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 2.12%.

Income Distribution (annually)
23.63 cents per unit
31 March 2011

FUND SIZE: R 70 485 647

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
8000Fax:
021 674 3209
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The Maestro Equity Fund

Quarterly report for the period ended

30 June 2011

1. Introduction

This Report focuses on the investment activities of the Maestro Equity Fund during the recent past although it should be read in conjunction with recent editions of *Intermezzo*, wherein we documented some of the salient events in recent months. Appendix A contains a summary of the market activity during the June quarter.

2. The investment position of the Fund

The Fund's sector allocation is shown in Chart 1. Exposure to the resource sector totalled 32.1% of the Fund, down from 32.8% in March. Financial exposure increased 2.0% to 14.3% and industrial exposure increased 2.7% to 44.3%. Cash represented 7.8% of the Fund, down 1.6% from the end of March and preference share exposure declined 2.4% to 1.5% during the quarter.

Chart 1: Asset allocation at 30 June 2011

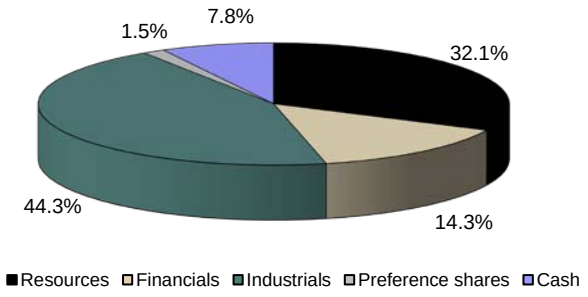
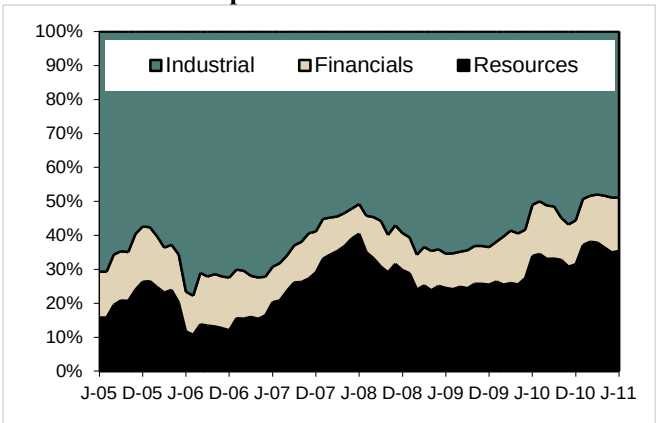


Chart 2 depicts the historical allocation to the three major sectors of the equity market, expressed as a percentage of the equity portion of the Fund.

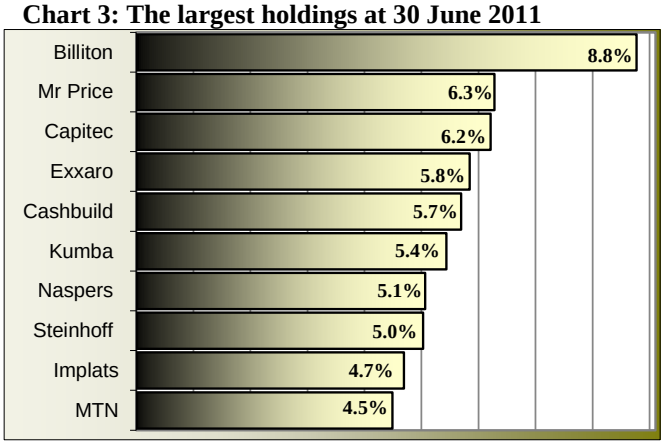
Chart 2: Sector exposure at 30 June 2011



3. The largest equity holdings

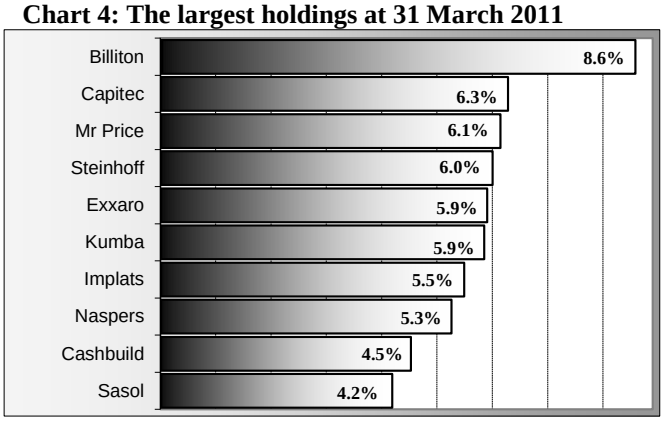
The largest holdings at 30 June are listed in Chart 3, expressed as a percentage of the equity portfolio.

Chart 3: The largest holdings at 30 June 2011



The largest holdings at the end of March are listed in Chart 4. During the quarter MTN replaced Sasol in the largest holdings. At the end of June there were 26 counters in the Fund, unchanged from March, the ten largest constituted 57.5% of the Fund, down from 58.3% in March.

Chart 4: The largest holdings at 31 March 2011



4. Recent activity on the Fund

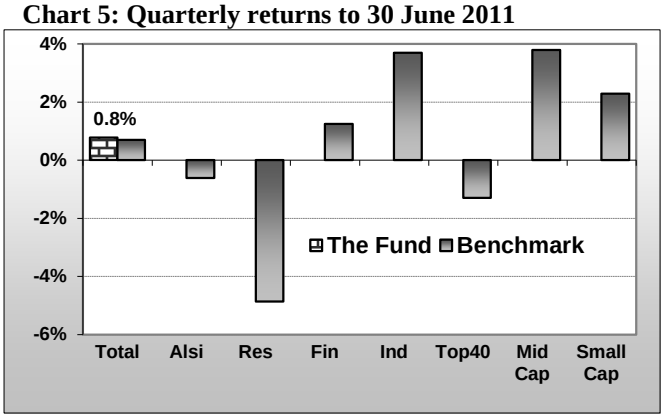
The investment objective on this Fund is to *achieve long-term growth through the assumption of moderate risk.* We would emphasise the "long-term" aspect of this objective; we are confident that the companies in which the Fund is invested will deliver long-term capital growth together with a steady increase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

During the quarter the holdings in Anglo American, BHP Billiton, Coronation Fund Managers, Cashbuild, Grindrod and MTN were increased in the Fund as new inflows into the Fund continued to grow. The Steinhoff preference share holding was sold out of the Fund during the month.

