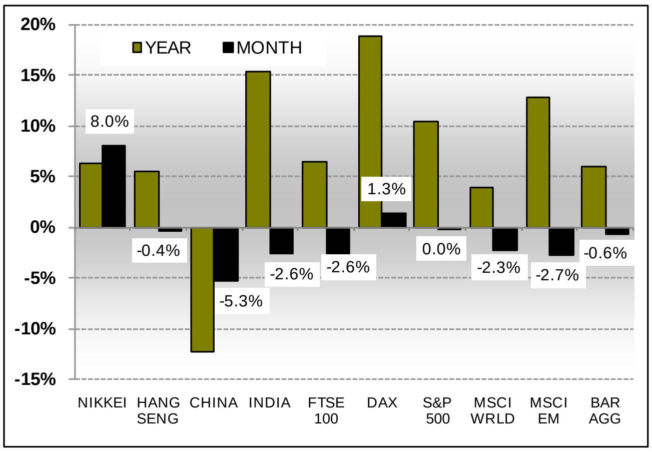
MAESTRO INTERMEZZO

Investment Letter | 10th Edition | December 2010

November in perspective – global markets

November was one of those "mirage" months when, on the face of it, markets didn't register dramatic movements – the MSCI World index was down "only" 2.4% - but nothing could be further from the truth. Still firing on QE2, global equity markets began the month strongly, with many rising more than 3% before reality hit home; most markets ended lower on the month. The monthly trading range of the German market, for example, was more than 5%; it traded in a range of 3.3% on the penultimate day of the month alone. The factors that affected markets were generally few, but very influential. Firstly, doubts about the effectiveness of QE2 set in (which saw the euro rising to more than 1.42 to the dollar) but then markets were frightened by the inflation data out of China (more on that, below) as well as tension in the Korean Peninsula. Lurking below the surface throughout the month was the resurgence of fears about sovereign risk, specifically in Ireland and to a lesser extent Portugal and Spain (which saw the euro collapse to below 1.30 to the dollar). So in truth, November was anything but a boring month. The French market was particularly weak, ending down 5.8% while the weak euro, strong economy and a record level of business confidence (the Ifo business confidence index hit a 20-year high) saw the German market rise 1.3%. Other markets of note were Japan, up 8.0% thanks to a weak yen against the dollar; Japan was one of the few to post positive returns. China declined 5.3%, India 2.6%, and Brazil 4.2 %. The MSCI Emerging market index declined 2.7%, the second consecutive month in which developed markets outperformed emerging ones.

Chart 1: Global market returns to 30 November 2010



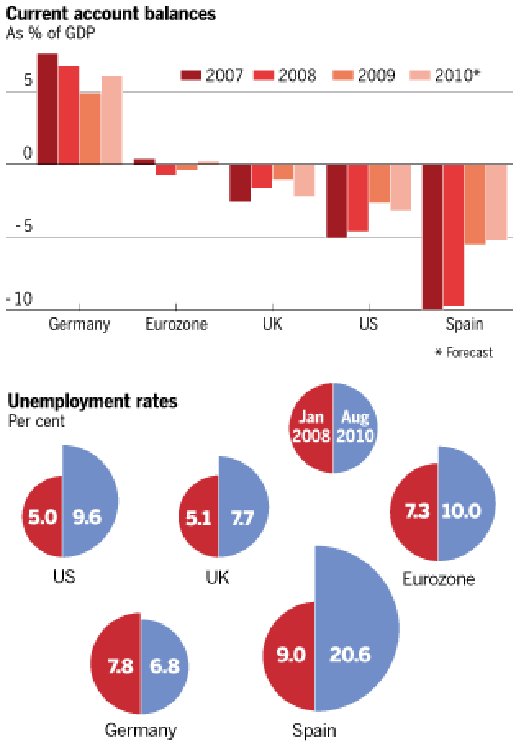
The dollar was again the beneficiary of a "flight to quality" (we find that term inherently contradictory); it rose 6.8% and 2.7% against the euro and sterling respectively. Despite the strong dollar, the price of gold rose 2.7%, silver 13.2%, palladium 9.7% and oil 5.5%. Soft commodities (food-related ones) were firmer, driven by weather-related supply constraints while metals were mixed.

Chart of the month

Long-suffering readers will know that the *Intermezzo* editor typically abuses his "journalistic privilege" in the December edition, fearing that his readers might run out of something to read☺! So in order to ensure that doesn't happen I have taken the liberty of extending the length of this edition, both in terms of verbiage, charts, pictures and comment.

The first chart just seemed to me to sum up the current difference between, say, the countries that have for years live beyond their means, and those that haven't. And it contains one of the longer-term consequences of this type of behaviour, namely unemployment, specifically the differences between the latter in 2008 and 2010.

Chart 2: The haves ... and the have-nots



Source: FT.com

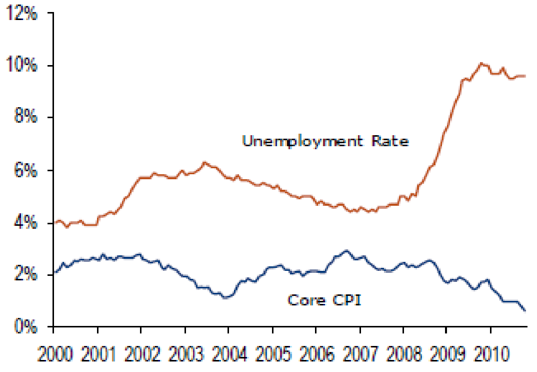
What's on our radar screen?

