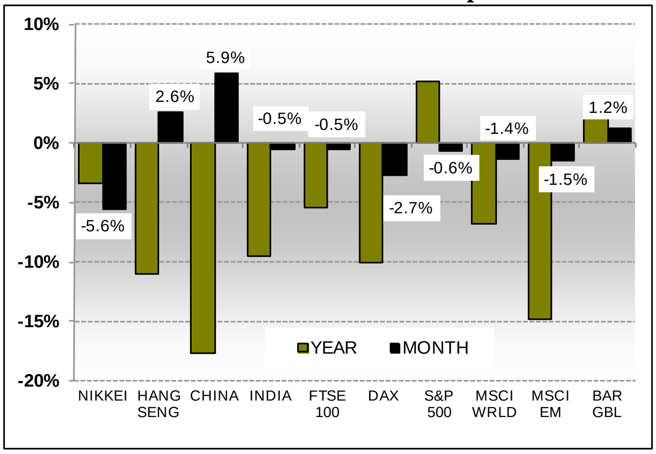
MAESTRO
INTERMEZZO
Investment Letter | 12th Edition | May 2012

April in perspective – global markets

The past month was a pleasant one if, for no other reason, than it seemed quite normal. As many industry participants will acknowledge "normality" has almost become a thing of the past, so to experience a month where movements were by and large explicable and not shocking (particularly on the downside) was like a breath of fresh air. Nevertheless, a sense of sobriety was evident in investment markets during April, which had been conspicuous by its absence in the preceding three months. Disappointing economic data out of both developed and emerging markets, the notable absence of any major market-lifting policy decisions and the extent of the gains in equity markets so far this year all conspired to keep the lid on further equity gains, although there were a few exceptions. When one considers that the US equity market has risen12.0% so far this year (to end-April) – the Nasdaq is up 16.9% - Germany 14.6% and Hong Kong 14.4%, we should not be surprised that markets paused for breath. The recent gains were arrested though, rather than reversed i.e. there were no catastrophic declines. Emerging markets were marginally weaker than developed ones; the MSCI Emerging market index declined 1.5% (Brazil fell 4.3%, Russia 2.9% and India 0.5% while China rose 5.9%) and the MSCI World index fell 1.4% (Japan fell 5.6%, Germany 2.7%, the US 0.7% and the Nasdaq 1.7%).

Chart 1: Global market returns to 30 April 2012



Bond markets posted positive returns; the Barclays Capital global aggregate bond index rose 1.2% in April, bringing its year-to-date returns to 2.1%. The South African (SA) bond market also put in a positive showing, rising 1.8%, bringing its year-to-date return to 4.2% versus the cash year-to-date return of 1.9%. With the slowdown in the global economy still uppermost on many investors' minds, the commodity complex also suffered declines in April. The most important decline, arguably, as it affects us all, was that of the oil price, which fell 2.8%. The price of copper fell 0.8%, iron ore 1.4% and aluminium 2.0%, while nickel rose 2.4%. Gold, platinum and silver fell 0.7%, 4.3% and 3.8% respectively. Currency markets produced a mixed bag, with the euro declining 0.6% against the dollar, sterling rose 1.6% and the yen 3.1% (hence the 5.6% decline in the Japanese equity market). Emerging market currencies were a bit more volatile than their developed market counterparts; the Brazilian real declined 3.7% against the dollar and the Indian rupee 3.3%. The rand had a relatively stable month, declining only 1.0% against the dollar.

What's on our radar screen?

