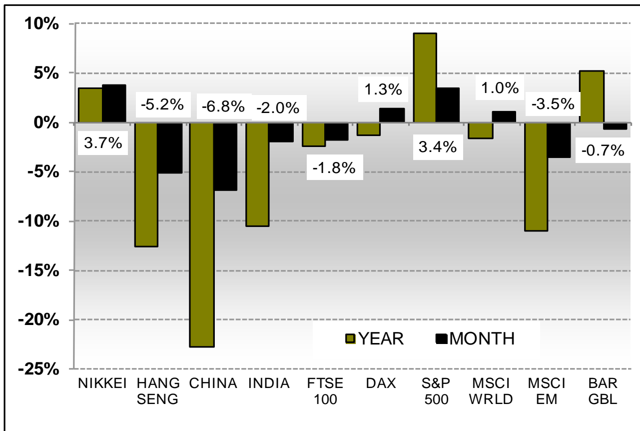
MAESTRO INTERMEZZO

Investment Letter | 12th Edition | April 2012

March in perspective – global markets

On the face of it the returns experienced during March may not look like much, but within the Maestro office we thought it was a rather exciting month. Without too many investors noticing, an air of normality seems to have returned to markets, which will come as a relief after last year's rollercoaster ride of unprecedented volatility. When we take a step back from the monthly returns and look at those for the quarter, it becomes clear very quickly that the March 2012 quarter should be one that investors remember for a long while. As far as the equity markets are concerned, the first quarter of this year was the most profitable one since 1998 and many markets posted new highs since the state of the Great Financial Crisis in 2007. But let us start with the monthly returns for March, summarized in Chart 1.

Chart 1: Global market returns to 31 March 2012



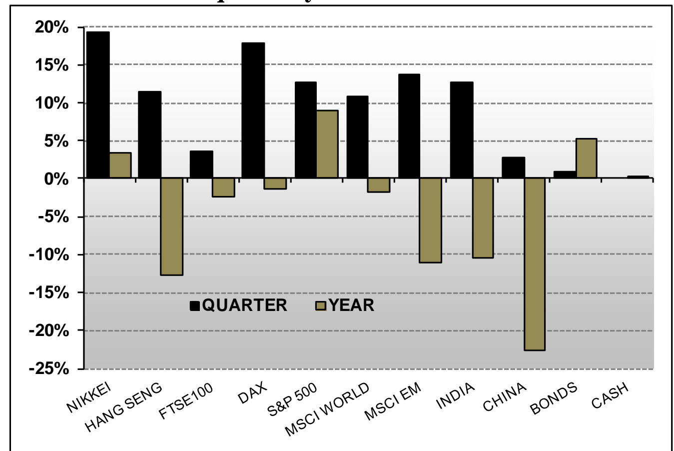
March represented a month of mixed fortunes although there is a big difference between the month and year-to-date (quarterly) returns. March saw developed markets continue to rise. The MSCI World index rose 1.0%, led by the US up 3.4% (the tech sector led the gains as the Nasdaq rose 4.4%), Japan 3.7% and Germany 1.3%. Developing markets were softer; the MSCI Emerging market index fell 3.5%, led by China, down 6.8% (Hong Kong declined 5.2%), Russia 5.4%, India 2.0% and Brazil 1.8%. The SA equity market declined 4.3% in dollar terms. Bond markets struggled, falling 0.7%. Although the dollar was relatively stable, commodity prices ended the month lower on the back of concerns about the rate of global growth this year. The oil price (the "commodity with the PhD in economics" as we say in the office) rose 0.2% but off its intra-month highs. Gold declined 6.1%, platinum 5.0%, palladium 9.8% and copper 1.7%.

A brief look at the March 2012 quarter

Clients are aware that we deal with the market behaviour during the quarter in great detail in our Quarterly Reports. However, the past quarter was unique, so forgive me if I bring some of its salient features to your attention. Let me refresh your memories as to the end of last year; December saw markets end the year in pessimistic mood, although they were off their October 2011 lows. January and February saw strong gains across all markets, resulting in some spectacular – but varied - returns during the first quarter of 2012. Chart 2 provides a summary of these returns.