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

- *The SA economy:* We hinted at it last month in our correspondence, but even we were a little surprised when the SA Reserve Bank (SARB) cut rates by 0.5% to 5.5%. At the same time they lowered their inflation estimates to 4.3% for 2011 (from 4.8% previously) and 4.8% in 2012 (5.1%). Retail sales rose 6.1% in the year to September, above expectations, from 4.6% in August, providing evidence that consumer demand remains relatively healthy. The latest cut in rates will provide additional support to the consumer. The latest reading on SA's third quarter (Q3) growth rate was a disappointing (seasonally adjusted, annualised rate) of 2.6%, down from 2.8% in the June quarter. Sectors of the economy that posted growth below expectations included the finance and business sector (which has a 21.1% weighting) and the government sector (13.7% weight), which grew only 1.5% and 0.4% respectively. Activity in the government sector was retarded by the strike action during the period. Mining and agriculture, with respective weightings of 5.2% and 2.2%, grew 28.1% and 16.3% respectively. The SARB estimates for growth this year are 2.8%.

- *The US economy:* retail sales during October rose 1.2%, bringing its annual increase to 7.3%. Third quarter growth in the US economy was revised from 2.0% to 2.5%, higher than the 1.7% achieved during the second quarter. Consumer spending, which constitutes about 70% of the economy, rose 2.8%, the fastest increase in four years. The Fed's favourite inflation indicator, core PCE i.e. inflation for personal consumption expenditure excluding food and energy, was only 0.8% at an annualised rate. This compares to the latest core inflation rate of only 0.6% in October, the lowest on record (which goes back to 1957). We have now had three consecutive monthly changes in core inflation of 0.0% i.e. zero, which shows that disinflationary forces in the US economy still have the upper hand. Inflation, let alone hyper-inflation, does not pose a threat in the foreseeable future. It is also hard to see below- average growth contributing in a material way to a reduction in the US unemployment rate, which now stands at 9.8%. November marked the 19th consecutive month that the US unemployment rates exceeded 9% - a new post-WWII record.

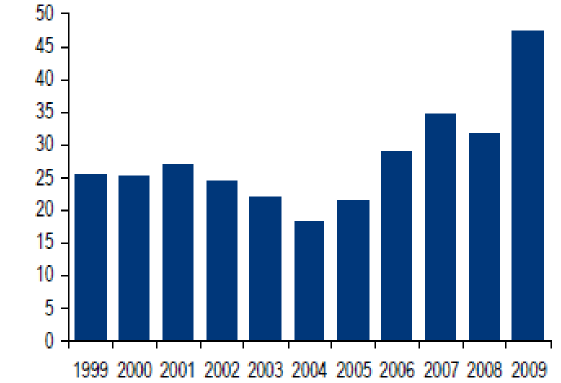
Chart 3: High unemployment pressurizes inflation



Source: Merrill Lynch

An interesting bit of data that was released at the same time as the GDP data was the fact that the Fed's annualised profit during the third quarter reached an all-time high of $62.4bn –that was before QE2, which will see it purchase an additional $600bn of bonds. The Fed profit boost comes as it earns more interest on the bonds it bought through QE1 than it pays banks on the reserves they deposit with the Fed. The chart below depicts the Fed's payments to the US Treasury; as Merrill Lynch postulates, is the Fed perhaps the world's most profitable bank?

Chart 4: Fed payments to the US Treasury ($bn)



Source: Merrill Lynch

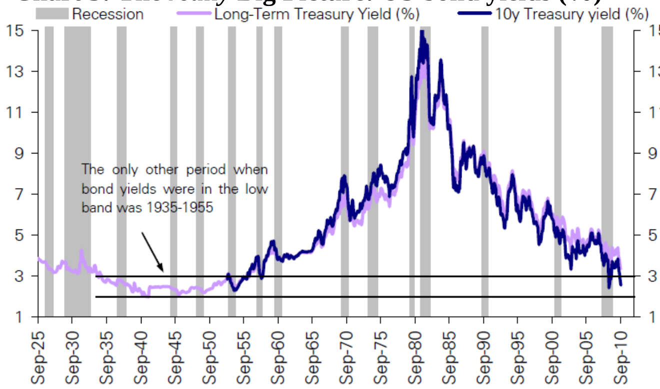
- *The Chinese economy:* We alluded earlier to the fear in the markets in November about rising inflation in China. Headline inflation in October rose to 4.4%, but that wasn't what spooked the markets. It was the fact that food inflation rose to 10.1% (non-food inflation was only 1.6%). There is considerable debate within China about how serious the problem of food inflation is – we have mentioned this issue a number of times in previous publications. There are those who believe it is a temporary function caused by weather-related problems, while still others fear food inflation is on the verge of rising out of control. The issue of food inflation is a very sensitive one in China; there is already evidence of some hoarding by consumers. After all, food inflation around 20% was one of the factors behind the 1989 Tiananmen Square protests. And it should be seen in the light of rising interest rates and rapidly rising bank reserve requirements – in mid-November the reserve requirement was raised another 0.5% to 18%, the fifth reserve increase this year - as the authorities try to put the brakes on an economy feeling the effects of the very loose monetary and fiscal policy applied in the wake of the Great Financial Crisis of 2007/8. We will continue to monitor Chinese inflation in general and food inflation in particular, in the coming months.
- *Food inflation – the sleeping dragon?* We commented on rising Chinese inflation above, noting that food prices there rose 10.1% in the year to October. Last month we depicted a number of charts showing the extent to which both metal and food commodity prices had risen in recent months. We draw your attention again to rising inflation across emerging markets, which are facing a very different economic and growth

