PRESCIENT
MANAGEMENT COMPANY

MAESTRO
Equity Fund

The Maestro Equity Fund

Quarterly report for the period ended

31 December 2007

INVESTMENT OBJECTIVE
The Fund's objective is to produce above average long-term returns by investing in the South African equity market. It will simultaneously aim to assume less risk than the risk inherent in the market itself. The Fund adopts a conservative investment philosophy.

FUND BENCHMARK (BMK)
The Fund will measure itself against the FTSE-JSE All Share Index. It will also use an internal benchmark, the Maestro Equity Benchmark, which consists of an equal weighting of the FTSE-JSE Top40 and Findi30 indices which effectively yields an index that is roughly equally weighted between the resource, financial and industrial sectors.

LEGAL STRUCTURE
The Fund is a scheme in the nature of a trust known as a collective investment scheme. The portfolio manager is Maestro Investment Consulting, an approved Financial Services Provider in terms of the Financial Services and Intermediary Act, operating under licence number 739, and the Financial Institutions (Protection of Fund) Act. This portfolio operates as a white label fund under the Prescient Unit Trust Scheme, which is governed by the Collective Investment Schemes Control Act.

FEE STRUCTURE
The maximum initial fee is 2.0%. The investment management fee is 1.75% per annum. The *annual* total expense ratio (TER) for 2007 in respect of class B2 was 2.14%.

FUND SIZE: R23 301 186

MANAGEMENT COMPANY
Prescient Management Company Ltd
Box 31142, Tokai, 7945

TRUSTEE AND AUDITOR
Trustee: Nedbank Limited
Auditor: KPMG Inc.

PORTFOLIO MANAGER
Capstone 96 (Pty) Ltd t/a Maestro Investment Consulting

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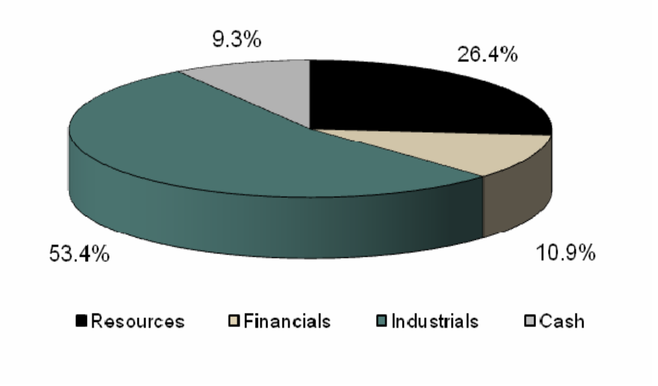
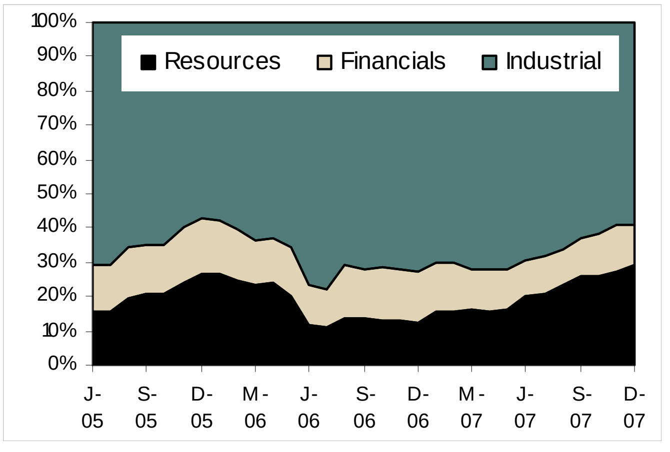
1. Introduction
This report focuses on the investment activities of the Maestro Equity Fund during the past quarter. It should be read in conjunction with Maestro's monthly investment letter, *Intermezzo*, and the monthly Fund Summaries sent to investors.

Chart 1: Asset allocation at 31 December 2007



2. The investment position of your portfolio
Chart 1 depicts the Fund's sector allocation at the end of December. Exposure to the resource sector totalled 26.4% of the Fund, from 24.4% in September. Financial exposure rose from 10.2% to 10.9% but industrial exposure declined from 58.8% to 53.4%. Cash represented 9.3% of the Fund, up from 6.7% at the end of September. Chart 2 depicts the historical allocation to the three major sectors of the equity market, expressed as a percentage of the equity portion of the Fund.

