INTERMEZZO

MAESTRO
Investment Consulting

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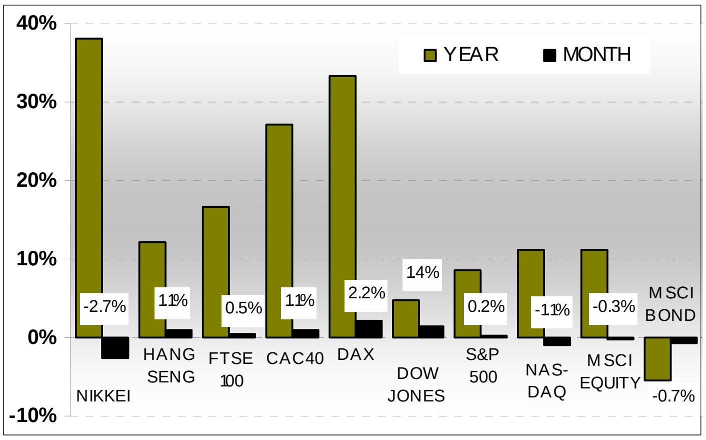
February in perspective – global markets
February proved to be a challenging month on global investment markets. The base off which they were coming was high, and they were perhaps ready for a breather. What was unexpected though, was the rather rude sell-off that occurred on the last day of the month. The Chief Financial Officer of Google made a comment about the future growth rate of the company that was not well received by the market, which then acted as a catalyst for a general sell-off. The latter ate into already meagre returns for the month, all of which resulted in the MSCI World index ending 0.3% lower in February. This was not the first time, neither will it be the last that the market suffers from a Google-induced event. But as is so often the case, there was another side to the markets: emerging markets, which have become a regular subject in *Intermezzo*, again captured much of the headlines. The Russian market gained 9.1% (its year-to-date return is now 29.8%) and India 5.2 (10.3%). But more on this topic a bit later.

Chart 1: Global market returns to 28 February 2006



What's on the radar screen?
Many clients have asked in passing conversations, what is on our "radar screen"? In other words, what news or early signals are we watching out for that will be sufficiently bad to influence markets in a very negative way? Of course, the easy answer is "we do not know". These events are by definition unpredictable, but that doesn't mean we are not alert to problem situations as they develop. The question becomes more relevant when one considers how large clients' historic returns have been – there is indeed a strong case to be made for being extra careful at the prevailing market levels. So, without wanting to be alarmist or claiming to have greater insight than other market watchers it may be appropriate to occasionally share what is on Maestro's radar screen. We will also explain why we are monitoring the event and elucidate its relevance to the markets.

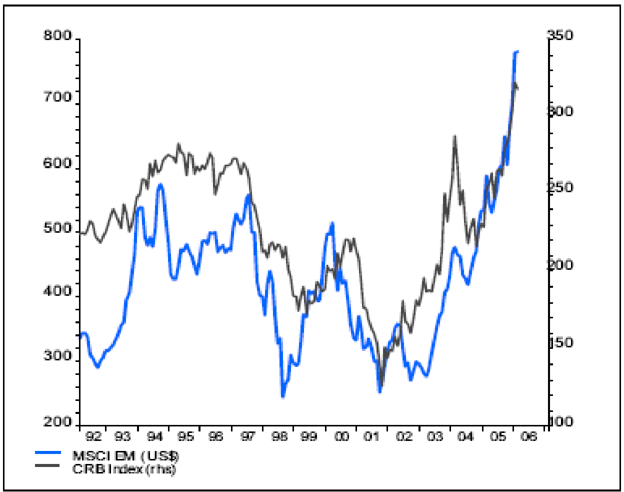
Given that emerging markets have risen so sharply in the past few years and that South Africa is one of the larger ones, any significant development in emerging markets, no matter how distant, can have a major influence on our market. One need only think back to 1997 and 1998 to recall how the Asian and LTCM crises affected the JSE. So the first blip on our radar screen is **emerging markets in general.** As you are surely aware by now we watch the good and bad developments.