outlook from developed countries. Caused to some extent by the commodity price boom, which in turn is being driven partly by a very weak dollar, inflation is now at 8.6% in India, 7.5% in Russia and 5.2% in Brazil. It is 10.0% in Ukraine, 25.0% in Venezuela. *Food inflation* is 15.7% in India and 16.1% in Turkey. At least firm emerging market currencies are working to counter rising food and commodity prices, thanks to the de-basing of the dollar by the US authorities. Just imagine what food inflation would be – and what other social and human crises could develop – if emerging market currencies began to decline. This illustrates what a knife-edge emerging market politicians face with regard to policy making.

- *The Indian economy* grew by 8.9% in the September quarter from 8.8% in the June quarter. The rate was higher than expected, and follows the 7.4% growth rate in 2009. The Indian government has forecast 2010 growth at 8.5%.

Another chart for the month
As you know, we are very fond of long-term charts, largely because they so adequately depict **The Big Pictures**. We came across the chart, below, which shows the rise and subsequent fall in US bond yields since 1925. It places the current level of US 10-year bond yields into perspective.

Chart 5: The *really* Big Picture: US bond yields (%)

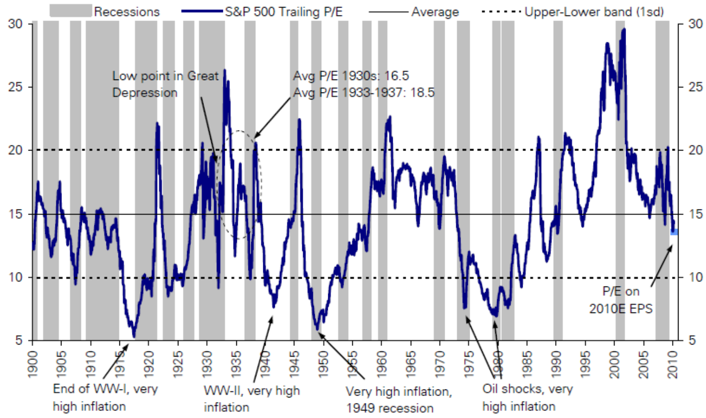


Source: Deutsche Bank

This illustrates the notion of a Big Picture so nicely; the Big Picture investment decision in 1980 was to buy bonds. The Big Picture facing us now is "where to from here?" Sure, yields may g lower still from current levels, but it takes a brave man, or a US economy that is on its knees and will remain there for a very long time, to invest heavily into the US bond market. Perhaps we are not alone in this thinking? In early December bond market yields rose dramatically (prices have fallen). US bonds registered their biggest two-day sell-off since the fall of Lehman Brothers; since November 8 the US 10-year yield has risen from 2.56% to 3.33%. German, Japanese and UK yields have followed suit. Remember that the last thing heavily indebted Western governments need now is higher borrowing costs (yields). I wonder how Ben Bernanke is feeling now. Remember, the primary objective was to lower US rates.

And while on the topic of long-term charts, Chart 6 shows the price earnings (PE) ratio of the S&P500 since 1900. It again places the prevailing PE ratio into perspective; the average PE ratio of the US equity market over the past century was around 15 times, not far above the current one.

Chart 6: The *really* Big Picture: S&P500 PE ratio (x)
In the past, low PEs have been associated with very high inflation



Source: Deutsche Bank

More odds and ends
Here are more odds and ends that we found interesting. Most of them tie in with one or more of our **Big Picture Themes**, or are perhaps a "sign of the times" or constitute an update on our investment views:

- **Caterpillar launched a 2-year Rmb1bn ($150m) bond in Hong Kong**, at a coupon (interest rate) of 2.0%. The issue was seven times over-subscribed. The significance of the event is that Caterpillar is the first industrial multinational corporation to issue debt in the Chinese currency, the renminbi (Rmb). Caterpillar also obtained approval from the authorities to transfer the proceeds of the bond sale to the mainland, where it will be used to finance equipment for customers. Caterpillar has operated in China for 30 years already, employs 7 400 people there and has about a 7% share of the heavy machinery market in China.
- We note with interest that towards the end of the month, in the midst of all the volatility, a number of companies scrapped their initial placement offerings **(IPOs) in Hong Kong**. One "dealmaker" said that that market was suffering from a bit of "market fatigue". That's not surprising when you consider that so far this year, a record $45.5bn has been raised through IPOs in Hong Kong. It looks likely that Hong Kong will, for the second consecutive year, be the world's biggest market for IPO fund raising.

