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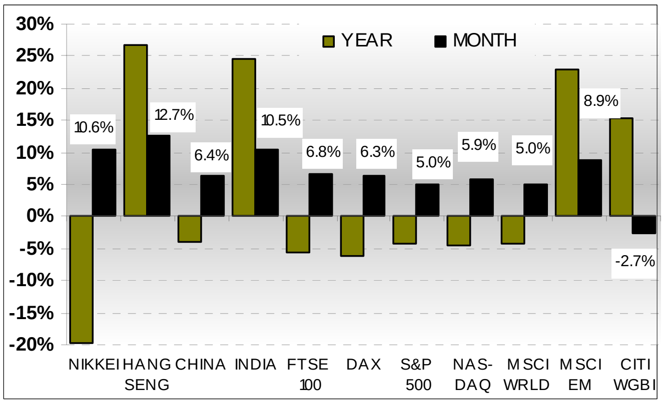
Investment Letter | 8th Edition | May 2008

April in perspective – global markets

After the terrible start to the year April seemed like a breath of fresh air. Global equity markets regained some degree of composure and posted healthy gains. With central banks now firmly in "support mode", markets seem more relaxed. Japan posted its largest monthly gain in 15 years, admittedly off a low base. Many of the markets which had experienced the worst declines during the first quarter, recovered the most in April. This was particularly true of emerging markets; Turkey, China, South Africa and India all registered double digit (dollar) returns. Refer to Table 3 at the end of this report for a breakdown of April emerging market returns. The MSCI Emerging market index rose 7.9% and the MSCI World index 5.0%. The annual returns to end-April still look a bit sad though, as can be seen from Chart 1. It is extraordinary to note the 46.6% absolute difference in annual returns between Japan and Hong Kong or for that matter the 27.2% difference between the MSCI World and Emerging market indices. The dollar regained some composure and clawed back some of the heavy losses it has sustained this year so far. It gained 1.7% and 5.2% against the euro and yen respectively. The prices of gold and platinum declined 6.7% and 5.4% respectively but commodity prices remained firm despite the strong dollar, evidence of which can be seen in the 5.8% rise in the CRB Commodity index as well as record food and energy prices.

Chart 1: Global market returns to 30 April 2008



Recent developments on the investment landscape

- I needn't remind you, but for the record, the *SA Reserve Bank increased interest rates* on 10 April, bringing the cumulative increase since June 2006 to 4.5%. The bank prime overdraft rate is now 15%, the highest since July 2003. For what it is worth, we think there is another upward leg in inflation on the way (see below) given recent developments in the rand and commodity and food prices. We see the Bank's actions as pre-emptive although we think *more rate hikes will occur in future*. An unfortunate aspect of the rate hikes, acknowledged by the Bank, is that the increases will not curb rising inflation; the latter is largely a function of supply constraints and not excess demand.
- *SA inflation:* Bad news on all fronts here, I'm afraid. The monthly rise in SA (consumer) inflation was 1.6% in March, bringing the annual rate to 10.6%. The main culprits were, not surprisingly, increases in food and energy prices. As though that wasn't bad enough, the news was followed by an 11.8% rise in producer price inflation (PPI); more inflationary pressures are around the corner. The country is holding its breath for a decision from the energy regulator's office in the light of Eskom's request for an unscheduled 60% price increase – part of the electricity crisis that has beset South African this year so far. Add to that the ongoing record prices that oil seems to reach every other day and the prognosis looks rather bleak.
- *Chinese economic growth rates* were revised up by the authorities. Economic growth for 2006 and 2007 was revised from 11.1% and 11.4% to 11.6% and 11.9% respectively. The revision coincided with the yuan falling below 7.0 to the dollar. It has now appreciated by 4.0% to the dollar, the fastest rate of appreciation since Beijing dropped it dollar-peg in mid-2005 in favour of a "managed float" i.e. the authorities no longer tie the currency directly to the dollar, but "manage" its movement against a basket of currencies.
- The *Chinese economy* grew at 10.6% during the first quarter despite massive ice storms and power cuts. Inflation in March was 8.3%, marginally lower than the 11-year record of 8.7% in February. Food prices rose by 21.0%, accounting for 6.8% of the 8.3% gain.
- *The Chinese equity market*, the star of global equity markets in the past two years with a rise of 131% and 96% in 2006 and 2007 respectively, has come to earth with the proverbial bump. It endured a torrid April, falling 13% intra-month, before a cut in share-dealing taxes by the authorities to encourage a return to the equity market by retail investors helped stabilise the market. It then rose 22% to end the month up 6.4%. Its year-to-date *decline* is 29.8%. It posted a decline during the past year of 3.9%.