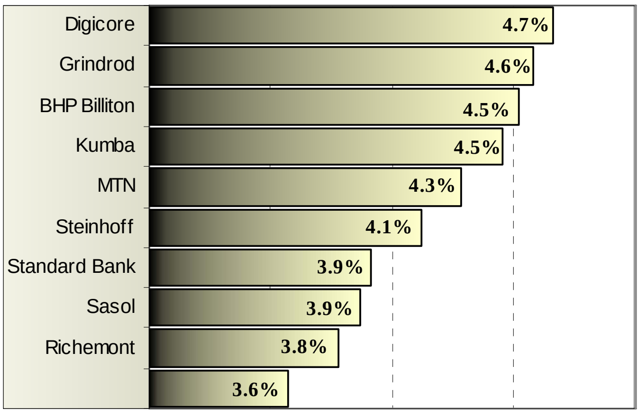
Chart 2: Historic equity sector allocation



3. The largest equity holdings

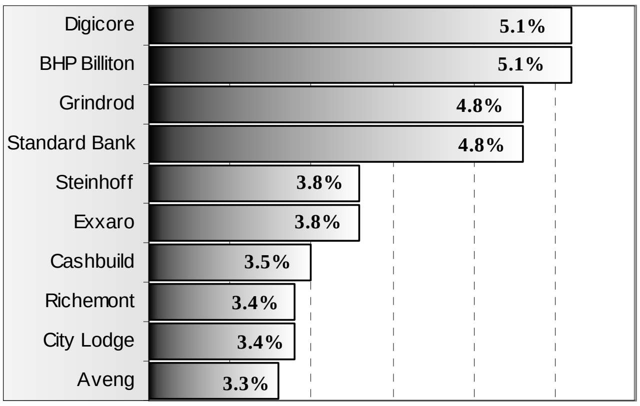
The Fund's largest holdings at 31 December are listed in Chart 3, expressed as a percentage of the total Fund.

Chart 3: The largest holdings at 31 December 2007



Those at the end of September are listed in Chart 4 for reference purposes. Kumba, MTN and Sasol displaced Aveng, Cashbuild and City Lodge in the "top ten" during the quarter. There were 31 counters in the Fund at quarter-end versus 33 in September, the ten largest of which constituted 41.7% of Fund, down from 41.0% in September.

Chart 4: The largest holdings at 30 September 2007



4. Recent activity on the portfolio

The investment objective on the Fund is to *achieve long-term growth through the assumption of moderate risk.* It is against this objective that the Fund's activities and performance should be assessed.

During the quarter the holdings in Metmar, Dawn and Investec were increased. The Altech, Astrapak and Medi-clinic holdings were sold and those in Aveng, Group Five, Standard Bank and Wilson-Bayly reduced. A holding in Blue Label Telecoms was introduced into the Fund.

5. A review of the recent investment environment

It is worth returning to the beginning of the *September* quarter in order to obtain a proper perspective of the events that dominated the December quarter. Recall that the initial fall-out in the US sub-prime market began in July with the implosion of two Bear Stearns hedge funds. In August investors began to digest the possible extent of the sub-prime losses and the implications of those events on the broader market. After a 10% decline, markets recovered remarkably, posting a positive return for the month. The Fed dropped its Fed fund and discount rate in mid-September, sending markets rocketing higher, in so doing bringing an unprecedented, volatile (September) quarter to a positive end. The All Share index ended 6.7% higher, despite the tumultuous events of the quarter. The MSCI World and Emerging Market indices ended up 2.0% and 13.7% respectively.

But of course trading continued into the December quarter and it is *that* quarter that forms the subject of this review. As more information began to emerge about the effects of the rising price of credit, as well as the seizure of credit and inter-bank money markets, investors began to fret. October still benefited from the recovery, but leading banks began to disclose unheard of losses and central banks took increasingly urgent action to inject liquidity into global money markets. It was clear that markets were experiencing more than just a "wobble," even if investors had not fully appreciated the extent of the woes. Those came to the fore in November in no small way. Developed and emerging equity markets registered large losses during that month. On the other hand bond markets reacted more favourably, as investors realized that interest rates would have to decline substantially more than initially expected. The positive response was confined to sovereign bonds of the highest quality. The Citi World Government Bond index rose 3.6% in November – in stark contrast to the equity losses of that month. In the corporate world banks scrambled for capital to support earlier irresponsible action, having declared losses equivalent in size to some countries' entire economies. With the Fed now galvanized into action, a declining US interest rate scenario added renewed impetus to the declining dollar, which registered record lows against many other currencies. This in turn drove commodity prices higher, including those of oil and agricultural commodities. Concerns then grew about the effect these higher prices would have on global inflation, which is the *last* factor that investors and central bankers want to deal with at a time like this.

This mayhem weighed heavily on markets in November and December, bringing the quarter to an ugly and unprofitable end. The All Share index *declined* 3.0% during the quarter and the MSCI World index *declined* 2.7%. The Emerging Market index gained 3.4%, but this was largely a function of its 11.0% rise in October.

