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MAESTRO

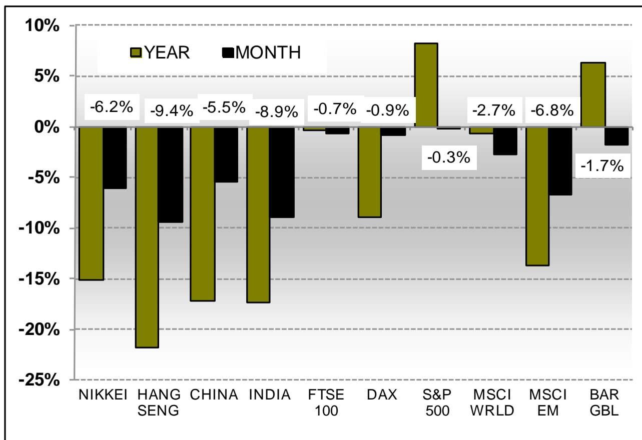
11th Edition | December 2011

November in perspective – global markets

November played a significant role in contributing to what has become a remarkable year in just about any measure. With the European crisis dominating the news, markets "rocked and rolled" in time to headlines, making a mockery of any returns based on sound fundamentals. By way of example, these were but some of the hurdles that investors had to negotiate during the month:

- The much anticipated, at least by the media and politicians, G20 summit early in November proved to be yet another damp squib and waste of tax payers' money
- In no less than two European countries (Greece and Italy) the democratically elected leaders were summarily ejected in favour of technocratic leaders i.e. people who can apparently "do what needs to be done" without putting their own interests and egos first
- Not unrelated, Greek and Italian bond rates soared to new heights (i.e. bond prices plummeted); the yield on Greece's 2-year bond reached 107% at one stage (although there is practically no functioning market in that security any more) and the yield on Italy's 10-year bond rose to 7.5%.
- The yield on the 1-year German bond went negative on the last day of the month i.e. its yield traded below 0.0%, meaning investor were now paying Germany to look after their money. Just think about that for a moment; on the same continent, scarcely a few hundred kilometres apart, you have a yield of -0.02% on a 1-year bond and 107% on a 2-year bond! Now you know why we refer to markets as dysfunctional at the moment.
- Another high-profile US bank collapses. MF Global, chaired by a high-profile ex-Governor of New Jersey, failed spectacularly, having taken – wait for it – a $6.3bn bet on European bonds. That's not all; it looks like the firm decided to use clients' funds when their own resources were running low! At the time of writing, investigators are still looking for "missing" client funds in excess of $1.2bn, no less than a fifth of all client funds held at the time. (*Ed*: and where were the regulators now? No sign of them when you need them)

Chart 1: Global market returns to 30 November 2011



These are but some of the features of the environment during November. You should not be surprised then to hear that with scarcely four trading days to go, markets were showing some terrible declines. The German equity market was down 11.6%, the US 7.6%, Hong Kong 11.1% and South African 4.6%. The MSCI World and Emerging markets indices were down 9.8% and 11.9% respectively. The dollar was rampant - the rand even touched R8.60 (recall that it was at R6.58 only six months ago). But the month was not over yet; more action was to follow.

2011 in Pictures: Social media becomes a new social force as the Arab Spring washes through the Arab world

On the last day of the month, concerted action by the central banks of the Canada, Japan, Europe, Switzerland, the UK and US took place to reduce the cost of borrowing dollars in the interbank market. Equity markets surged, while the dollar and bond prices dropped sharply. This was the classic "risk-on" trade we had seen periodically throughout the year. The effects were massive: despite the losses just four days before, the German equity market ended the month down only 0.9% (it had surged 12.2% in only four trading days), the US ended down 0.3% and the MSCI World and Emerging market indices had reduced their losses to 2.7% and 6.9% respectively. The rand rocketed to R8.09, at the same time lifting the SA equity market into positive territory (1.6%) and making it one of the few emerging markets to end the month in positive territory in dollar terms (refer to Table x). Casual market observers can be forgiven for thinking that the world's markets are becoming little more than a casino, but sadly, there is a lot more at stake. One cannot underestimate the difficulty in managing money in markets as volatile and unpredictable as these. And the damage these movements do to economies and the future lives of multiple generations must not be under-estimated.

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What's on our radar screen?

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

- *The South African economy*: the annual inflation rate rose to 6.04% in October, up from September's 5.7%. It is now official: SA's inflation rate is above the SA Reserve Bank's target of 3% - 6%. The annual rate of prices increases for food and non-alcoholic beverages rose to 10.6%. The monthly increase in the petrol price was also a driving force behind the monthly gain in inflation of 0.5%. It is hard to see any respite from pricing pressure, given the 22.5% decline in the rand dollar exchange rate since end-April. That of course also puts pay to any likely decline in interest rates for the foreseeable future. On a related note, retail sales rose 8.3% in September, up from 7.7% in August. South Africa's third quarter (Q3) growth rate turned out to be 1.4% (quarter-on-quarter, annualized), from 1.3% in the second quarter (Q2). There were some real shocking numbers from certain sectors, but they were not entirely unexpected. I always wonder what striking workers' response to these numbers would be, assuming they fully appreciate their significance and impact? Do they really understand what damage they inflict on the SA economy by their actions? My comment is made in light of the fact that the mining sector contracted 17.4%, largely due to the impact of the strikes in the gold, platinum and coal sectors. The manufacturing (-1.9%) and agricultural (-4.3%) sectors were also weak. These weak spots were offset by strength in the trade (6.1%) and financial services (4.5%) sectors. In general, the strength emanated from the demand-side of the economy, providing some comfort that local demand is still in good health and capable of driving growth in the right direction. Table 1 depicts the respective sectors' growth and the relative contribution to GDP.

