MAESTRO
Balanced Fund

PRESCIENT
LIFE LIMITED

INVESTMENT OBJECTIVE
The Fund's objective is to produce above-average long-term returns whilst assuming less risk than inherent in the market itself. The Fund is balanced across multiple asset classes and is subject to the restrictions of Regulation 28 of the Pensions Funds. Although the Fund adopts a conservative investment philosophy, the exposure to equities will be less than that of the Maestro Growth Fund and more than the Maestro Cautious Fund.

FUND BENCHMARK (BMK)
The Fund will measure itself against a benchmark consisting of 50% All share Index, 20% All bond Index (ALBI), 20% Short term fixed income (STEFI) index and a 10% global benchmark.

LEGAL STRUCTURE
The Fund is a pooled portfolio on the Prescient Life Limited balance sheet. The appointed portfolio manager of the Fund is Maestro Investment Management (Pty) Limited, an approved Financial Services Provider in terms of the Financial Advisory and Intermediary Services Act, operating under licence number 739. Prescient Life Limited is a linked insurer governed by the Long Term Insurance Act. Prescient Life Limited issues investment linked policies. This Fund operates as a white label under the Prescient Life Licence.

FEE STRUCTURE
The annual investment management fee is 1.5%. The fee is inclusive of all underlying managers' fees, platform and administrative fees. In the case where the Fund is accessed and used as a Preservation Fund or Retirement Annuity an additional fee of 0.2% per annum is charged by Prescient.

FUND SIZE: R 16 497 421

LONG TERM INSURER
Prescient Life Limited
(Reg no: 2004/014436/06)

AUDITOR
KPMG Inc.

PORTFOLIO MANAGER
Maestro Investment Management (Pty) Ltd
(Reg no: 2000/028796/07)

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The Maestro Balanced Fund

Quarterly report for the period ended

30 September 2013

1. Introduction

This Report focuses on the investment activities of the Maestro Balanced Fund during the recent past although it should be read in conjunction with previous editions of *Intermezzo*, wherein we documented some of the salient events in recent months. I also refer you to the *Market commentary – September 2013* report wherein we discuss in detail the market activity during the quarter.

2. The investment position of the Fund

The Fund's asset allocation is shown in Chart 1. Exposure to the equity market totalled 52.0% of the Fund, slightly down from 52.5% at the end of June. Bond exposure decreased from 9.4% to 10.0% and offshore exposure also increased from 16.2% to 19.6%. Cash represented 15.0% of the Fund, significantly down from June's position of 21.9%. Property exposure was introduced into the fund at 3.0%.

Chart 1: Asset allocation at 30 September 2013

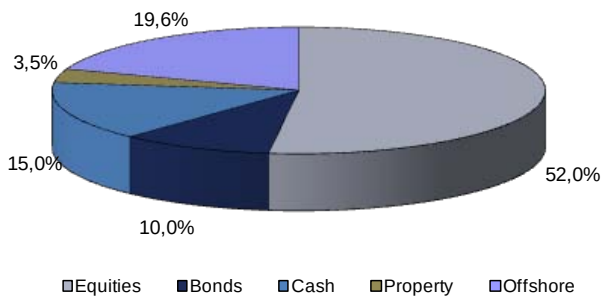
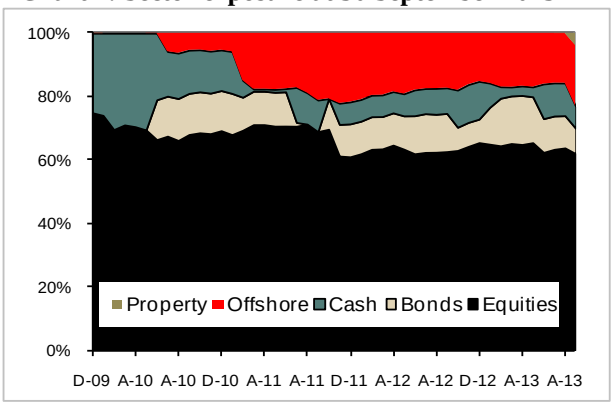


Chart 2 depicts the historical allocation to the major asset classes, expressed as a percentage of the total Fund.