It's been quite a while since I can recall seeing such as divergent a list of *annual* returns to end-March. Compare the respective 22.7% and 12.6% decline in China and Hong Kong to the 8.9% gain in the US. Germany's annual returns of -1.3% doesn't look too impressive but remember that its annual return to December was -14.7%. The *annual* return for the MSCI World index i.e. developed markets was -1.7%, a lot better than the -11.1% of developing markets (the MSCI Emerging market index). Of course the *quarterly* returns explain a lot of these dichotomies, as investors priced in some form of normality in developed economies but still fear a slowdown in emerging markets. Despite the negative annual returns for most emerging markets, the March quarter returns were positive across the board, and strongly so. Within developed markets, consider the quarterly returns of Japan, up 19.3%, Germany 17.8%, the US 12.7% and Hong Kong 11.5%. The 3.5% return from the UK looks rather pedestrian, but remember that index is heavily weighted towards mining shares, which have borne the brunt of investor concerns about the slowing global economy (wait till you see the returns of resources shares in SA).

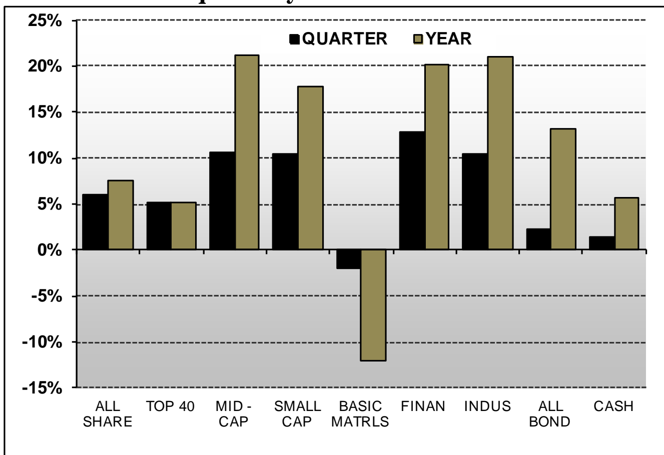
Chart 2: Global quarterly returns to 31 March 2012



So the MSCI World index rose 10.9% during the quarter while the MSCI Emerging market index rose 13.7% despite its 3.5% decline during the month of March. But despite the March weakness, the quarterly gains (remember these are un-annualized gains) are still impressive: Russia is up 18.8% (assisted by the 14.4% quarterly gain in the oil price), Brazil 13.9%, India 12.6% and South Africa 11.5% in dollar terms.

Other quarterly returns that caught our attention were the gold price, which rose only 5.6% in what must be a real disappointment for the long-suffering SA gold bulls out there; the JSE Gold index tumbled 14.9% during the quarter. The other comparison we keep a close eye on are the returns across company size – or market capitalization (or "cap" for short). US large caps (S&P500) rose 12.7%, US mid caps rose 13.1% and small caps 11.7%. So investors were not shy to take on more risk (assuming for the purposes of this discussion that smaller companies are more risky). The South African experience reflects a similar trend, but to a greater extent: large caps rose 5.1% on the quarter, but this was dwarfed by the 10.6% and 10.4% gains in the mid and small cap indices respectively. While we are on the subject, the annual gains to end-March in US large, mid and small caps are 8.9%, 0.5% and 3.8% respectively while in SA they are 7.5%, 21.2% and 17.8% - a very different picture, not so? Of course the explanation lies in the recent returns of the SA mining sector (basic material sector), so let's take a quick look at the quarterly returns of SA investment markets, summarized in Chart 3.

Chart 3: Local quarterly returns to 31 March 2012



You don't have to be a rocket scientist to spot the odd man out in the SA equity market in the past year. But what you might not be aware of is just how heavily the All share index is weighted in favour of the resource (basic material) sector. At the end of March it constituted 35.8% of the All share index. Given this large influence, the resource shares have confined the rise of the All share index to a 6.0% gain during the March quarter. The basic material index declined 2.0% during the *quarter* versus the gains of the financial and industrial indices of 12.8% and 10.5% respectively. The *annual* returns of these indices to end-March are even more divergent; the basic material's *annual* return was -12.0% versus the 20.2% and 21.0% of the financial and industrial indices respectively. That's a 33% difference in the course of one year - certainly not something you will see often in our lifetimes. The net result of this unusual market was an *annual* return of 7.5% for the All share index to end-March. We will unpack the quarterly returns in more detail in the Quarterly Reports later this month.

What's on our radar screen?