Table 1: SA GDP by sector and expectations

	qoq % saar			% points contribution	
	Q2 revised	Q3	Dbe	Q2	Q3
Agriculture	-6.0	-4.3	15.0	-0.1	-0.1
Mining	-4.2	-17.4	-15.0	-0.2	-0.9
Manufacturing	-8.8	-1.9	0.0	-1.4	-0.3
Electricity	1.0	-2.6	-1.0	0.0	0.0
Construction	0.8	1.8	1.0	0.0	0.1
Trade	5.2	6.1	5.0	0.6	0.7
Transport & comms	4.3	2.3	3.0	0.4	0.2
Finance & business	2.7	4.5	3.0	0.6	0.9
Government	5.8	2.5	6.5	0.8	0.5
Personal services	2.7	2.5	3.6	0.1	0.1
GDP at basic prices	0.8	1.3	2.6	0.8	1.1
Taxes less subsidies	4.8	2.9	2.9	0.5	0.3
Total GDP	1.3	1.4	2.5	1.3	1.3

Source: Deutsche Securities

- *The European economy*: In the UK the Bank of England (BoE) reduced its expected growth rate, suggesting that economic growth would be around 3.0% in two years time but at its trough might dip to as low as 0.9%. It forecast inflation at 1.5% in two years time, notwithstanding the £275bn bond purchase program. But perhaps the most shocking data to be published related to UK unemployment, which is now 8.3%, the highest rate since 1996. I noted that the UK unemployment rate of 16- to 24-year olds rose to a remarkable 21.9%. Thus one in five school and university leavers will not find employment.
- *The US economy*: Growth in the US during the third quarter was revised down from 2.5% to 2.0%, although by and large the economic data released was a bit better than expected. The unemployment rate declined from 9.0% to 8.6% in November, but don't be fooled. This only happened because more than three hundred thousand unemployed people gave up looking for work altogether. So the news was not as good as it at first seemed.

2011 in Pictures: February 22 – Office workers stranded in Christchurch, New Zealand, after an earthquake kills 180

- *Emerging markets*: **Chinese** inflation declined from 6.1% in September to 5.5% in October amidst prospects of further declines in the next few months due to a favourable base effect. Annual retail sales slowed from 17.7% to 17.2% in October. One of the big events late in November was the Chinese central banks decision to reduce the banks' reserve requirement ratio by 0.5% to 21.0% i.e. it reduces the amount of capital banks have to hold against the loans they have provided to customers. The effect of this will be to free up billions of yuan ($63bn by some estimates) into the economy. More importantly, it provides the first tangible indication that Chinese monetary policy is easing, after being in a tightening mode for more than two years. Chinese Q3 growth slowed to 9.1%, down from Q2's 9.5%, providing evidence of a slowdown in both domestic demand and the world as a whole. The **Indian** economy grew at 6.9% during the September quarter, the slowest rate of

growth in two years, and down from the 7.7% growth rate in the June quarter. India is battling to rise above surging inflation and has been increasing interest rates for nearly two years now. The higher rates are clearly gaining traction in the economy, as is the global slowdown and European crisis. The **Brazilian** central bank cut its interest rates by 0.5% to 11.0%, the third cut since August, in an effort to counter the global slowdown, although inflation there, at 6.7%, is above the target rate of 4.5% plus or minus 2%.

2011 in Pictures: March 11- a devastating tsunami hits Japan

Charts of the month

One of David's favourite slides is depicted in Chart 2. The details are probably hard to make out in this reproduction, but I still want to share it with you as it underlines an important pillar in the activity of investing, namely that *the effects of volatility reduce over time* i.e. the longer you are invested in the equity markets, the less influence volatility has on your portfolio. This is a particularly important tenet to reaffirm in these times of remarkable volatility in global equity markets. Chart 2 depicts actual returns from the SA equity market (the All share index) over the past fifty years.

Chart 2: "Time in the market", not "timing the market"

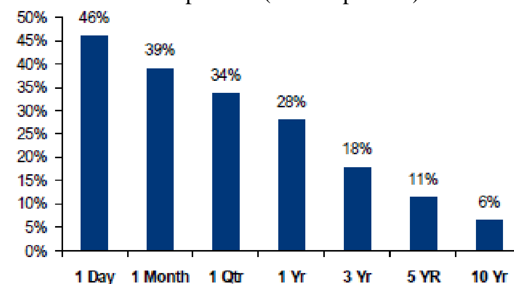
Range of compound annual returns from the SA equity market

Source: PSG Asset Management

The chart works like this: the biggest range over any one-year period over the past fifty years was either 124%, shown in blue or -48%, shown in red. The average one-year return over the fifty years was 21%, shown in green, although the range of returns is huge, namely 172% (124% plus 48%). Over any rolling two-year period, the greatest annual return during the past fifty years was 77% (in blue) and the worst annual return was -27%, shown in red; the two-year average return was 20%, shown in green, while the range has declined to 104% (77% plus 27%). Moving on to the five-year period, you can see that the range of average returns over any rolling five-year period in the past fifty years was between 46% and 1% i.e. *the All share index has never produced a negative return over any five-year period*. And so you can continue all the way until the fifty-year period, where you see how *the range of returns i.e. the volatility of returns, which is the traditional definition of risk, declines as time progresses*. The range of returns over a five-year period has declined to 47% (46% plus 1%). Over a fifty-year period, the range is only 2% (best of 19% and worst of 17%), with the average return over fifty years of 17%. The point of this chart, drawn from actual market returns over the past fifty years, is that *if you have a long-term horizon, you needn't be too concerned about short-term volatility*.