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 June quarter was 0.8%***. Appendix A summarizes the major developments during the quarter for your convenience.

Chart 5: Quarterly returns to 30 June 2011

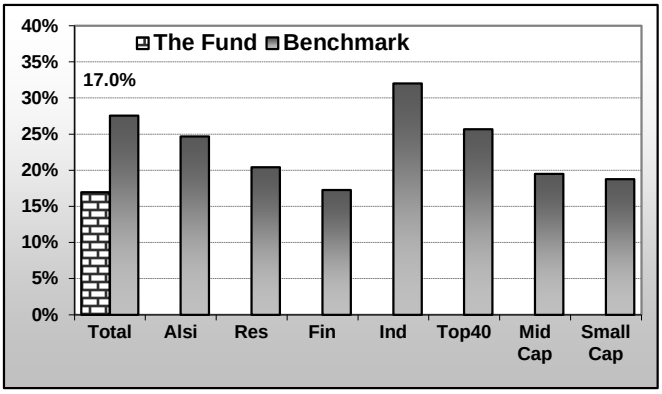


The Fund's return of 0.8% can be compared to the Maestro equity benchmark and All share index returns of 0.7% and -0.6% respectively. It is pleasing to see the Fund outperforming the market, given that we had a relatively disappointing March quarter. When you consider the Fund's bias in favour of industrial shares, it is easy to understand where the relative outperformance of the All share index came from. The basic material, financial and industrial indices delivered June quarterly returns of -4.9%, 1.2% and 3.7% respectively, once again vindicating our long-held preference for industrial shares. The large, mid and small cap indices produced quarterly returns of -1.3%, 3.3% and 2.3% respectively, which further underlined the good relative performance, given that the portfolio has a greater weighting in mid and small cap shares than the All share index does. The largest gainers and decliners again provide a useful basis from which to further understand the Fund's return. The largest declines in absolute terms during the quarter were those of Metmar, which declined 17.1%. Blue Label declined 16.2%, Abil and Sasol 9.1% each, Steinhoff 8.8%, Implats 6.9%, Grindrod 5.9% and Anglo 4.8%. Despite the gloom and doom on the markets, a number of shares rose during the quarter. Within those held in the Fund, Digicore rose 27.3%, Mr Price 11.4%, Exxaro 7.9%, Capitec 7.7%, Aspen 6.3%, Investec 5.7% and MTN 5.4%.

It is worth noting that within this list, Mr Price, MTN and Aspen, all of which the Fund has a significant holding in, were poor performers during the March quarter. And despite the returns across the different sectors and market cap spectrum, there are a fair representation of each sector and market cap within the risers and decliners, which shows you how disparate the areas of strength within the market were. Thus Metmar

declined 17.1% yet Exxaro rose 7.9%. They are both commodity-related shares, yet produced very different returns. And although mid and small caps outperformed, Metmar, which is a small cap, performed poorly while Exxaro, a large cap, did very well. Another example would be Abil, which is the most comparable share to Capitec on the JSE; it declined 9.1% while Capitec rose 7.7%. Over time these disparities are resolved, unless there are good reasons for them to persist, but I bring them to your attention to provide insight into how volatile specific shares within sectors have been and in many cases how inconsistent the market is behaving at the moment. Let us move on to the Fund's returns over longer periods.

Chart 6: Annual returns to 30 June 2011



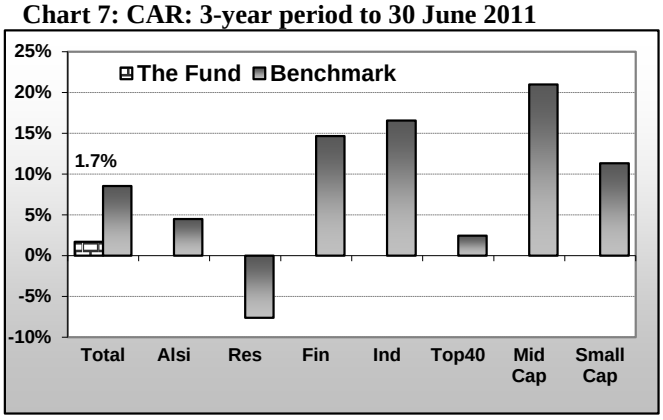
The annual returns to end-June are shown in Chart 6. I should point out that the annual returns to *June* are much greater than the annual returns to *March*, because the 2010 June quarter was a very poor one – the All share index declined 8.2% during the June 2010 quarter. So a very poor quarterly return is dropping out of the base (off which the annual return is being measured) and is being replaced with a much better one, in the form of the June 2011 quarter. This has resulted in the returns in some instances being almost double the annual returns to March. For example, the annual return of the All share index to March 2011 was 15.8%, while its annual return to June 2011 was 24.7%. The respect annual returns to March and June 2011 of the basic material sector are 11.3% and 20.4%, while those of the financial sector are 6.9% and 17.3%. The disparity between the returns of the industrial sector is less: the annual returns to March and June are 21.7% and 32.0% respectively. One should therefore bear this "base effect" in mind when reviewing the annual returns to June.

The return of the total Fund for the year to June was 17.0%. Inflation rose 4.6% during the year and the All bond index rose 11.2%. The rand rose 13.1% against the dollar during the year.

