MAESTRO
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INTERMEZZO

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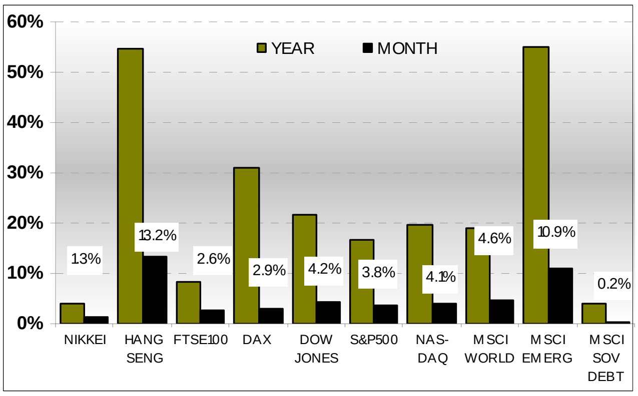
September in perspective – global markets

Barely six weeks ago the end of the world was upon us: the sub-prime-induced credit crunch was in full swing, central banks were pumping cash into global money markets hand over foot and equity markets were swooning – many down more than 10% on the month. Since that time the DAX is up 8.7%, the S&P500 14.0%, the MSCI Emerging Market index 32.4% and Hong Kong 36.5%. What on earth has happened? I will devote a large portion of the forthcoming Quarterly Report to answering this question, but the initial answer is simple: the Federal Reserve cut US interest rates by 0.5% when most commentators were expecting a cut of only 0.25%. However, the message the markets are sending out is a bit more complicated and I am not entirely certain that I agree with the message, namely that "the worst of the trouble is over and the Fed has come to our rescue". Once again, the aspects surrounding this rather simplistic view will be fully developed in our September Quarterly Report. Be that as it may, global equity markets have soared since the Fed cut rates, and emerging markets and commodity prices in particularly. The dollar is on the back foot – it declined 4.3% against the euro in September. The MSCI World and Emerging Market indices ended up 4.6% and 10.9% respectively. Hong Kong was a stand out, rising 13.2% to lift its annual gain to 54.7%; it was boosted by the fact that Chinese investors may now invest a small portion of their capital abroad. Many emerging markets ended at records, which have subsequently been eclipsed post month-end. Bond markets, which had initially been relatively firm, greeted the Fed's cut with scepticism and ended the month with marginal gains.

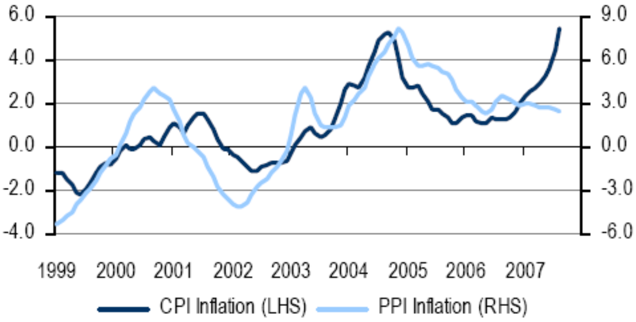
Chart 1: Global market returns to 30 September 2007



Something worth keeping an eye on

We have written a lot about China and its economy and will most surely write a lot more in the future. It is increasingly being recognized the most important economy in the world. We monitor it very closely due to the disruptive influence it has on so many aspects of the global economy and markets as we know them today. We have previously indicated that the Chinese authorities are nervous of inflation getting out of hand, and have warned that this indicator bears close monitoring. The August inflation data revealed that it had risen to a 10½-year high – refer to Chart 2. The price gains were driven by a 19.2% rise in food prices and meat (pork) prices in particular; could this herald additional policy measures to combat the rise in prices? We can take some comfort in the fact that PPI rose only 2.6% in August and that non-food inflation is only 0.9%, but it is sufficiently important to monitor into the future. The last thing the world needs now is for the most influential economy to slow. Please refer to Chart 5 at the end of this edition for more charts on Chinese CPI.