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

- *The SA economy*: South Africa's annual inflation rate declined from 6.1% in February to 6.0% in March, which although still up 1.1% on a monthly basis, was lower than expected. SA retail sales also rose more than expected, at an annual rate of 7.2% in February from 4.2% in January (which was revised up from the initial estimate of 3.9%).
- *The European economy:* Data out of the UK confirmed that it slipped back into recession; the UK's growth rate declined by 0.2% in Q1, having declined 0.3% in the last quarter of 2011. The UK now joins Italy, Ireland, Portugal and Spain, all of whom have slipped back into recession. Greece has been in recession for years, having hardly emerged from it since 2009. EU-wide unemployment data showed a sobering picture of how the austerity measures are eating into the fabric of the European economy. Joblessness across the 17-country region rose to 10.9%, the highest since the euro was launched in 1999. German unemployment also rose marginally in March to 5.6%, although it remains close to a 30-year low. The unemployment situation remains the worst in the Mediterranean countries; Greece's unemployment rate is 21.7%, Portugal 15.3%, Latvia14.6%, Lithuania 14.3%, Slovakia 13.9%, Bulgaria 12.6%, Estonia 11.7%, Hungary 11.2%, Poland 10.1%, France 10.0%, Italy 9.8% and the UK 8.2%. Spanish unemployment is at 24.1% i.e. one in four people are now unemployed. The unemployment rate amongst those under the age of 25 is 50% and there are 5.6m Spaniards out of work, 367 000 of whom lost their jobs in Q1 alone.
- *The US economy*: US economic growth came in a bit worse than expected, rising only 2.2% for the first quarter, versus the 3.0% growth rate for the last quarter of 2011. Consumption grew at 2.9% but disposable income grew at only 0.4%, suggesting that consumers are eating into their savings. Indeed, the savings rate declined from 4.5% in the December quarter to 3.9% in the March quarter. On the labour front, a market about which we have serious concerns, the US

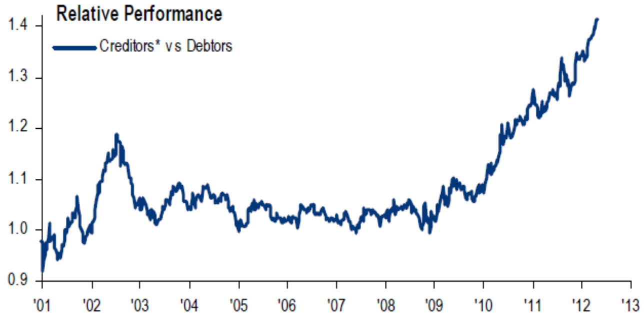
unemployment rate declined from 8.2% in March to 8.1% in April. But before you get too excited, be aware that some impressive Chinese bookkeeping is involved here (no disrespect to the Chinese). The only reason the unemployment rate is declining is because more and more people are giving up looking for work. In April no fewer than 342 000 left the labour pool i.e. stopped looking for work, which is hardly an encouraging sign. And that number needs to be seen in the context of only 115 000 jobs being created in all of the US in April. And we suspect this situation will get worse, possibly a lot worse, before it gets better.

- *Emerging economies*: The **Chinese economy** grew at a rate of 8.1% during the first quarter of 2012, down from 9.2% in the previous quarter although this rate was better than expected. The annual inflation rate in March rose to 3.6% from 3.2%, while retail sales rose at an annual rate of 14.8%.

Chart of the month

A few months ago we placed Chart 2in our Quarterly Report, but we continue to monitor this phenomenon and think it is worthwhile bringing this updated chart to your attention again. It shows the performance of equally weighted equity markets of creditor nations i.e. those who run current account surpluses, relative to debtor nations i.e. countries with current account deficits. Clearly, since the market trough in 2009 equity markets of nations with current account surpluses perform better over time.

