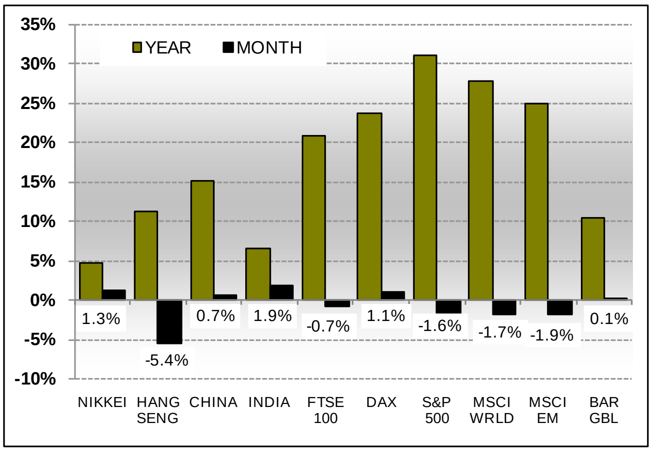
MAESTRO
INTERMEZZO
11th Edition | July 2011

June in perspective – global markets

One thing is for certain about this year in the markets so far: each month brings with it something new; something challenging and unpredictable. June was no exception. There were only a few major factors influencing markets this month. Without doubt the most influential source of volatility was the Greek sovereign debt crisis. Greece is not a major player in the global economy per se, but the strings its web weaves into banks in general and European banks in particular, into the future of the euro and the European Community, and the foreboding scenario it represents ahead of even larger sovereign crises to come (Ireland, Portugal, Spain, the US) weighed heavily on global investment markets. That said, not dissimilar to May, markets were at their weakest during the mid-part of the month, but rallied strongly towards the month's end. During May the S&P500 was down 3.4% at its lowest but closed 1.2% lower on the month. In June, the S&P500 was down 5.9% at its lowest but finished 1.6% down for the month: it posted a remarkable 4.1% rally during the last four trading days of the month. A similar trend was evident across other global markets. Just when everyone was about to abandon equities, the latter rallied strongly across the world to reduce their losses. But bear in mind that we are very much "in the midst of the storm"; anything can happen in the days and weeks to come. This *chapter* in the Greek novel might have ended satisfactorily, but we all know how the *book* ends (hint: it is not a happy ending!) I probably speak on behalf of many investors when I express frustration that the Greek story was not adequately resolved. European policy makers have a unique penchant for stringing out a painful process – presumably in the interests of staying in power – rather than administering the appropriate medicine now and getting it over once and for all. So Greece survives – for now. But we will see it flash up on the radar screen again (given that their problems have not been adequately resolved). When it does, markets will again lurch into crisis mode, spreading volatility, chaos and uncertainty in their wake.

Chart 1: Global market returns to 30 June 2011



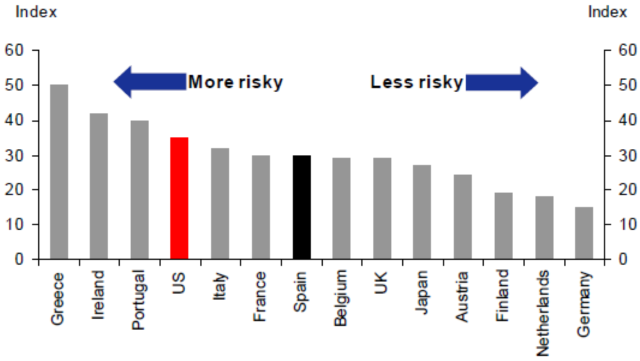
The other major feature during the month was the decision by the International Energy Agency (IEA) to release 60m barrels of oil from their strategic reserves. The effect of this decision was swift: oil prices dropped nearly 10% in the next couple of days, but the Greek/Eurozone story soon overtook the IEA's decision and the oil price began to tick up merrily again. Elsewhere, we had the price of orange juice hit a 4½ -year record on news of the poor citrus crop in Florida. I highlight this event, because it is so similar to other commodity stories: supply constraints (as opposed to strong demand) are bedevilling commodity prices and pushing them to record highs or are at least preventing prices from moving lower even as signs become evident of a genuine cooling in demand.

