MAESTRO
Equity Prescient 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.

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 2.03%.

Income Distribution (annually)
17.76 cents per unit
31 March 2013

FUND SIZE: R 97 275 121

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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8000
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The Maestro Equity Prescient Fund

Quarterly report for the period ended

31 March 2013

1. Introduction

This Report focuses on the investment activities of the Maestro Equity Prescient Fund during the past quarter although it should be read in conjunction with previous editions of *Intermezzo*, wherein we documented some of the salient events in 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 18.1% of the Fund, down from 19.5% in December. Financial exposure declined 0.1% to 13.3% and industrial exposure decreased 2.8% to 60.8%. Cash represented 7.8% of the Fund, down from the 13.4% at the end of December.

Chart 1: Asset allocation at 31 March 2013

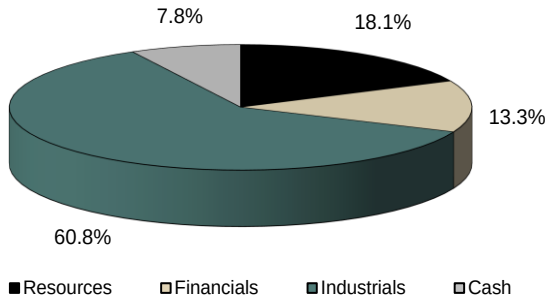
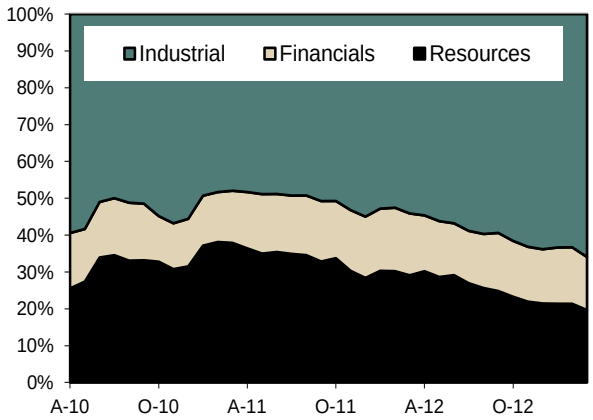


Chart 2 depicts the historical allocation to the three major sectors of the equity market, expressed as a percentage of the equity portion of the Fund.

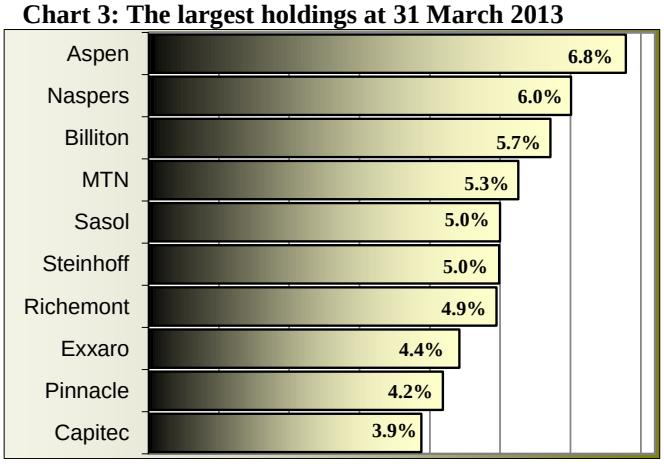
Chart 2: Sector exposure at 31 March 2013



3. The largest equity holdings

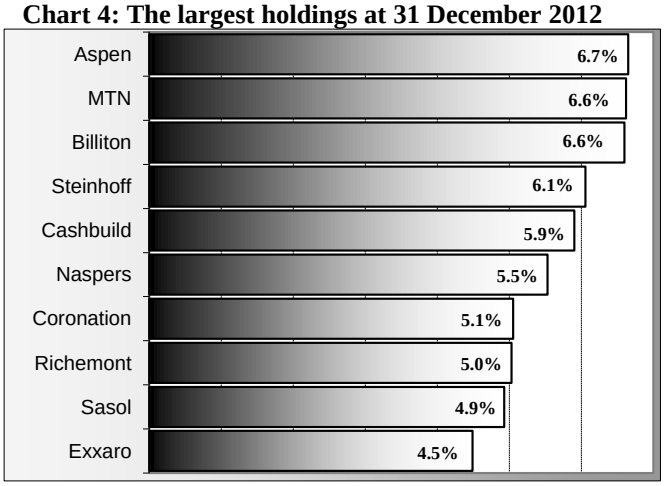
The largest holdings at 31 March are listed in Chart 3, expressed as a percentage of the equity portfolio.