Chart 2: Creditor markets versus Debtor markets



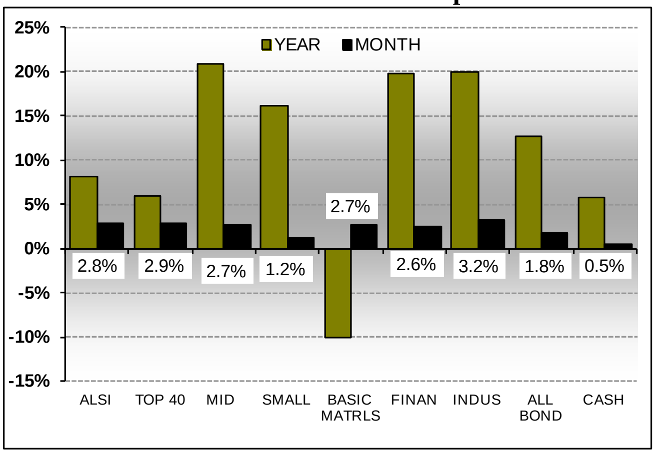
Source: Merrill Lynch

The theory and debate underlying this Chart also informs our view on the rand. As you are aware, Maestro has a bias in its view on the rand, to the extent that, under relatively "normal" market conditions, we think the rand will remain attractive to global investors and therefore will remain firm relative to the dollar. That said, South Africa runs a current account deficit, which, if Chart 2 is anything to go by, alerts us to the dangers of being complacent. The intuitive message from the chart is that you should be "long" of creditor nations and "short" of debtor nations. So our "firm rand" view remains intact but we monitor it closely and regularly. The longer SA runs a current account deficit, the more likely is the chance that our equity market will underperform creditor nations and the more likely the rand will eventually begin to depreciate on the basis of the country's state of financial well-being.

April in perspective – local investment markets

Turning our attention to the local equity market, which continues to be one of the star asset classes so far this year, the All share index rose 2.8%. Unlike previous months this year when the basic material sector weighed heavily on market returns, all three major sectors contributed towards the healthy returns during April. The basic material, financial and industrial indices rose 2.7%, 2.6% and 3.2% in April respectively, although the respective year-to-date returns tell a very different story – 0.7%, 15.7% and 14.0%. The Gold index declined 6.6%, bringing its year-to-date *decline* to 20.5% - a far way from the year-to-date returns of the financial and industrial indices. It is hard to understand why anyone would buy an SA gold mine in the current environment, but perhaps we are missing something? The large, mid and small cap indices gained 2.9%, 2.7% and 1.2% respectively, boasting year-to-date returns of 8.2%, 13.6% and 11.7% respectively. With the rand having declined 1.0% the return of the All share index in dollar terms was 1.8%, bringing its year-to-date dollar return to 13.6%, marginally higher than the year-to-date return of the MSCI Emerging market index return of 12.0%. Within the equity market the best performing sectors were the Automobile and parts sector (think Metair), which rose 14.8%, Tech hardware and equipment (think Pinnacle Technologies) 11.3% and Media (think Naspers) 8.5%. The month's biggest losers included ... you guessed it ... the Gold sector down 6.6% and Platinum Mining down 1.3%.

Chart 3: Local market returns to 30 April 2012



MAESTRO INTERMEZZO

Investment Letter | 12th Edition | May 2012

A notable feature of the market during the month was the news that the country might be included as an index constituent in the Citigroup World Global Bond Index (WGBI). If it comes to pass – the effective date is 1 October - and there is no reason why it shouldn't, this would be a very positive step for the country and fully justified the 2% gain in the rand on the day of the announcement. Working through the numbers shows that potential demand of around $9bn could emanate from this development alone – funds that emulate the index (which total $2 trillion at last count) would have to include SA bonds in their portfolios to the extent of the SA weighting (currently projected to be about 0.44%) in the WGBI. This positive news goes some way to explaining the strength we saw in the SA bond market in April; recall that the All bond index rose 1.8%.

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	**Apr**	**3.6%**	**13.9%**	**12.0%**
JSE All Share Index	*Apr*	*2.8%*	*9.0%*	*8.1%*
Retirement Funds				
Maestro Growth Fund	**Apr**	**2.9%**	**9.6%**	**10.8%**
Fund Benchmark	*Apr*	*2.2%*	*6.5%*	*9.7%*
Maestro Balanced Fund	**Apr**	**2.6%**	**8.6%**	**10.3%**
Fund Benchmark	*Apr*	*1.9%*	*5.8%*	*9.5%*
Maestro Cautious Fund	**Apr**	**2.1%**	**7.0%**	**10.0%**
Fund Benchmark	*Apr*	*1.6%*	*4.7%*	*8.7%*
Central Park Global Balanced Fund ($)	**Mar**	**-0.9%**	**7.8%**	**-4.6%**
*Benchmark**	*Mar*	*0.3%*	*5.3%*	*0.5%*
*Sector average ***	*Mar*	*-0.2%*	*6.2%*	*-2.1%*