- Talking of capital raising, we are intrigued by the extent of **corporate bond issuance in the US** at the same time as extraordinary demands for bonds. Surely the two are mutually incompatible? Remember that when interest rates are low, the price of debt is high. Thus, as an issuer of debt you should be selling (raising) as much debt as possible to utilise the opportunity of selling at high prices and locking in low rates. In this context one can understand why US corporates raised no less than $41bn in the first two weeks of November when rates on US Treasuries (bonds), a useful benchmark, were near record lows. That part of the equation we understand. What we find harder to understand is why investors are rushing out to buy this debt at such high prices and low yields (refer to Chart 5 again) – are we missing something? The only way investors will generate meaningful returns from these levels is if interest rates decline even further from their prevailing levels. You surely have your own view; we suspect many of these investors will live to regret locking in such low yields for the next couple of years. Or perhaps we have hopelessly underestimated the desperation of investors as they search for at least *some* form of yield (interest rate).

Pic 1: US retail investors piling into the US bond market

Source: National Geographic

Strangulation by regulation

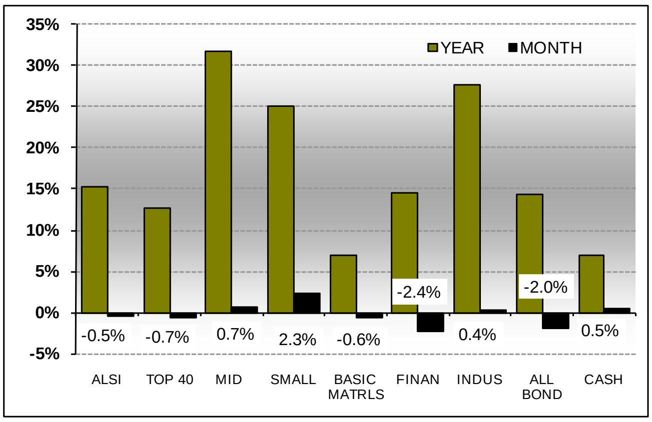
Our clients and regular readers of our literature will know that *Strangulation by Regulation* is one of our **Big Picture Themes**. It is probably the hardest theme to convey succinctly. Its direct and indirect costs are certainly the most difficult to communicate and quantify, but if you stop and think how life has changed in recent years – September 2001 is a useful starting point for this creeping scourge – you will realise that regulation is slowly increasing costs at all levels, raising the level of inefficiency to intolerable levels, and becoming an increasing irritation to all of us that "just want to get one with life". All SA cellphone users know what I am referring to - don't forget the RICA deadline is December (*Ed:* exactly what threat my 13-year old daughter poses to the State by virtue of her now owning a cellphone remains a mystery to me). Anyone who has operated a bank account anywhere in the world, or has endured any airport security checks will know exactly what I am talking about. We will in due course eventually deal with this in more detail with our clients, directly, as the time is coming when eventually businesses will be unable to absorb these costs fully. Inevitably the consumer will bear these costs; he and she is already bearing a lot of them without knowing it, apart from the raised stress and irritation levels.

But during the past month a couple of quantifiable issues came to the fore, which usefully illustrate the cost of this mindless and in many cases needless regulation:

- Due to new emission standards in the US and EU for diesel engines, the cost of a typical engine has risen between 7% and 10%. However, engineers at GE have calculated that the average efficiency of a heavy truck, has declined from eight to six miles per gallon, due to changes necessitated by the new regulation. It is widely expected that the next set of regulations, due in 2014, will increase the costs of trucks further, leading to the end result of a truck that is less efficient than one that could have been bought for less money in 2006. Not surprisingly, truck sales volumes have declined sharply; in 2009 they were 42% lower than in 2006.
- Every year this time we (Maestro) have to renew our fidelity and professional indemnity cover, which we are obliged to have in terms of regulation. Although it is not the full story i.e. there are other considerations that have to be taken into account, I am still trying to find an answer to the question of why our annual premium is greater than the cost of employing another qualified member of the investment team i.e. for less than the annual premium we could employ another person into our team. This is a good example of how the costs of business are borne disproportionately by small companies. Forget the rand as an impediment to employment creation in SA. Perhaps the focus should rather be on getting rid of the inefficiencies caused by unnecessary regulation.
- Why, when I receive a ten page report from a broker (the international brokers are worse), do I see that it contains one page of meaningful content, while the remaining nine pages are disclaimers, warnings, history of previous recommendations, etc, all of which constitute the fulfilment of their regulatory disclosures and obligations. Does anyone read that stuff? And does it really add any value; to *anyone*?

- Why, when we submit certified documents of a UK-based client, as required by any investor into our offshore Fund, do the Luxembourg-based Administrators contact us two weeks later to say they have been unable to find or verify the existence of the UK solicitor who certified the documents – they had obviously been squirreling away in the background trying to find out if the solicitor actually exists. Really – how ridiculous can you get! I know they are fulfilling their regulatory obligations, but is that really necessary? Are there not better things to do with one's time? Has anyone – and I'm thinking of regulators and law makers *per se* now - applied any intelligence to these situations? How on earth can that add value to a client's investment? Where is this all going to end?!