Here are a couple of items we are keeping a close eye on:

- *The SA economy*: At the SA Reserve Bank's Monetary Policy Committee (MPC) meeting, held late in March, the MPC raised its growth outlook for 2012 and 2013 to 3.0% and 3.9%, from 2.8% and 3.8%, respectively. Interest rates remained unchanged, which, we would do well to remind ourselves, remain close to a 30-year low. The annual inflation rate declined from 6.3% to 6.1% in February, led by declines in the prices of fruit and vegetables. Food inflation is still high though, currently running at a rate of 10.1%, down from 11.6% in December. The monthly increase in inflation remains high though, at 0.6%, similar to the monthly increase in January, which shows that there is no room for complacency. On a more positive note, the Reserve Bank's Quarterly Bulletin was released during March, showing that growth in household spending rose to 4.6% in the December quarter last year from 3.8% in the third quarter. Government spending rose to 7.3% from 4.8% while gross fixed capital formation (GDFI or gross domestic fixed investment as it used to be called) rose 7.2% from the third quarter's 5.9%. All these growth rates are annualized and seasonally adjusted. The ratio of household debt to disposable income declined from 75.6% to 74.6%, while the ratio of debt costs to disposable income also declined from 6.8% in the third quarter to 6.7% in the last year of 2011 – its lowest level in more than five years.

"Chart" of the month – actually a Table this month

One of the emphases of our investment philosophy in recent years has been on "yield" i.e. the income that an investment generates (or yields). There are various ways to measure this, but perhaps the most common one in modern parlance is that of dividend yields in the case of shares or simply "yield" in the case of fixed interest investments i.e. bonds, where the "yield" would be tantamount to the rate of interest earned on the investment. Just to refresh your memories, when yields (interest rates) on bonds decline, the price increases and vice versa. Thus, bond yields and price have an inverse relationship – when the one goes down the other has to go up. Now back to our theme of "yield" which ties in with our Big Picture theme of *The Lost Decade*, referring to the state of the US economy in particular and the developed economies in general, and the extent to which low (or no) growth in the coming years will keep interest rates at historic

low levels. Irrespective of the prevailing investment climate traditional portfolio investors, the bulk of which are retirement funds, need yield to pay, for example, pensioners and to generate at least some return. In an era of low or no interest rates/yield, we think that investments that generate at least some form of yield or income will increase in value in the coming years as investors become increasingly desperate in their search for yield. And a *rising* income yield, such as many dividend yields of quality companies are, will become even more valuable. This reasoning constitutes one of the main pillars behind our "strong rand view" which we have held for a number of years.

The increasing value of "yield" has also been a theme of Merrill Lynch, whose research and thinking we follow closely and rate highly. In a recent article specifically on the "yield theme" they listed a table showing the extent to which equity (dividend) yields exceeded the bond yields of certain sovereigns (nations). The sharp decline in yields (interest rates) and hence an increase in their prices has been a theme of the sovereign bond market for almost three years now. Ironically, investors rate many sovereign bonds very highly despite the rapidly deterioration in their fiscal position. After all, how much money are you going to make over the next ten years if you buy US 10-year bonds at the prevailing yield (interest rate) of about 2.0%? The answer is simple – very little! Yet investors have poured hundreds of billions of dollars into US bonds in the belief that although they will not achieve much of a return, at least they will get their capital repaid in ten years time when the bonds are redeemed.

All of this is a very long explanation as to why we focus on the theme of yield so much, and why we rate South Africa highly as a global investment destination despite the political nonsense we have to put up with in the short-term. In our view, SA yields are still attractive at present and if interest rates rise in the coming year, our sovereign bonds are likely to become even more attractive to foreigners desperately searching for yield. Table 1 lists the equity (dividend) yields and sovereign (bond) yields for selected countries. Would you have said for example that 100% i.e. all of the shares listed on the Swiss bourse enjoy dividend yields higher than the Swiss sovereign bond yields? In fact there are 11 major markets where 50% of the companies in the regional equity index have dividend yields greater than the sovereign yields. In the case of South Africa, despite the fact that we still find a number of shares' dividend yields very attractive – Table 1 lists the SA equity market dividend yield at 3.04% - only 4% of companies on the SA equity market have dividend yields higher than the SA sovereign (10-year) bond of 7.58%. This speaks to the fact that not only are SA's bond yields quite attractive – at least for yield-hungry foreign investors – but so too are our equity dividend yields. You might be interested to know that despite the strong increase in share prices so far this year, seven out of the 25 or 28% of the companies in our equity portfolios have forward dividend yields in excess of 5.0%. This should prove supportive for the SA equity market and for the rand, as foreigners can only access SA markets in rand terms i.e. they have to buy rands before they can invest locally.