* 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. The last time we published our results was in the February edition of *Intermezzo*, we celebrated the first occasion that we could publish returns over a ten-year period. We commented at length on our relatively disappointing returns for 2011, drawing attention to the fact that the March 2011 quarter was a particularly disappointing one for us. We also noted that we outperformed the markets in general during the second and third quarters of last year. Table 1 and Chart 2 depict our returns to the end of March 2012 and I would beg your indulgence to dwell on our returns during the past few months.

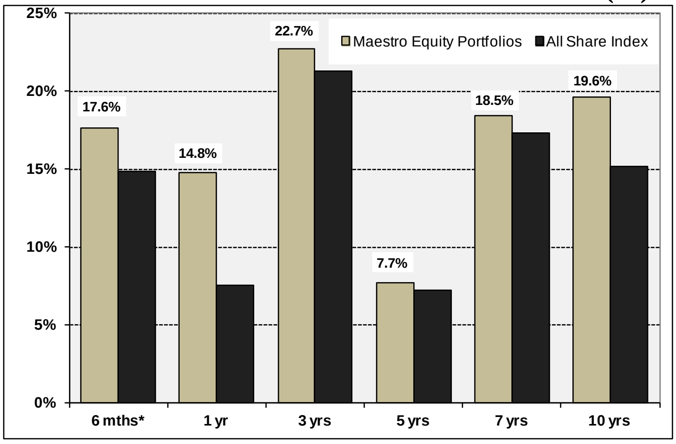
Table 2: Maestro annual returns to 31 March 2012 (%)

SA equity returns	6m *	1 yr	3 yrs	5 yrs	7 yrs	10 yrs
Maestro long-term equity portfolios	*17.6*	*14.8*	*22.7*	*7.7*	*18.5*	*19.6*
JSE All Share Index	14.9	7.5	21.3	7.2	17.4	15.2

* 6-month returns are un-annualized

I am not going to repeat all that was said in the February edition of *Intermezzo* – you can read it again if you wish by clicking here. What I would like to dwell on is the fact that our returns during the past quarter to end-March have shown a gratifying turnaround, in part due to the fact that many of our views which ironically "pulled us down" in the first quarter of last year are coming to fruition. By dropping off the poor March 2011 quarter's return and replacing it with an excellent March 2012 quarter the *annual* returns to 31 March 2012 look stunning. To be honest that paints a rather misleading picture of our abilities. After all, it is not as though we were incompetent last year but have suddenly "regained our competence". The same team that delivered the March 2011 quarter's returns produced those of the March 2012 quarter, based on the same investment philosophy and a largely unchanged investment view. This goes to underline the point we are continually at pains to make, namely that *investment is a long-term activity and one should be very careful in drawing conclusions about performance over short-term periods.*

Chart 4: Maestro annual returns to 31 March 2012 (%)

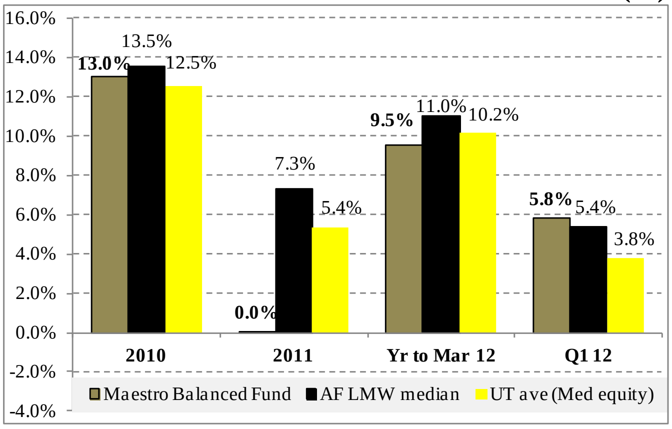


* 6-month returns are un-annualized

Rather than dwell on the actual returns listed in the Table and Chart let me illustrate the improvement in the returns of one of our main retirement solutions, the Maestro Balanced Fund – and then pass a few comments on the recent performance of the Maestro Equity Fund. Many of our readers are members of the Growth and Balanced Funds. In order to keep this section from getting too long, I will focus on the improvement with the Maestro Balanced Fund, but the comments are equally true of the Maestro Growth Fund.