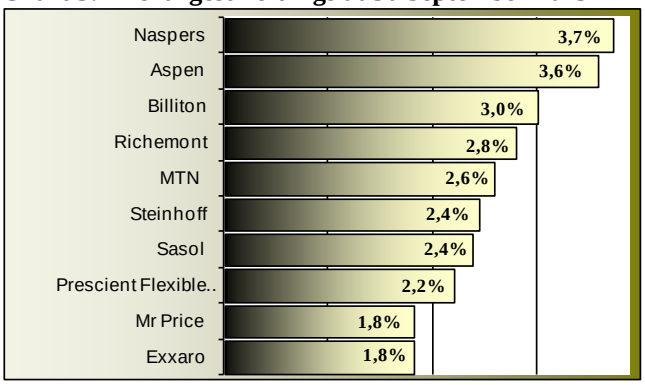
Chart 2: Sector exposure at 30 September 2013



3. The largest equity holdings

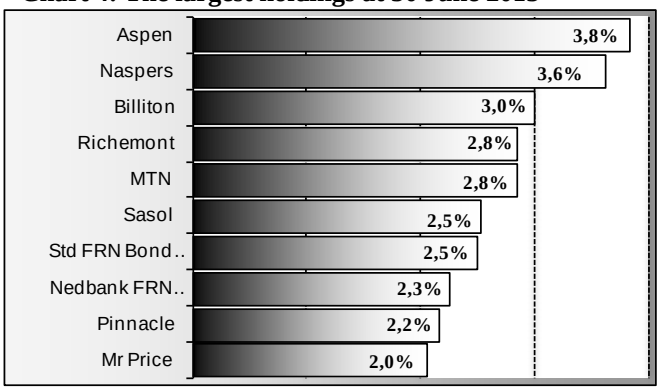
The largest holdings at 30 September are listed in Chart 3 expressed as a percentage of the Fund's equity portfolio.

Chart 3: The largest holdings at 30 September 2013



The largest holdings at the end of June are listed in Chart 4. During the quarter Steinhoff, Prescient Flexible Income and Exxaro replaced Std FRN bond, Nedbank FRN bond and Pinnacle in the largest holdings. At the end of September there were 31 counters in the equity component of the Fund, one less than at the end of June. The ten largest holdings constituted 26.4% of the Fund marginally down from 27.6% in June.

Chart 4: The largest holdings at 30 June 2013



4. Recent activity on the Fund

The investment objective on this Fund is to *achieve long-term growth through the assumption of moderate risk.* We would emphasise the "long-term" aspect of this objective; we are confident that the companies in which the Fund is invested will deliver long-term capital growth together with a steady increase in dividends over time.

The Fund has been designed in accordance with the rules and regulations that govern Regulation 28 of the Pensions Fund Act. It is not open to the retail public and can only be accessed through a company's Provident/Pension Fund or by individuals who have preservation money or wish to either transfer or purchase a Retirement Annuity (RA). These RA's can then be converted into living annuities when the time arises.

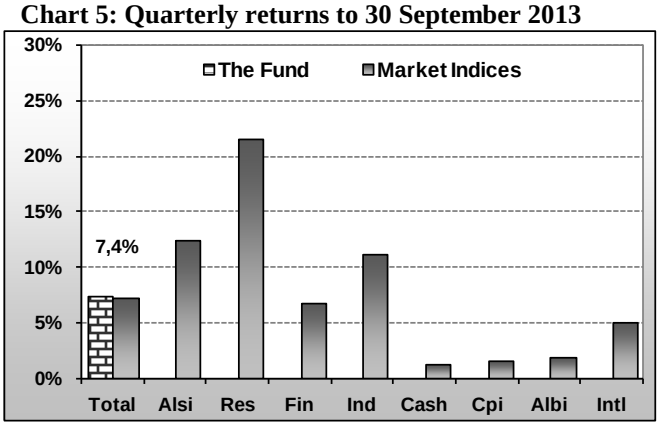
The salient features of the third quarter are discussed throughout the document. Before we focus on the returns of the Maestro Growth Fund it is appropriate to isolate from an asset allocation point of view what took place.

