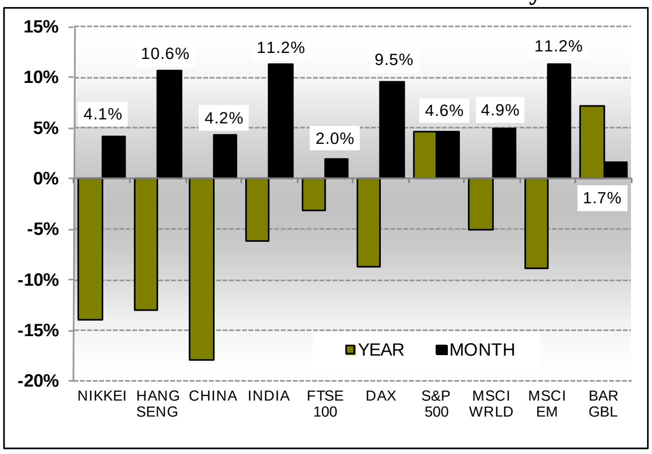
MAESTRO
# INTERMEZZO
Investment Letter | 12th Edition | February 2012

**January in perspective – global markets**
As we head into the second month of 2012 we are able to reflect on a healthy start to the year – at least as far as investment returns are concerned. No, the European crisis is no closer to resolution and no, the US made no progress on the huge debt issues facing that nation, but investors don't seem to care – at least for now. A more positive attitude towards a *possible* resolution in Europe, starting with Greece, on the part of investors, saw the dollar on the back foot for virtually the entire month. The change in sentiment produced a landscape which should by now be familiar – what last year came to be called the "risk-on" space. A weak dollar meant virtually all other currencies were firm, especially emerging market ones. The weak dollar also spurred commodity prices higher and sent equity markets, and emerging ones in particular much higher (refer to Table 3 at the end of this edition). Even developed equity markets were strong. Bond markets joined the party, too, with the Barcap Global Aggregate bond index rising 1.7% in January. Let's look at some of the detail.

**Chart 1: Global market returns to 31 January 2012**




On the **commodity** front platinum rose 19.9%, silver 19.2%, gold 10.8%, copper 12.3%, nickel 16.4% and aluminium 15.4%. The oil price was surprisingly docile, rising "only" 3.4% on the month. With regard to **currencies**, relative to the dollar the euro gained 0.8%, sterling 1.5%, the rand 3.5%, the Aussie dollar 3.7%, the Indian rupee 7.4%, the Brazilian real 6.6% and the Russian rouble 6.1%. With regard to **equity markets** the UK market lagged, rising "only" 2.0%. Its returns can be viewed against those of Hong Kong, up 10.6%, Germany 9.5%, the US 4.6% and Japan 4.1%. The MSCI World index rose 4.9% and the MSCI Emerging market index 11.2%, more than double the extent of the MSCI World index gain! It was led by Russia, which rose 14.1%, India 11.3%, Brazil 11.1% and South Africa, up 9.5% in dollar terms. China and Indonesia "lagged" with monthly returns of 4.2% and 3.1% respectively. So all in all, the year is off to a cracking start – for how long and at what rate, only time will tell.

When one looks at the robust January returns across all markets and asset classes, it is hard to believe that January witnessed France and Austria losing their AAA credit rating status. Italy and Spain were downgraded by two notches while Portugal now has the ignominious distinction of having been relegated to junk status by all three major credit agencies. The comment that accompanied the S&P announcement was informative. Part of it read as follows: "the political decisions (are) insufficient to avoid the downgrades but the agency recognizes that the ECB is taking 'strong measures' against the crisis. The outcomes from the EU summit on December 9, 2011 and subsequent statements from policymakers lead us to believe that the agreement reached has not produced a breakthrough of sufficient size and scope to fully address the Eurozone's financial problems". Finland, Germany, Luxembourg and the Netherlands kept their AAA ratings.

**What's on our radar screen?**
Here are a couple of items we are keeping a close eye on:

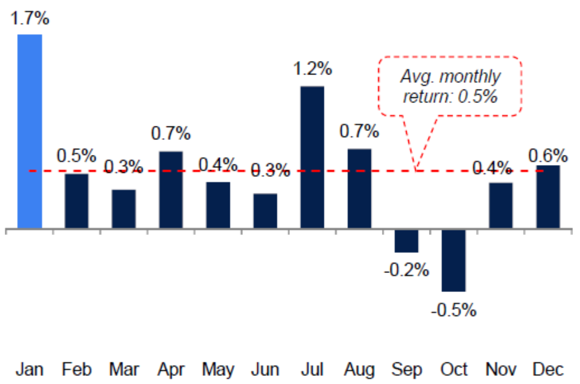
- *The European economy*: The **German economy** grew at 3.0% in 2011, down from 3.7% in 2010, although it declined by an estimated 0.25% during the last quarter of 2011. The Bundesbank (the German central bank) has forecast that growth will slow further to 0.6% in 2012 before increasing to 1.8% in 2013. The German public sector deficit shrunk to 1.0%, much better than the 4.3% deficit in 2010, and is now back within the 3.0% limit set for Eurozone member states. The **UK economy** shrank at a rate of 0.2% in the fourth quarter, below expectations of -0.1%, and down from the 0.6% growth rate in the third quarter. For 2011 as a whole it grew at a rate of 0.9%, down from 2010's 2.1%. The **Spanish economy** declined 0.3% in the fourth quarter and the Spanish central bank estimates that the economy will shrink by 1.5% in 2012. Unemployment there reached 22.9% while the unemployment rate for the EU as a whole is now 10.4%. The rate in Germany is 5.5% and Portugal 13.6%. Youth unemployment in Spain and Greece is approaching 50%!
- *The US economy*: At the Federal Reserve's (Fed) January meeting the Fed noted that conditions "warrant exceptionally low levels of the federal funds rate at least through late 2014". Their previous "commitment" was to keep rates at exceptionally low levels until mid-2013. Our Big Picture themes of "The US's Lost Decade" and "The Japanification of the US" immediately came to mind. The Fed lowered its 2012 GDP forecast from 2.5% - 2.9% to 2.2 - 2.7%. However, their forecast for 2012 unemployment was reduced from 8.5% - 8.7% to 8.2% - 8.5%.
- *Emerging economies:* Chinese grew 8.9% in Q4 and 9.3% for 2011 as a whole, down from 9.1% and 10.4%