Table 1: Equity dividend yields versus sovereign bond yields

Country or Region	Dividend yield (%)	Sovereign bond yield (%)	Spread (ppts)*	% of stocks with div yield above sov bond yield**
Spain	7.68	3.74	3.94	73%
Switzerland	3.52	0.53	2.99	100%
Taiwan	4.19	1.31	2.88	90%
Singapore	3.44	0.90	2.54	91%
France	4.57	2.04	2.53	82%
Germany	3.59	1.14	2.45	94%
UK	3.60	1.93	1.66	84%
Japan	2.26	0.68	1.58	96%
Italy	5.45	3.88	1.57	48%
Global	**2.74**	**1.50**	**1.24**	**72%**
Canada	2.71	1.62	1.09	65%
US	2.04	1.09	0.96	63%
Australia	4.87	3.94	0.93	61%
Poland	5.07	4.92	0.15	38%
DM	**2.75**	**3.06**	**-0.31**	**36%**
China	2.66	3.50	-0.83	27%
EM	**2.64**	**4.81**	**-2.16**	**14%**
Korea	1.23	3.65	-2.43	5%
Indonesia	2.37	5.81	-3.44	4%
Ireland	2.30	6.10	-3.81	0%
South Africa	3.04	7.58	-4.54	4%
Mexico	1.17	6.01	-4.83	0%
Russia	1.97	7.55	-5.58	4%
Turkey	2.75	9.07	-6.32	0%
Brazil	3.70	10.04	-6.34	1%
India	1.26	8.36	-7.10	0%
Portugal	6.86	15.32	-8.46	14%
Greece	6.48	87.41	-80.93	0%

*Dividend yield - sovereign bond yield

**Represents share of MSCI companies within each regional index that have dividend yields greater than the region's sovereign bond yield

Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg, DataStream

Source: Merrill Lynch

A few quotes to chew on

Taxation: fairness is in the eye of the beholder

Prof Brian Kantor wrote an interesting piece with the above-mentioned title by way of comment after the 2012 Budget was tabled. If anyone would like it, please email me and I will send it to you. It is too long to reprint in its entirety, but I thought you would be interested in the following except. "If we can regard a taxable income of R600 000 as a high income, there were a mere 277 550 of these high SA income earners in 2011-12. They made up but 2.5% of the 11.04m potential taxpayers on the PAYE books of SARS of whom 6.2m, earning more than the R60 000 income tax threshold, actually paid income tax. The top 102 050, or 1.7% of income earners and income tax payers, reported more than R1m of taxable income. Those earning more than R1m paid 24.3% of the income tax collected and the top 4.5% (those reporting more than R600 000 income) paid 37.3% of the income tax collected, while generating 21% of the income reported. The top 1.7% of income earners earned 12.8% of

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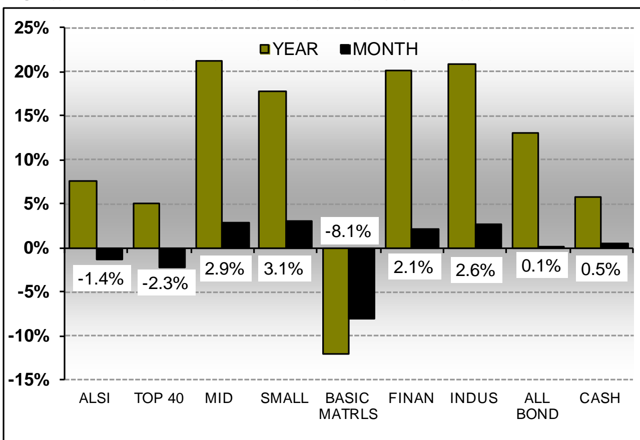
all reported incomes and paid 24.3% of all income taxes. Clearly these statistics indicate how incomes are distributed in SA, with the top 1.7% of income earners earning 12.8% of all incomes reported to SARS, while the 4.6m earning less than 60 000 (equivalent to 44% of the workforce) generated a mere R100m of income or 6.4% of all income reported. Is this distribution of income and the income tax burden fair or unfair?"