Chart of the month

As you are surely aware by now, we have been beating the food price inflation drum for all of this year, having identified it as a major risk to the global economy and its markets. Apart from what we have already said, particularly in the March Quarterly Report, there is little more to add this month, other than to draw your attention to further record prices of many of the soft (food) commodities. In a recent Financial Times article (refer to the Comment on 30 April), Martin Wolf listed some useful charts, two of which are listed below and are self-explanatory.

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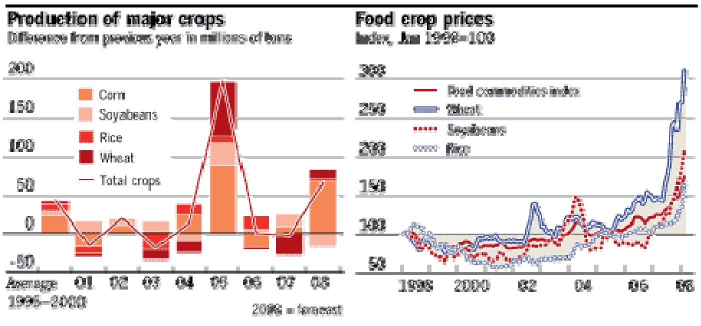
Chart 2: Soft commodities - still on the up

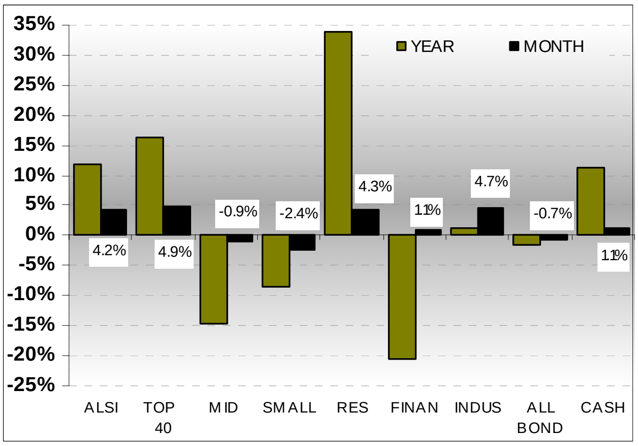


Source: FT.com

April in perspective – local markets

After a torrid start to the year, local equity markets perked up a bit, in line with global equity markets, as some form of normality returned to the investment environment. Evidence of the return of an appetite for risk in global markets can be seen from the stronger rand during the month; it firmed 7.7% on the month, admittedly off a low base. Prior to April it had declined 15.9% and 22.4% against the dollar and euro respectively. Despite the rand weakness, the ongoing rise in commodity prices helped resource shares post a positive return during April, although its gains were trimmed in the latter part of the month. The financial index continues to struggle – largely a result of the sharp increase in local interest rates and a deteriorating trading environment – but industrials had a good month. With the prices of gold and platinum coming off their mid-month peaks, the gold index took strain, ending 10.6% lower. Large caps posted better returns than their smaller brethren once again; the Top40 (large cap), mid and small cap indices posted returns of 4.9%, -0.9% and -2.4% during April respectively.

Chart 3: Local market returns to 30 April 2008



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	Apr	**4.8%**	**2.5%**	**8.3%**
Maestro equity benchmark *	Apr	4.8%	3.7%	6.1%
JSE All Share Index	Apr	4.2%	7.3%	11.9%
Maestro Long Short Equity Fund	Mar	**-2.9%**	**-8.9%**	N/A
JSE All Share Index	Mar	-3.0%	2.9%	11.1%
JSE Financial and Indus 30 index	Mar	-2.2%	-7.1%	-2.2%
Central Park Global Balanced Fund ($)	Mar	**0.4%**	**-3.1%**	**3.6%**
Benchmark**	Mar	0.2%	-2.4%	3.9%

* 50% JSE Top 40 Index, 50% JSE Financial & Industrial 30 Index
** 40% MSCI World Index, 20% each in Citi World Government Bond Index, Credit Suisse Tremont Hedge Index and 3-month US Treasury Bills

Table 2 lists the compound annual returns for the periods to 31 March 2008 of the equity portfolios in our care. Like so many other local investment managers, our equity returns lagged those of the overall market during the March quarter because our portfolios have less exposure to the resource sector than the index does. I made the point in the recent Quarterly Report that Anglo and Billiton together constitute 30% of the All share index. The share prices of these two companies rose 15.8% and 15.1% during the quarter (the financial and industrial indices *fell* 12.8% and 6.9% respectively during the same period). You would thus had to have had a *very large* proportion of your portfolio in not only these two companies, but also in other resource companies such as Arcelor Mittal, which rose 44.3% in the quarter, Implats (up 31.9%) or Sasol (16.4%) to come anywhere near the All share index return over the past few months. This type of exposure lies outside of Maestro's comfort zone and more importantly beyond our (and most of our client's) risk tolerance level.