On to the returns for June: the MSCI World and Emerging market indices fell 1.7% and 1.9% respectively. The bond market, in the form of the Barcap Global bond index, managed to eke out a positive return of 0.1%. Leading developed markets was Japan with a gain of 1.3%, but it was off a very low base - Japan is down 4.0% so far this year. Germany rose 1.1% while most other developed markets declined during June. The US fell 1.6% and the UK 0.7%. Hong Kong declined a surprising 5.4%. Within the emerging market universe India rose 1.9% (also off a low base - it is down 8.1% so far this year) and China rose 0.7%. Brazil declined 3.4% and the SA equity market fell 1.3% in dollar terms. The dollar was firm throughout the month although it would perhaps be more correct to say that other currencies were weak. The euro rose 0.9% against the dollar, but had been much weaker prior to the "resolution" of the Greek debt problems. The UK is suffering from its own share of economic woes, reflected in sterling weakness; the latter declined 2.5% against the dollar, after a 1.3% decline in May. Despite general dollar weakness, commodity prices eased on concerns about a slowing global economy, the effects of rising interest rates in emerging markets and the diminishing effects of fiscal policy in developed countries. The CRB Commodity index fell 3.4% and the S&P GSCI index 4.0%. Aluminium (-4.4%) and iron ore (-3.8%) posted noticeable declines but copper rose 0.8%. We have already alluded to the IEA's decision which resulted in the oil price falling 3.6%. Gold fell 2.0% and platinum was particularly weak, ending down 5.8%.

Charts of the month

Deutsche Bank produced a report in April that analysed the US fiscal challenge i.e. the extent of their debt and how the US would be able to dig itself out of the large hole it now finds itself in. One of the sections of the report sought to gauge US sovereign debt *risk*; it compared the US debt position to those of other overly indebted nations on a number of criteria. The outcome of their analysis is summarized in Chart 2. Of course, US policy makers would not agree with this result, neither would many analysts and the markets aren't pricing in this kind of risk in US debt – at least not now. But the analysis was robust and based on generally acceptable economic criteria. It highlights our concern that global investors and US policy markets are being far too complacent about the risk associated with the level – current and future – of US debt and the possibility of a US sovereign default. The chart speaks for itself.

Chart 2: Sovereign risk ranking

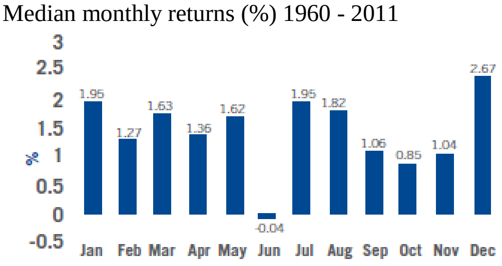


Source: Deutsche Bank

We have all heard of the "Sell in May and go away" phenomenon. It is probably one of the best known adages outside the investment profession and one of the most hated within the profession. I am not going to engage in a debate about this topic here, but I came across the Chart 3, per kind favour of Sanlam Private Investments, which lists the history of the SA equity market in this regard. It shows the median monthly returns of the All share index over the past 50 years. It is clear from the chart that the adage about May is not supported by empirical or historical data.

Chart 3: JSE All share index

Median monthly returns (%) 1960 - 2011



Source: Sanlam Private Investments

What's on our radar screen?

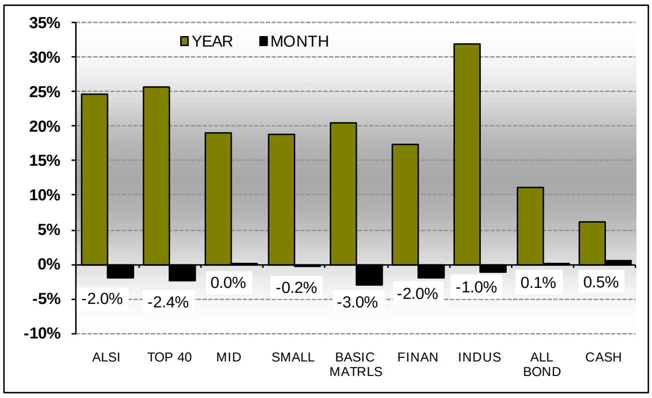
Here are a couple of items we are keeping a close eye on:

- *The Chinese economy*: The annual inflation rate rose to 5.5% in May, from 5.3% in April, the fastest rate in nearly three years. This prompted the authorities to immediately raise the reserve require ratio from 21.0% to 21.5% i.e. they need to retain 21.5% of their deposits as reserves (and can thus not lend the assets out). Retail sales rose at an annual rate of 16.9% from the previous month's 17.1%.
- *Emerging markets*: Emerging markets continue to struggle with rising inflation. Consequently many continue to tighten monetary policy i.e. raise interest rates. During the past month India raised their official interest rates by 0.25% to 7.5% (the tenth increase in 15 months) after May's inflation rate rose to 9.1%. Korea raised theirs by 0.25% to 3.25%.

June in perspective – local markets

Similar to markets around the world, the SA equity market declined sharply as June wore on – it was down 6.9% at one stage - before joining the dramatic rally during the last four days of the month to end down only 2.0%. The basic material index was down more than 8.0% but ended June down "only" 3.1%. Financials ended down 2.0% and industrials 1.1%. Rather surprisingly, in an environment of heightened risk, the mid cap index *rose* 0.01% on the month and the small cap index declined only 0.2%. This is in contrast to the US experience, where the S&P mid and small cap indices declined 2.2% and 1.9% respectively. And the gold index declined 9.4% on the month, after having been down more than 12% at one stage. It is significant that, at a time of heightened risk in both the Eurozone and the US, where we stare down on an increasingly likely US default, that an asset or in this case a sector, widely regarded as a safe haven, declines nearly 10% at the *moment critique*.