March in perspective – local investment markets
We have commented in some detail on the quarterly returns to March, above. The monthly returns mirror the quarterly and annual returns to a large extent, in that basic material shares (-8.1%) underperformed, despite the weaker (-2.9%) rand while the financial (2.1%) and industrial (2.6%) sectors did relatively well. So 10% of the 33% difference in annual returns between the resource sector and the financial and industrial sectors arose during March alone. That speaks to a tough market in which to operate; it will be interesting to see which investment managers made the appropriate call.

Chart 4: Local market returns to 31 March 2012



The auto and parts, healthcare equipment and services, and industrial transport were the most profitable sectors during the month, rising 10.8%, 7.7% and 6.3% respectively, while the least profitable sectors were gold, mining and platinum mining, declining 12.2%, 8.7% and 8.2% respectively. In keeping with the poor returns in the global bond market, the All bond index posted a marginal (0.1%) return in March, while cash delivered its customary 0.5%. And last but not least, the Gold index declined 12.2% in March, which might make sense when one considers the 6.1% decline in the dollar gold price, but one would have expected the 2.9% decline in the rand and the current hype about gold to have supported SA gold mining shares. Clearly, they need a bit more to support them; the gold index declined 14.9% in the year to March.

For the record
Table 2 lists the latest returns of the mutual funds under Maestro's care. You can find more detail by visiting our website at www.maestroinvestment.co.za. Returns include income and are presented after fees have been charged. Fund Summaries for each respective fund listed in the table are available on our website.

Table 2: The returns of funds under Maestro's care

	Period ended	Month	Year to date	Year
Maestro Equity Fund	**Mar**	**2.0%**	**10.0%**	**11.2%**
*Maestro equity benchmark **	*Mar*	*-0.1%*	*8.1%*	*12.3%*
JSE All Share Index	*Mar*	*-1.4%*	*6.0%*	*7.5%*
Retirement Funds				
Maestro Growth Fund	**Mar**	**2.1%**	**6.6%**	**10.0%**
Fund Benchmark	*Mar*	*-0.5%*	*4.2%*	*9.3%*
Maestro Balanced Fund	**Mar**	**2.0%**	**5.8%**	**9.5%**
Fund Benchmark	*Mar*	*-0.3%*	*3.8%*	*9.2%*
Maestro Cautious Fund	**Mar**	**0.9%**	**4.7%**	**9.6%**
Fund Benchmark	*Mar*	*-0.2%*	*3.1%*	*8.6%*
Central Park Global Balanced Fund ($)	**Feb**	**2.9%**	**8.8%**	**-3.4%**
*Benchmark***	*Feb*	*2.2%*	*5.0%*	*-0.1%*
*Sector average ****	*Feb*	*2.8%*	*6.4%*	*-1.7%*

* 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 ($)

We will list Maestro's returns on its equity portfolios under its management in next month's *Intermezzo*, as usual, but we bring to your attention the fact that we have just put a very profitable quarter on behalf of our clients behind us. As some of you are aware, our 2011 returns were not up to scratch, having suffered a particularly poor March 2011 quarter (admittedly after an excellent December 2010 quarter). We have dwelt with the reasons for the poor relative returns in many publications and so won't go into detail here. However we have had a particularly profitable March 2012 quarter, which means that we have dropped a poor quarter off the annual returns to March 2012 and replaced it with a very good quarter. The net result is a dramatic improvement in our relative returns for the year to March 2012, to the extent that the Funds listed in Table 2 are now all comfortably above their (very demanding) benchmarks and indices. More about this next month.

Riding the Wave, by David Pfaff
As has become customary at Maestro Investment Management, on the date of our anniversary we get to write a piece in *Intermezzo* on whatever we like. Last month Victor celebrated his "first birthday" and wrote about his passion for football. I have to confess I knew very little

about football before he arrived in the Maestro offices but over the last 12 months have found myself pausing on the odd game when flicking through channels and half enjoying it! So much so that while visiting my wife's family in England this Christmas, I went to watch Victor's team, Man United, play at their home ground, Old Trafford. Unfortunately, they suffered a rather shocking defeat, to a low ranking team and I've since been banned from attending any further matches. But it was a once in a lifetime experience and I have to thank him for encouraging me to go, because it was his passion for the game that inspired me to take that opportunity and do something I wouldn't ordinarily have done.

In life, opportunities and choices are constantly presented to us and we must choose whether we take them or whether we let them pass. This applies in the work environment and in our personal lives, and the effects of those opportunities, taken or not, can have a profound effect on our lives and our careers. What is often never known is what might have been.