Chart 3: Probability of negative US equity returns

over different time periods (1929 – present)



Source: Merrill Lynch

We recently came across a similar chart (Chart 3) but for the US equity market using the S&P500 (large cap) index. The results are depicted in Chart 3. The chart utilizes a slightly different approach but the results are the same: *as the investment time horizon lengthens, the probability of losing money in the US equity market generally decreases*. Looking at Chart 3 you can see that there is a 46% probability of losing money over one day, using market data since 1929. That probability declines to 39% over one month, which is still uncomfortably large, but over a three, five or ten-year period the probability of losing money in the US equity market declines to 18%, 11% and 6% respectively. The message is clear: *the effects of market volatility reduce the longer you remain invested in the market*. The corollary is equally true: ensure you have a long-term horizon when investing in the equity market, as the risks of losing money over a very short period are significant and hard, if not impossible, to diversify away.

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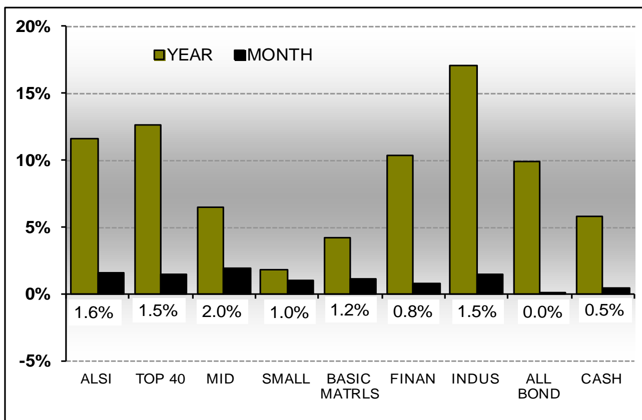
2011 in Pictures: April – Mother and son console each other after Concord, Alabama, is obliterated by a tornado

November in perspective – local investment markets

The SA equity market behaved very similar to global ones, declining steadily through the month before charging higher in the last four days of trade. What had been a 4.3% decline on 25 November turned into a 1.6% gain by the end of the month, as global investors pushed the large cap and mining shares higher. The All share index ended November 1.6% higher, while the basic materials, financial and industrial indices rose 1.2%, 0.8% and 1.5% respectively. The large, mid and small cap indices rose 1.5%, 2.0% and 1.0% respectively. The top performing sectors were food and drug retailers, up 15.7% and oil and gas (Sasol) 8.7%. Support services, down 6.4%, fixed line telecoms (-5.4%) and platinum (-4.9%) lead the declines. The All bond index was flat on the month although its 8.0% year-to-date return is still respectable.

Chart 4: Local market returns to 30 November 2011



For everything there is a season – Part 2

Last month we highlighted the unfortunate fate of two of the most famous and capable investment managers in the world, Bill Gross and John Paulson who, despite their remarkable and consistent ability to generate above-average returns, had misread the current markets and had delivered awful returns, in absolute and relative terms, so far this year.

November saw another "legend" come unstuck, although unlike Gross and Paulson, he has actually thrown in the towel. Bill Miller, the Legg Mason investment manager who, until 2005, had steered his Capital Management Value Trust to 15 consecutive years of outperformance of the S&P500, has announced his retirement, having been humbled by the current volatile markets. Over the past five years, his fund is currently last out of 818 comparable funds, and has dwindled from $21.5bn in 2007 to a current value of $2.8bn.

We could add a few more names to this list (Fidelity's Anthony Bolton comes to mind) but the point is not to gloat; it is simply to underline firstly how tough the prevailing markets are for investment managers and secondly to note that even the very best managers underperform severely from time to time.

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	**Nov**	**-1.0%**	**-4.3%**	**0.2%**
*Maestro equity benchmark **	*Nov*	*1.3%*	*8.4%*	*15.2%*
JSE All Share Index	*Nov*	*1.6%*	*5.2%*	*11.7%*
Retirement Funds				
Maestro Growth Fund	**Nov**	**-1.5%**	**-1.1%**	**2.2%**
Fund Benchmark	*Nov*	*0.7%*	*7.2%*	*11.3%*
Maestro Balanced Fund	**Nov**	**-1.4%**	**1.7%**	**2.8%**
Fund Benchmark	*Nov*	*0.6%*	*7.3%*	*10.7%*
Maestro Cautious Fund	**Nov**	**-0.3%**	**2.5%**	**4.8%**
Fund Benchmark	*Nov*	*0.7%*	*6.2%*	*8.9%*
Central Park Global Balanced Fund ($)	**Oct**	**3.6%**	**-5.9%**	**-3.4%**
*Benchmark***	*Oct*	*4.7%*	*-0.7%*	*1.4%*
*Sector average ****	*Oct*	*5.1%*	*-1.9%*	*-1.4%*

* 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 ($)

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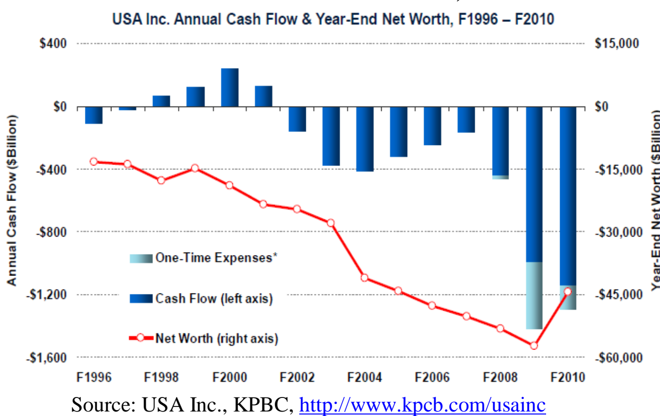
USA Inc. – prescribed reading for any global investor

During the last few weeks I have referred on a number of occasions in meetings and presentations to a February 2011 report by Kleiner Perkins partner Mary Meeker, called "USA Inc. – A Basic Summary of America's Financial Statements". It is surely one of the scariest research reports that I have ever read. Despite its length (it includes 460 slides), it presents a summary of the US's current and future financial position. It also encapsulates many of the reasons why Maestro, for a number of years already, has had *The Lost Decade – the decline of the US Empire* as one of our Big Picture Themes. I would really encourage you to read it; it can be bought as a book (!) off Amazon by clicking here, or you can download the whole report by clicking here. Alternatively I am more than happy to send it to you, or perhaps better still get in touch with me and I will email you the 18-page summary which, in my opinion, is prescribed reading for any global investor.