The Maestro equity benchmark returned 27.6% and the All Share Index's 24.7%. The basic materials index rose 20.4% during the year to June, and the financial and industrial indices rose 17.3% and 32.0%. It is hard to believe that despite all the risk (*Ed*: we are tempted to use another word) flying around the global environment, SA industrial shares continue to deliver excellent returns. In fact, *the June quarter represents the seventh consecutive quarter that the annual return of industrial shares exceeded 25%* - astonishing when you consider firstly what developed equity market returns have been over the period and secondly how fraught the investment environment has been with unprecedented risks.

The chart also shows the respective annual returns of the mid and small cap indices of 19.1% and 18.8% respectively. The main detractors from the Fund during the year to June were B&W, which fell 41.6%, Metmar 20.3%, City Lodge 15.1% and Altech 5.3%. Investments that delivered the best returns in the past year include Exxaro, which rose 61.7%, Capitec 53.4%, Mr Price 52.4%), Kumba 51.7%, Naspers 46.9% and MTN 42.5%.

Chart 7: CAR: 3-year period to 30 June 2011



The compound annual return (CAR) of the Fund over the three-year period to June 2011, shown in Chart 7, ***was 1.7%*** and can be compared to the returns over the same period of the Maestro equity benchmark of 8.5% and the All Share Index's 4.5%. I alluded earlier to the consistently high returns of the industrial index over the past few years; it is primarily this phenomenon that has given rise to the difference between the returns of the Maestro equity benchmark, which has a greater weighting to industrial shares, and the All share index during the past three years. The returns of the large, mid and small cap index were 2.5%, 21.0% and 11.3% respectively while the respective compound annual returns for the All Bond index and cash over this period were 13.4% and 8.2%. The rand *appreciated* by 4.9% against the dollar per annum over the past three years.

It is interesting to note the extraordinary difference between the 3-year compound annual returns of the basic materials and industrials indices, namely -7.6% versus 16.6%. Remember again that this difference in returns explains the large gap between the Maestro equity benchmark and the All share index returns; remember the Maestro equity benchmark has an approximately equal weighting to all three major sectors, while the All share index is heavily biased in favour of basic material shares. This large disparity of returns between the basic material and industrial indices also vindicates our ongoing belief that a heavy weighting in industrial (and mid cap) shares is appropriate.

Chart 8: CAR: 5-year period to 30 June 2011

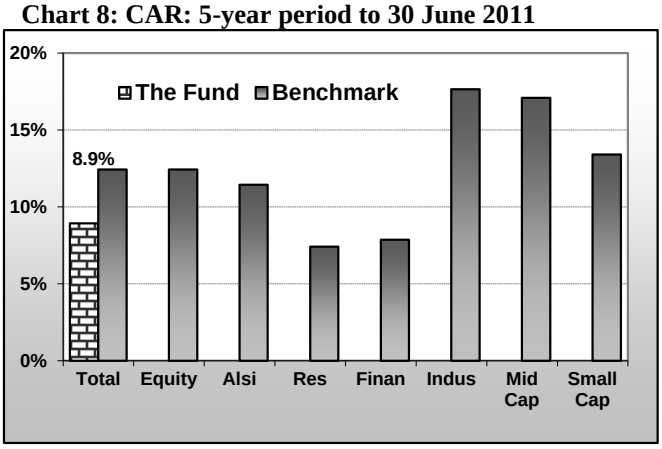


Chart 8 depicts the Fund's CAR for the five-year period to 30 June 2011. I would point out that this period covers the entire Great Financial Crisis between 2007 and ... well, we would argue it is not over yet. The point is though, that the starting point (base) for the five-year period is 30 June 2006. Remember that the Crisis began around October 2007 so the five-year returns cover some upside, then catch the full brunt of the crisis (the markets bottomed in March 2009) and the subsequent recovery in equity markets.

The CAR of the Fund over the five-year period to June was 8.9% per annum, compared to the Maestro equity benchmark and All share index returns of 12.4% and 11.5% respectively. The industrial index has been consistent throughout this period as the least volatile and most profitable area of the market – its compound annual return over the five-year period was 17.7% - which explains why we retained a large portion of the Fund in that sector. The 5-year compound annual returns for the large, mid and small cap indices are 10.7%, 17.1% and 13.4% respectively. The respective compound annual returns for the All Bond index and cash were 8.9% and 9.1%. Despite the trauma during this period the rand has, remarkably, *appreciated* 1.0% per annum over the past five years.

The SA equity market has remained one of the most profitable areas in which to invest. Whereas the All share index rose 11.5% per annum over the past five years, the MSCI World index rose only 0.2% per annum over the past five years! It is interesting to note though, that the MSCI Emerging market index rose 8.9% per annum over the same period. The Barcap Global aggregate bond index rose 7.2% and cash a whopping 1.8%. When you consider how low the global returns are, you realise that the SA equity market has been a very profitable investment destination, in absolute and relative (to the rest of the world) terms.

6. Closing remarks

We are now fully immersed in 2011 and are able to take a "good look inside". To be frank, it is not a good sight, which makes the fact that we can report fairly substantial positive annual returns on the Fund quite remarkable. The reality is simply that the SA equity market has been a very profitable place, not only during the past year but as the longer-term returns in the Report show, for nearly a decade already. When we consider the mess that the developed world finds itself in at present, we are quite firm in our belief that emerging markets, including the SA equity market, remain our asset class of choice. Right now, it seems a reasonable option to remain invested in a country that has a low level of national debt, an even lower level of foreign debt, and a stable political future. Irrespective of what you think of the SA government, it is unlikely to be toppled in the near future, which is more than can be said for Greece, or Italy, or Portugal, the UK, the US … you get the picture. Our monetary policy is well managed and we think that inflation, while a bit high, is not out of control despite all the nonsense on the labour front at present. Sure, SA has its challenges, make no mistake; we are not oblivious to these. But for the moment, they are far off and relative to most of the developed world, quite frankly South Africa really does look like the land of milk and honey. And that is why the returns of the SA market have been so healthy.