Chart 5 depicts the returns of the **Maestro Balanced Fund** together with comparable returns from the Alexander Forbes Large Manager Watch survey (AF LMW) (the median return) of investment managers and the appropriate category of local unit trusts (the average return of the Domestic Asset Allocation Prudential Medium Equity category). The annual returns for 2010 and 2011 are shown, together with the *annual* returns to March 2012 ("Yr to Mar 12" in the Chart) and the *un-annualized* returns for the March 2012 quarter ("Q1 12") i.e. the one just past. Annual returns prior to 2010 are not shown because they do not exist; Maestro only launched the funds in late 2009. The disappointing 2011 returns are evident from the Chart – refer again to previous publications such as the February edition of *Intermezzo* for details in this regard.

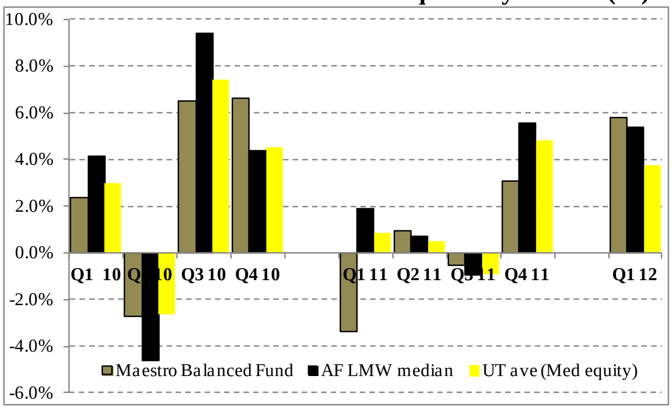
Chart 5: The Maestro Balanced Fund – recent returns (%)



The returns for the year to March 2012 show that most of the relative underperformance has been eradicated but herein lies the crunch: *there is only a quarter's difference between the 2011 returns and those to March 2012*. The poor March 2011 quarter has fallen out of the 2011 return and been replaced by the good March 2012 quarterly return (shown separately as the last group of histograms in the chart). The point here is to illustrate *firstly*, what a rewarding quarter we have just achieved for our clients and *secondly*, how careful one must be when jumping to conclusions when reviewing isolated, short-term periods of returns, in particular when they capture or depict only a specific term, like the 2011 year in this instance.

To further illustrate this point Chart 6 depicts the quarterly returns since the start of 2010, which were used to compile the annual returns in Chart 5. From this data the Balanced Fund's poor March 2011 quarter is clear, as is the excellent December 2010 quarter by the way, and of course the most recent quarter (Q1 12) that has had such an impact on the difference between the Balanced Fund's annual returns to December 2011 (0.0%) and March 2012 (9.5%). Chart 6 also shows how volatile and divergent the quarterly returns are from the two comparable surveys; incidentally there are 19 participants in the Alexander Forbes survey and 35 in the unit trust survey. Look at the AF LMW returns for Q2 and Q3 in 2010, for example, or those of Q1 and Q2 of 2010. It is clear from the chart just how volatile investment markets have been over the past two or so years.

Chart 6: The Maestro Balanced Fund quarterly returns (%)



Let me finish off this section on our returns with a few comments on the **Maestro Equity Fund's** recent performance, which together with those of our offshore fund, Central Park Global Balanced Fund, have been largely responsible for the improvement in our relative returns in the past three or so months.