We are still of the opinion that domestic equities are the asset class of choice over the medium to long term. The Balanced Fund's exposure to equities slightly decreased 0.6% during the third quarter of 2013. The cash component also decreased by 6.9% while the offshore and bonds components increased by 3.4% and 0.6% respectively.

5. The performance of the Fund

Chart 5 depicts the returns for the quarter against the major indices. ***The un-annualised return on the Fund during the September quarter was 7.4%%*** which can be compared to the Maestro Balanced Fund benchmark of 7.3%**.** I encourage you to read the commentary on the market movements during the quarter in the document entitled *Market commentary –September 2013*.

Chart 5: Quarterly returns to 30 September 2013



The international component produced a rand return of 6.5% and also increased 5.1% in dollar terms. The rand declined 1.4% during the quarter**.** ***The Fund's quarterly equity return of 11.5%*** can be compared to the All share index returns of 12.5%. We commented extensively in recent letters and *Intermezzo* about the state of the markets during the past few months and refer you to those publications to refresh your memory about the salient features of this period; you can find back copies of *Intermezzo* by clicking here.

The third quarter of 2013 was very different from the previous two quarters. Markets, in general, were strong and moved higher with the news from the US Federal Reserve (the Fed) that tapering of Quantitative Easing (QE) would only take place if the macroeconomic environment was sufficiently conducive. This news drove markets strongly higher in the first month of the third quarter. They then subsequently took a breather in

August but continued upwards in September. The momentum into the latter part of the quarter was supported by the Fed announcing no change to monetary policy i.e. QE.

Basic materials experienced two weak quarters at the beginning of 2013, but rose strongly during the third quarter of the year. Reflecting back briefly, the June quarter was similar to the March one, in that the basic materials sector was very weak and the financial and industrial indices stronger. For the record, basic materials had declined 7.3% in the March quarter, and by 13.8% in the June quarter. At that point in time the sector had *declined* 20.1% year-to-date. The third quarter of the year saw resources rise 21.6%, bringing the year-to-date return to -2.8% and the annual return to 5.6%. It remains to be seen if these gains can be maintained.

In contrast, the industrial and financial index "only" rose 11.3% and 6.9% respectively during the September quarter. However, this needs to be seen in the context of the year-to-date returns of 26.5% and 11.4%.What is not evident from Chart 5 is the performance of companies based on their size. Small cap companies comfortably outperformed their mid-cap counterparts for the second quarter in a row. The mid cap index rose 4.8% while the small cap index gained 12.0%.

We are still of the view that the basic material sector will remain vulnerable for some time to come. Despite its spectacular rise this quarter it is still plagued by slow global economic growth and the continued mayhem in the SA mining industry. This has led us to reduce the Fund's already-underweight resource exposure. This may have cost the Trust some relative performance in the short term, but this needs to be seen in the context of its overweight position in industrial shares, which rose in line with the broader market during the quarter.

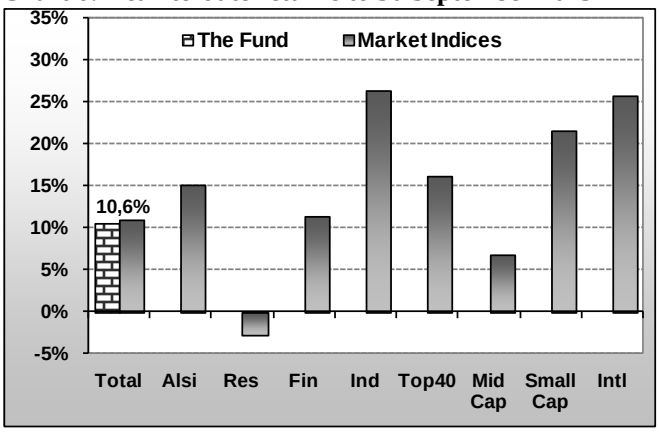
The shares that drove the market higher during the quarter included Amplats, which rose 47.9%, Telkom 47.2%, Mondi 37.6%, Implats 33.2% and Rainbow Minerals 31.6%. None of these are held by the Trust, for very specific reasons.