If the rand has taught us one thing in recent years, it is that we cannot take a view on the prospects for South Africa (or any country for that matter) before first taking a careful look at the prevailing comparatives i.e. how does South Africa (or the rand, or the equity market, etc) look *relative to* the rest of the world. And in that respect, when all is said and done, *at least for now*, we are very happy to be basking in the sun at the southern tip of Africa.

Notwithstanding the above, it seems appropriate to conclude this report with the same health warning we ended the March report with: "… Make no mistake; there is still a lot of risk around. To be honest we think *there are more risks around currently than there were at the beginning of the year* but nothing on the immediate horizon, at least in our opinion, detracts from our view that equity markets and the SA equity market in particular, should remain the asset class of choice and the vehicle for long-term capital growth. But as we said … *the ride will be bumpy* and there is little room for relaxation or complacency."

Thank you for your ongoing and support. We look forward to continue being of service in the future.

Andre Joubert
On behalf of the Maestro team
14 July 2011

Appendix A

A summary of market behaviour – June 2011

We comment extensively on market movements from month to month in *Intermezzo*. We therefore provide only a summary here of the salient features of markets during the June quarter. The returns of selected equity markets are shown in Table 1 and of bond, commodity and currency markets in Table 2.

Table 1: Selected returns – equity markets

	March quarter (%)	June quarter (%)	2011 Year to date	2010 (%)
Japan	-4.6	0.6	-4.0	2.9
Hong Kong	2.1	-4.8	-2.8	5.3
Germany	1.8	4.8	6.7	16.1
UK	0.2	0.6	0.8	9.0
US - S&P500 and large cap	6.0	0.2	6.2	15.5
S&P Mid cap index	9.0	-1.1	7.9	24.9
S&P small cap index	*7.4*	*-0.4*	*7.0*	*25.0*
MSCI World index	***4.3***	***-0.3***	***4.0***	***9.6***
Brazil	-1.0	-9.0	-10.0	1.0
Russia	15.5	-6.7	7.7	22.5
India	-5.2	-3.1	-8.1	17.4
China	4.3	-5.7	-1.6	-14.3
MSCI Emerging market index	***1.7***	***-2.1***	***-0.5***	***16.4***
JSE All share	***1.1***	***-0.6***	***0.5***	***19.0***
JSE All share ($)	***-1.0***	***-0.9***	***-1.9***	***32.4***
Basic materials	2.2	-4.9	-2.8	11.7
Financial	0.8	1.2	2.0	16.6
Industrial	-0.3	3.7	3.4	27.4
Large cap (Top40)	2.2	-1.3	0.9	17.2
Mid cap index	-4.5	3.3	-1.3	30.3
Small cap index	-5.3	2.3	-3.1	24.7

At the outset of the March Quarterly Report summary of market behaviour we noted that the quarter seemed to have included a year's worth of variables. Sadly, the second quarter was no different, although with the odd exception markets were *less profitable* and *more volatile*. Fortunately we never had a repeat of the tragic Japanese earthquake and tsunami, although its effects were very evident during the June quarter. The "Arab spring" continued to gather steam, with seemingly intractable situations developing in Libya and Syria. The most influential factor during the quarter, though, was not a *new* one but an *unresolved* one: the Greek sovereign debt crisis tossed markets to and fro, as politicians dilly-ed and dally-ed while the nation burned. In the end a band-aid solution was patched together four days before the quarter-end, triggering one of the sharpest four-day equity rallies seen for many years. Just when it looked like the ship was about to sink, it rose from the ashes and restored the quarterly returns to a false sense of respectability.

Table 2: Selected returns – bonds, commodities, currencies

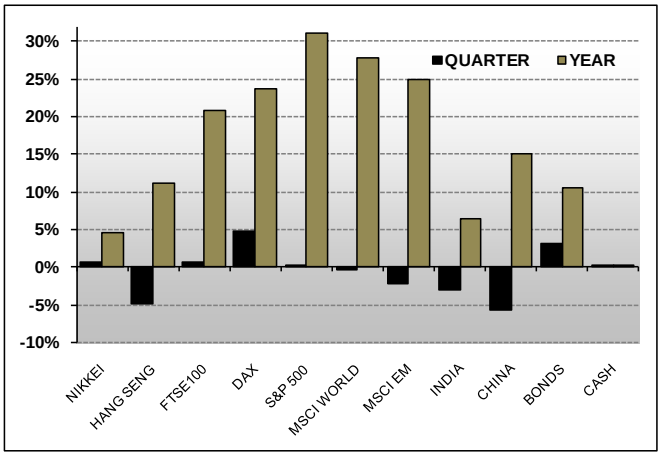
	March quarter (%)	June quarter (%)	2011 Year to date	2010 (%)
SA All Bond index	-1.6	3.8	2.2	14.8
SA Cash	1.0	1.4	2.9	6.9
Barcap Global Agg. Bond index	1.2	3.1	4.4	5.5
Barcap US Agg. Bond index	0.4	2.3	2.7	7.8
Emerging market bonds	0.9	4.0	4.9	12.5
US 10-year bond	-0.3	3.6	3.3	7.9
US Corporate bond	1.0	2.3	3.3	9.5
US High yield bond	3.9	1.0	4.9	15.2
Cash (US dollar)	0.0	0.0	0.1	0.1
DJCS Hedge index	2.2	-0.2	2.0	11.0
Brent (Oil)	23.4	-4.2	18.7	21.6
Gold	2.0	4.6	6.8	27.7
Silver	23.6	-7.5	14.3	80.3
Platinum	1.0	-2.9	-1.9	20.1
Palladium	-3.9	-0.7	-4.5	102.8
Copper	-2.6	-1.0	-3.6	31.0
Nickel	4.7	-11.4	-7.2	34.5
Baltic Dry index	-13.7	-7.7	-20.3	-41.0
CRB Commodity index	11.4	-5.9	4.8	13.9
S&P GS Commodity index	14.4	-5.7	7.8	18.4
Euro dollar	5.8	2.2	8.0	-6.5
Sterling dollar	2.4	0.2	2.6	-3.1
Swiss franc dollar	1.9	8.7	10.7	-9.8
Rand dollar	-2.1	-0.3	-2.4	11.3