Chart 4: Local market returns to 30 June 2011



The NPC's Diagnostic Overview

On 9 June the Minister for National Planning, Trevor Manuel, launched the National Planning Commission (NPC's) Diagnostic Overview. Although it never received much airtime in the SA media the report contains a frank assessment of the achievements as well as the hurdles facing the country and makes for very interesting reading. So too, did Manuel's speech to Parliament. I have taken some of the more positive aspects from it below, but I encourage you to read the full speech as well as look at the Diagnostic Overview, if you have the time and inclination. The following is an extract from the speech.

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"South Africans are a remarkable people. We stared into the abyss of violence and disintegration in the 1980s and decided that dialogue was the only way forward to achieve a peaceful settlement. We came together to negotiate a transition from apartheid to democracy in a process that today is still the envy of the world. We held our first election on the basis of equal suffrage peacefully. We drafted a constitution that gave all South Africans dignity, rights and freedoms that seemed unachievable just years before.

Since then, we have united as South Africans to achieve so much. The experience of the Truth and Reconciliation Commission taught us humility and appreciation of the suffering of people with different views and historical experiences of South Africa. Since 1994, we have established institutions of state, integrated racially divided public institutions, established provincial and local government and key economic governance agencies. We have a respected and independent judiciary and we have legislatures tasked with making laws and overseeing the executive.

Our economy was turned around, employment has grown, the health of the public finances was stabilised; we achieved unity on the sports field and numerous successes in the international arena. Today we are a non-permanent member of the UN Security Council, partly in recognition that we have taken our place in the family of nations, striving for peace and security on our continent and in our world.

We have indeed delivered a better life for many people. More people have access to housing, water, electricity, sanitation, schooling and health care than ever before. These are tangible improvements in the lives of millions of South Africans that make all South Africans proud."

Although this extract paints a very worthy picture of the country and its people, the NPC was also candid about the challenges that lay ahead. Identifying its objectives as elimination poverty and reducing inequality, Trevor Manuel identified nine key challenges to overcome in this regard:

- Our first challenge is that too few South Africans work.
- The quality of school education for most black people is sub-standard.
- Poorly located and inadequate infrastructure limits social inclusion and faster economic growth
- Spatial challenges continue to marginalise the poor
- South Africa's growth path is highly resource-intensive and hence unsustainable
- The ailing public health system confronts a massive disease burden
- The performance of the public service is uneven
- Corruption undermines state legitimacy and service delivery; and
- South Africa remains a divided society.

The NPC laid particular emphasis on the first two challenges but did not shy away from dealing with the others, either. At the same time it launched five separate reports on Human conditions, Material conditions, Nation Building, the Economy, and Institutions and Governance, all of which can be found at www.npconline.co.za.

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	**Jun**	**-1.0%**	**-4.7%**	**17.0%**
*Maestro equity benchmark **	*Jun*	*-2.1%*	*2.6%*	*27.6%*
JSE All Share Index	*Jun*	*-2.0%*	*0.5%*	*24.7%*
Retirement Funds				
Maestro Growth Fund	**Jun**	**-0.9%**	**-3.4%**	**12.7%**
Fund Benchmark	*Jun*	*-1.2%*	*1.4%*	*17.5%*
Maestro Balanced Fund	**Jun**	**-0.8%**	**-2.5%**	**10.7%**
Fund Benchmark	*Jun*	*-1.0%*	*1.6%*	*15.6%*
Maestro Cautious Fund	**Jun**	**-0.1%**	**-0.0%**	**11.1%**
Fund Benchmark	*Jun*	*-0.4%*	*2.0%*	*13.2%*
Central Park Global Balanced Fund ($)	**May**	**-2.0%**	**1.7%**	**18.3%**
*Benchmark***	*May*	*-1.2%*	*3.8%*	*14.1%*
*Sector average ****	*May*	*-1.4%*	*4.1%*	*18.0%*

* 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 ($)

Who would ever have said...?