Chart 7: Local market returns to 30 November 2010



November in perspective – local markets
Local market behaviour mirrored global markets in the past month. They started off strongly but the rally petered out towards the end of the month. Most of the returns literally turned from positive to negative on the last trading day of the month. When all was said and done the All share index ended the month down 0.5%. The financial index took a larger beating, ending down 2.4% (it declined 2.3% in October and its year-to-date return is now 11.3%), while the industrial index ended the month up 0.4% (its year-to-date return is 20.8%). The small cap index rose 2.3%, more than the 0.8% mid cap rise and the decline of 0.7% by large caps. You would know by now that we keep an eye on the movements across market cap in the US as well; it is interesting to note that their experience was similar to that of the SA markets. The US large cap index ended the month lower, albeit only marginally (-0.03%), but the S&P mid and small cap indices posted gains of 2.8% and 3.5% respectively. One of the best performing indices on the SA equity market in November was the personal goods sector, which rose 12.6% thanks to its largest constituent, Richemont, rising 11.2%. The forestry and paper sector (Mondi and Sappi) lost 6.7% and the construction sector 5.7% (Murray and Roberts -11.3%, Raubex and Group Five -7.9%, Aveng -7.3%, Wilson Bayly -2.3%). The All bond index fell 2.0% but is still up 13.0% for the year-to-date.

Pic 2: Confused investors searching for direction in a market with little visibility and conflicting inputs

Source: National Geographic

A few quotes to chew on
As I mentioned earlier in this edition of *Intermezzo*, the fears and related contagion surrounding the issue of sovereign risk and Irish and European problems in particular raised its ugly head during November. *Wolfgang Münchau, one of the Financial Times commentators* I enjoy and whose views I respect, had the following to say in an article entitled "How to stop Ireland's financial contagion". "I expect the Eurozone will get over this particular short-term funding crisis. The mechanisms to solve it are in place. But I am concerned about the two medium-term developments, for which they are not prepared – not even close. The first is solvency. The European Financial Stability Facility (EFSF) can provide liquidity for Irish banks but it cannot make them solvent. Ireland's gross external debt stood at $2131bn at the end of the second quarter, roughly 1 000% of GDP. As at the end of 2009 the net external debt position was 75.1% of GDP ... better than Portugal's, but still high. To maintain solvency Ireland and the other peripheral Eurozone countries require a return to solid growth ... At a time of extreme fiscal tightening, moderate monetary tightening and weak global demand, I fail to see where Ireland will grow. My second concern is the return of large intra-Eurozone imbalances. The OECD last week forecast Germany's current account surplus would be heading back towards 7% of GDP by 2012 – close to the pre-crisis record. We are planting the seeds for the next crisis, for which the EU has no institution, no facility and no task force."

Commenting on the popular notion of currency wars *Jim O'Neill, chairman of Goldman Sachs Asset Management* and until recently their European economist (also the person who coined the notion of Brics) had this to say. "We are living through an era in which development is lifting millions out of poverty. China is at the forefront on this process, with an economy that has tripled in size in a decade. The other Bric nations of Brazil, Russia and India are important too, alongside various emerging economies. These remarkable developments are not those you would normally associate with war-like conditions. As we progress through this decade, further growth will reverse the global imbalances that lie at the heart of the current currency debate. And as this unfolds, through the ebb and flow of foreign exchange movements, our system of floating rates will demonstrate its utility. It will ultimately deliver much more sense than many of those who currently opine about it."

Pic 3: A bull looking for a developed market to inhabit

Source: National Geographic

In an excellent article on currency markets and the notion of "currency wars", *GLG Partners Portfolio Manager Karim Abdel-Motaal*, commented as follows: "The asset pricing implications of this quid pro quo are clear; emerging markets are being flooded with freshly minted dollars. No matter how much sand is thrown in the wheel in the form of intervention, transaction taxes or capital controls, these capital inflows will get through. The main impact will be asset price inflation and then that of goods and services. Interest rates will be pushed lower (and are already negative in important markets, such as Turkey and China). Real asset prices, such as those of equity and real estate will be pushed higher, if only as hedges against the impending inflation. Last, emerging market currencies will continue under massive appreciation pressure. In short, we are heading towards precisely the potential bubbles that have caused emerging market crises. Catastrophes are not predetermined but, in the context of underdeveloped policy tool kits and banking systems, the way out will require enormous political stamina. Emerging market policymakers will be faced with the age old dilemma of intervening in forex markets or not, sterilizing at high cost or not. They will need to tighten their budgets further in spite of global depression concerns. Not all will meet the test."

In their monthly Strategy Outlook – the November edition contained a piece called "Trading Places" – *Sarasin Chief Investment Officer (CIO) Guy Monson* related the following, after having quoted Ben Bernanke on what the Fed hoped to achieve with QE2: "Returning to England myself from a tour of Asia, India and the Middle East, it is not hard to see why opinions are so divided – the polar differences in economic policy seen by world leaders in Seoul this week could hardly have been more conspicuous. Indeed, while strikes have gripped much of Europe, and Britain embarks on £81bn of tortuous public sector cuts in the hope that the quantitative easing will lessen the blow, in Asia and much of the emerging world consumer demand is soaring, asset price inflation is rising, and all, by one route or another, are aiming to tighten monetary policy, whether by interest rates in China or currency in Singapore. In fact, in almost every application of policy there are near-perfect, one hundred and eighty degree differences between the "Old" and "New" World. It is not hard to see why Bernanke's efforts have been met with a chorus of disapproval from the "surplus" nations of developing Asia and other large exporters (especially Germany) all crying foul play, and warning of a further flood of Western liquidity washing up unwanted on Asia's shores."

