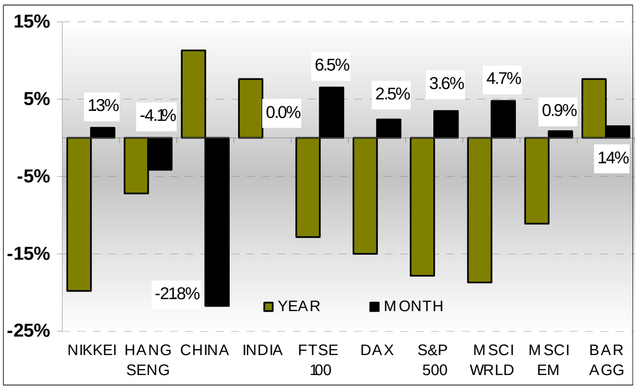
MAESTRO
INTERMEZZO
Investment Letter | 9th Edition | September 2009

August in perspective – global markets

After the enormous gains of July the market movement in August seemed rather sedate. Investors focussed largely to two things: firstly on corporate earnings, which were better than expected though by no means exceptional and secondly the state of the global economy in general and the US economy in particular. In so doing they tried to assess the progress of the tepid economic recovery and tried to better understand the make-up of the recovery, in order to gauge how sustainable it is. There are concerns, which we have held for a long while already, that equity markets might have run the underlying economies; hence a "pause for breathe" seemed in order. Developed markets were quite firm; the MSCI World index rose 4.7%, helped by gains in the UK of 6.5% and the US of 3.6%. Emerging markets were less profitable – the MSCI rose only 0.9% - having been spooked by the 21.8% decline in China, nearly 7% of which was registered on the last day of the month. Precious metals were firmer but oil declined – for the first time this year, can you believe it? The dollar was weaker against the euro, while sterling was weak amongst most currencies. The rand strengthened marginally (0.6%) against the dollar.

Chart 1: Global market returns to 31 August 2009



What's on our radar screen?

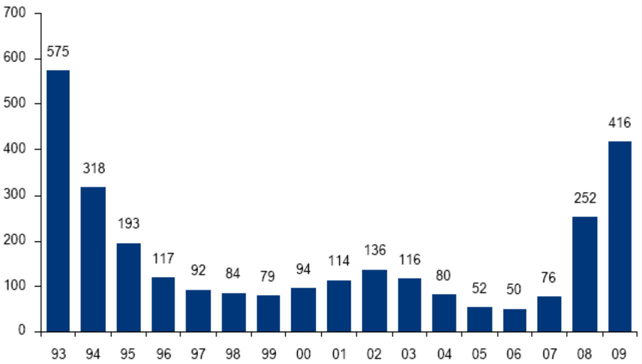
We remain focussed on the changing economic landscape and list below a couple of developments in this regard:

- *The SA economy:* further evidence of the health of the SA economy came in the form of retail sales; in the year to June 2009 retail sales declined 6.7%. Not surprisingly the SA Reserve Bank cut interest rates by 0.5%, taking the repo rate down to 7.0%, its lowest level in three years, down from a peak rate of 12.0%. Second quarter economic growth came in at -3.0%, which although negative is a lot better than the -6.4% registered during the first quarter. Table 4, listed at the end of this letter, provides a useful summary of the SA economy. From it you can see the respective sectors and how much they contributed or detracted from economic growth. The agricultural sector is always volatile (as it is in all economies) but the two notable standouts in the second quarter were the manufacturing sector, which constitutes 14.4% of the SA economy, and the construction sector (4.1%). The former contracted 10.9% and the latter grew 12.2% in the second quarter respectively. From the Table you can also see that the mining sector, which constitutes "only" 4.6% of the SA economy – far less than most South Africans believe – grew by 5.5%. On the face of it this looks like good news, but of course this growth needs to be seen in the context of its 32.8% decline in the first quarter.

