MAESTRO
Equity Fund

PRESCIENT
MANAGEMENT COMPANY

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 Management, 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 Fund 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% and the annual investment management fee is 1.75%. The *annual* total expense ratio (TER) for the past year in respect of class A was 2.30%.

FUND SIZE: R29 741 376

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

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

PORTFOLIO MANAGER
Maestro Investment Management (Pty) Ltd

ENQUIRIES
Maestro Investment Management
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CAPE TOWN
8000

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The Maestro Equity Fund

Quarterly report for the period ended

31 March 2010

1. Introduction

In this Report we comment on the Fund-specific details and analyze the investment returns over time. Appendix A provides a summary of the market activity during the March quarter. I refer you to the *Market Commentary* document published last month. It has a relatively long shelf-life i.e. the views expressed in it are still valid and I encourage you to read this Quarterly Report in conjunction with that document. It contains the background to the investment environment against which the returns are measured. This Report focuses on the investment activities of the Maestro Equity Fund during the past quarter but it should be read in conjunction with recent editions of *Intermezzo*, wherein we documented some of the salient events during recent months.

2. The investment position of the Fund

The Fund's sector allocation is shown in Chart 1. Exposure to the resource sector totalled 23.2% of the Fund, down from 24.2% in December. Financial exposure rose 3.3% to 13.8% and industrial exposure declined 8.0% to 52.3%. Cash represented 10.7% of the Fund, up from 5.0% at the end of December.

Chart 1: Asset allocation at 31 March 2010

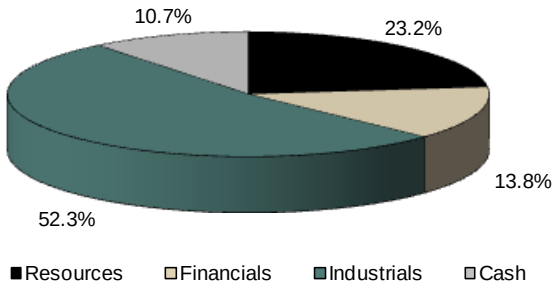
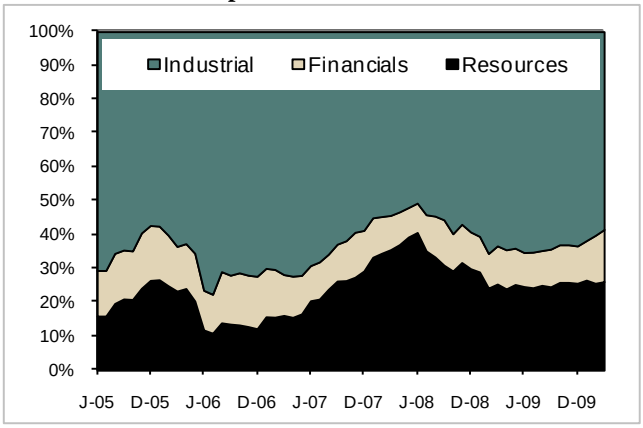


Chart 2 depicts the historical allocation to the three major sectors of the equity market, expressed as a percentage of the equity portion of the Fund.

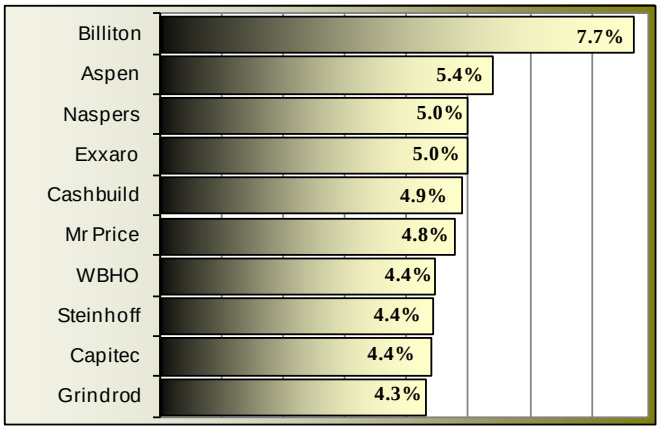
Chart 2: Sector exposure at 31 March 2010