The Maestro Equity Fund's relative performance has improved dramatically over the past few months. The relative returns of our retirement funds mirror those of the Maestro Equity Fund as it is the largest underlying "building block" of our retirement solutions. Table 3 below highlights the improvement in the rankings of the Maestro Equity Fund i.e. our position relative to competitors, within the general equity category of domestic unit trusts over certain periods. The data speaks for itself. The reason we have selected the specific unit trusts in the Table is because we are continually asked by retirement fund members to compare ourselves against these funds. Their inclusion is in no way aimed at showing them up and I am in no way suggesting that these institutions are not capable of managing money in the long-term. The volatility of their respective positions underlines my earlier point that one must be very careful when evaluating returns over any short-term (a year or less in this case) or specific period.

Table 3: Relative ranking of selected general equity funds

	Rank for three month returns to end-				
	Dec	Jan	Feb	Mar	Apr
Allan Gray Equity Fund	35	74	84	85	82
Coronation Equity Fund	50	31	73	33	34
Investec Equity Fund	48	66	83	68	46
Maestro Equity Fund	***81***	***73***	***38***	***9***	***3***
No. of funds	84	88	90	92	94
	Rank for annual returns to end-				
	Dec	Jan	Feb	Mar	Apr
Allan Gray Equity Fund	2	8	15	16	32
Coronation Equity Fund	46	29	41	42	35
Investec Equity Fund	15	18	37	35	36
Maestro Equity Fund	***79***	***72***	***54***	***36***	***21***
No. of funds	79	80	83	85	85
	Rank for 3-year absolute returns to end-				
	Dec	Jan	Feb	Mar	Apr
Allan Gray Equity Fund	30	51	55	48	38
Coronation Equity Fund	5	6	6	9	6
Investec Equity Fund	49	57	62	62	54
Maestro Equity Fund	***63***	***66***	***65***	***63***	***66***
No. of funds	73	74	75	77	77

Source: Morningstar and Financial Mail (www.fm.co.za)

Let me end this section on returns by making a few points:

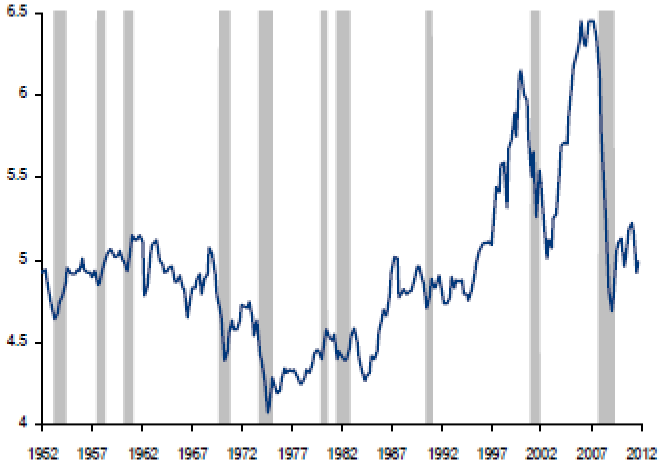
- Be careful when evaluating comparative returns i.e. when placing value judgements by comparing one set or returns with another, especially without examining the underlying causal factors associated with those returns.
- The absolute and relative (to our competitors) returns of the portfolios under Maestro's management, be they offshore (Central Park), local equity (Maestro Equity Fund) or retirement solutions (the Maestro Growth and Balanced Funds) have improved dramatically over the past four months.
- And finally the above discussion covers the returns to end-March, but as Table 3 shows the improvement has continued into April; the past month saw all the discretionary portfolios under our management deliver yet another month of excellent returns, in absolute and relative returns.

An extra Chart - for good measure

Although we have already included our "Chart of the month" feature, here is another chart we need to share with you. It depicts the extent to which the financial crisis has decimated net wealth of US consumers, which in turn leads us to be sceptical of the view that we are in an "economic recovery" that will eventually restore the state of US households to what they were before the onset of the crisis in late 2007. With the shaded areas representing periods of recession in the US, the chart shows the ratio of net worth to disposable income of US households. The damage to the balance sheet of the US household is clear – the Great Financial Crisis has pushed the clock back to the early 90s. The surge in this ratio from the mid-70s to late-2007 set up these Baby boomers for retirement. But that dream has come crashing down, led by a flat equity market over the past decade and tumbling house prices since 2007. This is what economists would call "structural damage". Politicians would probably call it "an opportunity" while the consumers themselves would call it "a disaster" – and rightly so. Our view is that it reflects a significant undermining of the fabric of the US economy, to the extent that it will be years before the situation can be regarded as "normal" again. And given that the US economy remains the preeminent engine for the global economy, we cannot ignore the effects this will have on global growth. It is not the full story on our view of global growth, but it is a material component, of which you need to be aware.