Table 1: MSCI Emerging Market returns (%)

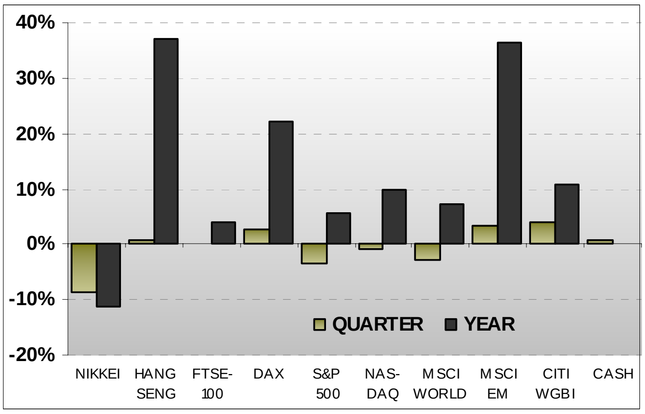
EM countries/regions	2007	Q4	Dec
Peru	86.0	-5.4	-1.7
Brazil	75.3	12.7	2.7
India	71.2	23.2	7.5
Turkey	70.0	5.8	2.9
China	63.1	-3.8	-4.5
Egypt	54.8	24.0	10.1
Czech Rep	51.7	14.9	2.3
Indonesia	50.8	17.5	1.2
LatAm	**46.9**	**6.3**	**1.2**
Malaysia	41.5	11.5	6.0
Thailand	40.9	5.6	2.2
Asia	**38.3**	**0.1**	**-0.6**
Philippines	38.0	7.4	3.9
MSCI EM	**36.5**	**3.4**	**0.3**
Israel	35.8	5.2	4.1
South Korea	30.0	-4.6	-1.6
EMEA	**25.8**	**8.7**	**1.5**
Russia	22.9	17.3	4.5
Poland	22.7	1.7	-2.0
Chile	20.8	-2.0	-1.7
South Africa	14.7	0.7	-4.1
Hungary	13.4	-6.2	1.2
Mexico	9.3	-3.2	-1.1
Taiwan	5.4	-7.7	-1.3
Argentina	-5.4	-11.1	-4.9

Source: Merrill Lynch

Chart 5 summarizes the returns for the quarter and year ended 31 December 2007. It was characterized by the following features:

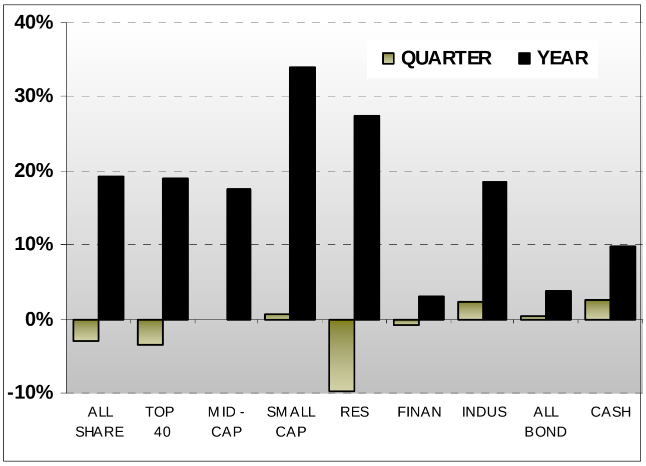
- *A global credit and money market crisis*, the likes of which we have not seen for decades. The credit crisis continues at the time of writing.
- A consequence of the crisis has been the expectation that central banks will need to lower interest rates substantially in order to compensate for the negative effects on the consumer – this resulted in *a 4.1% rise in the global bond market* during the quarter. This large rise brought the bond market return for 2007 to 11.2%.
- The *dollar declined* 2.7% against the euro during the quarter and was weak against other currencies as well. During the quarter it recorded an all-time low against the euro and declined 10.9% against it through all of 2007.
- The weak dollar placed *upward pressure on precious metals, commodity and energy prices*. The oil price flirted with $100 during the quarter (it traded at that level early in January) while gold and platinum rose 12.6% and 11.0% respectively. Their annual gains were 31.8% and 36.9% respectively. As an aside, isn't it ironic that despite the rise in the gold price (to an all-time record in January 2008) the JSE All Gold index declined 20.6% during the year? This underlines Maestro's long-held aversion for gold shares.
- Firmer commodity and energy prices, particular soft commodities (corn, wheat, soyabeans, etc), led to *a significant increase in inflation*. The rise in the latter represents a major obstacle investors will have to overcome in 2008.
- *Increased volatility:* during the quarter global equity markets, give or take a percent, declined 10% twice in the past six months. Apart from these big trends daily movements have become increasingly large and unpredictable.
- All of the above contributed to the *ongoing, subtle shift in the balance of global power*, particularly financial and economic power, from the West to the east (Asia), from developed to developing markets. This phenomenon was evident in the behaviour of Sovereign Wealth Funds (SWFs) during the quarter, many of which came to the rescue of embattled banks through the supply of additional capital. This shift will continue for many years and is further evidence of the "decoupling" process between developed and developing markets.
- Finally, 2007 was *a year of mixed returns for global equity markets*, as can be seen from Chart 5. Apart from the German (Dax) and Hong Kong markets, which posted respectable returns, developed markets fared poorly during the year. The Japanese market declined 11.1%. Emerging markets on the other hand, had another good year – Table 1 on the previous page lists the emerging market returns. The Chinese Shanghai Composite index doubled (it rose 130% in 2006), Hong Kong 37.1% (although not strictly speaking an emerging market, it was influenced largely by developments in Chinese equity markets) and India 46.6%.