Many of you know that I am a surfer. I started surfing as an 8-year old. At the age of 16 I was surfing for the SA junior team and two years later I was surfing in some of the most incredible locations around the world. The romantic lifestyle of a professional surfer came to an end at the age of 22 when I 'retired' and focused on my studies. It was a difficult decision to make and throughout life we are faced with these tough choices. But even now, I am as passionate about the sport as I have ever been.

There are many lessons that we can take from this amazing sport and carry them through to our personal and professional lives. Surfing is all about catching great waves, but in order to do that successfully you have to understand the conditions, have courage to seize the moment, commitment to see it through, great timing, good balance and above all, focus.

Some of the best waves of my life have been the ones I've been unsure whether I'd make at various stages of the ride. There've been numerous occasions when I've felt like jumping off (while riding the wave), out of fear, but this is the very worst action you can take. For surfers this is a well known fact, but still we sometimes do it out of uncertainty of what will result from riding the wave out. Without getting too technical, perfect solid waves (breaking over coral) can often give you the ultimate experience in surfing or a horrendous wipe-out. In surfing, as in life, fortune seems to favour the brave.

In surfing terminology a wipe-out on a big wave (or any wave for that matter) is basically when you fall off your board and experience a feeling of being in a washing machine without knowing when you will be let up for air. We often say he who hesitates is lost, and I've seen dramatic wipe-outs take place due to people being fearful and not committing themselves. The same applies in many aspects of our life, both professional and personal.

This past March marked my “fifth birthday” at Maestro. Time definitely seems to speed up as you get older. Perhaps it’s a combination of how much busier and complicated life becomes. When I was a teenager, then professional surfer and finally a university student, five years felt like a lifetime to me. Even though the last half-decade has 'flown by' - it has been a significant period in my life and as I reflect upon it I'm very happy that I seized certain opportunities that came my way.

I remember the first day I met Andre; to discuss the possibility of starting to work at Maestro. It was December 2006 and I had applied for a job that had opened up within the company. Unbeknown to me the position had already been filled by the time my application arrived and Andre told me this when we spoke over the phone during the Christmas holiday. However, during the course of the conversation we discovered that we were both vacationing in the same place - in Wilderness, along the Garden Route. So we arranged to meet for coffee the following day, just for an informal chat. Three months later I started working for Maestro and have been here ever since.

Five years represents the lion's share of my career in a 'formal' job environment and it represents almost 50% of the time that Maestro has been in existence. During that period I have seen some colleagues leave, I've seen Luke, Victor and Melody arrive and I've had the privilege of working alongside Andre throughout. These past five years have

without a doubt been the steepest in terms of my professional learning curve.

Five years ago, the world was a different place to the one we know today. World markets knew only one direction (up, north and further up), property in South Africa (and all over the world) was going to make everyone 'zillionaires' and a lot of people found their true calling in life: as the next Donald Trump! Yield on an investment wasn't important, at least not nearly as important as capital growth, leverage was a must in order to maximise returns and the fact that the world had an emerging China, India and Brazil changed global prospects for everyone forever. Global markets were in a sweet spot and the multi decade bull market was firmly entrenched…

How quickly things can change. The volatility in global and domestic markets, which became evident just 6 months after my first meeting with Andre and remained so throughout the following 5 years, has been unprecedented. Property, if purchased at the incorrect time, switched from an asset that created wealth to one that destroyed it (leverage in reverse). All of a sudden yield became a comforting factor; the lower the yield, the more danger the investment represented (common sense?) The BRIC (Brazil, Russia, India and China) nations, despite their glorious position, could be seen to have the ability to stumble and pure decoupling became a myth (for the time being).

In terms of investment markets, the last five years have been characterised by a period of extreme volatility, low interest rates, deleveraging, quantitative easing and low growth and domestic production. Investors could have been forgiven for "jumping off" their boards or disinvesting, but thankfully most didn't and have come out the other side smiling.

Because in life, as in investment markets, there will always be ups and downs to contend with. I have lived through some of the sharpest corrections we have ever known in investment markets, but on the flip side have also seen some of the sharpest rises over the same period. It must be said that this volatility is not normal, but often in life, as in surfing, the conditions that present themselves are difficult to contend with, however that doesn't mean the end result has to be an unintended one.

Running parallel to this market upheaval, a lot was happening in my personal life. I started working at Maestro in my late 20's and now find myself approaching my mid thirties! I am no longer the youngest employee at Maestro, but now have three colleagues that are younger than me. I originally started working alongside three employees, all were married (two to each other) and I was the only singleton. We now have a work force that is six strong and only one member that is unmarried (Luke don't feel the pressure, time is on your side!)