in 2010 respectively. Industrial production rose at an annual rate of 12.8% from 12.4% in November and retail sales increased from 17.3% to 18.1%. Fixed asset investment (FAI), the driver of growth in China for the past few decades, slowed to an annual 18.3%, from 21.2% in November. While on the topic of Chinese growth, be aware that a sharp slowdown is expected early in the year (some forecast growth as low as 6.8% for the first quarter) due to the very high base, but the expectation is that the pace of growth will increase as the year progresses.

**Chart of the month**

It seems appropriate to examine a chart which shows the "January effect" given that we have just experience a very robust and profitable January in virtually all markets across the world. Chart 2 depicts the average returns per month, since 1926, of the S&P500 index. From it we can see that the average return for all months has been 0.5% whereas for January on its own it is 1.7%. That puts the January 2012 S&P500 return of 4.6% into perspective.

**Chart 2: The January effect: Ave S&P500 returns since 1929**




Source: Deutsche Bank

**A few quotes to chew on**

*The world in which we live*

"It has become increasingly apparent that asset values are being determined, not by the normal forces of cyclicality or structural change, but by the chaotic vagaries of political decision-making intent on saving a financial system that remains highly unstable as it has been pushed to critical extremes in leverage. Given, therefore, the elevated consequences of success/failure, asset value volatility remains necessarily high and increasingly reactive to small changes in perceived probabilities. Furthermore, given the connectivity of this our globalised world, seemingly irrelevant decisions/mistakes in small countries can ultimately result in outsized, critical systemic risks for the global economy." *Daniel Brebner, Deutsche Bank analyst.*

*The outlook for 2012 according to Aurum*

I thought the following comment from the Aurum monthly newsletter was particularly synoptic in summarizing the lack of visibility into what 2012 holds and painting the dichotomous outlook for the year: "Given the murkiness of the current economic climate it is hard to predict, with any sense of clarity, how markets will unfold over the course of 2012. Adding to the difficulty is the relatively high probability of both positive and negative outcomes, with unforeseen policy deleveraging and/or deterioration of the European crisis offering an ominous "left tail" and the possibility of central bank inflationary expansion offering a positive "right tail" The 'muddle-through' scenarios seems to be the forward looking consensus, with the caveat that Europe is able to avoid further disaster with respect to its sovereign debt issues and euro stability."

*The lot of every taxpayer –can all identify with this*

"The only difference between a tax man and a taxidermist is that the taxidermist leaves the skin." *Mark Twain*

**For the record**

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

| | Period ended | Month | Year to date | Year |
|---|---|---|---|---|
| **Maestro Equity Fund** | **Jan** | **4.9%** | **4.9%** | **5.9%** |
| *Maestro equity benchmark ** | *Jan* | *5.2%* | *5.2%* | *14.0%* |
| *JSE All Share Index* | *Jan* | *5.7%* | *5.7%* | *10.8%* |
| **Retirement Funds** | | | | |
| **Maestro Growth Fund** | **Jan** | **3.2%** | **3.2%** | **5.5%** |
| *Fund Benchmark* | *Jan* | *3.8%* | *3.8%* | *10.8%* |
| **Maestro Balanced Fund** | **Jan** | **2.8%** | **2.8%** | **5.5%** |
| *Fund Benchmark* | *Jan* | *3.3%* | *3.3%* | *10.3%* |
| **Maestro Cautious Fund** | **Jan** | **2.4%** | **2.4%** | **7.7%** |
| *Fund Benchmark* | *Jan* | *2.5%* | *2.5%* | *9.7%* |
| **Central Park Global Balanced Fund ($)** | **Dec** | **-1.8%** | **-11.1%** | **-11.1%** |
| *Benchmark*** | *Dec* | *0.0%* | *-2.3%* | *-2.3%* |
| *Sector average **** | *Dec* | *-0.2%* | *-5.7%* | *-5.7%* |

* 50% JSE Top 40 Index, 50% JSE Financial & Industrial 30 Index
** 40% MSCI World Index, 20% each in Barclays US Aggregate Bond Index, Credit Suisse Tremont Hedge Index and 3-month US Treasury Bills
*** Lipper Global Mixed Asset Balanced sector ($)

Regular readers will know that we publish the returns of the equity portfolios under our management on a quarterly basis, and it is time to release our results to end-December. The release of the results to end-December is a special occasion for us in that we are in a position to release 10-year compound returns for the first time in our history – but more about that later. Table 2 depicts the returns of the (tax-constrained) equity portfolios under our management to end-December while the same returns are reflected in graphic form in Chart 3. Allow me to comment on a few aspects of these returns. *Firstly*, and we have shared these views with our clients already, we were not particularly proud of the returns we achieved in 2011. We struggled with the market volatility and, with the benefit of hindsight, were perhaps too conservative. We failed to invest in a number of large-cap industrial shares that did particularly well (resulting in our returns lagging those of the major indices), such as British American Tobacco (two of our large clients explicitly forbid us to invest in tobacco shares), Barloworld, Richemont, Tiger Brands; the tax-constrained nature of our clients was a factor behind this aspect of our activity, or rather lack of activity, last year. *Secondly*, you may recall that we posted very poor returns during the first quarter of 2011, which was in part a function of a very good December 2010 quarter which also created a high base of which we were then measured. And *thirdly*, we held the view through most of 2011that the rand would remain strong, and so were a bit surprised by the rand weakness in September. It is ironic that, at the time of writing, the rand is again surging against the dollar - of course that won't help our poor relative returns during the final quarter of 2011. This is indeed an unforgiving profession. These are some of the aspects which contributed to our poor relative returns during 2011.