Chart 5: Global market returns to 31 December 2007



As for **local market conditions** during the quarter, the factors that weighed on global markets also affected our market. Apart from *rising inflation* and *declining investor sentiment* in the last quarter the SA equity market also had to contend with *rising interest rates* and *political uncertainty* surrounding the battle for power in the ANC. The rand held its own against a weak dollar, rising 0.9% against it during the quarter and 3.2% for all of 2007. The rand gained 1.4% against sterling during the year, but was less robust against the euro, declining 1.8% and 7.0% in the quarter and year respectively.

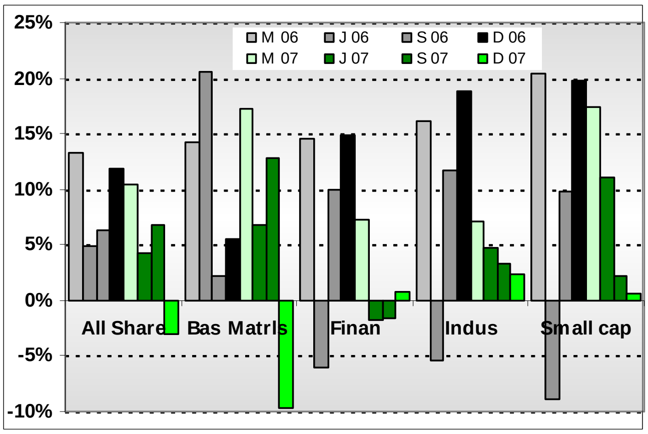
Chart 6: SA market returns to 31 December 2007



The returns for the quarter and year to December are depicted in Chart 6. Two things are immediately apparent from the chart: *firstly* that the annual returns from the SA equity market have, with the exception of the financial index, been quite respectable. The annual returns are in the order of 20%, with the basic materials and small cap indices registering respective returns of 27.5% and 34.0%. The financial index rose only 3.0% during 2007 – testimony to the harshness metered out to financial companies around the world as the credit crisis gained traction. The *second* apparent feature of the chart is just how meagre the returns were during the December quarter. Given the events as I have described them in the section on global markets, this should not come as a surprise. Before taking a closer look at the recent quarterly returns across the major sectors, it is worth pointing out that, unlike the global experience, the SA bond market recorded a return of only 3.8% during 2007; the All share index rose 19.2% over the same period.

It is always instructive, particularly at the end of a year, to review returns of the different sectors that comprise our market. These are shown in Chart 7, which depicts the quarterly returns of the major indices over the past two years. The Top 40 (large cap) returns have been omitted because they are so similar to those of the All share index and for space sake I have omitted the mid cap index returns. I apologise for the "busyness" of the slide; I hope you find it useful. The returns for each index begin with the March 2006 quarter on the left (the grey histogram) and move to the right in chronological order, ending with the December 2007 quarter (the neon green histogram).

Chart 7: Quarterly returns across equity sectors



I am sure you will draw your own conclusions, but I note the following:

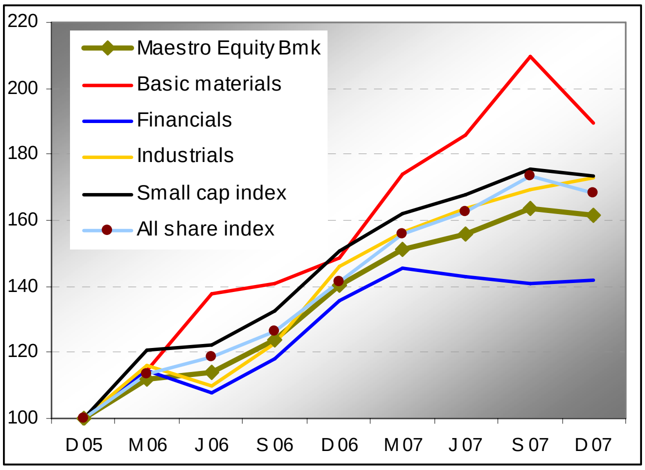
- The All share index produced its first quarterly decline for some time; you have to go back to June 2004 for its previous decline – it fell 4.8% then - and prior to that to March 2003 when the index declined 16.4%.The market has had a great "run" over the past few years and investors should not be surprised to see a pull-back of sorts, irrespective of what may have caused it. Note too that, with the odd exception, the size of quarterly returns has been declining since the December 2006 – this trend is evident across all other sectors.
- As for the basic materials index, it is not only a very profitable area of the market – it has risen 89.4% in absolute terms over the past two years – it is also the most volatile. It is amazing that a single index, that comprises so large a proportion of the overall market, can rise 20% in a quarter (June 2006) and then fall by 10% (December 2007) only a short while later. The Basic materials index has risen by more than 15% in eight of the past 28 quarters and has declined more than 5% in eight quarters over the same period. This volatility sheds some light on Maestro's tendency to underweight this index in long-term (tax-constrained) private client portfolios, particularly when the rand is expected to remain firm.
- With respect to the financial index, note how meagre the returns have been, especially during the last three quarters. Its 2007 return of 3.0% is in stark contrast to the 2006 return of 35.8%.
- The industrial index has been a more consistent sector – note once again the declining size of returns