More specifically, have you been watching developments in **Iceland** lately? It caught some limelight in the middle of the month and caused minor waves across emerging market currencies. The Icelandic krona fell 7% in two days, taking the stock and bond markets with it. On the day (23 Feb) most other emerging market currencies were also weak, but have since stabilized. After years of strong economic growth, concern is growing that this tiny nation of 350 000 citizens is overheating. Their share market has risen about 290% since mid-2003 and house prices have doubled. On the back of aggressive expansion into Europe, private sector borrowing has trebled in the past three years and is now three times the size of Iceland's GDP. Not surprisingly interest rates have doubled to 10.75% in the past two years. The trade deficit represents about 7% of GDP. Although it may seem like a minor issue, "wobbles" in remote regions like this have been known to cause hardship in other markets so we continue to monitor this situation.

The devastating effects of crippling **power outages** across the entire Western Cape should also not be ignored. The disruptions have had a pervasive effect across all sectors of the economy, and will most surely be felt in terms of cost to economic growth. But perhaps the largest effect will be the one of foreign investor confidence, particularly foreign direct investment. The fact that neither Eskom nor government has taken responsibility for the mess has further undermined their joint credibility, and citizen's confidence in their ability to rectify the problem. If you were a foreign operator, would you now establish a call centre in Cape Town, for example? Or commit to building a smelter at Coega? Precisely. We will be watching for the costs to hit corporate income statements in the months ahead, and are of the opinion that these unexpected costs are not factored into share prices at present. It is also a mistake to think that this will remain a "local" problem – the effects and costs will eventually spread across the entire country.

The usual suspects of **global commodity prices** in general and the **oil price** in particular demand a disproportionate amount of monitoring in the prevailing circumstances. For those who still wonder why we are obsessed about watching commodity prices, consider Chart 2 and you will understand why it is so important for SA investors to monitor global commodity prices. The blue line denotes the MSCI Emerging Market index and the dark line the CRB (commodity) index.

Chart 2: It takes two to tango: MSCI EM vs CRB



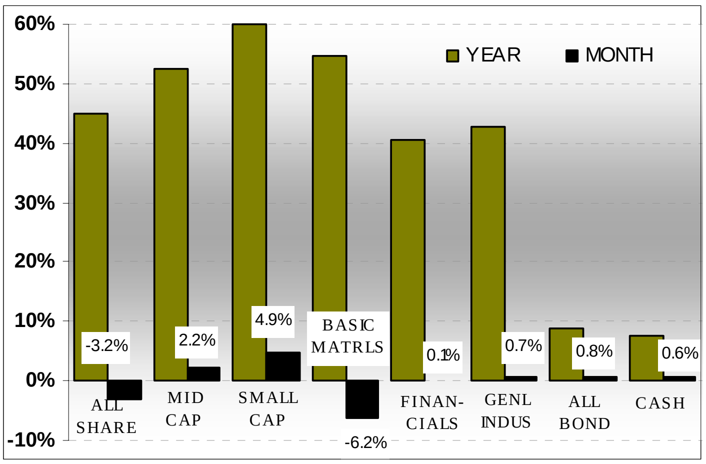
Source: Merrill Lynch

We are also fascinated by the extent of current **merger and acquisition (M&A) activity**, particularly how that may impact the local markets, although to date the effect has been limited to a couple of companies such as Absa and Venfin. More may well follow.

February in perspective – local markets

Similar to global markets the JSE was in serious need of a breather, and that's exactly what it got. Once again, the returns would have looked different had it not been for the savage sell-off in the last few hours of trading on the last day of the month, which saw no less than 3.2% shaved off the JSE. By way of comparison, the total return of the All Share Index was –3.2% for the month. The party really did come to an abrupt end right at the end of trade on the 28th. Be that as it may, there were areas of strength: the Small and mid cap indices gained 4.9% and 2.2% respectively, while the Construction and materials index rose 11.9%. On the downside the Gold index lost 12.8% and the Oil and gas index (read Sasol) 15.3% thanks in part to a nasty surprise in the Budget, wherein the establishment of a task team was announced to review the taxation of synthetic fuel producers (read Sasol again).