Chart 5: USA Inc. Cash flow: -$1.3tn, net worth: -$44tn



Source: USA Inc., KPBC, http://www.kpcb.com/usainc

Meeker's premise is simple. She starts the report as follows: "Imagine for a moment that the United States government is a public corporation. Imagine that its management structure, fiscal performance and budget are all up for review. Now imagine that you are a shareholder in USA Inc. How do you feel about your investment?" She then starts to unpack the current state of the US's finances and analyzes, in very accessible language and concepts, where the current state of US finances will lead it in the coming decades. Needless to say, the outcome of such a journey is not pleasant at all – quite shocking in fact. It underlines our annoyance that America itself and its leaders in particular do not take their terrible predicament more seriously. It will also provide background as to why we are so scathing about the games US politicians play over the management of their debt (remember the market collapse in early August and the Super-committee farce in November?) and their ongoing criticism of the European crisis without acknowledging the even greater crisis in their own backyard.

2011 in Pictures: May 1 - White House staff receive confirmation of Osama bin Laden's demise

Do you think I am being overly dramatic? Read the following excerpts from Meeker's report and then decide for yourself:

- By the standards of any public corporation, USA Inc.'s financials are discouraging... Its cash flow is deep in the red (by almost $1.3 trillion last year or -$11 000 per household) and USA Inc.'s net worth is negative (-$44 trillion to be exact) and deteriorating.
- Underfunded entitlements are among the most severe financial burdens USA Inc. faces. Entitlement expenses amount to $16 000 per household per year and entitlement spending far outstrips funding, but more than $1 trillion (or $9 000 per household) in 2010. More than 35% of the US population receives entitlement dollars or is on the government payroll, up from about 20% in1966. It is interesting to note that in China the household savings rate is about36%... in part due to a higher degree of self-reliance – and far fewer established pension plans. In the USA, the personal savings rate (defined as savings as percent of disposable income) was 6% in 2010 and only 3% from 2000 to 2008.
- Millions of Americans have come to rely on Medicare and Medicaid and spending has skyrocketed to 21% of USA Inc.'s total expenses (or $724bn) in F2010, up from 5% forty years ago. Together, Medicaid and Medicare – the programs providing health insurance to low-income households and the elderly, respectively – now account for 35% of total healthcare spending in the USA.... Medicaid now serves 16% of all Americans, compared with 2% at its inception; Medicare now serves 15% of the population, up from 10% in 1966. As more Americans receive benefits and as healthcare costs continue to outstrip GDP growth, total spending for the two entitlement programs is accelerating. Over the last decade alone, Medicaid spending has doubled in real terms, with total program costs running at $273 billion in F2010. Over the last 43 years, real Medicare spending per beneficiary has risen 25 times, driving program costs well (10x) above original projections. In fact, Medicare spending exceeded related revenues by $272 billion last year.
- Government spending on healthcare now consumes 8.2% of GDP, compared with just 1.3% fifty years ago.

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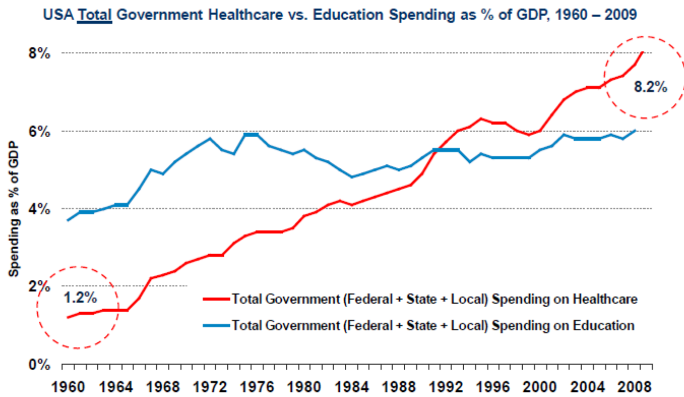
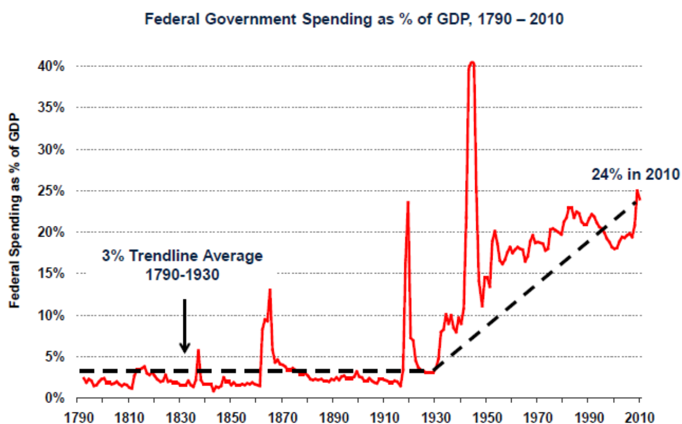
Chart 6: Spending on healthcare up 7 times versus on education only 0.6 times



Source: USA Inc., KPBC, http://www.kpcb.com/usainc

- Unemployment Insurance and Social Security are adequately funded ... for now. Their future, unfortunately, isn't so clear. In 1950 100 workers supported six beneficiaries; today 100 workers support 33 beneficiaries. Since Social Security began in 1935, American life expectancy has risen 26% (to 78), but the "retirement age" for full benefits has increased only 3%.
- Regardless of the emotional debate about entitlements, fiscal reality can't be ignored – if these programs aren't reformed, one way or another, USA Inc.'s balance sheet will go from bad to worse.