Pic 4: The rand? That rand is going to go ... that way

Source: National Geographic

Clive Crook, Financial Times commentator, concluded his article "A paralyzed, diminished America" as follows: "It is harder for the US to bully the G20, for example, and not just because the new group is bigger than its predecessor. Its members' interests are also less well aligned; and China, Brazil and India are less willing to defer than Japan and the big European powers were in their day. It matters that the character of the G20 is being formed when the US is weakened; rather than later, when more normal conditions prevail. In recent weeks the US has seen what it means to be merely first among equals. It will take some time getting used to."

Pic 4: Vigilant investment managers watching the horizon for the next crisis

Source: National Geographic

After having seen the latest, terrible US jobs data *Merrill Lynch North American economist Ethan Harris* had the following to say about the "weather map" for the US economy in 2011: "The long, slow healing process will continue to dominate the US economic outlook. In the year ahead, we see:

- Below consensus growth of about 2% in the first half
- Continued weak and declining inflation as spare capacity continues to dominate other inflation indicators
- A stealth tightening of fiscal policy that is only partly offset by a total of $1trillion Quantitative Easing by the Fed.

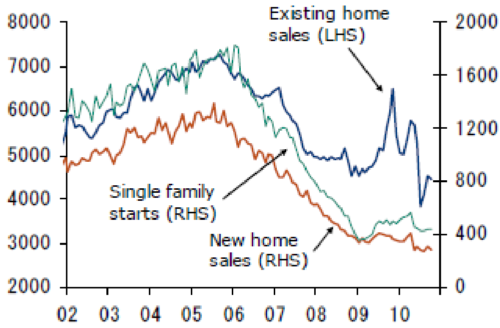
The risks of this outlook are mainly to the downside ... The US economy went into 2010 with three major headwinds and comes out of 2010 with several new headwinds. The economic crisis left behind three structural headwinds: an impaired banking system, damaged household balance sheets and a deeply distressed housing market. The new headwinds are a variety of policy uncertainties that have undercut business and consumer confidence:

- Fiscal policy: worries about the immediate impact of the expiration of the Bush-era tax cuts and the long-run impact of either serious fiscal consolidation or a debt crisis
- Monetary policy: a very public debate about the Fed's QE2 policy has undercut confidence in the efficacy of monetary policy
- Regulatory policy: perhaps most important, new regulations in health care and banking, talk of cap and trade and anti-business rhetoric have businesses worried about a growth-sapping wave of new regulation

The result: the already feeble 3.2% recovery seems to have downshifted to 2%."

Another chart for the month
Speaking of a "deeply distressed housing market" chart 8 illustrates the state of the US housing market nicely. This sector, which at its peak represented a large source of job creation, is now "all but dead", and as such has surely seen many of the housing and construction-related jobs "all but gone". There are now almost two years of supply clogging up the market – all the more reason why we suspect this area of the economy will continue to be a drag on the US economy and of course undermine the balance sheet of the US consumer, who has used up all of his mortgage equity i.e. the difference between the market value of his house and his outstanding mortgage bond; mortgage equity was a large source of funds for the consumer in the heyday of the property boom, before the 2007 sub-prime bubble popped, which in turn drove growth in the economy and enabled the US consumer to continue to live beyond his means.

Chart 8: The US housing market
Housing sales and starts in thousands



Source: Merrill Lynch

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. From the beginning of next year we will include the returns of our four retirement funds in this table.

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Table 1: The returns of funds under Maestro's care

	Period ended	Month	Year to date	Year
Maestro Equity Fund	Nov	**-0.01%**	**13.1%**	**17.6%**
Maestro equity benchmark *	Nov	-0.8%	12.6%	15.7%
JSE All Share Index	Nov	-0.5%	12.0%	15.3%
Maestro Long Short Equity Fund	Oct	**4.8%**	**7.1%**	**4.4%**
JSE All Share Index	Oct	3.6%	12.5%	18.3%
JSE Financial and Indus 30 index	Oct	-0.2%	16.3%	19.9%
Central Park Global Balanced Fund ($)	Oct	**3.8%**	**4.1%**	**3.1%**
Benchmark**	Oct	1.9%	5.5%	8.4%
Sector average ***	Oct	2.3%	5.8%	7.8%

* 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 ($)

File 13: Information almost worth remembering

And you thought is only happened in the movies...