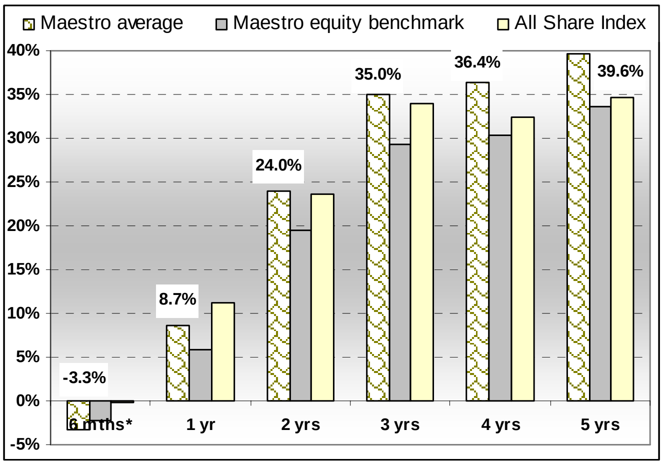
Table 2: Maestro annual returns to 31 March 2008 (%)

SA equity returns	6 mths*	1 yr	2 yrs	3 yrs	4 yrs	5 yrs
Maestro long-term equity portfolios	***-3.3***	***8.7***	***24.0***	***35.0***	***36.4***	***39.6***
Maestro equity benchmark **	-2.2	5.8	19.4	29.3	30.3	33.7
JSE All Share Index	-0.2	11.2	23.7	34.0	32.4	34.7

* 6-month returns are un-annualised
** 50% JSE Top 40 Index, 50% JSE Financial & Industrial 30 Index

Note the difference between the returns of the All share index and the Maestro equity benchmark, which has approximately equally weightings to the resource, financial and industrial sectors. This difference is entirely due to the greater returns from the resource sector in recent years. Despite being consistently underweight resource shares (for risk reasons more than anything else) Maestro has posted better returns than the All Share index for all periods other then those of one year or less. Where we have under-performed, it has been by only a small margin. The results in Table 2 are depicted graphically in Chart 4, making it a bit easier to see the consistent outperformance of the market by Maestro's equity portfolios.

Chart 4: Maestro annual returns to 31 March 2008 (%)



* 6-month returns are un-annualised

"State of the Nation" – an update

Many of you are aware that Maestro launched a "hedge fund", the Maestro Long Short Equity Fund, in July last year. At the time there was no prevailing legislation in the country pertaining to the managers of such funds. However, the Financial Services Board (FSB) subsequently introduced legislation for hedge fund managers, who had until the end of February to apply for a "Category IIA" licence. Only firms who hold such a licence are allowed to manage hedge funds; the application process is ongoing and there are presumably many applications currently in the pipeline. Maestro submitted its application to the FSB in December 2007 and was advised during April that ***our Category IIA licence application had been successful.*** Maestro is thus now fully and officially authorized to manage hedge funds, including the Maestro Long Short Equity Fund.

Jos Gerson - a dear friend, colleague and mentor

It is with great sadness that I record the passing away on 27 April of Jos Gerson. Those of us who have been in the industry for a while will remember Jos fondly as the irrepressible and passionate Merrill Lynch Economist. For years he served our industry faithfully. He taught us so much over the years. Always game for a good debate, he delivered his views tirelessly with conviction and enthusiasm. Part practitioner and part (but brilliant) academic, never was there a better mentor. Even as he struggled to get on top of cancer in recent years, he remained part of the industry as best he could. Jos, I will miss you and so too, will our profession. We are all the poorer for your departure, but will remember you fondly for years to come, and will benefit from the example you set in the industry and the community.

Table 3: MSCI Emerging Market April returns (%)

EM countries/regions	Apr-08	YTD
Turkey	15.9	-28.9
China	15.4	-12.0
Brazil	14.8	8.3
South Africa	12.1	-5.2
India	11.0	-19.0
LatAm	**9.4**	**7.3**
Israel	8.8	3.0
Asia	**8.2**	**-7.6**
MSCI EM	**7.9**	**-4.3**
South Korea	7.2	-7.9
EMEA	**5.9**	**-6.8**
Hungary	5.7	-8.8
MSCI DM	**5.0**	**-5.0**
MSCI EM Small Cap	**4.8**	**-10.1**
Egypt	4.8	13.0
Peru	4.4	9.3
Taiwan	4.2	9.7
Russia	2.6	-9.3
Malaysia	2.3	-7.8
Argentina	2.3	9.3
Jordan	1.4	-1.0
Thailand	0.9	3.1
Czech Rep	-1.0	-1.4
Poland	-1.6	-5.5
Chile	-1.9	7.3
Mexico	-2.0	2.9
Morocco	-3.0	29.9
Indonesia	-5.9	-12.0
Philippines	-9.7	-26.4

Source: Merrill Lynch

Finally, with food prices where they are, and a global scramble for food evident in many countries, I thought you would enjoy the following picture, courtesy of National Geographic.

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