Chart 7: Government spending now 24% of GDP, from an average of 3% between 1790 and 1930



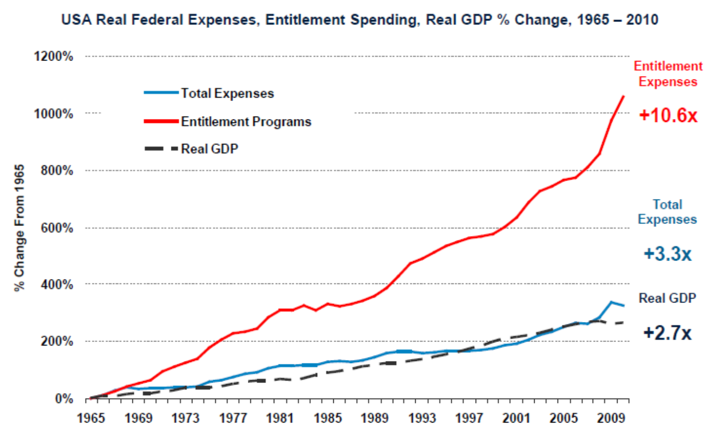
Source: USA Inc., KPBC, http://www.kpcb.com/usainc

- From 1790 to 1930, government spending on average accounted for just 3% of American GDP. Today, government spending absorbs closer to 24% of GDP. As a percentage of GDP, the federal government's public debt has doubled over the last 30 years, to 53% of GDP. This figure does not include claims on future resources from underfunded entitlements and potential liabilities from Fannie Mae and Freddie Mac, the Government Sponsored Enterprises. If it did include these claims, gross federal debt accounted for 94% of GDP in 2010. The public debt to GDP ratio is likely to triple to 146% over the next 20 years. The main reason is entitlement expense. Since 1970, these costs have grown 5.5 times faster than GDP, while revenues have lagged, especially corporate tax revenues. By 2037, cumulative deficits from Social Security could add another $11.6 trillion to the public debt.

2011 in Pictures: September 11 – the West recalls its "loss of innocence" by marking the 10th anniversary of "9/11"

- The problem gets worse. Even as USA Inc.'s debt has been rising for decades, plunging interest rates have kept the cost of supporting it relatively steady. Last year's interest bill would have been 155% (or $290 billion) higher if rates had been at their 30-year average of 6% (vs. 2% in 2010). As debt levels rise and interest rates normalize, net interest payments could grow 20% or more annually. Below-average debt maturities in recent years have also kept the Treasury's borrowing costs down, but this trend too, will drive up interest payments once interest rates rise.

Chart 8: Entitlement spending has increased 11 times but real GDP grew only 3 times during the past 45 years



Source: USA Inc., KPBC, http://www.kpcb.com/usainc

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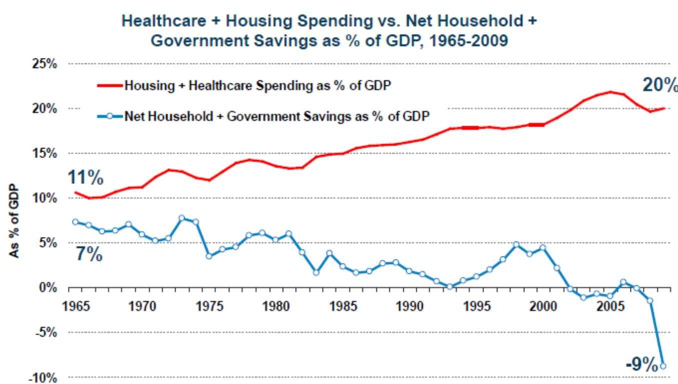
- By 2025, entitlements plus net interest payments will absorb all – yes, all – of USA Inc.'s revenue, per CBO. Less than 15 years from now, in other words, USA Inc. – based on current forecasts for revenue and expenses - would have nothing left over to spend on defence, education, infrastructure, and R&D, which today account for only 32% of USA Inc. spending, down from 69% forty years ago. This critical juncture is getting ever closer. Just ten years ago, the CBO thought federal revenue would support entitlement spending and interest payments until 2060 – 35 years beyond its current projection. This dramatic forecast change over the past ten years helps illustrate, in our view, how important it is to focus on the here-and-now trend lines and take actions based on those trends.
- From 1965 to 2005 (a period chosen to exclude abnormal trends related to the recent recession), annual revenue growth (3%) has been roughly in line with GDP growth, but corporate income taxes have grown 2% a year. Social insurance taxes grew 5% annually and represented 37% of USA Inc. revenue, compared with 19% in 1965.
- Entitlement spending has risen 5% a year on average since 1965, well above average annual GDP growth of 3%, and now absorbs 51% of all expenses, more than twice its share in 1965. Defence and non-defence discretionary spending (including infrastructure, education, and law enforcement) is up just 1-2% annually over that period.

Chart 9: Resources allocated to housing and healthcare nearly doubled but household and government savings has fallen dramatically since 1965.



Source: USA Inc., KPBC, http://www.kpcb.com/usainc

- Some 90 million Americans (out of a total population of 307 million) have grown accustomed to support from entitlement programs.
- (There is now) ... nearly one government civilian worker (federal, state and local) for every six households.
- Fundamentally, federal revenues depend on GDP growth and related tax levies on consumers and businesses. Higher GDP growth won't be easy to achieve as households rebuild savings in the aftermath of a recession. To break even without changing expense levels or tax policies, USA Inc. would need real GDP growth of 6-7% in F2012-14 and 4-5% in F2015-20, according to our estimates based on CBO data – highly unlikely, given 40-year average GDP growth of 3%.