Let us look at the September quarterly returns of some of the Fund's investments. The quarterly returns, excluding dividends, of some of the largest holdings in the portfolio were as follows: Naspers rose 27.2% (it rose 27.4% in the June quarter), Aspen 15.7% (18.9%), Billiton17.0% (-5.8%), Richemont 14.7% (21.50%), MTN 6.5% (13.9%), Steinhoff 45.8% (-2.0%), Sasol 11.0% (5.9%), Mr Price 3.2% (15.1%) and Exxaro 13.0% (-10.9%).

It is dangerous to read too much into the short-term returns of the Trust's portfolio. When selecting investments on the Trust's behalf we ensure that the long-term prospects of the companies are sound and that their management has the ability to deliver on their stated objectives. I would therefore encourage you to focus on the longer-dated returns when drawing any conclusions.

Chart 6 depicts the year to date returns to September 2013. ***The un-annualised return on the total Fund for the year to September was 10.6%***. The Fund's benchmark returned 11.1% for the period under review.

Chart 6: Year-to-date returns to 30 September 2013



Inflation rose 4.6% over the year and the All bond index rose 0.5%. ***The Fund's international component produced a rand return of -6.5%***. The rand declined 15.7% against the dollar during the year.

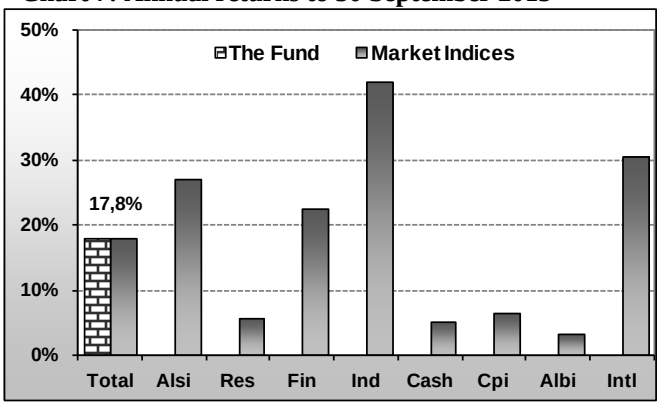
I refer you to the *Market Commentary – September 2013* document again. In it we have devoted a large section to analysing the remarkable quarter and year-to-date behaviour of the SA equity market. We are living in remarkable times, indeed – you will appreciate just how remarkable when you consider these returns in more detail, as set out in the *Market Commentary*.

Note the large discrepancy between the year-to-date returns of the basic material sector and the industrial sector. It's worth pausing for a second and taking a look at Chart 7 above to view this graphically.

Some of the shares that have been responsible for the divergence in returns since the start of the year are; Naspers, which rose 70.9%, Grindrod 57.2%, Aspen 55.5%, Richemont 51.8% and Medi-Clinic 35.4%. The shares that are partly responsible for the basic materials underperforming are as follows: Harmony and Anglogold declined 53.2% and 48.8% respectively. Implats fell 26.1% and Kumba Iron Ore 18.4% .You are well aware that Maestro has never invested in a gold share in the Trust, which has worked out well for the portfolio.

The annual returns to September are shown in Chart 7. ***The annual return of the total Fund for the year to September was 17.8%***. Inflation rose 6.4% over the year and the All bond index rose 3.2%.***The annual return on its equity component was 26.7%*** versus the All share index returns of 27.0%. The underweight position in basic materials, relative to the All share index, assisted the portfolio's returns over the past year.