Market behaviour during the quarter can be described in a nutshell as follows: global equity markets declined slightly in early April before rising to record levels. The onset of May brought with it a reassessment of the state of the global economy, with the notorious US labour market providing the catalyst for a long and steady decline during the following seven weeks. Throughout this period, equity markets swooned, the dollar strengthened as investors fled to this (perceived) safe haven and global bond markets rose (in price). The dollar gained further strength as investors factored in the outcome of a failed Greece and its effects on the euro, the Eurozone and the world at large. Throughout this time there was a dawning realization that most developed nations have a level of indebtedness far too similar to Greece's level than most feel comfortable with. But four trading days before the end of the quarter, markets decided that a solution was in sight – albeit only a short-term one, which gives you an idea of how myopic market are at present – and equity markets rallied very sharply into the quarter end. Bond prices declined sharply, as did the gold price, and the euro rallied. All in all, it brought to a close a very unusual quarter, whose returns belie the nervousness and volatility that characterised the period.

Global investment markets

Despite the volatility, debt crises, earthquakes and tsunamis during the *March* quarter the markets still registered positive returns. In contrast, the June quarter delivered mixed returns. **Emerging markets** registered declines, fuelled by concern that global growth is slowing and that inflation in general and rising food prices in particular would force authorities' hands even further with respect to monetary policy. It has been a feature throughout the past year that emerging market interest rates have been rising as central banks try and reign in surging prices. As we have noted before, though, many of the factors behind the sharp increases in prices – particularly as far as food prices are concerned – have *less* to do with increasing demand (although demand is rising in general) and *more* to do with supply factors. Droughts, floods, fires and conflicts have strangled many supply routes and driven prices sharply higher. As interest rates have risen in emerging markets, so investors have grown concerned that this will subdue the growth characteristic of many emerging markets which serves as one of their main attractions. Rising food prices have also given rise to social unrest, providing further reason to "bank" some of the healthy returns emerging markets have delivered over the past few years.

Chart 1: Global returns to 30 June 2011

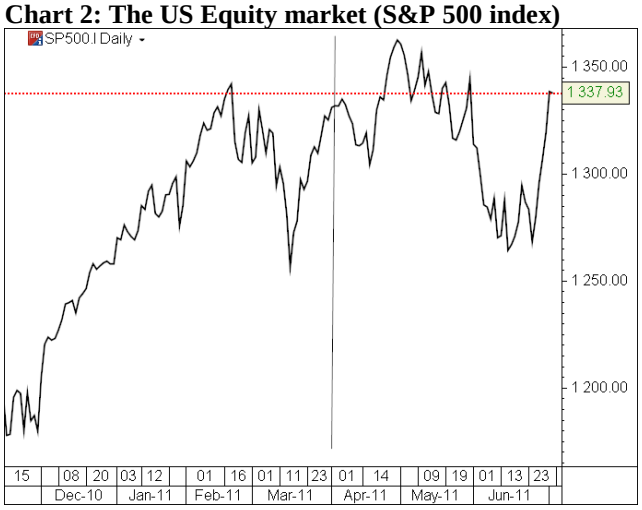


If I had to isolate two reasons for turmoil in **developed markets**, it would be the ongoing sovereign debt crisis in Greece and the declining growth prospects for the global economy as a whole. We have commented in great length on the Greece crisis in monthly letters and *Intermezzo*, so don't have too much to add here. We would note, though, that in our humble opinion politicians have incurred a major and unnecessary policy mistake in the manner in which they have gone about trying to resolve the Greece crisis. The effects of this mistake are likely to remain with us for a while and have sown the seeds for further mistakes with regard to similar situations in countries like Portugal and Ireland and possibly Italy and Spain. Of course, the situation with regard to the US and its debt crisis, about which most US politicians remain in denial, dwarfs the Eurozone crisis. For now we will not pass much comment on the US problem, other than to note it as one of the major hurdles in the coming months.

The other influential factor during the quarter was the slowdown in global economic activity. As the effects of stimulus provided in the past few years, such as the US Federal Reserve's Quantitative Easing (QE) and other fiscal stimulus such as tax concessions, have abated, so the true state of many economies is becoming apparent. The proverbial tide is going out and the Emperor has been found wanting! To make matters worse, some countries such as Ireland and the UK have taken the bull by the horns and implemented material cuts in state spending and social programs, the effects of which have not yet been felt but are most surely on the way. For good reason, the focus has fallen on the US and China, and the prospects for their respective economies. Given that the US is much larger and still a more influential factor in the global economy, and that its economy is in dire need of repair, the US, for good reason, hogged the limelight.

Our assertion, which has been in place for a number of quarters, remains the same: the US has three major problems. Firstly, its labour market is broken, secondly its housing market is broken, and thirdly, its government is broken, for want of a better way of putting it. The pertinent factor in respect of the latter is that US politicians are unable to decide on the single largest feature that will shape life in the US for decades to come, namely the humungous *public* debt burden. In what remains one of the largest "professional frauds" of all time, the *private* sector, specifically US financial institutions, got itself into a crippling debt situation through poor management, then in a matter of months managed to shift this entire debt burden back to the *public*, where it now rests like an albatross on the US government and US citizens. Then the private sector rode off into the sunset in greater financial health they have been for a long time. How could the US government not see what was happening and how could these institutions get away with this? These are questions that will surely be asked for many years, once history softens the short-term "noise" of the moment and the Bigger Picture becomes apparent in generations to come. Needless to say, the bankers who walked away with hundreds of millions of dollars in bonuses and the politicians that allowed all of this to happen will no longer be around on the "day of reckoning"!