It was during my tenure at Maestro that a life changing 'opportunity' was presented to me. While attending a friend's wedding in Cape Town I met my wife. This was her first visit to Africa and she had travelled from England especially for this wedding. I think my parents felt that I would remain a bachelor forever, but Susan swept me off my feet and six months after meeting her I asked her to marry me. I recall phoning my father, who was in Mozambique at the time, to tell him the news. He was delighted for us and none of us could have believed that six months later we would all be together in Parbold, Lancashire, celebrating our wedding.

Susan and I were married on the 10th October 2010 and tragedy struck six weeks later when my father suddenly passed away. It's difficult to believe that one minute the world as we know it can be seen in a certain way and then a few moments later it can change completely. I have come to realise that this is a fact of every aspect of our life. Nothing should ever be taken for granted and nothing assumed. This as you can imagine was a very traumatic time for me and as a family this last year has been a period of healing and sticking together. However, a number of joyful occasions have followed since my father's passing and to some degree life has returned to normal. My sister was recently married and Susan and I are expecting our first child. In some deep and meaningful way, the cycle of life continues. My father shared my interest in investments and property and he was the one who nurtured my passion for surfing. I've learnt so much from him and from the sport he loved and I hope to be able to share some of those lessons with my own children - when they arrive!

The last five years have reinforced my understanding that what goes up (too much) must come down (to some degree),

just as waves of all sizes will continue to break towards the shoreline and just as we will experience highs and lows in our personal lives.

A year after joining Maestro the All share index peaked and then took almost 4 years to break above that nominal level it reached in May 2008. Consider this: an investor that put R100 into the market on 1st May 2008 and took it out 10 months later on 28th February 2009 would have lost 40% of his capital. In terms of surfing, this is the equivalent of suffering a wipe-out by voluntarily jumping off your board at the worst possible time on a dangerous wave.

Now think of another investor who put his R100 into the market just as the first investor was potentially pulling out. He would have doubled his money over the next 3 years. This is the equivalent of a surfer driving hard off the bottom of a dangerously beautiful, perfect wave and having the ride of his life. If one had remained committed throughout the ride, regardless of when you had paddled into the wave the "end" result would have been a good and memorable experience (although not always comfortable at times).

As a surfer, investment manager, or investor you have to remain focused on what you want to achieve. This comes through a combination of skill, discipline, experience, focus, courage, understanding of the conditions and a passion for what you do.

If history is anything to go by, it's worth remembering if you are prepared to stay invested in the equity market (and committed to the task at hand) for more than 10 years there is a very real chance that you will achieve the long-term average compound return of the All share index (and hopefully more, if Maestro's track record is anything to go by) which is approximately 18% per annum.

These last five years have been profound and will go down in the history books as a major event i.e. the Great Financial Crisis, which changed the way we view the world. This period has presented us with some amazing buying opportunities. It has also presented us with a number of landmines to negotiate. It would be naïve of us to think that we could predict the future, and that is not our job. Our job as Investment Managers is to position your assets, alongside ours, in the best possible way to weather whatever storms we face. This is done by taking on less risk than is inherent in the market itself, repositioning portfolios when we see fit and in turn producing superior risk adjusted returns. Although we are conservative Investment Managers by nature, we act quickly and in a decisive manner when navigating the waves and curved balls that markets throw at us from time to time.

When all is said and done I feel that we, at Maestro, have navigated our way successfully through these last five years and for me personally it has turned out to be an amazing ride thus far. With fatherhood approaching in the next few weeks, I can already see some pretty big waves on the horizon, and I'm determined to ride them to their full potential.

File 13: Information almost worth remembering

Still on the Apple track

We have written a lot about Apple in recent editions of *Intermezzo* and we would not normally give a specific share so much limelight. But I came across a recent statistic that I just have to share with you; a stat that contextualizes the Apple phenomenon of the 21st century. I wonder how many of our readers have iPods. Many I am sure, so this is just for you. Are you happy with it? Do you think it was a decent "investment"? Well, here is something to chew on: Apple launched their first iPod in November 2001; it sold for the princely sum of $399 (the rand dollar exchange rate was R10.27 at the time, which means the iPod would have set you back about R4 100). Now, had you taken that $399 and bought Apple shares instead, what do you think that investment would be worth today - $2 000? $5 000? Let me put you out of your misery. When Apple launched their latest iPad in March 2012 your $399, had you invested in Apple shares instead, would have been worth an astonishing $26 000! And at the time of writing, it would have increased further to $27 200. That translates into a remarkable 100.7% compound annual growth rate over the past 11 years. As we say in South Africa – eish!!