3. The largest equity holdings

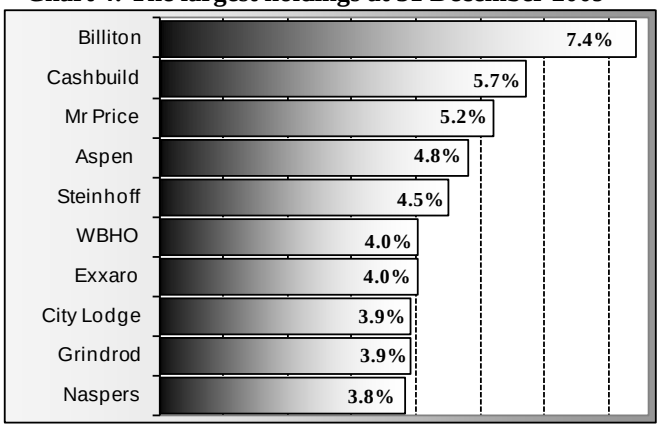
The largest holdings at 31 March are listed in Chart 3, expressed as a percentage of the equity portfolio.

Chart 3: The largest holdings at 31 March 2010



The largest holdings at the end of December are listed in Chart 4. During the quarter Capitec displaced City Lodge in the largest holdings. At the end of March there were 29 counters in the Fund, versus 31 in December, the ten largest of which constituted 50.2% of the Fund, up from 47.2% in December.

Chart 4: The largest holdings at 31 December 2009



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.

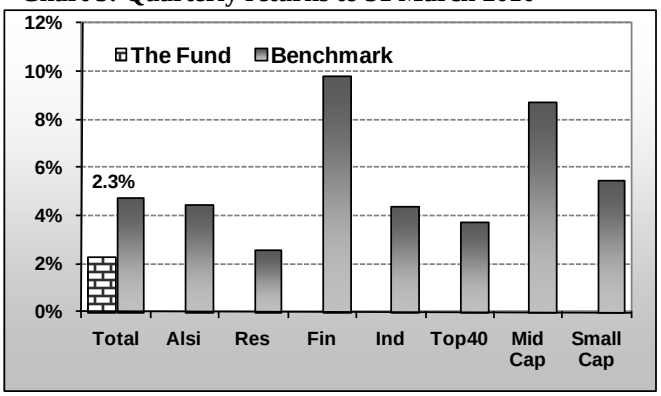
In seeking the best value in the equity market the composition of the Fund's portfolio may differ significantly from that of the All share index. This can lead to periods of short-term underperformance, such as that which the Fund experienced during 2009. However, we remain confident that our approach will eventually lead to longer-term outperformance. This has been our experience since Maestro's inception and we see no reason to believe it will not continue into the future.

During the quarter Standard Bank and Kumba Iron Ore were introduced into the Fund. We also committed more cash to the market by increasing the existing holdings of Abil, Arcelor Mittal, Blue Label Telecoms, Capitec, Grindrod, MTN and Naspers. The holdings in Billiton, Mr Price and Steinhoff were reduced. The entire holdings in Dawn, Jasco and Merafe were sold out of the fund.

5. The performance of the Fund

Chart 5 depicts the quarterly performance of the Fund and the returns of the major indices. By now you should be familiar with what happened in the local equity market; we covered it extensively in the monthly Fund Summaries.