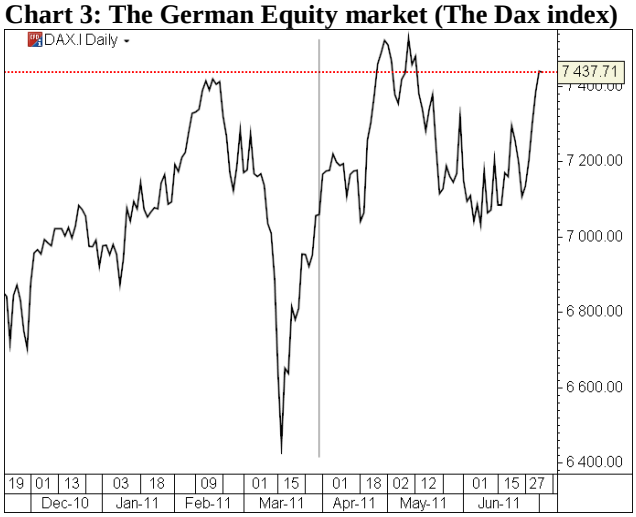
Chart 2: The US Equity market (S&P 500 index)



Source: Saxo Bank

But we digress; back to the June quarterly returns, caused by the slowing global economy. Charts 2 and 3 highlight the US and German equity markets; the vertical line in all charts delineates the start of the June quarter. Developed markets were flat (-0.3%), the notable exceptions being Germany (4.8%) and Hong Kong (-4.8%). Emerging markets were weaker (-2.1%) with Bric markets putting in poor showings: Brazil declined 9.0%, Russia 6.7%, China 5.7% and India 3.1%. That puts the 0.9% decline of the SA equity market in dollar terms into perspective.

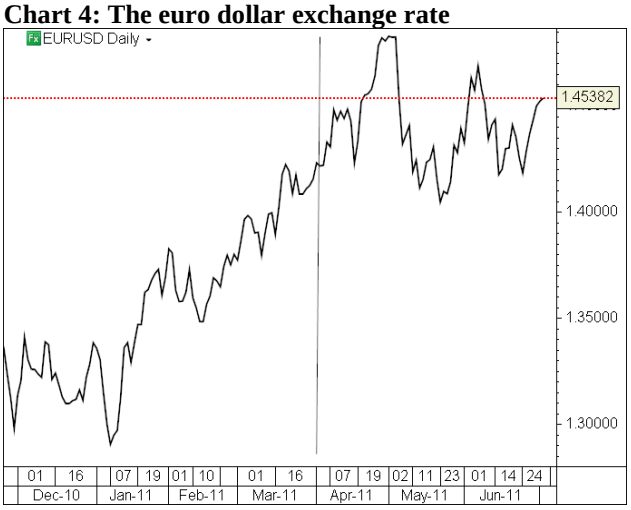
Chart 3: The German Equity market (The Dax index)



Source: Saxo Bank

Currency markets have become more volatile as national issues have dominated market movements. Despite all the happenings in the Eurozone and the concern about the future of the euro, it may come as a surprise that the euro posted another positive quarter relative to the dollar – it rose 2.2%; refer to Chart 4. Are the markets telling us something about the future value of the dollar or the loss of confidence in the dollar as the world's reserve currency? Only time will tell.

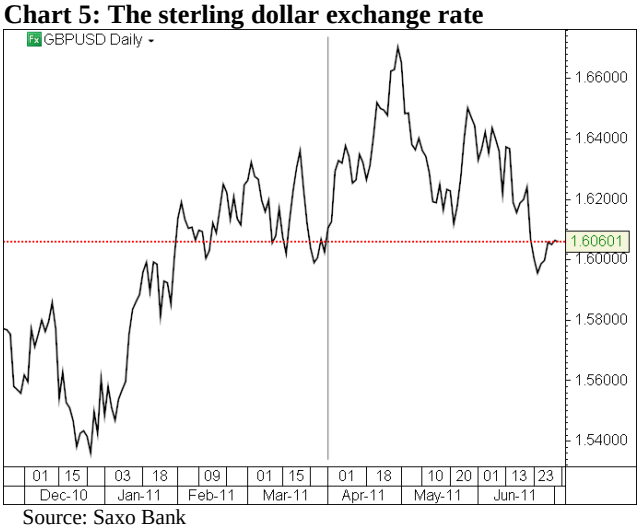
Chart 4: The euro dollar exchange rate



Source: Saxo Bank

Two factors weighed heavily on currency markets and to a lesser extent bond markets. Firstly the *search for a safe haven* i.e. a refuge from the world's major economic trouble spots where the value of their assets will be protected to some extent, and secondly the *search for yield* i.e. a search for a destination which will pay at least some form of income without having to assume too much risk. Given these two influential factors, one should not be surprised that the Swiss franc on the one hand and certain emerging market currencies on the other, posted strong gains during the quarter. The Swiss franc rose 10.7% and 28.1% against the dollar during the six and twelve months to end-June as investors sought a stable, relatively safe destination. Needless to say the franc's strength is causing some trouble for major Swiss multinationals, of which there are a lot; Richemont, Unilever, Nestlé and Novartis come to mind.

Chart 5: The sterling dollar exchange rate



Source: Saxo Bank

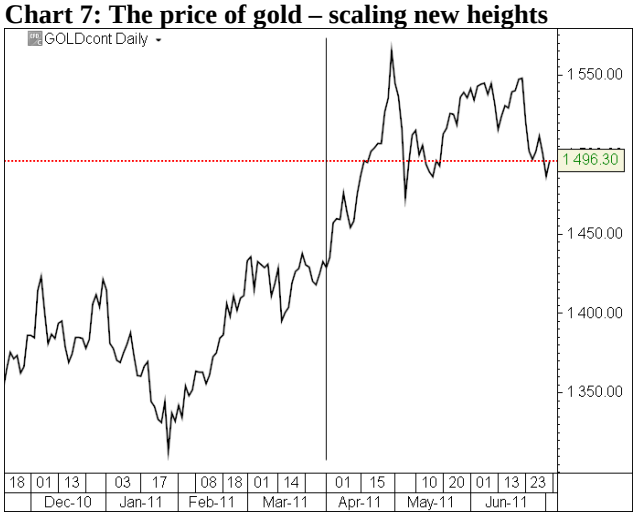
As far as emerging market currencies are concerned, the Brazilian real, the rand and the Australian dollar (not really an emerging currency although that economy has many features in common with emerging economies) displayed strength relative to the dollar during the quarter. The real, the rand and Aussie dollar's respective quarterly returns were 0.7%, -0.3% and 3.5%. Their respective annual gains to June are 15.4%, 13.1% and 26.7%.