through 2007, from 18.9% in December 2006 to 2.3% in December 2007. That said, note that it was the most profitable sector during the December 2007 quarter.

- Finally, small caps have been the star of the show. Smaller companies have utilized the dynamic nature of the SA economy to grow and develop rapidly, which is exactly what one would expect in an emerging economy. This is one of the reasons we have a bias in your portfolio towards these shares. The index has risen 93.1% over the last two years and, with the exception of the March 2006 quarter when fear of a sharp slowdown in China threw all markets into disarray, has been a consistently profitable area in which to invest.

Although it is not that apparent from the chart, a close inspection of the quarterly returns reveals how different each return has been in the same quarter. For example, the basic materials index rose 6.9% in the March 2007 quarter while the financial index fell 1.7%. In the December quarter the former index declined 9.7% while the industrial index rose 2.3%. This volatility has increased the implicit risk in the market and made it easy to make the *right* investment decision but to get the execution thereof *wrong*. In other words it has been easy to make mistakes in this kind of market and *very difficult to manage money*. In many cases portfolios under our care are constrained by tax considerations, which assisted us in not "trying to be too clever" in timing entry and exit points in this volatile market.

Chart 8: Cumulative quarterly returns across sectors

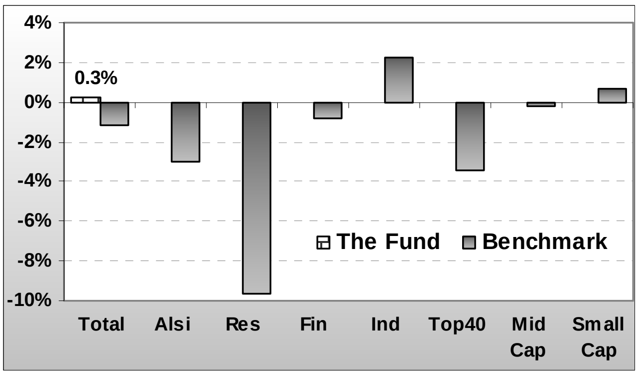


While on the topic of sector returns, it is appropriate to highlight the **Maestro Equity benchmark.** The benchmark, which features in your statement every month, reduces the very heavy weighting of the basic materials sector. It measures a basket that has approximately equal weightings to the basic materials, financial and industrial sectors. Historically, it has been less volatile than the All share index but has yielded similar returns to that index. For that reason, we continue to believe that it is a more appropriate yardstick for long-term investment portfolios such as yours. In Chart 8, I have depicted the respective cumulative returns of the past two years, based to 100 at the beginning of 2006. The chart shows the Maestro benchmark relative to the other major indices illustrates how positive SA equity returns have been over this period and places the weak December 2007 quarter in perspective.

6. <u>The performance of the Fund</u>

The Fund's un-annualised return during the quarter was 0.3%, which can be measured against the return of the Maestro equity benchmark of -1.1%, shown alongside the Fund's return in the "Total" column in Chart 9, and All share index return of -3.0%. Similar to last quarter the resource sector dominated returns during the quarter, with the exception that this quarter the returns were negative (-9.7%) whereas they were positive (12.8%) in the September quarter. Financials were weak, as we have already discussed, and industrials posted a small gain. With the rand up only 0.9% in the quarter, it was not an influential factor during the period. The returns of your largest holdings during the quarter were Digicore 10.2% (up 19.6% last quarter), Grindrod -9.2% (16.9%), Billiton -14.8 % (24.9%), Kumba 26.1% (22.2%) and MTN 22.6% (8.4%). The size of these disparate returns is testimony to just how volatile conditions were during the quarter and how difficult it was to make sense of the equity market

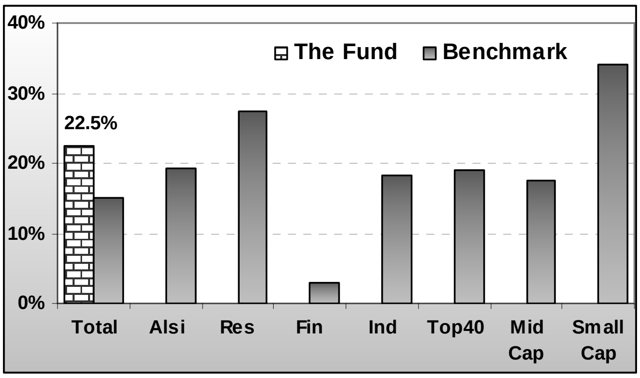
Chart 9: Quarterly returns to 31 December 2007