2011 in Pictures: October 5 - Tributes to Steve Jobs are laid at the door of a Hong Kong Apple store

A few quotes to chew on

Not surprisingly, as the situation in Europe and the US gets more desperate and people's patience with policy makers and politicians alike is tested to the limit, the pleas for a solution have grown more and more impassioned. Perhaps the best example of this is the speech given by the *Polish foreign minister, Radoslaw Sikorski*, in Berlin. Extracts of the speech follow: "The breakup of the Eurozone would be a crisis of apocalyptic proportions, going beyond our financial system... A critical issue is whether Britain, such an important member of the EU, can support reform. The Eurozone's collapse would hugely harm Britain's economy. The UK's total sovereign, corporate and household debt exceeds 400% of GDP. Can London be sure markets will always favour it? We would prefer Britain in, but if you can't join, please allow us to forge ahead... We have much to ask of Germany. We ask Berlin to admit that it is the biggest beneficiary of current arrangements and that it therefore has the biggest obligation to make them sustainable... Because investors have been selling the bonds of exposed countries and flying to safety, Germany's borrowing costs have been lower than they would have been in normal times. But if Germany's neighbours' economies stall or implode, it will suffer too...What, as Poland's foreign minister, do I regard as the biggest threat to the security and prosperity of Poland in the last week of November 2011? It is not terrorism, and it is certainly not German tanks. It is not even Russian missiles, which President Dmitry Medvedev has just threatened to deploy on the EU's borders. The biggest threat to the security of Poland would be the collapse of the Eurozone. I demand of Germany that, for its own sake and ours, it help the Eurozone survive and prosper. Nobody else can do it. I will probably be the first Polish foreign minister to say this, but here it is: I fear German power less than I am beginning to fear its inactivity. You have become Europe's indispensible nation. You may not fail to lead: not dominate, but to lead in

reform. There is nothing inevitable about Europe's decline. But we are standing on the edge of a precipice. This is the scariest moment of my ministerial life. Future generations will judge us by what we do, or fail to do: whether we lay the foundations for a sound future, or shirk our responsibility and acquiesce in decline.

Two exciting developments within the Maestro camp
Last month we alluded to two new developments within our broader family and activities, and I am now able to share a bit more about both of them with you. As many of you are aware, I have been very frustrated by the fact that Maestro has not been able to do more in terms of philanthropy and giving back to the community around us. But that is likely to change on the back of at least two initiatives.

Firstly, Maestro has been working with Ian Dry, who is in the process of setting up a **Social Impact Fund**. The idea behind this Fund is to raise funds by way of donations, and to apply them on a commercial basis to qualifying recipients whose efforts, either on an individual or corporate basis, are having a social impact on the community which they serve. Given that so many of these people spend so much time and effort trying to raise funds - banks and traditional lenders simply don't understand or appreciate their businesses, and certainly place no value on the social impact of their activities – the emphasis of the Social Impact Fund is to provide finance in various forms to them so that they can focus on running their business and pursuing their passion. The capital provided by the Fund will be structured in various ways, depending on the circumstances, but the primary emphasis is on the return *of* capital and not the return *on* capital. In other words, the capital is not a gift, with the expectation that the capital will be repaid in due course. If the Fund can make a return on that capital, so much the better, but first and foremost the objective is to raise and provide capital for the people in question.

Ian is in the process of establishing the structures and is hoping to get the Fund up and running early next year. The start will be slow, by design, with the aim being to make at least two to three investments in the first year. The social impact in each case will be independently audited.

In addition to the raising of capital for the Fund, part of the effort is to support these entrepreneurs with professionals, for example mentors, who can help the recipients with general or specific business skills.

I am delighted to tell you that sufficient money has been arranged to set up the initial structure and Maestro is looking forward to being part of this initiative. We have made our platform, skills and resources available as and where they are required. As some of you know, we have already chatted to a few clients and friends of the company about this initiative, and the general response we received was very supportive and enthusiastic. So watch this space ... you will certainly hear more about this development in the coming months. For your info, Luke is the champion of this Fund within the Maestro team, although we will let you have all the contact details, including Ian's, once the Fund is launched

2011 in Pictures: October 20 – Muammar Gaddafi's golden gun is held aloft after his death in Sirte, Libya

Then secondly and closer to home, I am delighted to announce that we are close to finalizing **The Maestro Charitable Trust,** a trust that we are establishing as a vehicle to raise funds for charities and public benefit organizations. The Trust has some unique features which we will share with you when we formally launch it. At this stage we are finalizing the Trust Deed for submission to the Master of the Supreme Court's office and expect to officially launch the Trust early in the New Year, if not sooner. We are delighted to have secured Prescient's service as the Administrator of the Trust, and M Ralph and Associates, who have been Maestro's auditors since our inception, as the Auditor of the Trust, both of whom very kindly offered their services for no consideration. We are very grateful to them for this gesture of support.

One of the ways we plan to raise funds for the Maestro Charitable Trust is by calling on clients, "friends of the company" and new donors, local and offshore, to make small contributions they wouldn't necessarily notice or feel, on a regular basis. Alternatively donors could donate a small portion of their assets into the Trust. We believe that over time, thanks to the power of compounding combined with conservative management, we will be able to build up a capital base which can sustain a number of worthy recipients *on a regular basis*. Just imagine if we were to receive into the Trust, either 1% of even 0.5% of the equity of someone's company, listed or unlisted. That is hardly a large request, but the dividend flow into the future out of that asset could be substantial and will be very meaningful for certain charities.

MAESTRO

INTERMEZZO

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Just before you agree that this is a good idea and think nothing more of it ... this is where we think you could get involved. Yes, that **you** I'm talking to ☺. Let me illustrate: *Intermezzo* is distributed to about 350 readers. Just imagine if each reader sets up a regular payment into the Trust of just R100 ($12.35) per monthly. Let's face it, that isn't too much to ask; after all R100 hardly buys much anymore; perhaps one or two magazines and a few beers or a bottle of good red wine? That means that *in one year*, if each of us only contribute R100 per month, the Trust would have received around R420 000! If one then assumes a simple return of 10% on those funds, then the capital base would grow to nearly R7.3m after 10 years and R26.5m after 20 years, and, by the way, nearly R285m after 45 years! Ah, the power of compounding! But back to your R100 per month; if we each just contribute that much, and I hope others will find it in them to contribute more, then in ten years time the Trust will have R368 000 to distribute *per annum* year to worthy causes – out of income alone, assuming we achieve a 5% yield (income return) on the funds. So you see, a little can go a long way! The whole of the Maestro team has committed itself to this effort, as it really does reflect our intentions and our love for this country and its people. In due course, we will therefore be approaching you to join us on this exciting journey.