The other day I hauled out a front page of the Wall Street Journal – much to the amusement of my colleagues - of 10 March 2000 which I had kept after a visit to New York around that time. The headline reads "Nasdaq Pumps Up to 5000". An article at the bottom of the front page reads "Who Can Carry the Baton in the Race Toward 6000?" That generated a lot of discussion in the office, specifically about a trend reappearing in the tech market today. Valuations of "new age" tech companies (principally those involved in social networking) are defying gravity (should that read "denying reality"?) despite the global debt crisis occurring simultaneously around them. Whether it be LinkedIn (which jumped 109% on its debut on 20 May after having been up

171% at one stage on the first day of trade), Renren (it closed 29% higher than its offer price, after having risen more than 71% at one stage), or Pandora (whose market cap briefly rose above $4bn after listing, despite having only $119m in revenue last year), we remain extremely sceptical that any return will be forthcoming from an investment in these companies – at least in their early life on exchanges. After all, let's remind ourselves that *the same Nasdaq index* the Wall Street Journal crowed about in March 2000 is currently trading, more than eleven years later, at 2773; remember that it slumped to 1619.58 on 4 April 2001, some 68.4% off its 10 March 2000 peak of 5132.52.

We are still trying to find the answer to the question why Glencore, the recently listed commodity giant, which made $4.1bn in profits off revenue of $145bn in the year to December 2010 and generated $1.5bn of cash from operations in the first quarter of 2011, declined on its recent debut (and is still trading below its offer price) while LinkedIn, trades at a PE ratio of, er ... well, there is no "E" i.e. the company had net income of only $15m in 2010 so there are hardly any earnings to talk of. For the record, at its current market cap (size) of $8.9bn LinkedIn currently trades at about 30 times last year's $243m revenue (and for the purists, about 200 times EBITDA). Renren traded at 100 times revenues - not exactly bargain levels!

Chart 5: Nokia (US) share price history ($)

Source: Saxo Bank

These type of valuation issues may be useful to ponder, but don't ever underestimate their long-term impact on investors when they either get them right or wrong. Another example, developing in markets right now, should illustrate that point. Attention has been focussed on three companies with similar products. In the 2000s, at the height of the tech boom, Nokia was the darling of the world. It dominated cellphone handsets and could do no wrong. Its US share price peaked in $61.88 in June 2000. Eleven years later, its price has fallen 89.6% and now trades around $6.42. The company is floundering against relentless competition and pricing issues. Aha, you say! It never saw the Blackberry on the horizon and the damage it would do to Nokia's supposedly unassailable market share. Wrong! The maker of the Blackberry, which today is still seen as a formidable player in the market, Research in Motion (code RIMM), has its own share of problems. In June 2008 the RIMM share price peaked at $147.55. Today, three years later, the price is 80.4% lower, having ended June at $28.93. It would be interesting to hear what the average user of a Blackberry thought of the manufacturer of his or her beloved phone's fortunes. I'm sure most would offer the view that its share price must be trading at or close to a record high.

Chart 6: Research in Motion share price history ($)

Source: Saxo Bank

The purpose of this exercise is to show you how often one can go wrong when following the herd and basing decisions on conventional wisdom. Of course, one would hardly expect that type of price performance from the current market leader, Apple (refer to Chart 7, overleaf). Really? Strange that – that's exactly what they said about Nokia in 2000; and Research in Motion in 2007. As we recall that Microsoft paid $8.5bn for Skype in May this year, we are reminded that Rupert Murdoch's News Corp has just sold MySpace, another "new age tech" company for $35m – some way below the $580m it paid for the loss-making company back in 2005. Let the buyer beware!

A few quotes to chew on

A lot has been written about the current US debt addiction and the extent to which the US is bearing down towards a debt default. We continue to study and follow the debate closely. I thought the following comment was prescient; it comes from *Ethan Harris, Merrill Lynch's North American economist*. "Looking beyond the debt-ceiling debate, we are concerned by the rush to the exit by policy makers. Last fall, when the economy faltered, both monetary and fiscal policy eased. The Fed adopted QE2, helping turn the equity market, and fiscal authorities agreed to not only extend all of the Bush tax cuts, but sweetened the deal with a $90bn payroll tax cut. In addition, President Obama assuaged fears of tighter regulations by appointing a number of business-friendly advisors. Today, fiscal fatigue has set in. Despite the ongoing recession in the housing market, there is no serious discussion about how to resolve the crisis. Despite a 9% unemployment rate, there is no serious discussion about how to speed up the job market recovery. And despite clear signs of economic weakness, there is no let-up in the pressure for quick monetary and fiscal tightening. The US needs a clear path to debt sustainability, but the tightening should be dictated by the strength of the recovery".

Chart 7: Apple share price history ($)

Source: Saxo Bank

In an interesting article entitled "The Eurozone is heading for break-up", written at the height of the Greek crisis in June, *New York University Economics Professor Nouriel Roubini* had the following to say; "The Eurozone was glued together by the convergence of low real interest rates sustaining growth, the hope that reforms could maintain convergence; and the prospect of eventual fiscal and political union. But now convergence has gone, reform has stalled, while fiscal and political union is a distant dream. Debt restructuring will happen. The question is when (sooner or later) and how (orderly or disorderly). But even debt reduction will not be sufficient to restore competitiveness and growth. If this cannot be achieved however, the option of exiting the monetary union will become dominant: the benefits of staying in will be lower than the benefits of exiting, however bumpy or disorderly that exit may end up being.