Chart 6: The Australian dollar versus the US dollar

Source: Saxo Bank

Let me move on to commodity markets, which are closely linked to the two factors we have already touched on, namely the slowing global economy and the movements in the dollar. One would expect a weak dollar to have a positive effect on commodity prices and a slowing economy to have a negative one, and with the odd exception that is what transpired during the June quarter.

Chart 7: The price of gold – scaling new heights



Source: Saxo Bank

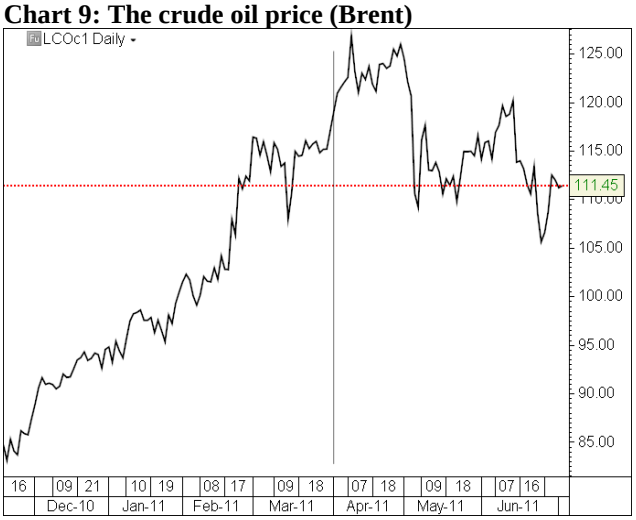
The over-riding force on commodity prices was the global economic slowdown. Commodity prices declined during the quarter, in contrast to their strong increases in the March quarter. Agricultural commodity prices were mostly firmer, and were subject to extraneous, supply-related disruptions. Table 2 lists the quarterly movements in selected commodity prices. Precious metal prices also declined; silver was a major casualty (refer to Chart 8) although its decline must be seen in the context of its huge run-up up to May. The gold price was the exception; it rose to an all-time record during the quarter (Chart 7).

Chart 8: The price of silver – making gold look boring

Source: Saxo Bank

The price of oil dropped sharply at one stage when the International Energy Agency (IEA) announced they would be releasing 60m barrels of oil to counter the tightness of supply in oil markets. This quantum should be seen in perspective though – global oil demand is equivalent to about 89m barrels per day. So the IEA's release is not that great in absolute terms, which explains why, after an initial setback, the oil price continued its upward rally.

Chart 9: The crude oil price (Brent)

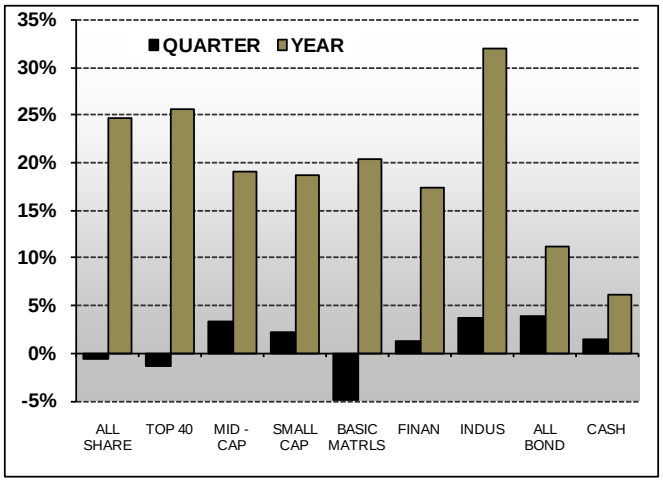


Source: Saxo Bank

Local investment markets

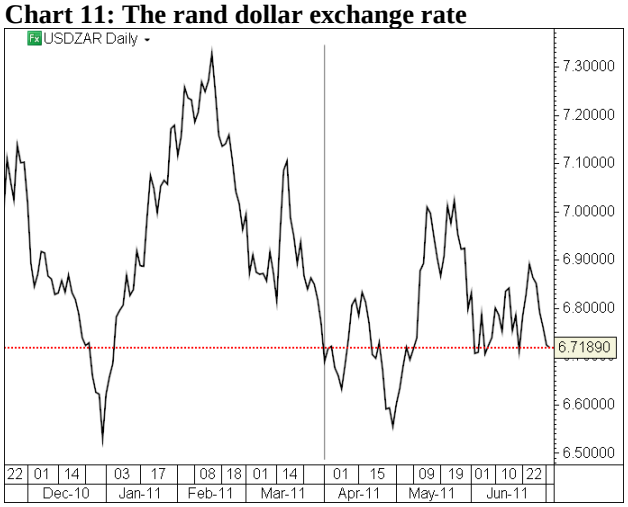
Turning to the South African investment markets, Chart 10 depicts the quarterly and annual gains in the major indices for period ended 30 June 2011.

Chart 10: Local returns to 30 June 2011



The same features that prevailed on global markets prevailed on local ones. The economy held up well and the rand was the beneficiary of the search for yield on the part of global investors. Despite the problems that local investors are focussing on and which cannot be ignored, such as the rising militancy of the ANC Youth League and disenfranchised young unemployed South Africans, the inability of government to make critical decisions and the increasing hostility between the tripartite alliance partners, not to mention the corruption, global investors look past these details and continue to focus on global companies, listed in SA, which provide unique exposure to global themes (Billiton, Exxaro and MTN come to mind) or companies which provide access to unique themes, such as emerging market consumers (Mr Price, Massmart, and MTN again).