In terms of beneficiaries, we plan to have a pre-approved list of beneficiaries, with whom we have an actual and personal relationship with and on whom we have performed a proper due diligence. Our intention is to build meaningful relationships with a few organizations, in all likelihood those with whose passion we can identify with. We will provide far more detail when we formally launch the Maestro Charitable Trust, but you will not be surprised to hear that we plan to make the Music Therapy Community Clinic the first beneficiary. At the end of this edition (and every previous December edition, available on our website) you can read more about this very special team and the work they do within the Cape Community, using music as a medium to reach children and young people against whom the odds are really stacked.

One of our recent disappointments has been our failure to establish the Charitable Trust in time for the forthcoming Festive Season. The reasons for this are numerous, but we would still like to encourage those who would like to set aside some, or all, of their "Christmas" giving to do so. Once we have opened the necessary bank account we will let you have the details and you can still make your donation. In addition, we would welcome any possible beneficiaries i.e. charities or public benefit organizations you would like to bring to our attention. We can obviously not accommodate all the nominations, but we are open to suggestions and are keen to begin a dialogue with those who would like to use our vehicle for their philanthropic purposes. We appreciate that best way to make a difference in this regard, is together with as many other people as possible, so we welcome any ideas, suggestions, and of course, as many donations as possible.

Melody and Victor are the "champions" of the Trust, although you can of course contact anyone in the team to learn more about it. We will launch it in the New Year and will include more details in *Intermezzo* upon its launch.

File 13: Information almost worth remembering

Happy birthday iPod; simply more for less

It's hard to believe I know, but the iPod celebrated its 10th birthday in November. Consider the following: when the original iPod hit the streets in November 2001, it sold for $399. It weighed 184g and held 1 000 songs. The latest 16Gb iPod Nano costs $149, weighs 21g and holds 4 000 songs. For a moment, consider how deflationary that is – how much more you get, for so much less. Many dispute official inflation data, using the proverbial food basket to validate their belief that prices only rise. But consider how much, on a like-for-like basis, the price of technology-related goods has declined - and will continue to do so. Happy birthday iPod!

2011 in Pictures: October 24 – A woman clutches onto a pole in Bangkok, following devastating floods in Thailand

The increasing prevalence of Mandarin in the West

We write a lot about China and it forms a large part of our internal discussions and debates about the investment climate. But China's influence goes beyond the global economy and investment firms. Mandarin is becoming more prevalent in the West's education institutions, with a 50% increase in US pupils sitting for the Mandarin exam since 2001. In England and Wales, A-level Mandarin entrants rose 36% in 2011 alone, the greatest increase of any language. One in 11 final year language exams are for Chinese and one in six schools in Britain now offer some form of Chinese tuition.

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What's a government worth?
I wonder sometimes what you think about our comments regarding politicians and policy makers. We have become more vocal about our views in this regard as the year has progressed. Perhaps you think we should stick to economics and let the politicians sort themselves out ... but of course that denies the reality of the prevailing mess in the world today. When berating politicians as we do, we take consolation in the following:

- We are not alone in expressing frustration at the ineptitude of politicians. If you watch the markets or follow other commentators, you will be aware that there are numerous analysts and economists far more qualified and knowledgeable than we are who hold similar views.
- It is a matter of record that in Europe alone, since the beginning of the current crisis in late 2007 seven governments have either collapsed or their leaders have been ejected by democratic means: Greece, Ireland, Italy, Portugal, Slovakia, Spain and the UK.
- One could argue that the US could be added to this list were it not for the fact that their government is effectively broken. US politicians have been unable to push through any effective legislation recently – one only needs to look at the debt ceiling debacle to see how dysfunctional it has become.
- We again highlight the extraordinary events in November which saw two democratically elected governments in Greece and Italy, being summarily ejected in favour of technocratic leaders. What does this say about the politicians' ability? What does this say about the state of Western democracy? These are deep and troubling questions to which there are no clear answers right now, but these issues will certainly shape the investment environment in the years to come in no small way.
- Throughout this discussion, there is a lighter side for South Africans. We have been entertained by the likes of Julius Malema, et al, throughout the year; you will not believe how many times clients and potential clients concerned about the future of this country (*Ed*: aren't we all?) have brought up this clown's name as a reason to either not invest or to remit their money offshore. I would make the following point: is he or Jacob Zuma for that matter, any better than, say, Silvio Berlusconi? Or the opportunist Nicholas Sarkozy or macho Vladimir Putin for that matter? Can one really respect these clowns or take them seriously? The more you study them and their utterances, the less respect one has for them and the more one realises they simply aren't up to the enormous tasks at hand.

I have said on more than one occasion that when I look to politicians and leaders I get disillusioned and frustrated, but when I look to normal people and engage the proverbial "man-in-the-street" I am encouraged and filled with hope. Long may that last – and it places politicians and their absurdity into perspective, and keeps them there.

Heading into 2012 ... ☺

Final year-end greetings and wishes
As is my habit in December, for which I apologize right away, I have again abused my privilege as editor and author of *Intermezzo* and taken up a huge amount of your time. Thank you very much for the time you have taken each month to read through the publication and literally spend "a short break", which is what *Intermezzo* means, with me each month.

