets

In line with global markets the SA equity market rose marginally during the month but lost its gains and ended the month a bit (-3.0%) lower. Following its 16.2% gain in May the basic materials sector declined 8.6% in June, helped lower by the 4.1% rise in the rand. The firm rand and the lower gold price took the gold index down 17.2% but one should remember that it rose 27.9% in May. The financial and industrial indices rose 4.1% and 0.6% respectively. It may surprise you, given all that happened to the financial industry last year that the financial index's annual return to

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end-June is actually positive, at 3.4% - refer to Chart 3. The mid and small cap indices rose more than their larger cap brethren, which was a reverse of what happened in May.

For the record
Table 1 lists the latest returns of the mutual funds under Maestro's care. You can find more detail, including the latest Maestro Equity Fund Summary, by visiting our website at www.maestroinvestment.co.za. Returns include income and are presented after fees have been charged.

Table 1: Returns of funds under Maestro's care

	Period ended	Month	Year to date	Year
Maestro Equity Fund	June	**-0.5%**	**7.3%**	**-20.2%**
Maestro equity benchmark *	June	-0.9%	3.4%	-17.5%
JSE All Share Index	June	-3.1%	4.1%	-24.9%
Maestro Long Short Equity Fund	May	**-0.7%**	**-1.0%**	**-26.0%**
JSE All Share Index	May	10.3%	7.4%	-25.9%
JSE Financial and Indus 30 index	May	6.3%	1.3%	-17.5%
Central Park Global Balanced Fund ($)	May	**4.4%**	**4.3%**	**-13.4%**
Benchmark**	May	4.4%	4.3%	-16.7%
Sector average ***	May	7.5%	8.5%	-22.3%

* 50% JSE Top 40 Index, 50% JSE Financial & Industrial 30 Index
** 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 ($)

Quotable quotes
Stock prices, to be sure, are affected by the usual economic gyrations. But, as I noted in March, a significant driver of stock prices is the innate human propensity to swing between euphoria and fear, which, while heavily influenced by economic events, has a life of its own. In my experience, such episodes are often not mere forecasts of future business activity, but major causes of it. *Alan Greenspan, former chairman of the US Federal Reserve*.

Improvements in financial regulation and supervision, especially in areas of capital adequacy, are necessary. However, for the best chance for worldwide economic growth we must continue to rely on private market forces to allocate capital and other resources. The alternative of political allocation of resources has been tried; and it failed. *Alan Greenspan, former chairman of the US Federal Reserve*.

Hedge fund performance has come in for considerable criticism through the current credit-crisis and, in some ways, understandably so. On an absolute basis hedge registered their worst drawdown in recorded history. From their peak to trough, hedge fund-of-funds lost 21% (Ehdec FoF). However, on a relative basis hedge fund performance was not so poor when one considers equities (MSCI World) experienced a drawdown of 54%. More poignant, is the understanding that this means that while hedge fund investors need to recover 26% from the trough to return to their peak, equity investors must recover a staggering 116%, in order to do the same. *Extract from a Letter to the shareholders in Odyssey Alternative Strategies Fund, from Odyssey Investment Advisors*.

Unless we demonstrate a strong commitment to fiscal sustainability in the longer term, we will have neither financial stability nor healthy economic growth. *Ben Bernanke, chairman of the US Federal Reserve*, referring to the extent of the US deficit and the implications thereof.

Black diamonds – myth or reality
We were fortunate enough to attend a recent presentation hosted by Investec Bank on "black diamonds" and their future influence in the South African economy. There was a clear division amongst the speakers, all recognized leaders in this field, on how influential this sector, arguably the most important economic grouping, will be in the future.

What is a "black diamond"? The term was coined by a local professor at a South African university and there has been much debate about their presence and influence in driving not only consumer spending but also the relative size of the middle class. It is generally accepted that black diamonds have the following characteristics: they are well educated, earn above-average salaries (between R250 000 and R500 000 per annum), have an unblemished credit rating and have access to, and an appetite for, long and medium-term debt.

A summary of the more pessimistic view is as follows: between 2002 and 2008 there was a doubling of income growth but a tripling of debt. This cannot be regarded as growth but rather an increase in leverage (debt) in the system. Although there has been employment growth it is nowhere near the level experienced in other emerging markets. The Gini coefficient (a measure of inequality) in South Africa has worsened over this period. Growth in the SA middle class is heavily dependent on the State, which accounts for 37% of employment in the country. Housing has become completely unaffordable. With limited growth in real assets, moderate increases in salaries and rising inflation, the prospects for black diamonds looks fairly bleak.

The conference speakers who had a more optimistic view highlighted the following: the number of black diamond (on the basis of the above definition) has been increasing rapidly since 2006; it rose 30% in 2006, followed by 15% in 2007 and 2008. Black diamonds constitute approximately 12% of the SA population but represent 28% of total spending and 34% of consumer spending, which totalled R250bn in 2008. Perhaps more significant is the fact that they account for 67% of the total "black" spend. Another important attribute of the black diamonds is that their loyalty to "uplift" members of their previous community, situated in the townships, is unwavering. This provides an additional "social grant" to the previously disadvantaged.

A question often asked is "How much should the middle class grow to sustain its progress?" Advocates of the black diamond concept note that population growth in the middle class has been 15% but their spending power over the same period has risen 34%, indicating that progress is being made.

An issue that needs to be addressed is the type of debt that is being taken on and the repossessions that have taken place. Contrary to popular belief the majority of debt is still associated with appreciating assets such as fixed property, followed by motor vehicles and personal income. Repossession rates have been less than people are lead to believe. The movement of the black diamonds to the suburbs, according to a consensus across a sample population, has not been without its problems. Many feel lonely and isolated, although this should change as other diamonds follow in due course.

Table 5: MSCI Emerging Market June returns (%)

	2Q09	June'09	YTD
Hun	69.9	6.8	21.0
India	59.3	-2.5	56.7
Indo	52.9	5.6	54.5
Tur	52.4	4.8	32.7
Thai	50.9	10.6	42.0
Col	50.1	6.4	34.4
MSCI EM Small Cap	**48.9**	**-0.5**	**52.6**
Sing	43.1	-0.5	30.0
Bra	39.2	-4.0	55.8
LatAm	**38.8**	**-0.9**	**45.1**
Rus	38.2	-13.0	45.6
Arg	37.0	25.1	16.4
Pol	35.4	3.5	-7.2
Mex	35.3	1.4	16.4
Egy	35.0	0.7	16.6
HK	33.8	-1.7	32.6
MSCI EM	**33.6**	**-1.5**	**34.3**
China	33.3	3.6	35.1
Asia	**32.9**	**-0.6**	**34.5**
Chil	32.3	4.9	49.8
AP ex Jap	**31.9**	**0.7**	**30.9**
EMEA	**31.6**	**-3.4**	**25.4**
S.Afr	29.6	0.2	22.9
Aust	27.4	4.6	23.2
Mal	27.3	2.8	22.5
Cze	26.5	2.4	6.7
Kor	25.0	-1.0	23.2
Taiw	24.9	-7.7	35.3
Phil	23.4	-0.5	28.5
Jap	22.9	1.7	1.6
MSCI DM	**19.7**	**-0.6**	**4.8**
Mor	17.8	6.6	7.5
Isr	15.5	1.5	21.6
Per	12.9	-5.4	20.0
Pak	2.1	-4.1	38.9

Source Merrill Lynch