Chart 7: US Households – "Worth less" than before

The ratio of US household net worth to disposable income (x)



Source: Merrill Lynch

File 13: Information almost worth remembering

Crisis? What financial crisis?

I am sure you have all heard about it by now but we are still keen to record the remarkable event that occurred on 2 May in New York. It took just 12 minutes of auctioning for the record to be set for the highest amount ever – all of $120m - to be paid for a work of art. The initial expectation by Sotheby's was for the work to sell for $80m. Edvard Munch's 1895 version of *The Scream* (the artist created four versions of this work; the 1893 and 1895 versions are both shown below) was put on auction by its owner Petter Olsen – shown in a remarkably poignant moment in the photo below. His family has a long and interesting association with the artist and his works. If you wish to read more about the interesting story behind this work, please email me by clicking here. What makes this work unique – apart from the fact that *The Scream* is regarded as the second most recognizable art work in the world, after Leonardo da Vinci's *Mona Lisa* - is the fact that it incorporates the poem by the artist, which gave rise to this work, in his own hand. It reads as follows:

> "I was walking along the road with two Friends
> The Sun was setting – The Sky turned a bloody red
> And I felt a whiff of Melancholy – I stood
> Still, deathly tired – over the blue-black
> Fjord and City hung Blood and Tongues of Fire
> My Friends walked on – I remained behind
> – shivering with Anxiety – I felt the great Scream in
> Nature – EM."

Olsen has bought Munch's property in Hvitsten, Norway, next to his own family's property, and plans to turn it into a museum dedicated to the artist, financed from the sale of *The Scream*. The museum will be part of the Munch 150th anniversary celebrations next year, with an exhibition on the Oslo university auditorium decorations that he created there.

Photonomics 1: Petter Olson "Thanks a ~~million~~ 120 million"

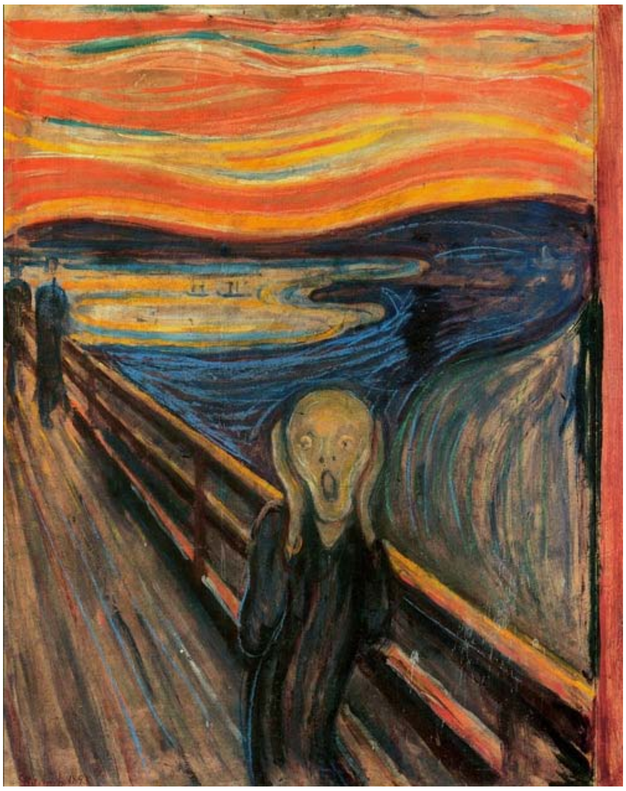
It is worth recording that the previous highest record for an artwork was $106m paid for Pablo Picasso's *Nude, Green Leaves and Bust* in May 2010. We covered this event in the May 2010 edition of *Intermezzo*, which can be accessed by clicking here. In fact while we are on the subject, the June 2010 edition of *Intermezzo*, is also well worth reading if you are interested in art, as it covers the theft of major works from the Paris Museum of Modern Art. And it contains wonderful photographs of the 2010 World Cup Soccer final, which is bound to bring back many memories.