Chart 3: Local market returns to 28 February 2006



For the record

The latest returns of the collective schemes (unit trusts) that Maestro manages are listed in Table 1. If you wish to find out more detail on the Funds, including the latest Maestro Equity Fund Summary, please visit our website at www.maestroinvestment.co.za.

Table 1: Returns of mutual funds under Maestro's care

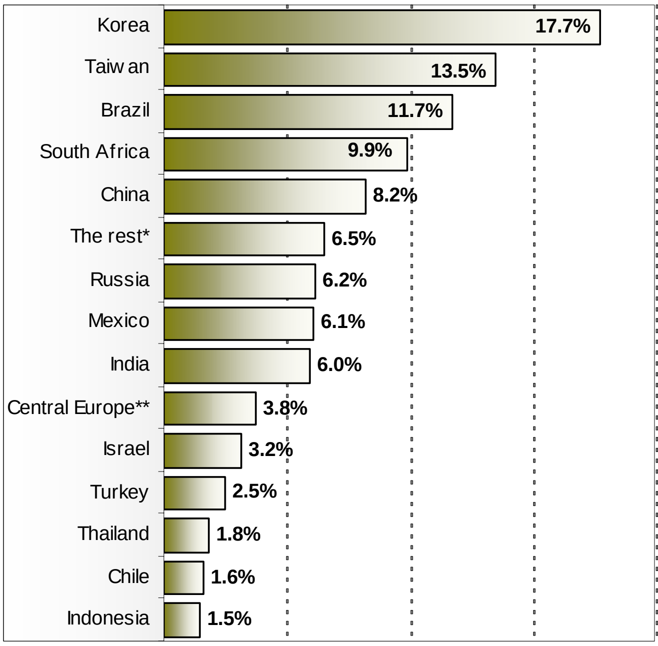
	Month	Return	Year to date
Maestro Equity Fund	Feb	**-0.9%**	**7.6%**
Maestro equity benchmark *		-2.7%	5.0%
JSE All Share Index		-3.2%	5.7%
Central Park Global Balanced Fund ($)	Dec 05	**2.6%**	**1.2%**
Benchmark**		1.5%	3.7%
Central Park Global Balanced Fund ($)	Jan 06	**5.1%**	**5.1%**
Benchmark**		2.7%	2.7%

* 50% JSE Top 40 Index, 50% JSE Financial & Industrial 30 Index
** 40% MSCI World Index, and 20% each in MSCI Sovereign Index, CFSB Hedge Index and 3-month US Treasury Bills

Chart of the month

Given our strong focus on emerging markets, you might be interested to see the weightings of the respective markets in the widely followed MSCI Emerging Markets index, shown in Chart 4.

Chart 4: MSCI Emerging Market weights at 28 Feb 06



* Argentina, Columbia, Egypt, Jordan, Malaysia, Morocco, Pakistan, Peru, Philippines and Venezuela
** Hungary, Czech Republic and Poland
Source: MSCI

File 13: Information you needn't retain

We have often commented in the past on the growth in Exchange Traded Funds or ETF. They continue to rise in popularity and are increasingly being used by institutions to manage their exposure to various sectors or commodities. They represent an efficient, liquid vehicle for managing exposure in real time. In January, the combined value of assets of US ETF was $313bn, up from $226bn in

December 2004 and $71bn in 2000. No fewer than 50 US ETF were launched in the past thirteen months. In SA, there are now 7 ETF, and this is likely to rise in years to come. News that a proposal to launch a silver-backed ETF, i.e. one dedicated to investing directly in the metal, had been lodged with the SEC (the US financial markets regulator) supported the price of silver towards the end of the month, where it ended at a 22-year high. The price of gold was also supported by the launch of the gold-backed ETF a couple of years ago.

More information can be obtained on ETFs on the websites of ICI, the US equivalent of SA's Association of Collective Investments (ACI, formerly the AUT). Other useful sites where you can learn more about ETFs are ETF Connect and ETF Digest. A good indication of the popularity of ETFs is the fact that you can find a great deal of information on them as well as the prices of the most popular ETFs on popular sites such as Yahoo! and MSN.