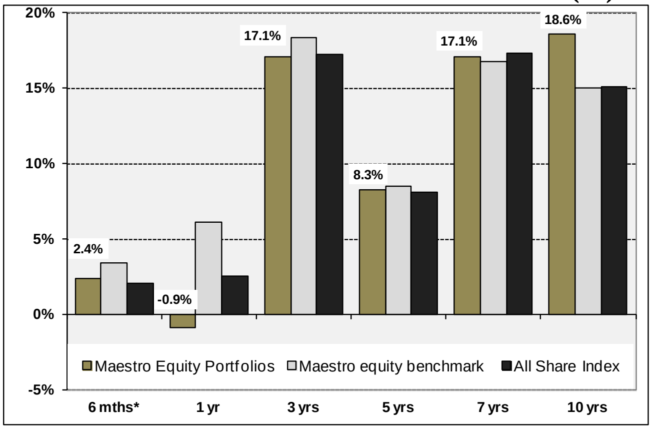
**Table 2: Maestro annual returns to 31 Dec 2011 (%)**

| SA equity returns | 6m * | 1 yr | 3 yrs | 5 yrs | 7 yrs | 10 yrs |
|---|---|---|---|---|---|---|
| *Maestro long-term equity portfolios* | *2.4* | *-0.9* | *17.1* | *8.3* | *17.1* | *18.6* |
| Maestro equity benchmark | 3.4 | 6.1 | 18.4 | 8.5 | 16.8 | 15.1 |
| JSE All Share Index | 2.0 | 2.6 | 17.3 | 8.1 | 17.3 | 15.1 |

* 6-month returns are un-annualized

We take our performance very seriously and have taken concrete steps to improve our relative returns. That said we are also aware that there will be times in any investment manager's life that one underperforms – it happens to the very best of managers. As it happens, there is a far greater than normal number of top global managers who delivered particularly poor returns last year – we drew your attention to these in a number of *Intermezzo* editions last year. So the last thing we want to do is to change what essentially works but happened to be "out of fashion" for a short period. And one must realise the effects of a few poor returns on results that are measured over a specific period. For example, the annual returns on the Maestro Equity Fund to December were -4.4% but for the year to January were 5.9%. This is a very large difference but is caused partly by one bad month (January 2011) falling out of the base and being replaced by a good one (January 2012). So while it looks like a massive turnaround has occurred, this belies the reality of the situation. We always bring the effects of the "base" to your attention when analysing returns over particular periods, and in this case it is no different.

**Chart 3: Maestro annual returns to 31 Dec 2011 (%)**

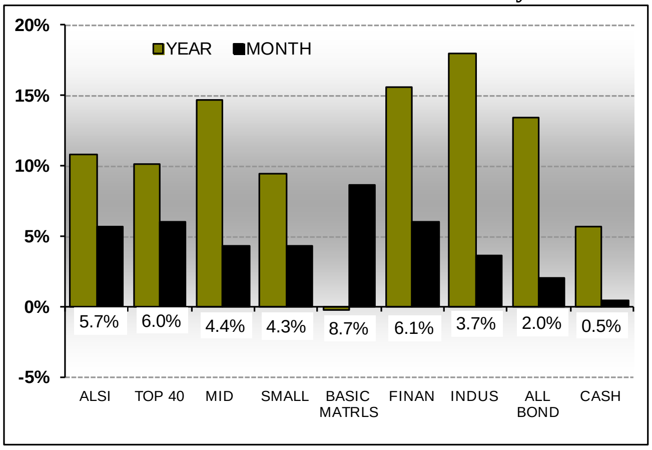



* 6-month returns are un-annualized

For all our poor relative returns last year, about which we have expressed apologies and regret to clients, our relative returns over periods longer than a year are still reasonable when compared to the overall market. This brings me to the compound annual returns over the past ten years. Our clients have on average enjoyed a return of 18.6% of their respective equity portfolios, versus the All share index return of 15.1% over the same period. When one considers how much the world has endured during this period, in terms of wars, economic and political crises, and simple change, the message is clear: the equity market remains an accessible and viable means through which to protect your capital against the many risks that it will be subject to, and Maestro is capable of managing your assets at least as well as, and perhaps even better than were you to simply invest in the index. And of course we are not talking about the service that we offer, by way of ongoing contact, meetings, monthly and quarterly reports and the like. We are grateful to all those clients who have placed their confidence in us over this period – without their trust we would quite simply not have a business, neither would we have had the means with which to demonstrate our ability to manage assets through periods of such enormous change and challenge. Thank you to all of you – it has been a very special journey and we are relishing the prospect of serving you for another ten years and more.