In a recent article entitled "How we can avoid stumbling into our own lost decade" (remember *The US's Lost Decade* is one of Maestro's Big Picture themes), *Harvard University Professor and former US Treasury Secretary* (Minister of Finance in SA-speak) *Larry Summers* began as follows: "Even with the 2008-2009 policy effort that successfully prevented financial collapse, the US is now halfway to a lost economic decade. In the past five years, our economy's growth rate averaged less than one per cent a year, similar to Japan when its bubble burst. At the same time, the fraction of the population working has fallen from 63.1 per cent to 58.4 per cent, reducing the number of those in jobs by more than 10m. Reports suggest growth is slowing. Beyond the lack of jobs and incomes, an economy producing below its potential for a prolonged interval sacrifices its future. To an extent once unimaginable, new college graduates are moving back in with their parents. Strapped school districts across the country are cutting out advanced courses in maths and science. Reduced income and tax collections are the most critical cause of unacceptable budget deficits now and in the future."

Consider these words carefully, and then guess who they were uttered by. The answer can be found at the end of this edition of *Intermezzo*. "When I go, I will be naked. So what do I do? Do I give the companies to my children? That's a responsibility. Do I leave them 90 or 98 per cent of my wealth? Absurd. If I sell, who would buy – a foreign company? So, do I give it all away to Mexico instead? After tax, that would be $300 for every Mexican. It's mere charity."

State of the nation

I am pleased to announce that we have appointed another staff member to the Maestro team. Melody Nowai joined the Maestro team during June – it was our original intention to have her join the team at the beginning of the year, but our dear Department of Home Affairs was singularly incapable of adhering to their self-imposed turnaround time and lost Melody's application - not once, but twice (!) - before finally issuing her with a special skills work permit early in June – only ten months late. Melody hails from Cameroon – so yes, apart from Shona, English and Afrikaans, within the office we can now also communicate in French and in Melody's native dialect *Oku Lamso*. We were astonished to learn from her that amongst the more than 15m people of Cameroon, they speak no less than 358 different dialects! Unsurprisingly Melody has never met anyone outside of her country who can speak her language. Melody arrived in South Africa last year to join her husband Rylance, having stayed in the UK to finish her M Sc. in Accounting with Finance at the London South Bank University. Prior to that she completed her B Sc. (Hons) in Accounting from the University of Buea in Cameroon in 2000, where she also began her Association of Chartered Certified Accountants (ACCA) qualification before finishing it in London in 2006. The ACCA is the UK equivalent of a Chartered Accountant qualification in South Africa i.e. a "CA (SA)". She completed a B Sc. in Applied Accounting at the Oxford Brookes University in 2007. Melody will initially assist Luke and Victor with the administration workload and will assist me (Andre) with selected projects.

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State of China – from the leader himself
At the risk of making this edition too long, *Chinese Premier Wen Jiabao* wrote a significant article in the Financial Times late in June entitled "How China plans to reinforce the global economy". Rather than edit it, I thought it would be appropriate to quote the whole article, given China's importance in the global economy. I have placed the article at the end of this edition of *Intermezzo*, making it easier to skip if you don't want to read it. But I encourage you to read it. The clarity of thought and policy implementation stands in stark contrast to the policy confusion, uncertainty and procrastination amongst Western politicians.

File 13: Information almost worth remembering
Knowing where to trim the budget
In the midst of all the debate about how to trim US government spending, you might be surprised to hear that the US spends more on military than the next 17 countries combined. Here's a thought from Ethan Harris again: does deficit-financed military spending, funded by foreign capital inflows, help or hinder the long-run security of the US? Now there's a thought!

The US municipal bond market
As you are aware, we have been keeping an eye on the US municipal bond market for some time and have occasionally passed a few comments on it. You would be interested to know then in the first week of June, that market experienced its first inflows for 29 weeks i.e. until that time investors had withdrawn money from their muni investments for 29 consecutive weeks. For the first five months of this year so far, the US muni market has registered a return of 4.2%, which is not too bad, all things considered.

Table 2: Global asset allocation flows ($m): w/e 8 June

	Weekly flows*	4w as % AUM	YTD
Equities	-7,272	-0.4%	46,292
Bonds	5,985	1.0%	56,579
Money-mkt	26,317	0.0%	-33,977
Commodities	-335	-1.1%	1,671

* week of 6/08/11

Source: Merrill Lynch

Speaking of in- and outflows from different markets, Table 2 shows inflows on a global asset allocation basis for the week ending 8 June while Table 3 shows them for the week ending 26 June. Just note how volatile the flows are from week to week – yet another indication of the uncertainty in the minds of investors.