The annual returns are shown in Chart 10. ***The return of the Fund for the year to 31 December was 22.5%,*** above the inflation rate over this period of 8.4%. This return can be compared to the Maestro equity benchmark return of 15.0% and All Share Index of 19.2%. The returns of the other major indices are shown in the Chart. The Fund's equity return exceeded the returns of the financial and industrial indices, but not those of the basic materials and small cap (not shown on the chart) indices which rose 27.5% and 34.0% respectively. The main detractors from the Fund's returns in 2007 included

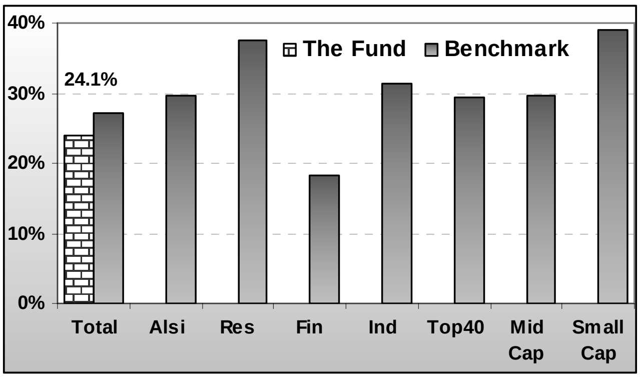
Steinhoff down 21.9% during the year, Mr Price 12.8% and Firstrand 11.0%. The main contributors included Kumba up 156.2%, Digicore 130.4%, Exxaro 84.7%, Billiton 61.0% and MTN 50.1%.

Chart 10: Annual returns to 31 December 2007



As you may be aware if you have been invested in the Fund for more than a year, the Fund struggled to keep up with the rampant market when it was first launched in June 2005. It then had a disappointing June 2006 quarter, when we adopted too conservative a view following the correction in equity markets at that time. The disappointing historic returns are embedded in the annual returns for the 2-year period to 31 December 2007, shown in Chart 11. Despite this fact the Fund's 24.1% annual return over the two year period to end-December is not that far off the 27.1% and 29.8% respective returns of the Maestro equity benchmark and All Share index.

Chart 11: Annual return: 2-year period to 31 Dec 2007



7. What lies in store for investors in the months ahead?

Up to now we have concentrated in this Report on historical events, specifically the environment that prevailed in the December quarter. Although we are not keen to, or for that matter, good at predicting the future – for that is impossible to do – we would be failing in our duty if we did not comment on current events and update you on our view that we shared in some detail in the September Quarterly Report.

At the time of writing, global equity markets have begun the year in traumatic fashion. Prices have declined very sharply and January is shaping up to be one of the worst months for equity markets in years. The All share index has declined more than 10% during January alone. Share prices are between 30% and 40% lower than their peaks reached in October. Many markets have never experienced such a poor start to the year. Some major indices are already down more than 20% from their 2007 peaks; bad news and equity weakness is the order of the day.

Before sharing more thoughts with you I would encourage you to refresh yourself with the views we laid out in the September Quarterly Report; there we presented the case against which we have made our investment decisions. The comment below represents a follow-on from where we left off. In the September Report we made a strong case for the fact that Emerging markets/economies would survive the economic slowdown in the West and developed world, and would indeed sustain global economic growth at reasonable levels. We hinted at our belief that the US economy was heading for or even in a recession – a view that has now become increasingly popular. *It is important to reiterate the fact that this overall view remains our base case*. However, *we have been taken aback by the severity of the decline in equity markets, including the South African equity market*, to levels we believe represent excellent long-term entry (buying) points. However, we have been around long enough to know that *markets can remain under-valued for a long time* (longer than you or I can remain solvent, as John Maynard Keynes famously said). We also appreciate the extent of the nervousness and uncertainty out there, arising from the credit crisis and the deteriorating economic environment.