If you allow me a moment to reminisce, I thought some avid market watchers would appreciate looking back on what a Maestro December 2001 portfolio looked like. Remember it was only three months after the World Trade Centre tragedy and the world, and markets, were in a state of shock. At that stage a typical Maestro equity portfolio had 39.7% of its assets offshore (in Investec products) 6.3% in cash and 57.5% in equities, split 31.7% in resources, 28.6% in financials and 39.6% in industrials. The portfolio included wonderful "historic artefacts" like Energy Africa, Alexander Forbes, Liberty International, OTK Holdings, Metcash and MB Technologies, none of which remain listed. It contained jewels such as Dimension Data and Adcorp, and then also Cashbuild priced at 385c (versus its December 2011 year-end price of 11800c), Abil at 870c (3430c in December 2011), Billiton at 6150c (23430c), Anglo at 20103c (29600c) and Sasol at 10540c (38550c). It is useful to undertake such "light-hearted" exercises, because it reaffirms the rationale behind, and reason for, investing in shares in the first place. It is clear from this exercise that firstly, the true benefits of investing are essentially long-term in nature and secondly, markets recover after crises.

**Chart 4: Local market returns to 31 January 2012**




**January in perspective – local investment markets**
Given the positive global environment that prevailed in January, one should not be surprised that the SA equity and markets enjoyed a positive month in terms of returns. The All bond index rose 2.0%, buoyed by the firm rand, while the latter seemed to have little effect on the basic material sector, which with its 8.7% rise posted the largest gain of the three major sub-indices. Financials enjoyed a robust month, rising 6.1% while for once industrials lagged with a return of "only" 3.7%. Despite the relative movements of the basic material and industrial indices in January, it is worth noting that the annual (i.e.12-month) returns to end-January for these two indices were -0.2% and 18.0% - still a massive difference despite the 7.9% decline in the rand over this period. In terms of returns across the market cap (size) spectrum, given the sharp gains in mining shares it was to be expected that SA large cap returns would exceed those of the mid and small caps. The respective returns were 6.0%, 4.4% and 4.3%. It is interesting to note that in the environment of increased risk appetite the US large cap (S&P500) return of 4.6% was eclipsed by the (S&P) mid and small cap returns of 6.5%. Notable sector returns were those of mobile telecoms, which ended down 5.2% and food and drug retailers at -4.1%.

Of interest during the month was the SA Reserve Bank's (SARB) decision to retain interest rates at their current levels, a decision made a little easier by the benign inflation reading. The latest reading on inflation showed an increase of 6.1% in prices, which is still outside the SARB's target range. SA had its "outlook" downgraded from stable to negative by Fitch rating agency although its BBB+ sovereign rating was retained. Fitch's statement was informative: "the negative outlook that accompanies the credit downgrades reflects the limited progress on several long-standing structural issues that have over time caused South Africa's economic performance to fall behind its peers. A problem that requires urgent attention is the economy's inability to create sufficient jobs for its labour force put SA on negative ratings watch".

**Time to resurrect the Anniversary contribution**
Long-time readers will recall that Maestro used to have a tradition of encouraging team members to write a piece on a topic of their choice on the occasion of their anniversary at Maestro. This provides an opportunity to get to know them better – and of course means I (AJ) don't have to do all the work ☺! In the midst of the market trauma over the past few years, that tradition fell away. But we have decided to resurrect it, so I present Victor's contribution, below. We celebrated his first anniversary on 17 January; you can read more about Victor on our website by clicking here.

"When André first told me about the Maestro tradition of one celebrating their anniversary by writing an article for Intermezzo, I was certain he was pulling my leg. It wasn't the writing an article that gave me the impression that he was jesting, but the fact that he asked me to write on anything - *Really, anything*? Given the carte blanche to select a topic, it did not take me long to decide what I would be writing on. After all, one of my self-imposed targets has been to introduce my colleagues to one of my passions, football, and to teach them more about the beautiful game☺. While I thought that writing in Intermezzo about soccer was a great idea, I was a little concerned that the editor would not share my view. So in the interest of ensuring that my article was "published", I decided to merge two of my passions, football and investment markets.

You would be amazed how the two seemingly diverse worlds intertwine and share a lot of similarities. Particularly in the modern day where capitalism is entrenched in almost all we do and every avenue of generating more revenue and profit is being explored. Many die-hard football fans often complain that the game has become too commercialised and all the passion and tradition has been lost to greed and money.  Being quite young, I am not in a position to comment on how the game has evolved over the years but what I certainly can make mention of is how similar these two worlds are and how often they are interlaced.

One of the striking similarities between my two passions is how irrational, fickle and short-sighted stakeholders of each can be over the short-term. Anyone who has had the pleasure of watching a match with a group of soccer fans will tell you, it does not take much to have a hero turn into a villain. Football fans will remember Luis Figo's first game at the Nou Camp, Barcelona's home ground, back in November 2002 after his R390 million move from arch rivals Real Madrid. Barcelona fans did not take kindly to their former idol playing for their bitter rivals and they bombarded the Portuguese winger with an assortment of interesting missiles during the game. The missiles included whiskey bottles, golf balls, cigarette lighters and, most famously, a pig's head -Yes, a pig's head! I liken this fickle nature of football fans to how investors can switch risk appetite on and off at just the turn of a calendar year, or how the share price of US listed Apple recently shot up by 12% (which translates to more than R370 billion) upon the release of one quarter's earnings results. If you step back for a moment and think about it, would a company's total value be worth over R370 billion more because it had a better than expected three months? I would argue, that is just as short-sighted as booing your favourite player after he has missed a chance to score. In a similar vein, consider how the mood in the equity market has changed dramatically over the past eight weeks. In my humble opinion, there hasn't been any meaningful progress to solving the European debt crises that weighted on market sentiment for most of last year, yet US equity returns posted the best January returns since 1994. Sport fans, similar to investors, tend to magnify the immediate and react excessively to new information, a psychological occurrence known in behavioural finance as overreaction and availability bias.