Photonomics 2: Edvard Munch - *The Scream* (1895)
Pastel on board, 79 x 59cm. Private collection.

At the risk of insulting all serious art lovers and aficionados I just have to include two further Scream-related illustrations, both economic in nature, of course, although remember that in the File 13 section we do tend to become a bit irreverent. So I list below the Financial Times resident artist, Ingram Pinn's take on the battle by shareholders to control Chief Executive Officers (CEO's) pay, particularly in the financial sector. Classic stuff (the illustration, that is) and worthy of acknowledging and sharing.

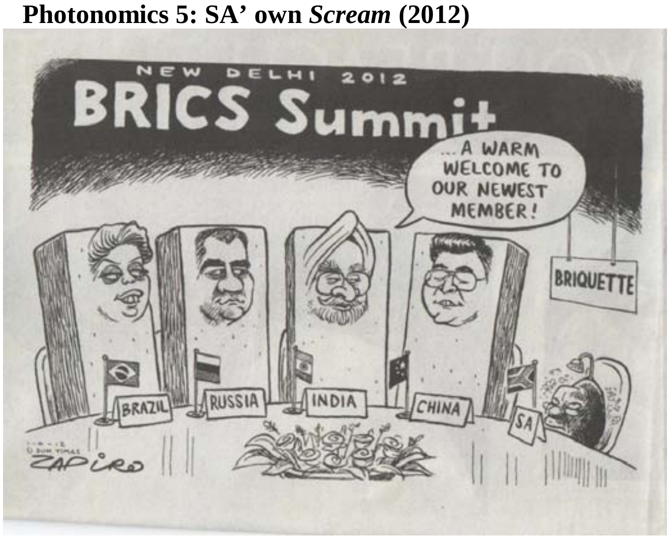
Photonomics 3: *The Scream* – the Financial Times's version
Mounting anger at CEO pay

Photonomics 4: Edvard Munch - *The Scream* (1893)
Oil, tempera, 91 x 73.5cm. National Gallery, Oslo.



And in closing, while on the subject of high art, we thought the illustration below was an absolutely scream, too, in a manner of speaking. In case you missed it, it comes per kind favour of Sunday Times artist Zapiro. It clarifies so comically the point we have made before, that in terms of the BRIC countries, South Africa really is a minnow. Enjoy.

Photonomics 5: SA' own *Scream* (2012)



Source: Zapiro in the Sunday Times of 1 April 2012

Table 4: MSCI returns to 30 April 2012 (%)

	April '12	2012 YTD
Colombia	6.0	24.9
China	3.5	13.8
Philippines	2.7	23.4
Thailand	2.6	23.5
Australia	1.9	9.6
Peru	0.8	13.2
Hong Kong	0.6	13.6
Hungary	0.6	23.4
AP ex-Japan	*0.4*	*12.3*
South Africa	0.3	10.3
Korea	0.1	14.5
Singapore	0.1	19.2
EM Asia	*-0.2*	*12.7*
Pakistan	-0.3	19.0
Indonesia	-0.9	3.2
Mexico	-0.9	14.3
Malaysia	-1.1	6.7
MSCI DM	-1.4	9.4
MSCI EM	-1.5	12.0
EMEA	*-1.7*	*13.4*
Chile	-1.8	15.0
Poland	-3.1	13.8
Russia	-3.1	14.8
Japan	-3.2	6.6
Turkey	-3.7	22.3
Taiwan	-4.2	9.7
LatAm	*-4.5*	*8.9*
India	-4.7	14.1
Czech Republic	-5.7	3.1
Brazil	-7.0	5.2

Source: Merrill Lynch