Chart of the month

Lest we fall into the trap of thinking that all is well, or at least not getting worse in the US banking system, the Federal Deposit Insurance Corporation (FDIC), the US government agency that protects consumer deposits, placed another 111 banks and lenders onto their list of endangered banks. The total of 416 banks now on the list equates to 5.0% of the US banking system – refer to Chart 2. Not surprisingly the FDIC's fund is now at its lowest level since 1993. Merrill Lynch makes the valid point that as long as the US banking system is impaired, credit creation will remain weak and that will provide a source of downside pressure to the economy and the consumer in particular.

Chart 2: Number of US banks in "Sick Bay"



Source: Merrill Lynch

Central Park Global Balanced Fund: the 5th anniversary

It is hard to believe that five years have passed since Maestro established Central Park Global Balanced Fund (Central Park) in June 2004 to serve as the primary vehicle for the offshore investment needs of its clients. Since that time investment markets have suffered numerous setbacks, the largest one being the 2008 global credit crisis. The rand has traded in a range between R5.59 and R11.85 to the dollar during the past five years and the US equity market, by way of example of the volatility Central Park has had to endure, has traded in a range between 666 and 1576 – not necessarily in that order of course! At the end of June the Fund's net asset value was $11.6m.

MAESTRO
INTERMEZZO
Investment Letter | 9th Edition | September 2009

For the benefit of those not familiar with Central Park, the Fund invests across the asset classes of bonds, equities, cash, currencies and alternative investments (hedge funds and private equity). It measures itself against a benchmark consisting of a 40% equity weighting and a 20% weighting each to bonds, cash and hedge funds. The benchmark has proved to be demanding, but we are committed to trying to beat it over the long-term whilst ensuring the Fund is less volatile than the underlying individual markets.

Table 1 lists Central Park's returns since inception for the periods to 30 June 2009. The Fund is conservatively position at present, which has resulted in it not rising as much as the average sector in the past six months. However, that same conservative stance prevented it from falling as much as the sector in the second half of last year. We would have loved nothing more than to present more substantial returns in absolute terms but investors will be aware just how unprofitable markets have been in the past two years. On a relative basis, the Fund has held its own.

Central Park is domiciled in the BVI and administered out of Luxembourg. The Fund has enjoyed the same Administration team since inception (Custom House Group); we have been very happy with the service they have provided Central Park investors and we enjoy a close and healthy working relationship with them. We have not approached the Financial Services Board for its approval to market Central Park Global Balanced Fund to SA retail investors; the Fund is not available to the retail public.

Central Park reports in a similar fashion to the Maestro Equity Fund. It recently published its June 2009 Quarterly Report which is available on the Maestro website or by clicking here. The Fund also publishes a monthly Fund Summary and investors are sent Maestro's Quarterly Market Commentary and this publication, *Intermezzo*.

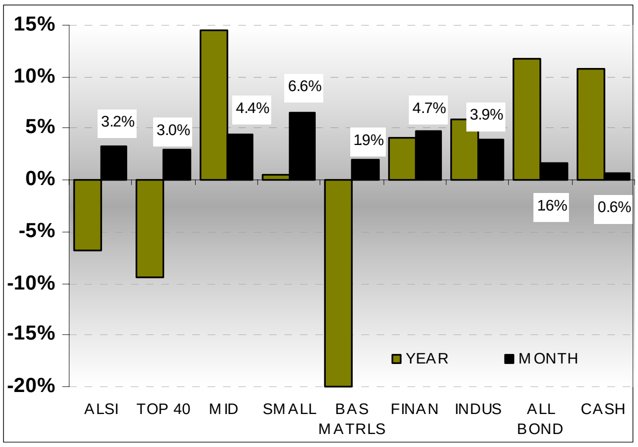
Table 1: Central Park returns to 30 June 2009 (%)

	6m *	1 year	3 years	5 years
Central Park Global Balanced Fund	***4.1***	***-10.7***	***0.9***	***1.5***
Benchmark**	4.2	-14.1	-0.9	1.8
Average sector***	9.7	-18.7	-3.6	1.1
MSCI World index	4.8	-31.3	-10.0	-1.9

* 6-month returns are un-annualised
** 40% MSCI World index, 20% Barclays Capital Aggregate US (bond) index; 20% 3-month US Treasury Bills, 20% Credit Suisse Tremont Hedge index
*** Lipper Global, Mixed Asset USD Balanced Global sector

August in perspective – local markets
The focus of attention in the SA equity market was also on corporate earnings; by and large investors weren't disappointed. The 3.2% in the All share index was respectable but it hides a number of gains and declines which were far more substantial – clients would have seen more specific details in the letter that accompanied their statements. Small caps (6.6%) performed better than mid (4.4%) and large caps (3.0%) and financials (4.7%) did better than industrials (3.9) and basic materials (1.9%).