Chart 5: Quarterly returns to 31 March 2010



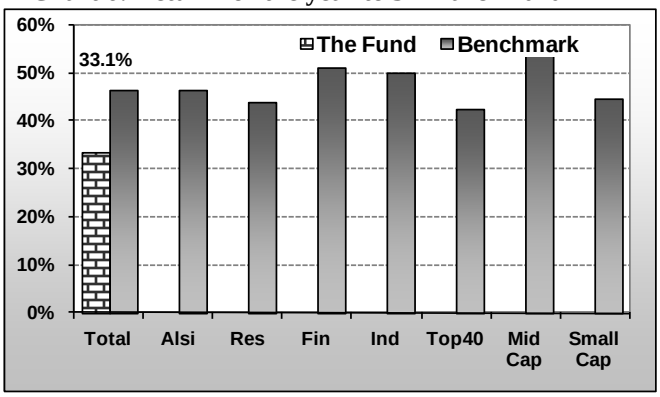
The Fund's equity return of 2.3% was below the Maestro equity benchmark and All share index returns of 4.8% and 4.5% respectively. The 9.9% return from the financial sector was impressive but needs to be seen in light of that sector's poor relative performance during the December quarter. The rand rose 0.3% during the March quarter; its effect on the basic material sector was thus negligible. The mid and small cap indices rose 8.7% and 5.5% respectively.

The quarterly returns of the Fund's largest holdings were as follows: Billiton rose 6.3% (16.1%), Aspen 8.1% (19.0%), Naspers 5.5% (14.5%), Exxaro 20.5% (16.1%), Cashbuild -0.7% (-0.9%), Mr Price rose 13.7% (2.9%), WBHO 10.3% (-14.8%) and Steinhoff -3.7% (25.9%).

The annual returns for the year to end-March are shown in Chart 6. Before reporting the actual annual returns, allow me to point out that March 2009 was the month in which the market reached its trough during the global credit crisis, which incidentally, I see is being referred to as the "Great Recession" in the media. This means the annual returns to March represent gains in share prices from their *lowest* point. I would humbly suggest that this distorts the market returns somewhat i.e. *you shouldn't regard the* size *of these returns as normal.*

The return of the total Fund for the year to March was 33.1%. This can be compared to the Maestro equity benchmark return of 46.3% and the All Share Index's 44.1%. The basic materials index rose 40.8% despite the 29.5% gain in the rand against the dollar. Financials, which suffered the most in the bear market to March 2009, rose 51.3% and industrials 50.2%. The respective annual returns of the mid and small cap indices were 54.4% and 44.6%. I am sure you will agree that these returns are extraordinary and unsustainable. The main detractors from the Fund during the year were Digicore, which gained 0.0% i.e. it ended March 2010 at the same price as it ended March 2009. MTN rose only 6.7% and Cashbuild 9.5%. Investments that delivered the best returns in the past year included Steinhoff up 98.2%, Exxaro 81.8%, Firstrand 67.5%, Mr Price 64.1% and Investec 60.8%. These gains *exclude* dividends received from these companies, so the total returns were in fact even greater.

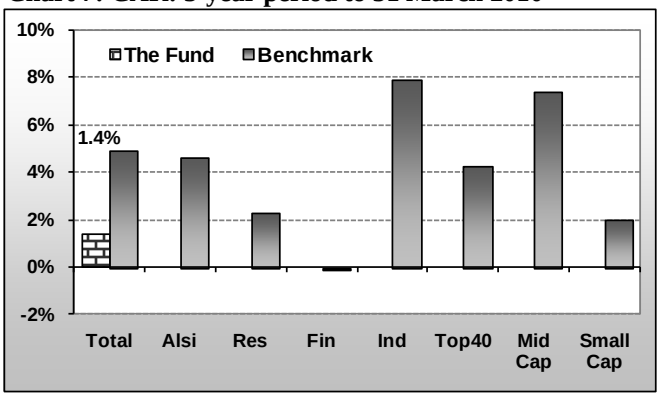
Chart 6: Return for the year to 31 March 2010



Last quarter I spent some time explaining why the returns lagged those of the market in the year to December 2009. I refer you again to the comments, contained in the Fund's December 2009 Quarter Report, as they cover nine months (March – December 2009) of the annual returns to March 2010. Our *relative* returns improved somewhat during March (*absolute* returns increased dramatically, but so too did those of the market, thanks to the low base off which they are being measured) although they are still not up to our own high standard.