Table 2: Nominal GDP growth forecasts for 2008 (%)

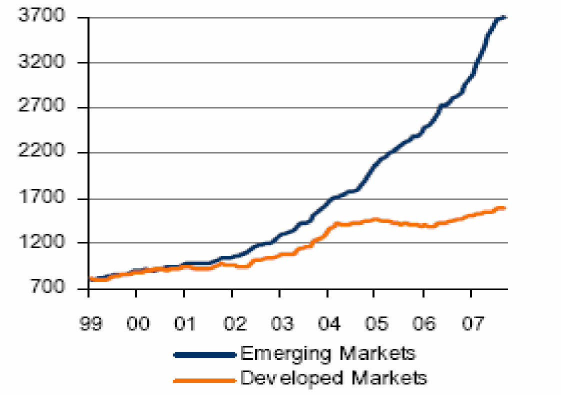
Russia	16.6
China	15.1
India	13.3
Indonesia	12.7
Turkey	12.3
South Africa	11.1
Poland	9.8
Philippines	9.4
Singapore	9.4
Brazil	8.8
Malaysia	8.8
Hong Kong	8.8
Thailand	7.4
Taiwan	7.3
Mexico	6.8
Euro area	4.4
United States	3.9
Japan	1.3

Source: Merrill Lynch

Without wanting to take up too much of your time, we would *firstly* like to substantiate our view that Emerging markets will support the global economy through this downturn and *secondly* update our list of risks prevalent in the present environment.

Firstly then, we reiterate our awareness of the slowing US economy. While the Eurozone is holding up better than the US, it is clear that their economic conditions are also deteriorating. However, we retain our "de-coupling" view, whereby the emerging economies have largely decoupled from developed ones – please refer to the September Report, where we presented evidence for this view. That said we are not naïve; we are conscious of the fact that emerging markets *will* be affected by the developed world slowdown. Our view is simply that the slowdown will not affect emerging markets *that much*. As developed economies slow, growth in emerging markets will become even more important – refer to Table 2 for estimates of *nominal* (before inflation) economic growth, from which the importance of emerging economies is readily apparent. More than 80% of all growth expected this year will emanate from emerging markets. Those economies remain in better shape than their developed counterparts; most are creditor nations unlike the developed economies which are heavily indebted. Emerging markets have over the past few years built up substantial reserves, way above those of the developed world – refer to Chart 12 in this regard.

Chart 13: Surging emerging market forex reserves ($bn)



Source: Merrill Lynch

The positive drivers of the case for emerging markets remain the boom in China, the ongoing demand for commodities and the declining value of the dollar. None of these major trends are, in our opinion, near an end. Moreover, emerging (equity) market valuations remain reasonable. True, they have been substantially re-rated since 2002 when they traded at less than half the ratings of developed markets to the point where they now trade at parity to the latter – refer to Chart 14. But given the rosier growth prospects and prevailing fundamentals in most of these economies, one could argue that their *relative* valuations have scope to rise further.

Chart 14: Relative PE of emerging vs. developed markets

Source: Merrill Lynch

Where does all of this leave South Africa? The fact that we concentrate so much on emerging markets in our research is because the South African economy and market fall comfortably within the emerging market basket. There are a few differences – the fact that SA has a large current account *deficit* as opposed to most emerging economies' surpluses being the most obvious one – but what is true in general, if not extent, for emerging markets is true for SA. Our positive view of global emerging markets can therefore be extrapolated to South Africa – we will get to specific risks later in this Report. We remain positive on the SA economy, although our economic growth rate will be retarded by the 4% increase in interest rates in the past two years. Infra-structural spending and favourable fiscal policies should provide sufficient momentum to keep us track for a year of reasonable economic growth. That is important, for without that growth corporate earnings in South Africa will come under pressure, which in turn will undermine share prices even further. If there is one thing that could lend support to the current downward spiral in share prices, it is evidence of ongoing corporate health and well-being.

We think the current start to the year has provided a good base off which to post reasonable equity returns for the year in general. Similar to other emerging markets, we expect the returns from the local equity market to be positive but lower than the recent record level of returns experienced over the past five years. **Please build this into your expectations for equity returns over the next few years**. We are emerging from an extremely favourable investment environment, which is unlikely to be repeated for many years. No matter *how* good the overall "economic story" is – and we think it is still a good one – *returns from the SA equity market are likely to be lower than they have been in the past three to five years*. In previous Quarterly Reports we have consistently alerted you to this possibility – it is now coming to fruition. Moreover the behaviour of equity markets is likely to be *more volatile.* We have seen unprecedented market volatility over the past few months – making our life at Maestro miserable and difficult – but it is likely to get worse still. Notwithstanding these two important considerations (returns and volatility) we remain of the view that equity markets will provide the best return during 2008 and consequently should form the major portion of any long-term investment portfolio.

Finally, may I briefly review the major risks to both our view and the markets in general, at least as we see them?