Table 3: Global asset allocation flows ($m): w/e 26 June

	Weekly flows*	4w as % AUM	YTD
Equities	-4,403	-0.2%	45,226
Bonds	241	0.3%	56,917
Money-mkt	-29,976	-1.8%	-116,906
Commodities	34	-0.4%	1,367

Source: Merrill Lynch

Table 4 depicts fund flows to developed (DM) and emerging (EM) markets for the week ending 29 June and the year to date (YTD). When you consider that the extent of inflows into DM and outflows from EM so far this year, one should not be surprised by the year-to-date returns for DM of 4.0% and for EM of -0.5%. Within DM, note the large flows into US equities and within the EM it is interesting to see that, despite the Arab Spring, flows into EMEA (Europe, Middle East and African emerging markets) are the only ones that are positive. The EMEA region has attracted far more funds than Asia and Latin America – not what one would have intuitively thought. The again, 2011 is proving to be a year full of surprises.

Table 4: Net DM and EM fund flows ($m)

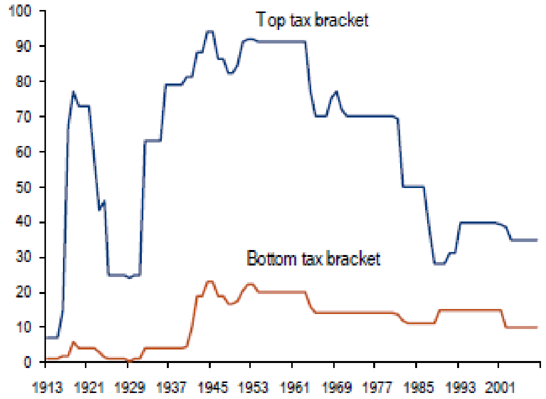
	06/29/11	YTD
Total EM	**2,480**	**-6,822**
Global EM Funds	1,040	-1,941
Asia	1,951	-3,544
EMEA	-442	1,543
LatAm	-68	-2,879
EM LO funds	-306	-6,268
EM ETF's	2,786	-554
Brazil	-2	-228
Russia	-188	3,345
India	-153	-1,643
China*	122	-1,082
Taiwan	2,093	3,384
Total DM	**-6,189**	**33,741**
US	-6,492	21,558
Japan	120	1,997
Europe	-43	4,853
International	**-694**	**18,307**
Total Global	**-4,403**	**45,226**

Total Global = EM + DM + International
Total EM = Global EM + Asia + EMEA + LatAm
* includes Greater China

Source: Merrill Lynch

Tax rates - How high is high?
We have brought this to your attention a number of times over the past few years, although I suspect many of you don't believe me. Chart 8 shows the history of marginal tax rates in the US. After the Great Depression and second World War, the top marginal tax rate in the US was 90% (yes, that's ninety percent) – if you don't believe me, take a look for yourself. The Revenue Act of 1936 boosted marginal tax rates; the average tax rate for incomes of about $4 000 (roughly $60 000 or R400 000 in today's money) almost doubled. In 1937 Social Security taxation began, which accounted for roughly 11% of tax receipts in 1937.

Chart 8: A history of marginal tax rates in the US (%)



Source: Merrill Lynch

It happens to the best of us
Some of you may be aware of the adverse media coverage which certain US and Canadian-listed Chinese companies are receiving at present, particularly those which obtained their US listing by means of reverse listing through existing shell companies in the US. Perhaps the most notable company in this regard is that of Sino Forest, which collapsed 89.7% during the past three weeks of June on concerns that they had misrepresented certain facts in the Financial Statements. What makes Sino Forest such a "meal" for the media is that one of their largest shareholders (at 35%) was one of John Paulson's hedge funds. John Paulson rose to fame when his Credit Opportunities Fund returned 589.7% in 2007 after having shorted (sold) sub-prime assets just prior to that market's collapse and the onset of the Great Financial Crisis. It is believed that, last year alone, Paulsen made more than $5bn from his efforts in the market. By virtue of the collapse in Sino-Forest, Paulson's $9bn Advantage Plus Fund lost 13% in the first week of June, leaving it down 19.7% for the year so far. Then in the last week of June we read that Paulson's Fund had sold their Sino forest holding, nursing a $500m loss. Eina!

Paulson is not the only "star" i.e. a credible and highly respected investment manager to have been tarnished by the recent gyrations of these Chinese shares. Some of you might have heard of Anthony Bolton, the legendary Fidelity portfolio manager who nursed his Fidelity Special Situations Fund to a 19.5% compound annual return during the 28 years under his management. Let me just say that that is one remarkable return; truly outstanding and probably unparalleled in our lifetime. But market forces are no respecter of reputation, for he, too, has been tripped up in recent weeks. Despite plans to retire, Bolton was persuaded to remain in the industry when he was offered the opportunity to manage the Fidelity China Special Situations Fund. But this Fund, too, has suffered at the hands of the markets' de-rating of many of its holdings in Chinese companies; the Fund's share price is now trading at a discount to its NAV (a first for Bolton) and is down about 19.6% for the year so far, much greater than the year-to-date returns of the Shanghai (-1.6%) and Hong Kong (-2.8%) markets.