That said, we have confidence in the investments in the Fund and are of the humble opinion that they will produce respectable returns during the next three years, which is the time horizon we are adopting internally, given the distortions created by the huge market movements, up and down, during the past five years.

Chart 7: CAR: 3-year period to 31 March 2010



The compound annual return (CAR) of the Fund over the three-year period to March 2010, shown in Chart 7 ***was 1.4% per annum*** and can be compared to the returns over the same period of the Maestro equity benchmark of 4.9% and the All Share Index's 4.6%. It is worth considering that this three-year period covers the worst financial crisis in history; it is remarkable that the returns are even positive. A hint of the trauma that occurred during this period is evident from the returns of the financial index – it declined 0.1% per annum in the past three years even though the index rose 51.3% in the past year. The industrials index rose 7.9% per annum over the past three years, which is way ahead of the other major sectors and vindicates our preference for industrial shares throughout this period. They have delivered consistent and excellent returns during virtually any multi-year period and we expect them to deliver respectable returns into the future. The CAR returns for the mid and small cap indices over this period are 7.4% and 2.0% respectively. The rand declined 0.3% per annum against the dollar, which is remarkable when you consider all that has happened in the global investment environment during this period – yet another sign, perhaps, of how investor perceptions towards emerging markets have changed? Bonds and cash delivered respective annual returns of 7.5% and 10.4% over the past three years.

By way of comparison, the MSCI World index *declined* 7.5% per annum over the past three years, the Barcap US aggregate bond index rose 7.1% and cash 1.7% - all these returns are in dollars.

6. Closing remarks

I refer you again to our *Market Commentary* document for details of our view on the investment environment. Even though the document was finalized two months ago, it is still relevant and our views expressed in it remain pertinent.

At the time of writing, it is fair to say that the world's equity markets are developing much like we had expected. If anything they are a bit stronger than we thought they would be, but we still hold the view that they might weaken in the second half of this year as the effects of massive government stimulus begin to wear off. Locally, we expect the rand to remain strong, and are relatively comfortable with the market's current level of valuation. Prices are not excessive although they also do not represent screaming value.

We are still of the humble opinion that a conservative approach to equity markets is required. Although we understand why they are firm – to a large extent a function of few alternatives, given that global interest rates are expected to remain at record lows for many more months – that doesn't mean the markets are correct in their assessment of future conditions. There is still a lot of risk around, although so far this year markets have already weathered their fair share of headwinds, not least of which have been the problems related to sovereign risk in general and Greece in particular. We think, though, that this is only the start of many similar sovereign risk-related problems.

Within the Fund we are focusing on companies with sound and sustainable business models, strong cash flows, astute management and in some cases unique strategic opportunities.

That inevitably means we invest in companies that are more cautious by nature, which in turn means that when markets rise very strongly, as they have done in the past year, the companies in which we have invested may lag the All share index a little. The corollary though is that they are more able to withstand any headwinds that we think will inevitable begin to blow at some stage in the future.

We will continue to keep you informed about developments on the Fund in the monthly fund summary and will continue to use *Intermezzo* as an important means of sharing our views on developing stories and topics we think could play a major influence on the global investment environment.

By the time we send our next Quarterly Report to you, the FIFA Soccer World Cup Final will be a thing of the past. We will then be in a position to assess its effect, but hope for now that it will be a wonderful experience all of us as well as for our country. Make the most of it – there will surely not be anything quite like it again for many, many years.

Thank you again, on behalf of the Maestro team, for your ongoing support.

Andre Joubert
26 April 2010

Appendix A

A summary of market behaviour – March 2010

We will deal in detail with the market movements during the March quarter in our next *Market Commentary*, which will be published in July. However, in order to make the Quarterly Report more meaningful and to place the returns in perspective, we provide, below, a summary of the salient features of investment markets during the March quarter.