As every football fan would know, every season has a summer transfer window. This is the time that the International Football Federation allows football clubs to purchase or sell players after the season ends. Over the past number of years the amount that is exchanged by soccer clubs has grown exponentially and in the most recent summer transfer window Price Waterhouse Coopers, the audit firm, reported that English Premier League clubs paid over R6bn in transfer fees. Currently, the most expensive player to be transferred between clubs is a chap known as Cristiano Ronaldo, who left Manchester United for Real Madrid two years ago for a jaw dropping R960m. How they arrived at that valuation will always remain a mystery to me. However, I believe this tendency to purchase players at exorbitant prices is remarkably comparable to investors inclination to buy overpriced shares, or any asset, on the hope that it will continue to provide market beating returns for a long time. The tendency to overpay for yesterday's winners is referred to as momentum investing. This trend is closely linked to what some people believe is a hardwired human attribute, which is the propensity for individuals to mimic the actions (rational or irrational) of a larger group. As the price of an asset performs extremely well, the pressure on fellow investors who do not hold that investment increases. In many cases, it will be tempting for an investor to follow the trend and buy into that asset or sector. This herd mentality will naturally drive the price of the asset in question even further up until it disappoints and crashes, when investors clamour for the exit door. We know all too well how history is filled with market bubbles; the Japanese asset bubble, Dot-com, US property ... what's next - gold? Similarly, football history is littered with expensive flops; Shevchenko, Robinho, Fernando Torres … Ronaldo?

The last similarity I will mention is related to a question I have battled with for a while i.e. what makes a great football team? As an avid Manchester United fan you would understand why this question is pertinent to me. If football success is solely a result of the manager in place then my beloved team has reason to be very concerned, Sir Alex will not be around forever. While it is difficult to pin down every characteristic that makes a company or football team great, few would deny that continuity in management plays a big role in their successes. I do not think it is a coincidence that the longest serving football managers tend to be the most successful. The same can be said for shares that are good investments; the likes of Naspers, Capitec, Cashbuild and Aspen have had the same management team for a long time, certainly since we started investing in them. Chopping and changing management is often an early "red flag" that things within a company are not right. Altech, a company that we previously invested in and still follow closely, recently had the Chief Operating Officer (COO), Jeffery Hedberg, resign after just seven months on the job. This was after the whole management team responsible for their East African operations were relieved of their duties last year. Following news of the COO's resignation the share was down over 5% in one day, confirmation by the market that chopping and changing management is not good for the future prospects of an investment.

Finally, one of the beauties of football is its unpredictability, certainly over the short-term. In the current battle for the 2011/12 English Premier League title no one can say with any degree of certainty who will win the title, because it is the short-term. No one can claim to know how European politics will play out this year and in turn how that will affect investment returns. Yet you can be sure that good companies will most likely navigate the current uncertainty much better than others and provide respectable returns. Similar to how my team tends to navigate the uncertainties of football better than the competition☺."

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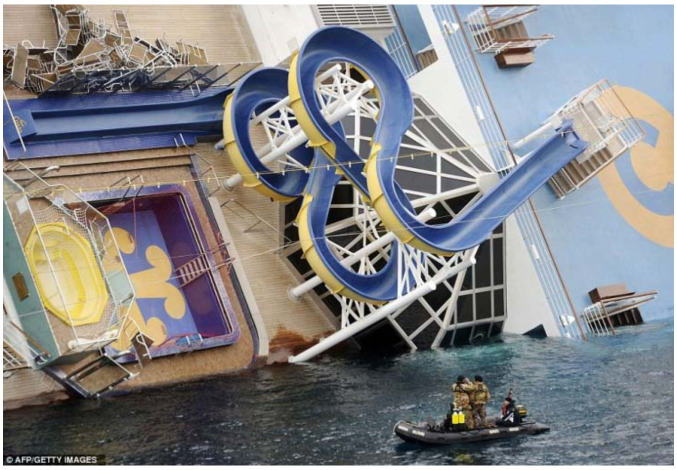
**File 13: Information almost worth remembering**

*Oh Ships!*

This quote probably belongs in the “Quotes” section above but once you read it you will appreciate why I have placed in File 13. In light of a certain luxury liner’s brush with Italian coastline I thought the following quote, which was attributed to *Winston Churchill*, was particularly apt. “There are three things I like about being on an Italian cruise ship. First, their cuisine is unsurpassed. Second, their service is superb. And third, in time of emergency, there is none of this nonsense about women and children first."



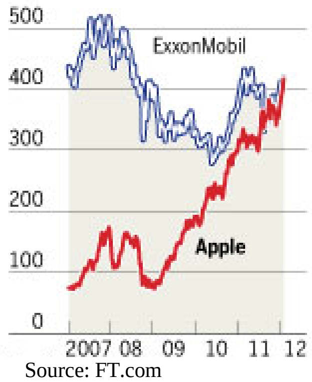
*If not ships, then cars ... the global economy in terms of cars*

We and many others monitor sales of motor vehicles worldwide because it is such an interesting and immediate gauge of the health (or otherwise) of the global economy. You might be interested to know then that VW sold a total of 8.16m vehicles in 2011, a 14% increase over 2010. BMW also posted a 14% increase, selling 1.67m. Within BMW, whose brands include Mini and Rolls Royce, the latter sold a total of 3 538 units, up 31% from 2010’s sales. More intriguing is the 47% increase in Rolls Royce’s Asian Pacific sales, with China now their largest single market. Bentley on the other hand, which is owned by VW, reported that it sold 7 003 cars last year, up 37% on 2010 and the best year since 2007, when it sold more than 10 000. Porsche, which is in the process of becoming VW’s 11th brand, increased sales by 23% in 2011, assisted by a 65% increase in units sold in China. So much for the past; we should note the words of Christian Klinger, head of VW sales, who had the following to say about 2012; “A very challenging year lies ahead”. For the record, Central Park Global Balanced Fund holds both BMW and VW shares. At the end of January they represented 1.2% and 1.7% respectively of the total Fund.