Earlier this year a brother and sister were clearing out the attic of their late father in a north London house, when they discovered a vase they believe had been brought to London in the 1930s. They "could see that it was good" so they took it to Bainbridge's Auctions who, after doing research on the 40.5cm vase, dated it to the rule of the Qianlong emperor in the 1740s. They set its estimate value between £800 000 and £1.2m. To quote the auctioneer, "the auction room was full, with many Chinese buyers in attendance and more on the telephones. As the price climbed to £15m the auctioneers stayed calm as the increments continued to rise. We all behaved exactly as we do at any sale, but the room got very excited – we had a round of applause when bidding reached the £40m mark". The vase was sold that night (11 November) to an anonymous Chinese buyer for £53m ($83m or R581m).

The intricately carved structure includes a double-walled construction which means an inner vase of Ming-style blue and white scrolling flowers can be seen through the perforations of the main body. Four medallions around the glazed body are decorated with varied pairs of fish set against modelled and carved waves.

Whilst on the topic of art, many of you would have seen the news about Pierre Le Guennec, the 71-year old retired electrician who stunned everyone when he revealed 271 hitherto unknown works of Pablo Picasso, worth an estimated $80m. He claimed the artist had given him the works as presents (*Ed*: the highest in specie payment for the electrical work ever perhaps?) but after the works had been authenticated, he was promptly arrested. I guess it's not easy being an honest electrician these days! If you wish to read more about this story, you can do so by clicking here.

Highlighting the work of the Music Therapy Clinic

Every year this time, we find ourselves faced with a dilemma; we earnestly want to express our gratitude to our clients, who continually place their trust and confidence in us and who support us so faithfully. Yet at the same time we are conscious of the fact that many of them enjoy a very privileged financial position, at least relative to the "average SA citizen". Every year we wrestle with the dilemma of wanting to express our gratitude to them with a small gift yet knowing that they probably have everything they need.

As we did last year, this year we have again decided to donate the funds we would have used to buy gifts for our clients to a specific organization, **The Music Therapy Community Clinic**. Rather than tell you more about them, I asked one of the founders and current Director of the Clinic, Sunelle Fouché, to provide a synopsis of their activities – you can find it at the end of this edition of *Intermezzo*. I encourage you to visit their website for more information and commend them to you for your attention and further consideration.

Pic 5: The Bear – is he coming or going?

Source: National Geographic

And so the year comes to an end ...

The time has come to reflect on the year just past and to "wrap it all up". I thought of listing all the significant teams of service providers, friends, fellow investment managers and professionals, across the world, which are so critical to our operations and without which Maestro would simply not function as well. But as we have grown the list has, too, and there is simply insufficient time and space to mention them by name or company. But who know you who are, so please accept my sincerest thanks, on behalf of the whole Maestro team, for your support, professionalism, commitment and effort throughout the year. Your ongoing support means a huge deal to us and on behalf of my clients I thank you for your efforts and the contribution made to the efficient and successful running of our firm.

It is almost impossible to adequately express our gratitude to our clients for their business and support, but I would nevertheless like to place on record our sincere gratitude to you. Maestro experienced some client withdrawals through circumstances beyond our control; property-related factors outside of our management were behind most withdrawals. And we were delighted to welcome a number of new clients through the year, particularly members of retirement funds. Thank you for your confidence in the Maestro team.

The year has had mixed fortunes - thank heavens for great market returns in September and to a lesser extent October (although that month was a much better relative one for us than September) – in the absence of which the 2010 returns would look very different. But we know that markets rise and fall and we have to accept the barrage of factors that influence their movement, over which we have little influence.

As always, it is the human side of our business that stays with us as we move into the New Year. For some it has been a stressful year, for others a memorable one, such as finding new partners and getting married. Some of you worked very hard yet reaped little reward. Others suffered considerable financial loss (not associated with Maestro) and others suffered loss of a different kind. The past year has been a particularly sad one for the Maestro team as both Mark and David lost their fathers very unexpectedly. These and many other thoughts will be with us as we head off on holiday and spend time with our respective friends and family. It is my hope that you will have time to gain perspective on the past and future, and that you will return to 2011 refreshed and ready for its challenges. May you be blessed with peace, good health and contentment through the coming year.

Table 2: MSCI returns to 30 November 2010 (%)

	Nov'10	YTD	QTD
Pakistan	5.2	9.5	10.6
Argentina	3.2	62.2	19.8
Japan	2.1	5.4	4.2
Mexico	1.7	19.2	10.0
Hong Kong	1.6	19.0	3.7
Taiwan	1.6	5.2	4.4
Chile	1.0	37.7	2.5
Thailand	0.3	45.6	2.1
Korea	0.0	12.8	1.6
Russia	-0.1	5.5	4.8
Egypt	-0.9	2.7	-1.5
Singapore	-1.7	13.1	1.4
EM Asia	**-1.9**	**9.7**	**0.6**
AP ex Japan	**-2.2**	**7.7**	**0.4**
MSCI DM	**-2.3**	**2.1**	**1.2**
China	-2.4	3.1	1.4
MSCI EM	**-2.7**	**8.7**	**0.0**
South Africa	-3.2	13.9	-1.9
Malaysia	-3.3	25.9	-0.8
LatAm	**-3.6**	**5.8**	**-0.6**
Peru	-3.8	43.5	12.2
EM EMEA	**-3.9**	**9.0**	**-0.9**
Australia	-4.1	-0.5	-1.4
Brazil	-4.9	-2.7	-3.7
Morocco	-6.1	3.7	-2.7
India	-6.6	11.0	-5.2
Indonesia	-6.9	26.7	-4.4
Poland	-9.6	2.1	-6.0
Turkey	-10.0	22.1	-5.0
Czech	-10.9	-14.4	-10.7
Philippines	-13.2	19.5	-11.7
Colombia	-13.3	36.9	-8.2
Hungary	-20.0	-17.3	-16.1