My point is not to gloat or to discredit these two giants of our profession. Rather, the point is that despite the most impeccable track record carefully achieved over a lifetime, or perhaps in Paulson's case in a year or two, bad returns and periods of severe underperformance happen to the best of money managers. It is also an indication of how much risk there is in markets at present – all readers and investors should take cognisance of that.

More examples of awful investment management
In the March edition of *Intermezzo*, we drew your attention to what must go down in SA history as one of the poorer investment decisions by a professional investment manager. You may recall that it related to the Public Investment Commission (PIC's) ability to turn a R6bn investment into a R1.2bn one, when they bought into a Black Economic Empowerment deal which saw them buy Holcim's SA cement operations. In less than two years 80% of the original investment's value was destroyed.

Sadly, they are not alone in this unique ability. There is a company which has an even greater ability to lose money. Over the past four years, Telkom (for the benefit of our offshore readers, Telkom is the previously state-owned, fixed line telecoms monopoly) invested just more than R10bn in a Nigerian business called MultiLinks. At the time we recall that not one analyst or "expert" in the industry thought it was a good idea, neither did anyone see Telkom ever profiting from this venture, let alone increasing its value into the future. Scarcely four years later, Telkom is exiting the business and has calmly announced they expect to receive about R350m from the sale of MultiLinks. Let's see, R10bn to R350m is a loss of 96.5%. Eish! That takes some doing.

But we are not alone in being able to destroy such value. Early in June came the story of the Libyan Investment Authority (LIA's) investment ability. In the first half of 2008, French Bank Société Générali (SocGen) structured a $1bn deal for the LIA, based on Socgen's own shares. Apparently a recent valuation of the structure showed that it has lost 72% of its value. Never one to miss an opportunity, Goldman Sachs structured a $1.2bn equity and derivatives portfolio for the LIA into one that by the end of June 2010 had lost 98.5% of its value. So in two deals, in less than two years, the LIA lost 86.5% of their investment or some $1.9bn (R13bn). Phew! One is tempted to be critical of the LIA, but I cannot help but wonder what the two banks feel about these deals. Elated? The cynic in me can't help feeling

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Goldman were on the other side of the deal! Indifferent? Who knows? Either way, it doesn't paint the banks in a very good light, does it? No wonder there is such a backlash against large banks on the part of consumers and regulators alike.

Table 5: MSCI returns to 30 June 2011 (%)

	June'11	1H'11	Q2'11
Argentina	4.8	-11.9	0.1
Malaysia	1.7	6.5	2.8
Philippines	1.4	-1.9	2.7
Japan	1.4	-5.8	0.1
India	1.4	-9.1	-4.2
Indonesia	1.1	11.5	6.5
Mexico	0.9	-0.8	-1.3
Russia	0.5	8.1	-7.1
Chile	0.1	-1.7	7.2
LatAm	**-0.5**	**-3.3**	**-3.6**
Brazil	-0.5	-3.4	-5.3
Turkey	-0.7	-11.1	-6.0
EMEA	**-1.2**	**0.5**	**-4.0**
Colombia	-1.3	5.2	5.2
Pakistan	-1.3	-0.2	0.4
Australia	-1.3	1.8	-1.4
Singapore	-1.6	-0.2	0.5
MSCI DM	**-1.7**	**4.0**	**-0.3**
MSCI EM	**-1.9**	**-0.4**	**-2.1**
Czech	-1.9	18.0	1.4
South Africa	-1.9	-5.3	-2.5
Korea	-1.9	7.4	0.8
AP ex Japan	**-2.3**	**0.5**	**-1.0**
EM Asia	**-2.6**	**0.4**	**-0.9**
Hungary	-2.9	20.3	0.1
Poland	-3.3	9.9	2.8
Hong Kong	-4.0	-2.8	-2.0
Morocco	-4.0	-0.1	-5.3
Thailand	-4.2	0.3	-3.1
Egypt	-4.3	-26.1	-3.2
China	-4.5	-0.8	-3.6
Israel	-4.8	-8.8	-6.1
Taiwan	-4.9	-3.3	1.0
Peru	-11.8	-28.1	-16.4

Source: Merrill Lynch

Answer: The quote in "A few quotes to chew on" was uttered by Carlos Slim, whose businesses constituted 40% of the entire Mexican stock exchange. He is comfortably the richest man in the world. His wealth has been estimated at around $80bn, or R544bn, equivalent to 20% of the entire SA GDP. For all his wealth, he is surprisingly down to earth. Known for his simple tastes, he only recently bought his first property outside Mexico – a New York townhouse on the Upper East Side. Otherwise, he lives in the same Mexico City house that he first moved into 40 years ago. He never remarried after his wife died in 1999 of kidney failure, and always dines with his six children on Sundays. He even drives his own car.