Global investment markets

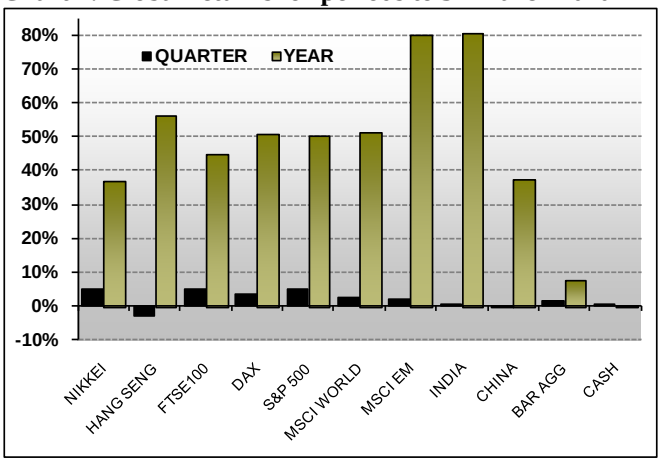
Global equity markets began the year in festive mood, but it didn't last long. Awareness of the heady pace of equity market gains since March 2009 and concerns about rising sovereign risk, encapsulated in Greece's problems, brought an element of reality into the markets. They headed lower into February but then turned around mid-month to begin a slow but very steady climb that persisted through the remainder of the quarter. Chart 1, which depicts the movement of the US market (S&P 500), illustrates the recent trend in global equity markets.

Chart 1: US Equities: up, down, then up, up and away

Source: Saxo Bank

Although equity markets rose during the quarter (the MSCI World index gained 2.7%) Asian markets lagged the rising trend; China *fell* 0.5% and India rose only 0.4%. Chart 2 depicts the movements of selected markets during the quarter and year to end-March. Global bond markets didn't fare too well; the Barclays Capital US Aggregate bond index rose only 1.6%, and the interest rates in most developed markets are now so low that you can virtually ignore any cash returns. The huge increase in government debt led to concern about the future supply of bonds, which, together with the uncertainty about governments' ability to honour the debt i.e. their sovereign risk, pressurized bond prices throughout the quarter.

Chart 2: Global returns for periods to 31 March 2010



Concerns about sovereign risk helped support the dollar, particularly against the euro (Greece and the Eurozone's problems have been well documented) and sterling (the UK's economy is fraught with problems). The dollar was strong but emerging currencies were even stronger. In general their balance sheets are in much better shape, their interest rates are higher and likely to rise before those in developed markets and their economies are still growing, all of which led to emerging currency strength.

Chart 3: Euro dollar: giving up most of 2009's gains

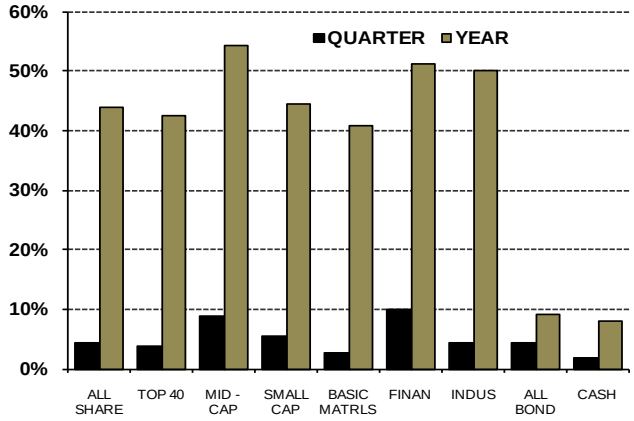
Source: Saxo Bank

Despite the firmer dollar, commodity prices were lifted by a sense that the worst of the global economic crisis is past and ongoing growth in commodity-intensive emerging markets. Gold rose only 1.0% during the quarter but the oil price gained 6.1% and most other commodity prices and indices registered gains. Platinum rose 12.6% and palladium 21.9%.