Source: Merrill Lynch

The Music Therapy Community Clinic
npo: 029-601 • pbo: 930011978
t/f: +27 21 671 5196 • PO Box 2069, Clareinch, 7740, South Africa
e: info@music-therapy.org.za • www.music-therapy.org.za

Profile on the Music Therapy Community Clinic
| 2010 |

ORGANISATIONAL HISTORY
The MTCC was set up as a Non Profit Organisation in 2002 with just one project (Heideveld Music Therapy). Started by 2 music therapists, the MTCC has grown substantially and currently includes 4 projects and employs 6 Music Therapists, 2 Creative Music Facilitators, 2 Community Musicians and 3 support staff. Our Board of Governors meets quarterly and our accounts are audited annually by an accredited accounting firm. More information can be obtained at www.music-therapy.org.za

The MTCC runs 3 different projects offering psychosocial support to people living in previously privileged and under-resourced communities in the greater Cape Town area (Khayelitsha, Nyanga, Heideveld and Gugulethu). Each project has two components: *Music Therapy* (group and individual sessions) and *Music for Life* (long-term music groups facilitated by Community Musicians and Music Therapists together).

1. MAIN PURPOSE OF OUR ORGANISATION
The Music Therapy Community Clinic is a Non-Profit Organisation that provides Music Therapy services to previously disadvantaged communities in Cape Town, South Africa. Music is a social resource, a way to heal and strengthen communities as well as individuals. Our vision is to use active music-making to have a long-term impact on the psychosocial fabric of the communities in which we work.

2. SIGNIFICANT ACHIEVEMENTS
During the course of 2010, the Music Therapy Community Clinic's work, specifically the Heideveld Trauma Project has been recognized by receiving two important awards; one South African and the other Global.

After months of rigorous evaluations and appraisals, our organization received a Silver Award from the Impumelelo Innovations Trust. To receive this award in the national arena was indeed significant and rewarding.

In October this year, we were the global winner of the Mentor Foundation's Innovation Award. Our Executive Director was flown to America to receive the award from Queen Silvia of Sweden at a glittering gala in Washington DC. The MTCC feels especially privileged to have won this category out of a total of 200 international applications. Our ground-breaking approach has been recognised in the international arena and has helped to spread information on the field of music therapy.

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3. PROJECT DESCRIPTIONS

***HEIDEVELD TRAUMA PROJECT* – music therapy services to children in crisis**

The *Heideveld (Trauma)* project offers music therapy services to 7 primary and 3 high schools. Heideveld is ravaged by violent crime, substance abuse and poverty and there is a high prevalence of single parent families, neglect, physical and sexual abuse. The 'gang lifestyle' often provides the emotional support and sense of belonging, which the child's own dysfunctional family often cannot.

Music Therapy is offered to children who have been exposed to violence, abuse or bereavement. Teachers refer children who present with behaviour problems in the classroom, such as aggression or withdrawal, which are often symptoms of more serious social or emotional issues.

The *Music for Life* programme draws children from 9 schools from the Heideveld and Gugulethu areas. It is designed to use music as a positive intervention to offer children an alternative to gang involvement. We run Educare music groups, a choir, 2 drumming circles, 3 marimba groups and an adult marimba group made up of teachers.

***MUSIC FOR HEALTH* – children and adults with various diagnoses receiving long-term hospital treatment**

The *Music for Health* project operates at the Brooklyn Chest Tuberculosis (TB) Hospital and the Sarah Fox Children's Convalescent Home. Although TB is a curable disease, complications such as co-infection of TB and HIV or resistant strains of the disease such as MDR and XDR-TB, make this illness a growing concern in South Africa. Apart from feeling ill and being hospitalized for 3 to 18 months, patients experience a sense of loss of health, income, relationship which causes great emotional stress. There is little to do at the hospital which leads to boredom, de-motivation and often depression.

Music therapy sessions offer opportunities to experience and restore physical and emotional well-being and foster a feeling of social connection. The musical space offers a place to creatively express difficult emotions of loss. Music therapy also offers nurses the supportive space to share the difficulties of working with very ill children.

The *Music for Life* group provides patients and staff with opportunities to connect with each other in an enjoyable, communal space.

SIYAPHILA PROJECT – children and women affected by HIV&AIDS

The *Siyaphila ('we are getting better')* project provides psychosocial support to vulnerable and/or orphaned children and adults affected by HIV and AIDS living in Nyanga and Khayelitsha. All have suffered loss associated with being diagnosed with a life-threatening disease: the loss of a parent or primary care-giver, a home, community and structure. The emotional damage for a child can result in a regression of childhood development, mood changes and withdrawal.

The *Music for Life* programme at Etafeni, an HIV/AIDS centre, and 'Home from Home', a children's home, provides gumboot dancing, Marimba and drumming to the Educare children, women and older children in the aftercare.