Show me the money

In the February edition of *Intermezzo* we drew your attention to the large cash balances in Apple's balance sheet. We pointed out that the cash – over $100bn and increasing by $1bn per day - constituted about $100 of the $460 price i.e.

about 21.7%. It is interesting to note that since then Apple has announced plans to distribute some of their large cash balances to shareholders in the form of a dividend and share buybacks. They have also explicitly mentioned that they are simply unable to reinvest all that cash at a satisfactory rate.

Given all of the above, you might be interested to know that one of our favourite local companies, which has been one of the largest holdings in our portfolios for many years, Cashbuild, recently published their results from which it was evident that they seem to have a similar problem. Before I give you the facts, let me place on record Maestro's long-held view that the company should return more cash to shareholders. We know the company's management relatively well and have a very high regard for them - many of them are readers of *Intermezzo* so I need to be careful about what I say ☺. To their credit, in their recent results they announced a substantial reduction in the dividend cover i.e. they plan to pay shareholders more of the company earnings in the form of a dividend. However, I couldn't help drawing the parallel between Cashbuild and Apple. At the time of their results announcement Apple had $100bn in their balance sheet and had a market cap (size) of $500bn i.e. cash represented about 20% of their total market cap. In the case of Cashbuild, at the time of their announcement they had just over R1bn in their balance sheet and the company had a market cap of R3bn. While these statistics do not tell the full story, it cannot be denied that their cash constitutes about 33% of their market cap – far greater than Apple's! Both companies are extremely cash generative and one has to wonder what exactly management are going to do with all that cash? Shareholders have good reason to be concerned that the large cash balances might distract management or tempt them into non-core activities that will ultimately reduce the attractions e.g. the high return on equity or the focus on a particular consumer sector that drew investors to the company into the first place. This is not the place to engage in a debate about the merits of corporate balance sheet management. But let me place on record the fact that Cashbuild's cash now constitutes more than 30% of their total market cap and it is Maestro's humble view that this is too high. We will revisit this debate in the months and years to come ... watch this space.

Riding the waves...

Part of David's role in the office since he joined just over five years ago, has been to try – and he really has tried – to teach his colleagues more about the finer aspects of surfing. Sadly, he still has a long way to go, which says more about the colleagues than his teaching ability ☺! But what he has shared with us has been fascinating and on occasions quite scary. Although they are not videos of David's own prowess in the waves, if you want to know what a normal day in the Maestro is like when markets are volatile, at least from an adrenalin-pumping point of view, take a look at the following clips on YouTube – just for fun. Enjoy!

http://www.youtube.com/watch?v=7nS_aR8XX_U

http://www.youtube.com/watch?v=8DIsjgZoLO0

http://www.youtube.com/watch?NR=1&v=KHtE3R1W028&feature=endscreen

The pictures of waves in this edition of *Intermezzo* are the remarkable art of Clark Little.

Table 3: MSCI returns to 31 March 2012 (%)

	Mar'12	2012
Mexico	4.4	15.4
Philippines	3.7	20.2
Peru	2.8	12.3
New Zealand	2.8	13.6
Indonesia	1.5	4.1
Pakistan	1.4	19.4
MSCI DM	1.0	10.9
Japan	0.4	10.2
Colombia	0.3	17.8
Turkey	0.1	27.1
Thailand	-0.6	20.4
Singapore	-0.6	19.1
Korea	-0.6	14.4
Malaysia	-0.7	7.9
Czech Republic	-1.3	9.3
Poland	-2.2	17.5
Taiwan	-2.2	14.5
Australia	-3.1	7.5
AP ex-Japan	-3.2	11.9
EM Asia	-3.2	13.0
LatAm	-3.5	14.0
MSCI EM	-3.5	13.6
EEMEA	-4.5	15.4
South Africa	-4.7	9.9
Hong Kong	-4.9	13.0
Egypt	-5.0	40.5
India	-5.4	19.8
Hungary	-5.6	22.8
Russia	-5.8	18.5
Brazil	-6.7	13.0
China	-6.9	9.9

Source: Merrill Lynch

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