The year is nearly up and I beg your indulgence for a few more words of a personal nature. It has been a tough year for the Maestro team - we have struggled to manage the inordinate market volatility and have not satisfactorily lived up to our high standard of returns this year. I am also aware that it has been a tough year for many of you. It has been a sad year for many too, with loved ones or friends having passed away or been diagnosed with life-threatening illnesses. Long-standing relationships and marriages have failed or are under serious threat and many other relationships have been put to the test. Some of you have had major surgery but have come through with flying colours. On a wider screen, lives and countries have been devastated with tsunamis, floods, tornados, political uprisings – this year can hardly be regarded as normal.

So it is with a renewed and extraordinary sense of gratitude that I thank you for your support throughout the year, for your friendship and kindness and for the manner in which you have "walked this year's journey" with us. We have lost a few clients and assets to manage through no fault of our own, but have taken on many more new clients despite the tough investment climate.

On the home front we added two new staff members to our team (Melody and Victor) and I can honestly say that the Maestro team is functioning as a cohesive and capable team, from an administrative and investment point of view, better than we ever have in the past. None of it would be possible without your business, support and encouragement. It is perhaps a measure of our tenacity – one need's it in these kinds of markets - that in one of the hardest years in my 25-year career, the members of our team have turned their collective efforts and thoughts to *other* people, evidence of which is to be found in the exciting establishment of the Maestro Charitable Trust. So often in life it has been my experience that when the going gets really tough for you, the best thing to do is to start thinking about and focussing on other people around you. I know many of you have learnt this lesson through hard experience so you will identify with my comments.

All that remains is for me to wish you (at least our Southern hemisphere readers ☺) a wonderful summer holiday and a meaningful break. May your batteries be recharged and your creative juices replenished. Travel safely wherever you go and may the coming New Year be a blessed one for you and those dearest to you.

Just a reminder that the Maestro office will be closed between Christmas and New Year, but you can get hold of any of our team in the event of an emergency during this period (other than David who is travelling in the UK).

Pictures in this edition are per kind favour of Buzzfeed (*Ed*: don't ask!) which you can access by clicking here.

Table 3: MSCI returns to 30 November 2011 (%)

	Nov'11	YTD
South Africa	0.1	-15.4
Russia	-0.4	-11.6
Peru	-1.3	-22.5
EEMEA	-1.8	-17.1
Mexico	-2.2	-11.6
MSCI DM	**-2.7**	**-7.5**
Thailand	-3.2	-7.8
Hungary	-3.6	-27.3
Japan	-4.5	-16.8
Malaysia	-5.0	-6.5
Turkey	-5.2	-30.6
Indonesia	-5.7	0.8
Morocco	-5.8	-13.8
LatAm	-6.2	-20.4
Philippines	-6.2	-6.5
Korea	-6.4	-11.3
MSCI EM	**-6.8**	**-19.4**
Brazil	-7.2	-23.0
Colombia	-7.4	-10.0
Australia	-7.5	-13.4
Hong Kong	-7.6	-19.8
Czech Republic	-7.9	-10.9
AP ex-Japan	-8.1	-17.9
Singapore	-8.2	-18.5
China	-8.4	-22.3
EM Asia	-8.5	-19.6
Chile	-9.0	-22.2
Taiwan	-9.5	-25.5
Poland	-9.7	-26.5
Egypt	-10.4	-43.1
India	-16.0	-34.0

Source: Merrill Lynch

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THE MUSIC THERAPY COMMUNITY CLINIC – Reflecting on 2011

Music is not a luxury for the children and young people we work with. It is often their only social and emotional resource in communities characterised by violence, illness, poverty and gang life. The Music Therapy Community Clinic's vision is for children and young people to experience and generate hope and possibilities for their lives through shared engagements with music.

In practical terms, this means we continue to provide services such as Marimba groups, drumming groups, choir, gumboot dancing and therapeutic sessions. Our qualified music therapists, along with Community Musicians, facilitate these groups at our placements in Khayelitsha, Nyanga, Heideveld and Athlone where we run our programmes for young children (ECD), after school groups (Music for Life), Youth for Music and individual music therapy sessions. The universal and non-threatening medium of music allows these youngsters to process the daily battles of being affected by trauma, abuse, neglect and illness.

Our Youth workshops (including "Girl Power" and "Boys to Men" sessions) have proved to be very effective in terms of providing a safe space for young people to share their stories, explore their identities and develop leadership and communication skills. The girls in our Youth programme attended a camp where they were able to further develop their own "voices" and acquire musical and life skills. We have also had success with our song writing initiative which gave rise to a beautiful recording by the girls at Home from Home, entitled "My cousin says to me..." in response to the question of who makes them feel good enough.

Our Annual Community Concert in Heideveld provided a platform for them to perform this song for their peers, community members and families. An audience of approximately 300 witnessed all the music groups displaying their talents which were extremely well received. Our beneficiaries were able to demonstrate the musical skills they have been honing all year and the rapturous applause spoke of the pride the community has in their achievements.

Some of the groups have also had the opportunity to perform in public and these gigs allow them to build their self-confidence and focus on responsibility and team work. The gigs are as diverse as playing Marimba at UCT's Engineering Conference, regular Marimba group sessions at the Vangate Mall and invitations to play at private functions. We have also been fortunate to begin developing partnerships with other organisations within the community, such as Arise and Playground, as well as providing training workshops for the SHAWCO volunteers and various ECD practitioners.

The MTCC held our first Symposium this year which was based around responses to the effects of trauma. Professor Mercedes Pavlicevic (of Nordoff-Robbins UK) was the keynote speaker and the presentations and discussions provided invaluable tools for our therapists and community workers to incorporate into their work. We also took on the role of publisher with the release of the book "Taking Music Seriously – Stories from South African Music Therapy". The book is available for sale through our offices.

The generosity of our funders is our lifeline and we express our gratitude to all those who have supported us financially and enabled us to continue to provide our services to those most in need.

As 2011 comes to a close, we reflect back on the year with pride and, as always, our beneficiaries instil in us an overwhelming sense of possibility and hope.