Chart 7: Annual returns to 30 September 2013

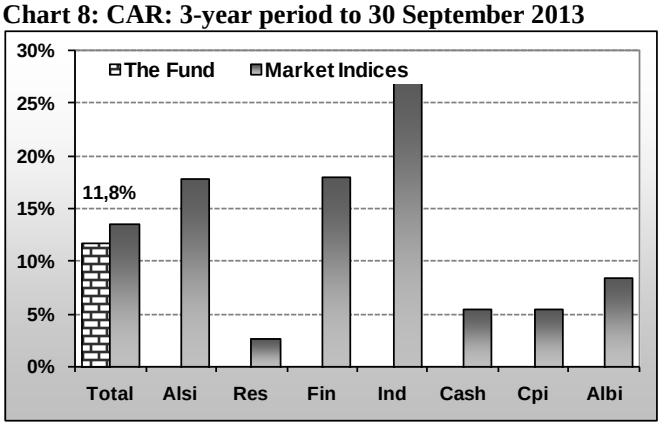


The drivers of our local industrial index have been Richemont, which rose 101.6% during the past year, Naspers 80.3%, SABMiller 41.9% and MTN 22.3%. When one considers the extent of their annual returns it is easy to understand why the industrial index has performed the way it has. What is even more remarkable is that these companies are amongst the six largest companies on the market. Not shown in the chart are the annual returns of large, mid and small cap indices, which rose 29.0%, 15.2% and 31.3% respectively.

In our typical private client equity portfolio, companies that exceeded our expectations in terms of annual returns included Steinhoff, which rose 37.1%, Grindrod 75.5%, Naspers 80.3%, Medi-Clinic 81.2%, EOH 83.0%, Aspen 83.7%, Richemont 101.6% and Coronation 121.3%. This list confirms that despite all the doom and gloom we have to wade through daily in the media, the SA equity market still holds numerous wonderful opportunities for investors, provided their assets are carefully nurtured and cautiously managed by investment professionals.

The compound annual return (CAR) of the Fund, shown in Chart 8, ***over the three-year period to September 2013 was 12.6%*** while the equity component returned 15.4% % which can be compared to the All Share Index return over the same period of 18.1%. It is clear from Chart 9 which sectors drove the market higher over the past three years and it is quite remarkable that the basic material sector only registered a return of 2.8% *per annum* over this period. Across the market cap spectrum, the large cap index managed to maintain pace with the mid and small cap indices, largely thanks to the industrial shares. The three-year compound annual returns of the large, mid and small cap indices are18.1%, 15.8% and 21.4% respectively. The respective compound annual returns for the All Bond index and cash over this period were 8.5% and 5.6% respectively.

Chart 8: CAR: 3-year period to 30 September 2013



6. International component of the Fund

The activities of Central Park Global Balanced Fund are communicated via monthly Fund Summaries as are the positioning and performance of its portfolio. I suggest you use the Central Park Quarterly Report as the primary document for the evaluation of Central Park's return as it is unaffected by timing and currency distortions. The returns to end-September of the Fund's international component, in rand terms, are listed in Chart 9 and the *same* returns in dollar terms are listed in Chart 10. Bear in mind that the benchmark against which Central Park measures itself is a demanding one; it includes a 20% hedge fund weighting, which most of Central Park's peers do not include. Although global markets in general have been volatile during the past decade, hedge fund indices have been less volatile, which has supported the benchmark returns during most periods. This is worth bearing in mind when analysing the long-term returns shown in the charts.

Following a disappointing second quarter for Central Park that was dominated by the write-down in the Porton Fund, which we commented on extensively in the monthly Fund Summary, the Fund rebounded in the September quarter. There were several reasons for the Fund's strength during the quarter, the most significant of which was the performance of the equity component of the Fund. You will recall that concerns about the Fed scaling back its asset purchase program towards the latter part of the June quarter weighed heavily on equities, particularly those in emerging markets, which is where Central Park's equities were largely invested. With the Fed back tracking on their earlier intentions to withdraw excess liquidity in the market, emerging market equities rallied, which resulted in the equity component of the Fund gaining 7.8% during the quarter in dollars.

The second and less obvious reason behind Central Park's good showing in the September quarter lies in the underlying currencies the Fund invests in. You will be aware that though Central Park is a dollar denominated Fund (it reports in dollars), less than half (46.9%) of the Fund is actually invested in dollar denominated assets. 21.2% is invested in sterling, 14.3% in Swiss franc, 9.4% in euros and 8.2% is invested in rand assets. With the dollar being weak relative to the euro, franc and sterling during the September quarter, it enhanced the Fund's reported dollar return. The final driver of the Fund's returns during the quarter was the hedge Fund component. Bristol International, which constitutes 6.6% of the Fund, rose 2.2% during the quarter, which was a significant contribution to the Fund bearing in mind that the hedge Fund benchmark gained only 0.3%.