Chart 3: The largest holdings at 31 March 2013



The largest holdings at the end of December are listed in Chart 4. During the quarter Capitec and Pinnacle Technologies replaced Coronation and Cashbuild in the top 10 holdings of the Fund. At the end of March there were 33 counters in the Fund, five more than at the end of December. The ten largest holdings constituted 51.2% of the Fund down from 56.9% in December.

Chart 4: The largest holdings at 31 December 2012



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.

There was a fair amount of activity within the Fund during the quarter as five new holdings were added to the Fund. In order for space to be made for these new holdings, Coronation Fund Managers was trimmed along with BHP Billiton and Cashbuild.

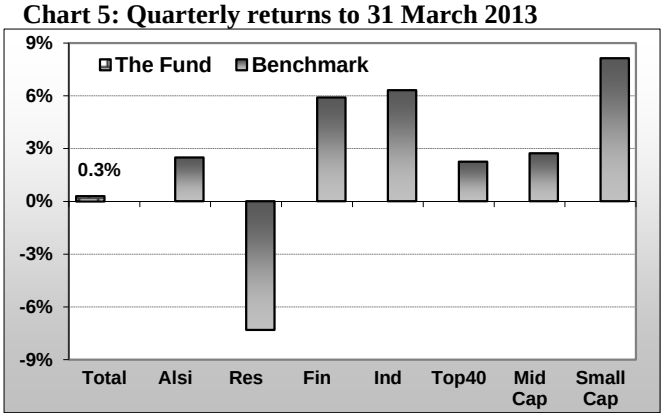
In an attempt to capitalise on the very week start to the year for the retailers whereby they were sold off sharply, the Fund added to its Mr Price holding and introduced holdings in two food retailers, namely Shoprite and Woolworths. The weakness amongst retailers was widespread and in our opinion a bit overdone, which is the reason for the increase in exposure to the sector.

The Fund also added new holdings in the form of EOH, SABMiller and Standard Bank. EOH is an exciting IT services and solutions provider which has substantial growth prospects still ahead, including into Africa. Standard Bank is one of Africa's largest banks and SABMiller is the second largest beer maker in the world.

5. The performance of the Fund

Turning to 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 March quarter was 0.3%***.

Chart 5: Quarterly returns to 31 March 2013



The Fund's return can be compared to the All share index return of 2.5%. 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.

It is clear from the chart that the over-riding feature of the SA equity market during the March quarter was the weakness in the basic material (resource) sector. It declined 7.3% despite the fact that the rand, which in the past has supported the sector, declined 7.5%. The weakness in resource shares is in stark contrast to the relative strength in financial and industrial shares, which rose 5.9% and 6.3% respectively in the March quarter.

A couple of comments are appropriate: firstly, remember that the December quarter was a particularly strong one, with gains in the basic material, financial and industrial indices of 8.7%, 9.9% and 12.4% respectively. That specific quarter was about the only one in which resource

shares showed any strength – the sector ended 2012 with a return of only 5.4% – whereas the financial and industrial sectors displayed remarkable strength throughout the year, ending with respective annual returns of 38.1% and 40.8% - quite extraordinary. So to see the two latter sectors continue to display strength during the March quarter is significant, given that the base was so high. It also places the ongoing weakness in resource shares into perspective and vindicates the view we have had for many years that local equity portfolios should have a strong bias towards financial and industrial shares. The weakness in basic materials is symptomatic of the deep-seated problems that the sector faces, none of which will be easily or quickly resolved. Given the significant risks to global economic growth, particularly as the Chinese economy slows down from the heady growth rates in the past decade, we continue to believe that investing only a small portion of one's portfolio in this sector is appropriate. This explains the Fund's relatively small weighting in resource shares, at least in comparison to the All share index, which has a 31.7% weighting towards that sector.