Local investment markets

The SA equity market followed global markets closely. Despite it being an emerging market (remember that most of them underperformed developed markets during the quarter) the SA market performed well, posting stronger gains than most other markets. Chart 4 depicts the quarterly and annual returns for the period to end-March. Not shown are the quarterly returns of the mid and small cap indices, which rose 8.7% and 5.5% respectively. The rand took a bit of strain in January and February but more than made up the gains in March, rising 0.3% during the quarter. It is perhaps telling that despite all that was thrown at it, from Julius Malema's unintelligible diatribe to the murder of AWB leader Eugene Terre'blanche, from mixed economic data to yet another cut in interest rates, the rand held its ground. Its strength underlines our long-held view that the rand is viewed largely as "just another emerging market currency" as opposed to it being a pariah currency, say twenty years ago, and that its trajectory is determined more by global economic events and circumstances than internal economic and political ones.

Chart 4: Local returns for periods to 31 March 2010



After a flat month in January, February and March saw the All bond index rise more than 2% in each month, resulting in a respectable 4.4% return for the quarter. Cash produced a quarterly return of 1.8% and interest rates were cut by 0.5% to 6.5% in March.

A final comment we would make and that relates to the global and local returns is that *the base off which the annual returns are being measured needs to be considered carefully*. Most global equity markets hit low points on 9 March 2009 (some Asian markets troughed in November 2008). That means the annual returns for most asset classes are being measured off record low points, resulting in spectacular returns. As intriguing as these returns may be, they are neither "normal" (the definition of which is increasingly being challenged these days) nor sustainable. Companies that are highly leveraged to an economic turnaround, operationally and financially, rose more dramatically than other, better quality companies. For example, Anglo rose 99.7% in the year to end-March, but Billiton, which we would argue is a better company, rose "only" 34.3%. Old Mutual rose 93.7% while Sanlam, which some would argue is a lower-risk investment than Old Mutual, rose "only" 47.7% (Maestro holds neither company in its equity portfolios).

The point here is to draw your attention to the fact that we are in the midst of a very strange, perhaps even abnormal period; due caution therefore needs to be exercised when comparing and evaluating annual returns or investment performances to end-March. Companies whose prices fell more prior to March 2009, which were mostly the prices of poor quality companies and thus not necessarily better investments, have risen more in the year to March 2010. Ironically, the past year has been a period in which investors have been penalised for conservatism and caution – who would ever have thought that a year ago when the world was in the grip of the worst financial crisis in living memory?!

Table 1: Select asset returns in the March quarter (%)

	Returns to 31 March 2010		2009
	3 months	1 year	
US large caps	5.4	49.8	26.5
SA large caps	3.8	42.5	31.8
US mid caps	8.7	61.5	35.0
SA mid caps	8.7	54.4	35.7
US small caps	8.3	62.0	23.8
SA small caps	5.5	44.6	28.3
MSCI World index	2.7	51.5	27.0
MSCI Emerging markets	2.1	80.0	74.5
CSFB Hedge index	3.1	21.2	18.6
US high yield bonds	4.8	57.2	57.5
US 10-year bonds	1.0	-6.3	-9.7
Barclays Capital US Aggregate bond index	1.6	7.7	6.1
Brent oil price	6.1	68.0	94.1
Gold	1.0	21.7	27.6
JSE All gold index	-8.2	-19.4	7.8
Platinum	12.6	46.4	62.7
Palladium	21.9	122.8	114.1
Silver	3.0	33.5	57.5
Baltic Dry index	-0.2	85.6	288.2
CRB commodity index	-3.5	24.3	23.5
GSCI commodity index	0.3	50.0	61.6

Source: Maestro, Merrill Lynch

The Maestro Investment Team
26 April 2010

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