Chart 9: Global rand returns to 30 September 2013

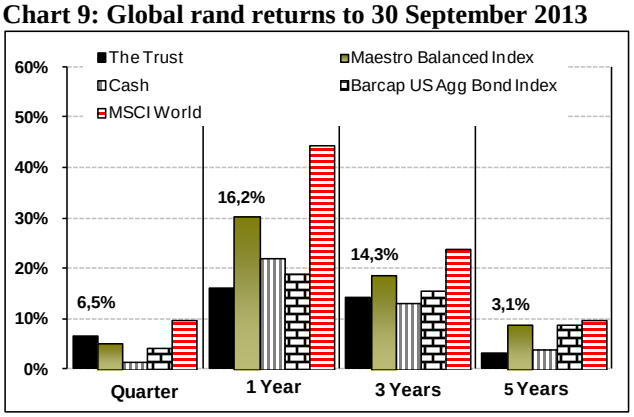
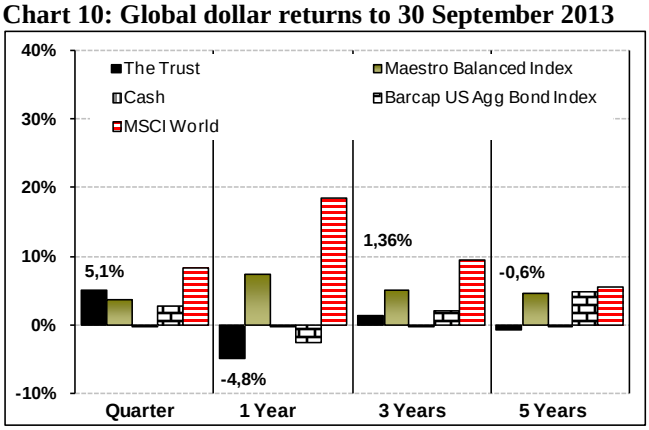


Chart 9 and 10 show that Central Park rose 6.5% in rand terms during the September quarter and 5.0% in dollar terms. The rand, which declined 1.4% during the quarter, proved supportive of local rand returns. The trend of higher rand relative to the dollar returns can be seen in Chart 9 and 10 over the past 5 years and vindicates the decision by local investors to diversify their investments out of the South African market to benefit from a weakening local currency.

Chart 10: Global dollar returns to 30 September 2013



7. Closing remarks

Many developed markets are at all-time record levels but this does not necessarily mean that all is well in the global economy.

We remain of the opinion that the US economy will slow and there is a real risk that the Chinese economy will not grow as strongly as many think. We continue to be mindful of the many potential pitfalls that we may need to negotiate and while we cannot prevent or avoid them, we will fashion the portfolio accordingly, CGT permitting of course.

We will once again reiterate our thoughts on bonds, which are less relevant to individual investors than to retirement funds. We are of the view that we have seen the best returns from the bond market for many years to come. The US Federal Reserve has signalled the end of "easy and plentiful money" and the 30-year bull market in US bonds is now past. Buying into the prevailing low yields of developed bond markets makes no sense whatsoever. Owning low yielding bonds now that the Fed has signalled the end of Quantitative Easing is a losing proposition. Another concerning fact remains; once the Fed steps back and stops buying US government bonds, who will be the marginal buyer of the asset that will surely decline in value over the short to medium-term. What is also of concern is that it remains highly likely over time that China and Japan will naturally diversify out of US government bonds in favour of other sovereign debt. Not to alarm you, but keep in mind that 43% of all US debt is owned by China and Japan. It cannot be comfortable being in their position and watching your creditors debate whether they will raise the debt ceiling in order for you to get repaid. Rising bond yields will ultimately put pressure on countries' borrowing costs, which will eventually feed through into the real economy. This will then affect the prospects and outlook for equities. We are, however, of the view that this is still some way off. For the time

being we continue to be cautiously optimistic in our outlook for equities.

All that remains is for me to thank you, on behalf of the whole Maestro team, for your ongoing support and the confidence you have displayed in our abilities. As usual, we are here to be of assistance to you, so please do not hesitate to call on me if ever you wish to discuss anything about your portfolio in further detail.

David Pfaff
On behalf of the Maestro team
15 November 2013