Chart 2: Chinese CPI and PPI (%)



Source: Merrill Lynch

For the record

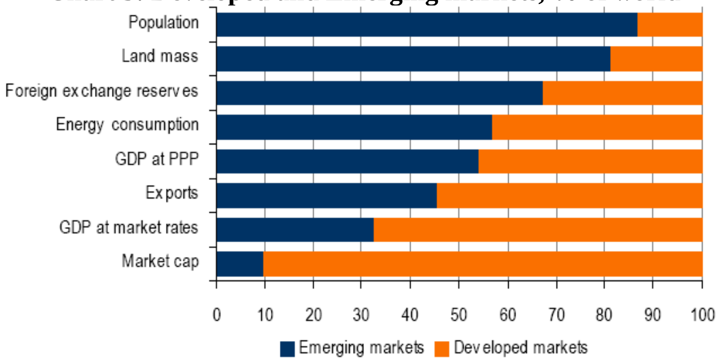
Table 1 lists the latest returns of the mutual funds under Maestro's care. You can find more detail, including the latest Maestro Equity Fund Summary, by visiting our website at www.maestroinvestment.co.za. Returns include income and are presented after fees have been charged.

Table 1: Returns of funds under Maestro's care

	Period ended	Month	Year to date	Year
Maestro Equity Fund	Sept	**3.4%**	**22.2%**	**37.8%**
Maestro equity benchmark **		1.9%	16.3%	32.2%
JSE All Share Index		5.0%	22.9%	37.4%
Maestro Long Short Equity Fund	Aug	**-2.1%**	-2.2%*	N/A
JSE All Share Index		0.7%	1.6%*	N/A
Central Park Global Balanced Fund ($)	Aug	**-1.8%**	**6.3%**	**14.1%**
Benchmark***		0.2%	4.7%	10.4%

* Since 1 July 2007
** 50% JSE Top 40 Index, 50% JSE Financial & Industrial 30 Index
*** 40% MSCI World Index, and 20% each in MSCI Sovereign Index, Credit Suisse Tremont Hedge Index and 3-month US Treasury Bills

Chart 3: Developed and Emerging markets, % of world

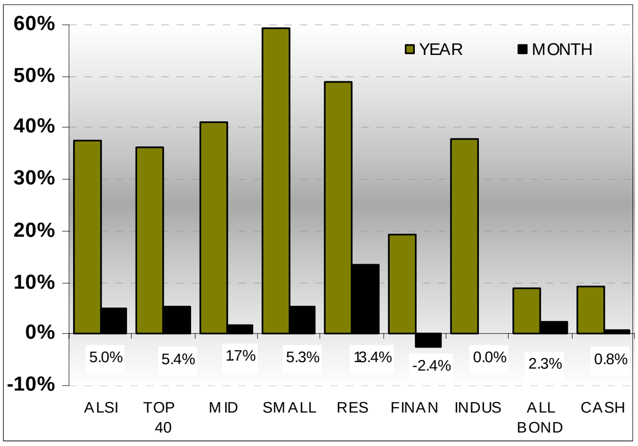


Source: Merrill Lynch

Chart of the month

We have shown Chart 3 before in *Intermezzo*, but with all the current focus on emerging markets it is appropriate to study it again. It depicts the allocation of various criteria between the developed and emerging markets. Perhaps the most pertinent one for me is the last one, viz. market cap. Whereas emerging markets make up 86% of the world's population and 81% of its land mass, its GDP constitutes only 32% at market rates. Using the companies that comprise the MSCI index universe, emerging markets represent just less than 10% compared to the developed world. The market cap of the entire small cap universe ($500bn among 1 218 companies) is about $20bn less than the market cap of Exxon Mobil. The BRIC (Brazil, Russia, India and China) markets account for only 4% of the world MSCI universe versus 44% for the US. Although these data beg lengthy further debate, one thing is apparent – if more investors focus on (and invest in) emerging markets, prices are only headed one way. Watch this space…

Chart 4: Local market returns to 30 September 2007



September in perspective – local markets

Similar to global equity markets, the SA equity market enjoyed a very positive month. The 5.0% return from the All Share index masks some very disparate returns; basic materials gained 13.4% despite the 4.0% rise in the rand relative to the dollar, but financials declined 2.4% as sentiment towards banks soured across the world. The gold (+17.6%) and platinum (+12.4%) sectors were particularly strong while household goods (-15.2% - read Steinhoff) and general retailers (-6.0%) were weak. The mid cap index posted a useful gain but the small cap index eclipsed it, rising 5.3% on the month. For the benefit of our foreign readers, note that the All Share index *dollar* return for September was 9.3% and the All Bond index 6.5%.