*Apple cash stash*

We were delighted by Apple’s recent results, which were far better than even the most optimistic forecast has predicted. One of the most intriguing questions is what Apple is going to eventually do with its cash. The company generates about $1bn of cash a week, and reported its cash holdings at the end of December at $98bn. By the time you read this, the company’s cash holding will be over $100bn, enough to cover Greece’s debt payments for the next two years. It is interesting to note that nearly two-thirds of this cash lies offshore i.e. outside of the US, and under current US tax rules, were it to repatriate this cash to the US it would face a $22bn tax bill, equivalent to about 5% of Apple’s market cap (size). Its $100bn cash hoard equates to about $100 per share – at the time of writing Apple’s price was $460. On the day Apple reported its results although not for the first time, Apple’s market cap exceeded that of Exxon Mobil to take first place as the largest company in the world. That sounds, and is, impressive, but the history of the two companies’ journey in that race is enlightening, to say the least. Chart 5 tells the story. For the record Central Park Global Balanced Fund held 1.8% of its assets  in Apple at the end of January.

**Chart 5: History of Apple's market cap vs Exxon's**




Source: FT.com

And while we are on Apple and all things tech, how many applications (apps) do you think were downloaded during the week of Christmas? It's a scary number, I must warn you. Well, 509m were downloaded in the US alone, followed by 99m in China, 81m in the UK, followed by Canada, Germany and France. In total just more than 1.2bn apps were downloaded in that single week, marking the first single week where app downloads exceeded 1bn. When one compares that to the total global population of 7bn, it places the sheer size of this market into perspective.

*The world's most profitable banks?*

Preliminary results from the US Federal Reserve, released in January, showed that the Fed earned $76.9bn dollars in 2011, making it by far the world's most profitable bank. That amount totals more than 3% of federal government revenues and about 0.5% of the US GDP, highlighted just how large the Fed has become as it embraced and turbo-charged its quantitative easing program. The Fed has bought billions of dollars of US Treasuries (bonds), on which it earns more than 1.0% yet it only pays 0.25% to the commercial banks on their reserves, enabling it to record bumper profits, which it then remits back to the Treasury.

In similar vein, the Swiss National Bank announced a preliminary profit of SFr13bn ($14bn) for 2011. SFr8bn emanated from foreign currency gains, showing how active the Bank has been in their intervention in the foreign exchange markets while SFR5bn will come from the upward valuation in their gold holdings. The Bank recorded a SFr19bn loss in 2010 on the back of trying to weaken the surging Swiss franc. It is interesting to note that the profits (losses) of the Bank are split as to two thirds to the 26 Swiss cantons and one third to the Swiss federal government.

*The Maestro Music Fund – well, not quite yet*

One of my regrets at Maestro is coming up with what I believe are exciting ideas and then, for whatever reason, not being able to implement them. This has happened on two occasions, and although we have not given up on the ideas, we took the decision not to proceed with them at the time – we first mooted the ideas in 2008. One of them was the creation of a Maestro Music Fund, which tends to take people by surprise but when you start doing the homework the mystery fades and the possibility becomes rather exciting. We have done quite a bit of homework into such a fund already and it remains a dream of ours to establish a global music fund. However, the main reason we shelved the idea at the time was the fact that Maestro does not have sufficient assets under its management at present to merit the creation of such a fund. The initial assets need to be quite large – perhaps around $10m – in order to make the fund viable, financially i.e. to keep costs down, and from an investment perspective i.e. to ensure a sufficient spread of risk. This is not the appropriate time or place to discuss the merits of a music fund – although any interested parties are more than welcome to contact me – but it serves as "food for thought" as you read the following.

A 300-year old cello, manufactured by the legendary Italian violin maker Antonio Stradivari, was recently sold to an anonymous music patron for a record price in excess of $6m. The Stradivarius cello, named "Paganini, Countess of Stainlein", has an impressive pedigree. Its ownership has been traced to 1816 and Vincenzo Merighi, a cellist of the La Scala orchestra, who sold it to the reigning violin virtuoso of the early 19th century, Niccolò Paganini. From the shop of the famed French luthier Jean-Baptiste Vuillaume it passed to the family of Count Louis Charles Georges Corneille de Stainlein-Saalenstein, whose widow is memorialized by its name. More recently, for the past fifty years in fact, it was owned by Bernard Greenhouse, a founding member of the Beaux Arts Trio, who passed away last year. His family put the cello up for auction and it was bought by the Montreal-based patron. As is so often the case with extremely old and valuable instruments, is to be loaned to an "emerging musician", Stéphane Tétreault, an 18-year old Montreal cellist. You can read more about this fascinating story by clicking here.

In June last year, auction house Tarisio sold a 1720 Stradivari violin, the "Lady Blunt" for a record (£9.8m) $15.9m, a "bit" more than the £84 000 it fetched at a Sotheby's auction in 1971. The Lady Blunt was one of 19 Stradivarius instruments owned by the Tokyo-based Nippon Music Foundation. The proceeds of the auction sale last year went to the organization's parent, the Nippon Foundation, for its North-eastern Japan Earthquake and Tsunami Relief Fund. I encourage you to take a look at a specific part of the Tarisio website (click here) which is specifically dedicated to this violin; it provides a window into the wonderful world of musical instruments.

There is also an interesting article on Bloomberg, which includes details about the Lady Blunt and instrument funds in general, which you can access by clicking here.