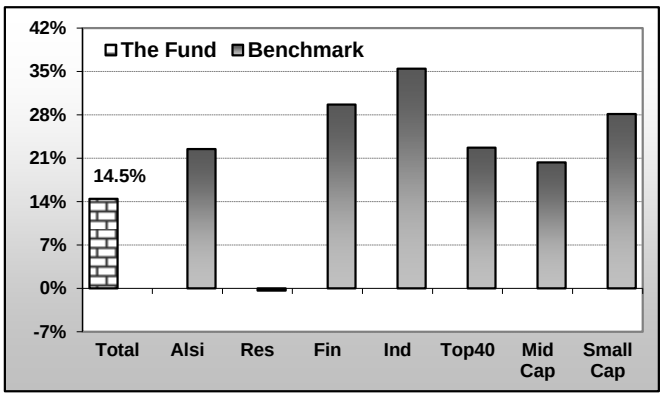
The less said about SA gold shares the better. As you may be aware we do not like gold shares and have not invested in them for many years. If this view sounds controversial, I would point out that the gold index declined 17.9% during the March quarter and 21.3% in the year to March (at the time of writing it has fallen another 15.4% so far in April). Consider the following: The compound **annual** returns on the All Gold index for the 1, 3, 5, 7 and 10 years to the end of December 2012 were -18.5%, -0.7%, 0.8%, -0.4% and -1.2% respectively. That means if you had invested R1m in the All gold index ten years ago, it would have been worth only R886 277 at the end of December. To put that in perspective, if you had invested R1m in the All share index over the same period it would be worth R5.6m and had you invested into the Industrial index it would be worth an astonishing R9.1m. That puts the returns from gold shares over the past decade into perspective. However, as South African citizens and investors into this economy we are *very* concerned about events in the SA gold mining industry due to the extent to which so many other industries rely on the gold and other mining sectors for their future. The mining sector, and gold mining in particular, is in a crisis and we should all be very concerned about its future, particularly seeing that government seems clueless about how to address the problems or propose a workable solution for the industry going forward. The stakeholders within the industry itself also seem to have little idea of how to sort out the mess.

What is not evident from Chart 5 is the performance across the size of companies. Small cap companies comfortably outperformed large and mid-cap companies; the former rose 8.1% in the March quarter, following its 8.0% rise during the December quarter, while the large and mid-cap indices rose 2.3% and 2.7% respectively during the March quarter.

The second comment on the portfolio has to do with the Fund's *relative* performance. Why did it under-perform the All share index when it had an underweight exposure to the resource sector? The answer to this valid question has to do with specific weightings and certain shares. In general, the portfolio's retail exposure performed well during the December quarter, as did the likes of Aspen, Billiton and MTN. Most of these shares took a breather during the March quarter. For example, Cashbuild *declined* 18.7%, Mr Price 16.4%, MTN 9.1%, Naspers 5.5% and Billiton 4.7%, most of which are amongst the larger holdings in the portfolio. All of these shares declined while the All share index rose 2.5%. In addition, SAB Miller and BAT, which have large index weightings but are not held in the portfolio (SAB Miller was introduced late in the quarter), rose 9.3% and 6.6% respectively on the back of strong global equity markets and the weak rand. The portfolio's relative under-performance during the quarter can thus be explained by the fact that some of the larger holdings underperformed the All share index while it did not hold other shares which outperformed the index.

Speaking of specific shares, the returns excluding dividends of the largest holdings in the portfolio during the quarter were as follows: Aspen rose 13.0% (it rose 18.2% in the December quarter), Naspers 5.5% (5.5%), Billiton -4.7% (13.6%), MTN -9.1% (10.9%), Sasol 12.3% (-2.6%), Steinhoff -8.8% (5.2%), Richemont 9.0% (32.8%), Exxaro -3.4% (5%), Pinnacle 19.8% (2.3%) and Capitec 17.0% (-18.3%). The laggards included B&W which declined 37.9%, Kumba down 13.5% and Abil 5.9%.

Chart 6: Annual returns to 31 March 2013



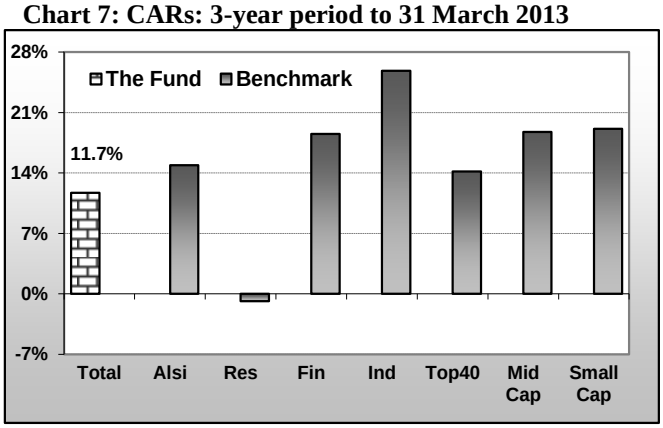
The annual returns to March are shown in Chart 6. ***The annual return of the Fund for the year to March was 14.5%***. Inflation rose 5.9% over the year and the All bond index rose 14.4%.