File 13: Interesting information, but worth forgetting

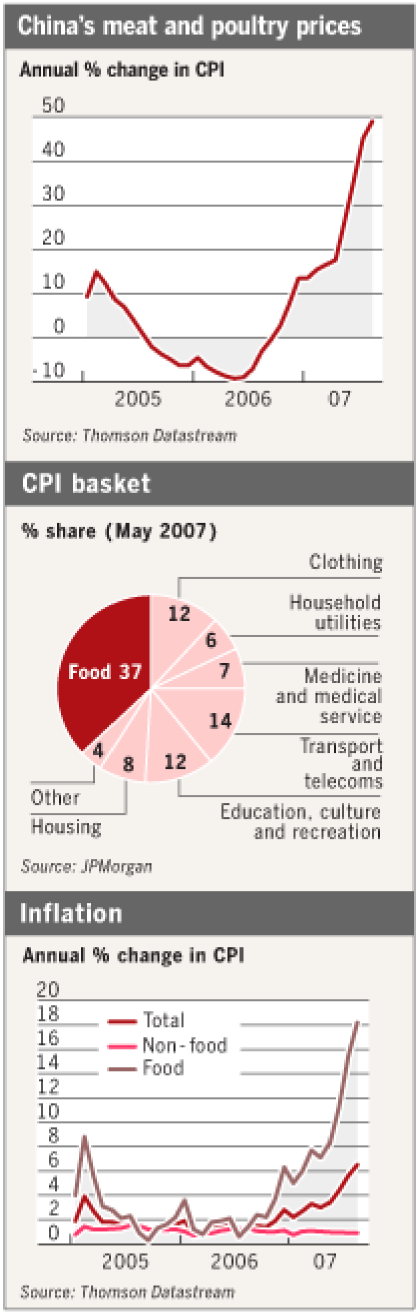
How big do you think the global foreign currency market is? How much foreign currency trades every day? Let me put you out of your misery; the latest triennial Bank for International Settlements survey revealed that the average *daily* volume traded on foreign exchange markets surged from $1 880bn in 2004 to $3 210bn in April 2007. Of that portion, the UK's market share increased from 31.3% to 34.1% at the expense of the US, whose share declined from 19.2% to 16.6%, and Japan, whose share dwindled to 6.0%. Just to repeat the number again in case you glossed over them it: $3.2 trillion trades every day through global forex markets!

Back to China now: I have always been fascinated with large engineering feats, and none so much as the monstrous Three Gorges Dam on the Yangtze River, which started in 1993. Without expressing a view on its environmental and ecological impact here, I recently came across some stats that I thought worthy of sharing. It again highlights the sheer "large numbers" that are so frequently involved in anything "Chinese":

- The Dam will cost $25bn
- At its peak 26 000 workers were engaged on the project at one time
- Can store up to 39.3bn cubic meters of water
- The project is capable of generating 18 200 megawatts of electricity from 26 power turbines, sufficient to replace 50m tonnes of coal and reduce China's CO_2 emissions by 100m tonnes
- 600km of land, including 116 towns were inundated as the dam started filling up
- 1 599 factories were submerged
- 1.4m people were displaced

Please note that I have shortened this edition of *Intermezzo* in the interests of beginning the Quarterly Report, which will detail our view on the coming year. Readers who do not receive a Quarterly Report are welcome to email me directly, and I will send them the Maestro Equity Fund Quarterly Report, which will contain the bulk of our views.

Chart 5: More detail on Chinese CPI



Source: Financial Times