Chart 3: Local market returns to 31 August 2009



For the record
Table 2 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 2: Returns of funds under Maestro's care

	Period ended	Month	Year to date	Year
Maestro Equity Fund	Aug	**3.7%**	**20.8%**	**-9.3%**
Maestro equity benchmark *	Aug	3.5%	18.4%	-2.9%
JSE All Share Index	Aug	3.2%	18.3%	-6.8%
Maestro Long Short Equity Fund	July	**5.3%**	**7.7%**	**-12.2%**
JSE All Share Index	July	10.1%	14.6%	-9.4%
JSE Financial and Indus 30 index	July	10.9%	14.5%	1.2%
Central Park Global Balanced Fund ($)	July	**2.9%**	**7.1%**	**-6.5%**
Benchmark**	July	4.1%	8.4%	-9.2%
Sector average ***	July	4.4%	14.5%	-13.5%

* 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 ($)

The shape of things to come
In this section we usually focus on events we regard as symptomatic of the enormous change our world is currently undergoing. However, this month I've taken the liberty of including an excerpt from a book I recently read, which, apart from providing remarkable – and I mean *remarkable* –

insight into the recent history of China, also inadvertently provides a unique window into how China's oil policy was and is being formed. The book *China Witness – voices from a silent generation* consists of a number of interviews the authoress *Xinran* conducted with elderly Chinese people. Her concern is that so much of modern Chinese history, in particular the struggle and hardship that previous generations had to endure in building China into the modern nation it is today, is on the verge of being lost due to the culture tradition of not sharing with successive generations tales about the hard and troublesome past. To quote from the back cover, "the book is at once a journey by the author through time and place, and a memorial to those who have lived through war and civil war, persecution, invasion, revolution, famine, modernization, Westernization – and have survived into the twenty-first century". I strongly recommend the book to any long-term investor who seeks a broader insight into "what makes China tick". *China Witness* was published in 2008 and is available from Amazon by clicking here.

The particular excerpt I wish to share a portion of comes from an interview with Mr You, aged seventy eight, who was part of the first group of Chinese oil explorers. He is now a "respected authority and influences many aspects of China's oil exploration". I pick up the story towards the end of a remarkable interview that begins with the origin of oil prospecting in China in the early 1950s and ends in the early twenty first century.

***Xinran**: Teacher You, within the limits of what is permitted can you tell me in a simple way about China's earliest oil resources?*

***You**: Before 1949, China had very little oil; there were only three oilfields in three places. One was the Yanchang oil deposit in northern Shaanzi, an old oil deposit, started in the last years of the Qing dynasty. Another was the Yumen oilfield in Gansu and the third was the Dushanzi oil deposit in Xinjiang, which we had only just started to develop with Soviet help, we hadn't started extracting. The total value of all three was less than 150 000 tonnes a year.*

Before Liberation we relied mainly on the American company Mobil; as a nation we were dependent on them. After Liberation we only imported Soviet oil for political reasons. The Soviets helped China develop a petroleum industry; they were the ones to suggest recruiting China's physics students as geological prospectors for oil, and the Chinese government did as they suggested, so production levels were somewhat higher in the first ten years after Liberation; with the discovery of the big Kelamayi oilfield, production rose from 150 000 tonnes to 500 000 tonnes.

At that time, when the Petroleum Ministry held its yearly Oil Prospecting Conference in Beijing, there would barely be a hundred key workers present. Many geologists were posted to Daqing in the north-east; at that time oil work was really tough, it's impossible to describe how hard that time was. The centre told us to stick it out for four more years, and bring Daqing to heel! It was tough, but we just kept on working.