How China plans to reinforce the global economy
By Wen Jiabao, the Chinese Premier (source: FT.com)
(Pictures sourced from National Geographic)

About three years have passed since the eruption of the financial crisis. Thanks to the joint efforts of the international community, the global economy is recovering. Yet there remain many uncertainties, and the recovery is fragile. Global growth is uneven; unemployment in developed economies remains high; government debt risks in some countries have mounted; inflationary pressure is increasing. While the shock of the crisis has yet to end, new risks have emerged. The world must co-operate closely to meet the challenges.

China has moved swiftly to fight the financial crisis, adjusting macroeconomic policy to expand domestic demand, and introducing a stimulus package to maintain growth, advance reform and improve people's lives. By taking these steps, we have overcome extreme difficulties and laid a solid foundation for China's development.
A notable result of our response to the crisis is that China has maintained steady and fast growth. Between 2008 and 2010, China's gross domestic product grew at an annual rate of 9.6, 9.2 and 10.3 per cent respectively. The consumer prices index over the same period was 5.9, -0.7 and 3.3 per cent; 33.8m new urban jobs were created. China has maintained sound growth this year.

The thrust of China's response to the crisis is to expand domestic demand and stimulate the real economy, strengthen the basis for long-term development and make growth domestically driven. We have implemented a two-year, Rmb4,000bn ($618bn) investment programme covering infrastructure development, economic structural adjustment, improving people's well-being and protection of the environment. As a result, 10,800 km of railways and about 300,000 km of roads have been built and 210m kW of installed capacity for power generation have been added. We have boosted support for science and technology including by encouraging companies to carry out technological upgrading and innovation. More than Rmb1,000bn have been spent in rebuilding after the Wenchuan earthquake. In the affected areas, quality infrastructure and public facilities were constructed, and 4.83m rural houses and 1.75m urban apartments were rebuilt or reinforced. The quake-hit areas have taken on a new look. We are working to improve the balance between domestic and external demand, with the share of trade surplus in GDP dropping from 7.5 per cent in 2007 to 3.1 in 2010. China's rapid growth and increase in imports are an engine driving the global recovery.

In fighting the crisis, China has made huge strides in developing social programmes, which was beyond our means just a few years ago. We have made breakthroughs in building a social security system covering urban and rural areas. We have introduced a rural old-age insurance scheme which will cover 60 per cent of counties in China this year. The basic urban medical insurance scheme and rural co-operative medical care scheme now cover more than 90 per cent of the population. All Chinese now have access to free compulsory education. Government spending on education has grown to 3.69 per cent of GDP.

It has also pursued flexible and prudent economic policies, and ensured they are targeted and sustainable. Our budget deficit and debt balance are respectively below 3 and 20 per cent of GDP. The government budget deficit has been cut in 2010 and 2011. Since mid-2009, we have used monetary policy tools to absorb excess liquidity. In the fourth quarter of 2009, to strike a balance between maintaining steady and fast growth, conducting structural adjustment and managing inflation were set as the main goal of macroeconomic regulation. Since January 2010, the required reserve ratio and benchmark deposit and lending rates have been raised 12 times and four times respectively. So growth in money and credit supply has returned to normal. In June 2010, reform of the renminbi exchange rate regime was advanced, and the renminbi has appreciated 5.3 per cent against the US dollar.

There is concern as to whether China can rein in inflation and sustain its rapid development. My answer is an emphatic yes. Rapid price rises pose a common challenge to many countries, especially other emerging economies and China. China has made capping price rises the priority of macroeconomic regulation and introduced a host of targeted policies. These have worked. The overall price level is within a controllable range and is expected to drop steadily. The output of grain, of which there is now an abundant supply, has increased for seven years in a row. There is an oversupply of main industrial products. Imports are growing fast. We are confident price rises will be firmly under control this year.

China is now at a new starting point in its drive for development. We have adopted the 12th five-year plan which calls for shifting the development model. We will continue to pursue economic structural adjustment, boost research and development, and education, save energy and resources, promote ecological and environmental conservation, and narrow the regional and urban-rural gap. China's drive for industrialisation and urbanisation is gathering pace. Its economy is increasingly market-oriented and internationalised. We are fully capable of sustaining steady and fast economic growth.

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China will continue to work with other countries with common responsibilities. We should make concerted efforts to strengthen the co-ordination of macroeconomic policies, fight protectionism, improve the international monetary system and tackle climate change and other challenges. We should welcome the fast development of emerging economies, respect different models of development, increase help to least developed countries to enhance their capacity for self-development, and promote strong, sustainable and balanced growth of the global economy.