- *Rising inflation*: by now you would have seen our concern about rising global inflation, particularly rising food inflation expressed in the January edition of *Intermezzo*. In the current investment environment, the last thing the world needs is a reason preventing central bankers from easing interest rates. Yet that is the situation that may well unfold later this year. Soft commodities, such as corn, wheat, soyabeans and palm oil are at record levels and there is little to suggest prices will ease soon. We are monitoring the rising price levels and regard this aspect as a serious risk to our expectations of ongoing global economic growth
- *A US recession deeper and longer than expected* – we think the US economy is slowing more than authorities there seem to realize. The downturn is being adversely affected by the unwinding of the unprecedented levels of debt and leverage built up over the past five years. Despite that, we think the recession – assuming one does occur – will be relatively mild and short-lived. If this turns out to be incorrect, we may have to revise our expectation for ongoing global economic health. A lot will depend on how the Federal Reserve, with a new and inexperienced Governor at its helm, will handle the economy in the next six or so months.
- *Slower emerging market growth* – if the US economy slows down more than expected and, worse still, if the UK and Euroland economies growth deteriorates more than expected or perhaps even joins the US in recession, there is no doubt that even emerging markets will struggle to bear a burden that large. In that case, the investment world will be a dire place indeed. We will watch closely for any sign of a slowdown in the growth of the developing economies. To place this risk in a different light, everyone is worried about the US slowing at present – but imagine what would happen if the Chinese or Indian economies slowed? That must pose one of the largest risks to the world right now – fortunately we don't for a moment think that will occur in the next year or two.
- *Stalled (SA) corporate earnings* – I indicated earlier that a season of good corporate reports from SA companies should provide support for the current very weak market. Earnings, we know, ultimately drive share prices, notwithstanding the temporary effects of negative sentiment. We are of the humble opinion that, in general, South Africa is still a profitable environment in which to operate, barring the obvious sectors such as retailers that have been adversely affected by higher interest rates. Earnings are likely to slow a bit, but we still expect good growth from the bulk of the companies in which we have invested your assets, and to that end we have reason to expect ongoing reasonable returns from your equity portfolio for the year ahead. We would go as far as saying that the current decline in prices has been overdone. There is great value in the market at present in many companies. For example, Firstrand is on a forward dividend yield in excess of 7%, Investec 8%, Abil 9%. Grindrod is on a PE ratio close to 6 times, Steinhoff 8 times, Mr Price 9, Billiton just below 10 - many babies are being thrown out with the bathwater in the current down turn. Our views will be proved correct only if we see strong earnings growth, strong cash flow and clear earnings visibility in the next round of company reporting.
- *Political uncertainty in SA* – I shared some thoughts on the recent changes in the SA political scene in the January edition of *Intermezzo*. Suffice is to say that SA is in a period of transition. To the extent that such periods are inherently uncertain, we face a nervous couple of months. We are disturbed to see political infighting taking place through institutions of the state - the SA Police Service versus the National Prosecution Authorities and the Scorpions, for example. Living on a continent characterized by a lack of credible governance, the damage to South Africa's hard-earned credibility by the prosecution of the head of the police, or the charging of a former deputy President and leader of the ANC, must not be underestimated. Coming as it does when global investors are spoilt for choice, will hardly earn us many friends, let alone secure the foreign capital we need to continue our current growth path.
- *The rand* – this factor is closely associated with the previous one. We don't view the rand as a major risk at present, but we are frequently asked for our view on the currency, so will table it here explicitly for the record: we expect the rand to decline marginally between now and the end of the year. But we would not be surprised if the rand remains relatively firm, bearing in mind that we expect the dollar to weaken for some time yet. The rand will be supported by our high level of interest rates although we acknowledge that if the global environment becomes more risky, the rand is likely to weaken faster as a general retraction of risk takes place.

- *Eskom*. We are no different from most other South Africans, at least in this respect: we are growing increasingly frustrated and intolerant of the costly and disruptive inability of Eskom to provide a secure source of electricity, and even more so of the fact that no one in government or Eskom itself is prepared to stand up and take responsibility for this massive dereliction of duty and the untold harm it is doing internally and externally in terms of deferred investment and lost opportunity. Sadly, even if they did it would hardly ameliorate the situation in the short-term. But it remains a terrible failure on the part of the authorities and one which is not only costing all of South Africa an enormous amount but will soon, we believe, be the source of increasing social unhappiness. Such discontent, no matter how justified, cannot be good for a country as "young" as ours, where we are at the threshold of building credibility of state institutions and respect for authority and the law. Simply put we do not need new or additional reasons for being seen as, or feeling like, the proverbial "Banana Republic". Eskom and government's attitude and inaction is not making the situation any easier.

Of course there are more risks that could and will affect the global investment environment in general and the SA one in particular. We will do our best to scan the horizon for them, knowing full well that the greatest and most influential risks are often those that "come from behind."

8. Closing remarks

We are very conscious, sending out this Report in the midst of huge turmoil in global and local equity markets, of the increased degree of risk in the environment at present. It is not the first such occasion and neither will it be the last, which does not detract from its importance or influence. We will nevertheless continue to manage your assets to the best of our abilities, in the knowledge that, notwithstanding similar previous occasions, in the long-term *equity investment remains the most profitable avenue of investment of all the traditional asset classes.*

Please feel free at any stage to contact either David or I about your portfolio. We remain at your disposal at all times. We also take this opportunity of expressing our gratitude for your business and the confidence you continue to place it our ability to look after your assets. We look forward to being of further service to you throughout the remainder of the year.

Andre Joubert
21 January 2008