*The Music Therapy Community Clinic – a benefit concert*
We don't normally carry adverts in *Intermezzo*, but under the circumstances I'm sure you'll understand why we are making an exception. As you are aware, Maestro endorses and has long been a fan of the remarkable work that the Music Therapy Community Clinic does in the communities of greater Cape Town. We have supported them financially in lieu of any Christmas presents for clients for a number of years and have included details on their efforts in the December 2011 and December 2010 editions of *Intermezzo*. We have every intention of also making them beneficiaries of the Maestro Charitable Trust, about which you will hear more in the coming months.

The Music Therapy Community Clinic, which uses music to provide psycho-social support to young people within Cape Town's marginalised communities, will be hosting a benefit concert at the Beau Soleil Music Centre in Kenilworth on Wednesday 15th February 2012 at 18h30. A diverse repertoire from Beethoven to Stravinsky will be performed by internationally acclaimed violinist Cathrin Kudelka and accompanied on piano by Charl de Villiers. Ms Kudelka is founder of the renowned Swiss-based Zaubergeige Violin School and has performed as a soloist throughout Europe and Asia, winning several international competitions including the prestigious "La Musique du Monde" in Paris. Accompanist Charl de Villiers completed his under-graduate degree in South Africa prior to furthering his studies in chamber music in Zürich. Mr de Villiers currently holds the position of coach and accompanist at the Konservatorium Winterthur in Zürich, Switzerland. All proceeds will support the continuation of the Music Therapy Community Clinic's community programmes.

Tickets cost R80 per person and include light refreshments and details appear below.

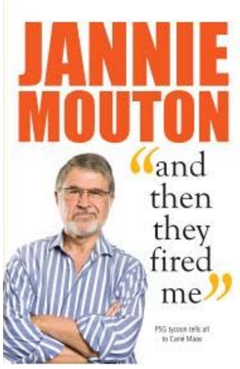
**Venue:** Beau Soleil Music Centre, Salisbury Road, Kenilworth

***PROGRAMME:***

| | |
|---|---|
| **L. van Beethoven** | Sonata for Violin and Piano in E-Flat Major, Opus 12 nr. 3 |
| **I. Stravinsky** | Duo Concertant |
| **C. Saint-Saëns** | Sonata for Violin and Piano in D minor, Opus 75 |
| **K. Szymanowski** | Nocturne and Tarantella, Opus 28 |

To book contact Juanita on 021 671 5196 or email juanita@music-therapy.org.za

**Book review: *And then they fired me* by Jannie Mouton.**
**"A negative person has never started or established anything positive"**




A lot of reading is done inside and outside the Maestro office and informal book reviews or recommendations are often exchanged amongst staff members during the course of office discussions. Recently, André suggested formalising this process and thought it would be fun for each of us to review a book that has meant something to us. I (David) volunteered to go first, primarily because I've never written a book review before and was keen to bite the bullet! So, to the experienced writers out there, please forgive this amateur assessment of the book under review. The book I will review below is that of Jannie Mouton entitled *And Then They Fired Me*. The book is widely available in retail stores, or you can buy it at a reduced price of R114.95 from Kalahari by clicking here.

This Christmas André gave books to each of us, as gifts, and mine happened to be the recently published autobiography by Jannie Mouton. Now some might say it's not a good sign when your boss gives you a book entitled *And Then They Fired Me* - but any implied negativity in the title is misleading, because this book is actually billed as one of South Africa's greatest success stories.

So, with my gift in hand I boarded a plane bound for England to spend Christmas with my wife's family, and by the time I landed I'd read Mouton's story from cover to cover. I was simply unable to put it down. I found it interesting, informative, insightful, personal and even funny at times, which left me feeling that the author had told me a story rather than conveying a lot of facts and information.

And the story is quite a remarkable one; of how one man had a vision that was interrupted by forces out of his control. At the age of 48, Jannie Mouton was fired from his job and his life was turned upside down, but instead of calling it a day and coasting into retirement he did the seemingly impossible. He decided to start again from scratch and within a few years had formed PSG, an Investment Holding company listed on the Johannesburg Stock Exchange, which is today valued at R9.5billion.

The book starts out by dealing with Mouton's upbringing and life before the formation of PSG. It doesn't go into great detail on very many aspects, but gives the reader a real sense of why PSG was established, what it stands for and how a significant company was born out of one man's ideas.

What comes across very clearly in the book is the extent to which value can be created by someone with passion and a vision of how things need to be done. Obviously it would be impossible to achieve this single-handedly and the success of PSG, from my understanding, was achieved by Mouton's ability to empower and incentivise like-minded individuals appropriately. He ensured that owners', employees' and shareholders' objectives and goals were aligned at all times. But, for all the Indians, there was only ever one Chief, and the importance Mouton places on power and control is evident throughout the book; perhaps not surprising when one considers his enforced departure from SMK, the company that fired him.

I've always been impressed by individuals that have carved out a path for themselves in a very competitive financial world. I'm not for one moment suggesting that money is everything, far from it, but I do recognise the achievement of someone who has been successful in their field and who has attained this by marching to the beat of their own drum. I spend a disproportionate amount of time reading biographies and auto-biographies, primarily because I'm interested in the stories of real people; what motivates and drives and inspires them. Often there are lessons we can all learn from another person's mistakes and successes, and while reading is an indulgence that I wish I could enjoy more, I get even greater satisfaction from knowing that I'm learning from the experience.