After opening up Daqing, we discovered the Shengli oilfield in Shandong, and the North China oilfield. This was when Chinese geological prospecting really took off and China's petroleum started develop; come the sixties China was no longer dependent on oil imports, and we didn't start importing again until after the eighties, when we found ourselves developing too quickly. In the seventies our production increased again to nearly 700 000 000 tonnes. We could easily supply our own needs and we started to export petroleum to North Korea and Japan.

***Xinran**: I saw a news report on the possibility that a Russo-Japanese oil pipeline will pass through Chinese territory. Am I right in thinking this is closely connected with the future of our oil supply?*

***You**: The best option for china would have been transportation by pipeline, that is, using a pipeline to transport the oil resources of neighbouring countries, thereby lessening China's dependence on oil from the Central Asian region and transportation via the Malacca Straits. The Archangelsk-Daqing Line that would have linked China and Russia collapsed in mysterious circumstances at the lat moment, and this cast a heavy shadow over prospects of a pipeline in China's oil strategy.*

***Xinran**: Do you believe that this "loss" was due to pressure America and Japan, or was it a Russian manoeuvre? Or was it a problem with our negotiators?*

***You**: You could say that it's all of these. Oil is a part of politics now, that is clear to see from international relations, and it's very dangerous.*

***Xinran**: When did China start having plans for prospecting in Africa? And when did we begin diplomatic relations with the Middle East? When did we start to concern ourselves with Middle Eastern oil reserves?*

***You**: Over 50% of our oil imports come from Middle East; very early on that region became an area of high demand for both oil and weapons. Central Asia accounts for about 30%, and then comes Africa, which produces approximately 20% of China's total crude oil imports. We are now officially trying to get into a few "sidelined and occupied areas". Our main attack is on two fronts: one in Africa, in* *particular North Africa; and the other is the South American region, that's places like Cuba.*

In a few months' time China will hold a summit with the heads of forty-eight African nations in Beijing. This will be a forum for Chinese-African cooperation, in which plans will be made for the period between 2007 and 2009, to ensure the future of Chinese-African oil cooperation. The fiftieth anniversary of China's opening diplomatic relations with African countries is in 2006, and it is also the tenth anniversary of the China Petroleum Corporation officially entering Africa on a large scale to develop oil and gas. China's leaders hope to create as quickly as possible a situation in which the African economy will be inseparable from China's oil investment. Africa's oil reserves can safeguard China's energy reserves.

***Xinran**: Why are all the brains in the oil world thinking up plans for Africa?*

***You**: If you follow the Gulf of Guinea south on an atlas you will see a group of African countries all marked with the sign for oil – that includes Equatorial Guinea, Gabon and the Congo, all the way down to Angola in the south. A whole series of new oilfields with rich potential have been discovered in the Sahara Desert in North Africa, Sudan in East Africa and Chad in Central Africa.*

In Africa's history, petroleum came after gold, ivory and slaves; it was seen as another of the "black" treasures of the African continent. Over a period of decades, just about all of the Western oil magnates have invested large sums in Africa. China Petroleum has had forty-four prospecting and development projects in twenty countries in ten years, with thirteen of those countries in North and West Africa.

Just before oil prices started to rise, Africa became another storehouse of oil for the whole world, a possible successor to the Middle East. But, after decades of prospecting, how much virgin territory is there left in Africa to open up? Between oil giants like ExxonMobil, Shell, Total and the others, what opportunities will China Petroleum still be able to find? This is actually a challenge to China's prospecting technology and transportation capability.