The Fund's annual return can be compared to the All share index return of 22.5%. The dramatic underperformance of the resource sector relative to the industrial and financial sectors is again a feature of the annual returns – refer to the chart to see how dramatic it was. The Fund's underweight position within the resource sector (relative to the All share index's weighting) has assisted the returns of the portfolio over the past year although for reasons discussed above the underperformance during the past quarter retarded the annual returns to March somewhat. Not shown in the chart are the annual returns of large, mid and small cap index, which rose 22.7%, 20.3% and 26.3% respectively.

As a matter of interest, there have been a number of shares which have really performed poorly in the year to March and it has resulted in some investment managers with respectable track records underperforming the markets severely. A feature of the underperformers has been their adherence to a "value" approach. So-called "value managers" have now lagged the market returns consistently for a while already. It seems the more they adhere to their purist view, the more they underperform the market. That said there continues to be a wide range of shares that have both under- and outperformed the market in spectacular fashion. Those that would be of interest to you and which are held in the Fund include Metmar, which declined 29.6% in the past year; Exxaro is down17.6% and Anglo 16.0%. Billiton, long our preferred mining house, rose 15.6% over the same period. Steinhoff declined 9.1%. Of course there have been some significant losers, which we managed to avoid. Some of the larger and better-known names include Arcelor Mittal, which declined 49.2% in the past year. Telkom fell 37.5%, Goldfields 32.5%, Altech 30.8%, Amplats 28.4%, Harmony 29.1%, Anglogold 23.8% and Murray Roberts 16.4%.

Other shares which worked well for our clients by registering annual returns way in excess of the All share index rise of 22.5% included Coronation, which rose 69.4%; Aspen rose 61.1%, Pinnacle 54.1%, Richemont 52.4%, City Lodge 45.1%, Investec 36.3%, Naspers 32.9% and Mr Price 24.0%. Of course many shares which the Fund did not own also did very well. You may be interested in some of these names, so I will list a few: Mondi rose 72.9%, Medi-clinic 71.2%, SABMiller 58.0%, Discovery Holdings 55.3%, Old Mutual 45.4%, Netcare 39.4%, Tongaat 37.9%, Remgro 37.3%, Bidvest 34.8%, Liberty Holdings 32.6%, Growthpoint 32.8%, BAT 28.1%, Hyprop 27.2% and Redefine 24.1%. As you can see from all the above returns there were plenty of areas to make and lose money in the past year, unlike other previous years when shares either rose or fell in virtual unison.

Chart 7: CARs: 3-year period to 31 March 2013



The compound annual return (CAR) of the Fund over the three-year period to March 2013, shown in Chart 7, ***was 11.7%*** and can be compared to the return over the same period of the All Share Index's 14.9%. It is clear from Chart 7 which sectors have driven the market higher over the past three years. Across the market cap spectrum, it will come as no surprise that the large cap index lagged the mid and small cap indices with returns of 14.2%, 18.8% and 19.1% respectively. The respective CARs for the All Bond index and cash over this period were 11.9% and 5.9%.

Chart 8: CARs: 5-year period to 31 March 2013

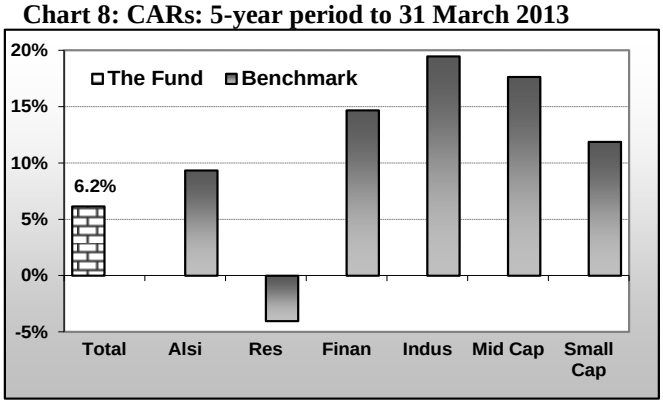


Chart 8 depicts the Fund's CARs for the five-year period to 31 March 2013. ***The compound annual return*** (CAR) ***of the Fund over the five-year period to March was 6.2% per annum*** compared to the All share index return of 9.3%. At the risk of stating the obvious, I again point out how the industrial index has outperformed all other sectors. Industrials' compound annual return over the five-year period was 19.5% while financials and resources returned 14.7% and -4.0% respectively over the same period. The 5-year CARs for the large, mid and small cap indices are 8.2%, 17.6% and 11.9% respectively. The respective CARs for the All Bond index and cash were 11.6% and 7.5% over this period.