So what lessons can we learn from Mouton's story? Mouton shares his business philosophy and recipe and he also reveals PSG's greatest success stories and the odd disaster! I always enjoy hearing about the things that didn't go according to plan (looking purely at successful stories without the failures is wrong) and Mouton is happy to lift the lid on the KWV debacle, PSG investment bank, Pioneer foods, mCubed, mBattled and mBarrassed and the positive story of the Capitec fairy tale (amongst others). Apart from an insight into the growth of his business and the nuggets of advice he offers, including his approach to investments and his business philosophy, Mouton also expands on a number of reasons why he decided to set up PSG in the first place:

- He wanted to be independent and not work for others.
- He wanted to make a difference to the lives of others and have empathy with fellow human beings.
- He wanted to tackle something with his children (Piet who was appointed CEO in June 2010 and Jan the CIO some time back. *Ed note:* Jan is the Investment Manager of the PSG Flexible Fund that currently won the Raging Bull Award for the best domestic asset allocation flexible fund on risk-adjusted bases over five years.)
- He simply wanted to develop a company successfully

Aside from offering a unique insight into the success of Mouton's business approach, this book is a testament to Mouton's entrepreneurial spirit, which would not be crushed when he was fired from his job. He wanted not only to create something from nothing, but also to create employment and opportunities within the borders of South Africa so that we don't lose any more talented people to other countries. South Africa needs more entrepreneurs like Jannie Mouton, and his story is, above all, an inspiration to the reader to follow his lead, embrace any entrepreneurial spirit that they may have, and not look back (too much).

It's clear early on in the book that Warren Buffet was a significant influence in Mouton's life (a glance at the 'recommended reading' at the end of the book will confirm this). Like Berkshire Hathaway, PSG is not an operating company but an investment holding company. Mouton has modelled the company's success, and his own investment strategies, on those of Warren Buffet and as a result has earned himself the nickname of the 'Boere Buffet'. I guess you couldn't find a better role model than Buffet, and the proof lies in the way that PSG has performed over the years (refer to page 179 for comparative returns including some of South African's blue chip companies). References are also made throughout the book to some of South Africa's most powerful businessmen who are amongst Moutons friends, and high praise is given to fellow colleagues, which highlights the respect he has for someone that can get the job done right. These references and quotes from recognised names in the industry provide for very interesting reading and give you a real insight into both the company and Jannie Mouton.

The large majority of people may think that tackling the investment world the way Mouton has by creating PSG is beyond them and their abilities. This is absolutely understandable, but it's also worth remembering that you can still access the investment expertise of seasoned professionals by simply purchasing shares in the company. That's the beauty of our industry; if you have the ability to pick the winners and the insight into when to sell them (if appropriate), half your job is done. The fact that PSG is listed is a great opportunity for anyone to "go along for the ride", whereas if the company was private this would never have been a possibility. When I say go along for the ride I mean by buying shares in the company and thereby benefitting from someone like Mr Mouton (and his troops) working for you (literally) and themselves. Here, at Maestro Investment Management, PSG has formed an integral part of our business, via the use of the PSG online system. We have only ever had positive experiences with staff that work at PSG online and in many respects they have formed part of the Maestro family.

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Probably the most remarkable fact in the book is contained on page 47 and reads as follows, *"Looking back today, it's amazing what PSG's people have established. If one had bought R100 000 of PSG shares in 1995 and reinvested all your dividends over time (and had done the same with the Capitec shares distributed to PSG shareholders), it would have been worth R88 million by the end of December 2010."* Not only is this an amazing story of the power of compounding, it highlights the wealth that can be created by either investing in the right company and/or by the entrepreneurial spirit of some that ultimately create that value.

I realise this has been a glowingly positive review of *And Then They Fired Me* but if I was pushed to point out any flaws in the book it would be the lack of *detail.* Ideally I would have wanted more detail on transactions, strategies and philosophies, but by leaving them out Mouton leaves the reader with enough room to imagine how things took place, and also keeps the narrative simple enough for those readers who might not share my appetite for financial detail. By keeping this to a minimum and by focussing on telling his story in broader terms, Mouton provides the reader with the opportunity to tackle the book over a long weekend, or a long-haul flight, without much difficulty.

On that note I would say that if auto biographies aren't something you enjoy, especially about financial matters, then this book isn't for you. However, I think it would certainly appeal to varsity students enrolled in commerce, young/old entrepreneurs, established businessmen, financial analysts and/or fund managers. If you're still undecided about reading the book then do yourself a favour and read the introduction written by Mouton (it's just one page). It will give you a brief insight in the life of a maverick tycoon. How he did it his way, the second time around.

**Table 3: MSCI returns to 31 January 2011 (%)**

| | Dec'11 | 2011 |
|---|---|---|
| Malaysia | 3.8 | -2.9 |
| Philippines | 3.6 | -3.2 |
| New Zealand | 3.3 | 1.1 |
| Indonesia | 3.3 | 4.0 |
| Colombia | 3.2 | -7.1 |
| Taiwan | 3.0 | -23.3 |
| China | 2.5 | -20.3 |
| Thailand | 2.4 | -5.6 |
| Hong Kong | 1.7 | -18.4 |
| Japan | 0.7 | -16.2 |
| **EM Asia** | 0.6 | -19.1 |
| Chile | 0.2 | -22.1 |
| **AP ex-Japan** | 0.0 | -18.0 |
| **MSCI DM** | -0.2 | -7.6 |
| Czech Republic | -0.4 | -11.3 |
| **MSCI EM** | -1.3 | -20.4 |
| Australia | -1.7 | -14.8 |
| Korea | -1.7 | -12.8 |
| Peru | -1.8 | -23.9 |
| **LatAm** | -1.9 | -21.9 |
| Mexico | -2.1 | -13.5 |
| South Africa | -2.2 | -17.3 |
| Brazil | -2.4 | -24.9 |
| Singapore | -3.0 | -21.0 |
| India | -6.0 | -38.0 |
| **EEMEA** | -6.5 | -22.6 |
| Poland | -8.4 | -32.6 |
| Turkey | -8.9 | -36.8 |
| Egypt | -10.0 | -48.8 |
| Hungary | -10.3 | -34.7 |
| Russia | -10.6 | -20.9 |

Source: Merrill Lynch