***Xinran**: Are you worried about China's prospecting capability?*

***You**: In many aspects of prospecting and development, China Petroleum has already reached the world standard (in areas such as passive rift valley basin natural gas theory, integrated prospecting technology, fine-scale imaging of oil reserves and so on. China's oil prospecting is still at the middle-mature stage, and our oil reserves are still in the high, basic value, stable growth period), but the difficult of prospecting is increasing all the time. Generally speaking, China's top oilfields are entering a period of decline, and achieving stable production is becoming increasingly difficult.*

China's oil needs are skyrocketing, and this has been perceived as a key reason for the major inflation of international oil prices in recent years. China has already replaced Japan as the world's second biggest consumer of oil (second only to the United States); it is estimated that in less than ten years China's oil needs will have increased from 6 million tonnes a day to 11 million tonnes a day. Our oil reserves are seriously inadequate, and in fourteen years' time China's oil may very well be exhausted. This dramatic transformation from the oil exporter of former years to a major oil-importing nation has already become a bottleneck in our development. It is predicted that by 2020 at least 60% of our oil will have to come from imports. To bring our prospecting ability up to a level where it can contend with the world's established high-tech oil nations in fourteen years will be no easy task.

***Xinran**: If we can't make it in time on the harvesting front, do you worry about the transportation of oil imports?*

***You**: Our country's fleet of oil tankers in the Far East is pitifully small; this does not sit well with constantly increasing oil imports. Over 90% of this country's oil imports have to be transported by sea, and 90% of this seaborne oil is transported in foreign tankers. This leads to another even more serious question: the human factor – it is our people who are in charge of our nation's oil security. In order to safeguard our nation's energy reserves China Ocean Shipping (Group) Company is currently building a world-class oil tanker fleet.*

***Xinran**: Apart from worries about prospecting, harvesting and sea transportation, do you consider that there are any more urgent tasks for Chinese oil?*

***You**: I'm not worried about our oil diplomacy with other nations; we can stand aside and let them fight it out between them. But our internal structure and systems of organization are cause for concern. In 1998, as part of our country's reforms of the petroleum industry, the original single company was split into the three companies we have today, in the hope of stimulating competition. But today there is no sign of the results they predicted, a state of competition did not develop, quite the reverse, it created a monopoly, with the three companies carving up their fields of influence between them. The government should be on the alert to prevent this; the oil groups could manipulate the market, to coerce government.*

INTERMEZZO
MAESTRO
Investment Letter | 9th Edition | September 2009

A mixture of celebration and sadness

September 1 saw the occasion of Maestro's 9th birthday. In some respects the time has flown by but in other respects – specifically in terms of what has happened in the markets - it seems like an eternity. Between the tech meltdown after Y2K and the Nasdaq bubble, September 11 and the "new world order", the economic slowdown after that, the subsequent equity bull market and housing and credit bubble into 2007, and of course last year's global credit crisis and the "new world order – part II" that is now taking shape – goodness me! It is a miracle we are still around. Not really though – it is a tribute to our remarkable clients who have supported us so faithfully through the past nine years and from whom we have learnt so much. It has been a bumpy, tough, enjoyable and rewarding period for all of us. It is fair to say that we are better equipped now than ever to meet our clients' needs and continue building on the base we have established in the past nine years.

Our celebrations were however overtaken by the sad news. First we heard of the passing of the wife of a client and then came the news that one of the first people to place his assets into Maestro's care and with whom we have enjoyed a close and unique relationship since 1994 had passed away. For confidentiality reasons it would be inappropriate to mention family names but many of our readers will know who I am referring to (the photo alongside is a give-away for those who knew our client). We would like to again extend our sincerest condolences to the families concerned; our prayer is that you will find comfort in these sad and lonely times, and the strength to carry on the legacies that these special people left behind for all us.

Being the small company we are, we take our clients and their families very personally. So when there is a loss, as there was last year and again recently, we feel that loss very deeply. In many respects we also lose a member of the Maestro family in the process. Yet when the initial sorrow has passed we realize how privileged we have been to have learnt so much from these individuals, and how blessed we have been to have worked closely with them and to have shared part of their lives during their journey with us. The memories of these special people will linger with us for many years and we will celebrate their lives and our fond memories for a long time to come. We commit ourselves to continuing to serve the families into the coming years and reflecting on the fullness of what those who have passed on left for us.