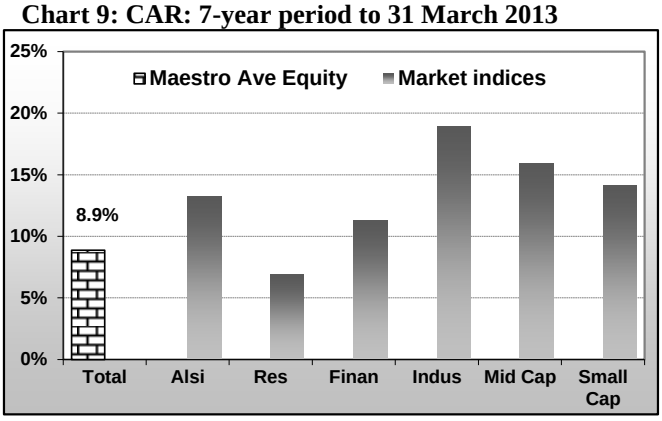
What is not seen in the previous graphs is a trend we have brought to your attention previously, namely the outperformance of the SA equity market relative to

developed market returns. Whereas the All share index rose 9.4% *per annum* over the past five years, the MSCI World index rose *only* 0.9% (in rand terms) per annum! When you consider how low the global returns are, you realise that the SA equity market has been a very profitable investment destination relative to the rest of the world.

At the risk of trying to forecast the returns for 2013, you would have seen from our recent market commentary that developed equity markets have started to outperform emerging markets by quite some margin. Given how poorly the former have performed relative to the latter, it is not surprising that global investors are starting to find developed markets attractive – something which will make South Africa have to work that much harder to attract global investors. Right now we are hardly covering ourselves with glory so there is a lot of work to be done if the SA equity market returns are going to continue to keep ahead of developed ones. This is one of the reasons we have recently been encouraging clients to ensure they have sufficient offshore exposure. Another reason is that the sheer pace of SA industrial returns, as shown on the charts above, is simply unsustainable.

Chart 9 lists the compound annual returns (CARs) over a seven-year period. ***The compound annual return*** (CAR) ***of the Fund over the seven-year period to March was 8.9% per annum*** versus the return over the same period of the All Share Index of 13.3%. In order to place these long-term returns in perspective, as well as those of the SA equity market, consider the CARs of other markets over the past seven years to March: the MSCI World index, which incorporates developed equity markets, rose only 1.0% per annum in dollar terms.

Chart 9: CAR: 7-year period to 31 March 2013



6. Closing remarks

From the specific remarks relating to the returns during the March quarter, you will see that the Fund's returns have been below-market. Clearly we are not happy about this and are working hard to rectify it. However, as you are aware, there are times when shares and indeed portfolios pause for a breather, which is all part and parcel of equity investing. While the portfolio "pauses" we work hard to isolate the reasons for the pause, see if any remedial action is required, and then act accordingly.

That is what has been taking up our time recently. The global economy and market risks are awkward to read at present, and we are certainly not alone in feeling this way. Having shot out of the starting blocks at the beginning of this year (in all honesty markets have been strong since mid-November last year), most analysts are of the view that equity markets have run ahead of themselves. Yet markets continue to rise strongly – global ones more than the local market – and this is cause for concern. History, though, has taught us that "bull markets climb walls of worry" and this year we seem to be experiencing another one of those moments. This year we will be more alert than usual to the "sell in May and go away" phenomenon, remembering that applying that approach to the markets last year would have been a disastrous strategy! As a matter of interest, since 1 May 2012 and the end of March 2013, the MSCI World index, US, German and SA equity markets have risen 10.9%, 12.3%, 15.3% and 19.1% respectively.

In short, we continue to monitor all the companies we have invested your capital into. There are some that have proved to be a terrible disappointment but we feel it is worth remaining invested with a view to recouping some of the losses – in all instances these investments constitute only a small portion of the portfolio – while other shares have done particularly well. The latter case is almost more difficult to deal with, as we have to take a view on whether to remain invested or decide whether the best part of the return is behind us. These kinds of decisions are part and parcel of "our day job" and you should not be concerned at the modest first quarter returns, relative to those of the market. We remain confident in our ability to manage money in the SA and global markets irrespective of the prevailing circumstances, and are confident that our returns will again exceed those of the markets in due course.

One final point worth highlighting is that we are inherently conservative, which simply means that we err on the side of caution. The returns therefore fall short of the market at times, but you should also bear in mind that if the market had to decline significantly in the short-term, the Fund is unlikely to decline by as much as the market.

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. We are very grateful for it and will never take it for granted. As usual, we are here to serve and be of assistance to you, so

please do not hesitate to call on me if ever you wish to discuss anything about the Fund.

Luke Sparks
On behalf of the Maestro team
14 May 2013