Table 3: MSCI Emerging Market August returns (%)

	Aug'09	YTD
Pakistan	18.2	73.0
Hungary	12.9	56.5
Argentina	12.8	41.3
Egypt	9.1	39.9
Australia	7.2	45.5
Poland	6.2	24.4
Turkey	6.1	70.8
South Africa	5.4	37.4
Mexico	5.0	33.9
Peru	4.7	42.6
Japan	3.9	10.0
MSCI DM	**3.9**	**18.0**
EMEA	**3.7**	**42.2**
Colombia	3.4	55.1
Russia	2.4	57.7
Thailand	1.9	50.4
LatAm	**1.9**	**58.6**
Czech	1.6	29.4
Brazil	1.5	71.4
Korea	1.2	47.8
MSCI EM Small Cap	**0.9**	**72.8**
Morocco	0.7	-0.2
Malaysia	-0.4	34.3
MSCI EM	**-0.5**	**48.0**
AP ex Japan	**-0.7**	**45.6**
Indonesia	-0.7	88.7
India	-1.2	68.2
Philippines	-1.7	46.9
Israel	-2.0	33.0
EM Asia	**-3.0**	**46.5**
Singapore	-3.4	45.0
Taiwan	-3.6	43.8
Chile	-4.5	47.1
China	-7.0	39.2
Hong Kong	-7.3	39.9

Source Merrill Lynch

Table 4: The SA economy in a nutshell

Contributions of the annualised percentage change in seasonally adjusted real value added by industry to the annualised percentage change in seasonally adjusted real GDP

Industry	Relative size (%)	Q-Q growth (saar) %					Contribution to saar growth (% points)			
	Q1'09	Q2 '08	Q3 '08	Q4'08	Q1'09	Q2'09	Q3'08	Q4'08	Q1'09	Q2'09
Agricultural, forestry, fishing	2.9	16.7	31.6	16.7	-2.9	**-17.1**	0.8	0.5	-0.1	**-0.5**
Mining & quarying	4.6	19.2	-8.8	0.4	-32.8	**5.5**	-0.4	0.0	-1.7	**0.3**
Manufacturing	**14.4**	14.3	-9.4	-21.8	-22.1	**-10.9**	-1.5	-3.5	-3.3	**-1.6**
Electricity, gas & water	2.0	-2.1	3.0	-2.7	-7.9	**-1.4**	0.1	-0.2	-0.2	**0.0**
Construction	4.1	9.1	15.0	10.8	9.4	**12.2**	0.6	0.4	0.4	**0.5**
Wholesale, retail trade & catering	**13.8**	-4.0	-6.9	-0.2	-2.5	**-4.5**	-0.9	0	-0.3	**-0.6**
Transport & communication	10.3	4.3	4.5	1.8	-1.8	**-1.1**	0.5	0.2	-0.2	**-0.1**
Finance, real estate & business services	**20.5**	3.3	3.2	3.0	-2.3	**-2.4**	0.6	0.6	-0.5	**-0.5**
General government	**13.1**	2.5	5.2	4.5	4.1	**2.4**	0.7	0.6	0.5	**0.3**
Personal services	5.6	4.1	6.3	2.8	3.1	**2.3**	0.3	0.2	0.2	**0.1**
Total value added	**91.3**	**5.3**	0.3	-1.7	-6.2	**-2.4**	0.3	-1.5	-5.6	**-2.2**
Taxes less subsidies	8.7	2.2	-1.0	-3.1	-9.3	**-9.0**	-0.1	-0.3	-0.8	**-0.8**
GDP at market prices	**100.0**	**5.0**	0.2	-1.8	-6.4	**-3.0**	0.2	-1.8	-6.4	**-3.0**

1. The relative size of each industry for the second quarter of 2009 is the share of its seasonally adjusted real value added of the seasonally adjusted GDP for the first quarter of 2009. Similarly, the relative size of taxes less subsidies on products is the share of its seasonally adjusted value of the seasonally adjusted GDP for the first quarter 2009.
2. The contribution is calculated by multiplying the percentage change of each industry (and taxes less subsidies on products) by its share of GDP in the previous quarter (i.e. its relative size).

Source: Vunani Securities