Chart 11: The rand dollar exchange rate



Source: Saxo Bank

Many clients and investors alike continue to be amazed at how well the SA investment markets have held up. Our response is that one needs to *think in global terms* to understand recent SA market performance. Despite its warts, South Africa can still hold its head high in terms of the issues currently troubling global investors, such as sovereign debt levels, political stability, inflationary expectations and the level of real interest rates. In the longer term it remains to be seen if this will hold true, but markets are incredibly myopic at present and are not focussing on anything long-term.

Chart 12: The rand dollar exchange rate

A long-term perspective – June 1997 to June 2011

Source: Saxo Bank

Last quarter we drew your attention to the respective movements of shares across the market cap spectrum i.e. across the size of companies. We follow this closely because history has shown that mid and small caps move in similar fashion across the world i.e. when US mid caps perform relatively well, so do SA mid caps, etc. Another reason we watch it closely is because the equity portfolios we manage include a number of mid caps and a few small caps, and the relative market cap movements hold definite implications for the performance of the portfolios under our management. In general, one would expect mid and small caps shares to post better returns than large cap shares in robust economic times and times of market exuberance. Similarly, when the dark clouds gather on the economic horizon and market sentiment deteriorates, both of which were true of the June quarter, then one would expect mid and small caps to perform worse than large caps.

You can imagine our surprise as we watched the quarter unfold, for it revealed unusual performance by SA mid and small caps in the June quarter – much to the advantage of Maestro's clients. One explanation we would offer is that their relatively poor performance in the March quarter was perhaps overdone. Compare, for example, in Table 3, their respective returns to those of their US counterparts, which performed well in the March quarter.

Table 3: SA and US returns across market cap

	2010 (%)	Dec '10 quarter (%)	Mar '11 Quarter (%)	10-yr CAGR* (%)
SA All share index	***19.0***	***9.5***	***1.1***	***17.8***
Large cap (Top40)	17.2	9.9	2.2	16.8
Mid cap index	30.3	6.6	-4.5	24.5
Small cap index	24.7	11.3	-5.3	26.0
S&P500	***15.5***	***10.9***	***6.0***	***-0.5***
S&P Large cap	15.5	10.9	6.0	-0.5
S&P Mid cap index	24.9	13.1	9.0	5.8
S&P Small cap index	25.0	16.0	7.4	6.6

*Compound Annual Growth Rate to 31 December 2010

Another explanation for this unusual relative behaviour of SA mid and small caps could be that while many of these shares have been marked down severely in the months prior to the June quarter, some of them actually represent reasonable value and are now well-supported by fundamental attractions. Table 4 depicts selected shares across Maestro equity portfolios that have either declined or risen the most in the first six months of this year, together with their respective forward (i.e. what we expect in the coming year) price earnings (PE) ratios and dividend yields. Remember the lower the PE the "cheaper" the share is, all things being equal, and the higher the dividend yield the better.

We will continue to watch relative market cap returns as the year progresses as it holds the key to the relative returns of the portfolios in our care.

Table 4: JSE year-to-date winners and losers

	YTD return (%)	Forward PE ratio (times)	Forward Div Yield (%)
B&W	-30.4	3.2	3.4
Blue Label	-28.6	8.4	4.0
Grindrod	-26.4	10.5	3.1
Metmar	-25.5	13.2	3.6
Implats	-21.8	9.2	4.0
Wilson Bayly	-20.9	7.3	3.0
City Lodge	-19.5	16.9	4.0
Altech	-11.4	10.2	6.2
Abil	-11.2	11.6	6.0
All share index	***0.51***	***10.1***	***3.4***
Exxaro	31.0	8.2	4.2
Kumba Iron Ore	14.0	9.3	8.3
MTN	7.1	13.0	4.7
Capitec	5.5	18.7	2.0
Sasol	2.8	8.7	3.8
Mr Price	2.6	14.3	4.3

In closing

It is not our habit to pass comment on our views for the future in the Quarterly Report. The purpose of the document is to serve as a record of what has transpired during the quarter. Our views will be shared in other reports sent to our clients.

We would, however, be failing in our duty were we not to warn investors that there are indeed dark clouds on the economic horizon. One can probably compile five good reasons to invest in equity markets at present as well as ten good reasons why not to. But we know that *investment is a long-term activity* and the greatest returns are made over time, through thick and thin. The end of June was a perfect example: just when capitulation seemed an obvious option, markets bounced back sharply. Had you missed those few days, your returns would have been decidedly worse.

So it is appropriate to conclude this Report by affirming our belief in equity investment as the primary means to achieve long-term capital growth. It is true that there are a lot of risks prevalent in the environment, but it is equally true that any attempt to time the market i.e. to wait until it is "at the bottom" before beginning to invest in it, is a fool's game and is accompanied only by luck, or in the absence of luck, very poor returns. We don't subscribe to either, so prefer to stick to the fact that investment in the equity market has, over time, protected investors against rising inflation and has generally proved to be an excellent way to generate wealth, provided a disciplined approach is adopted when investing. We see no reason why this should not continue into the future, despite the clouds on the short-term horizon.

The Maestro Investment Team
14 July 2011

MAESTRO
Equity Fund

PRESCIENT
MANAGEMENT COMPANY

Collective Investment Schemes in Securities (CIS) should be considered as medium to long-term investments. The value may go up as well as down and past performance is not necessarily a guide to future performance. CIS are traded at the ruling price and can engage scrip lending and borrowing up to 10% of the market value of the portfolio to bridge insufficient liquidity. A schedule of fees, charges and maximum commissions is available on request. Commission and incentives may be paid and if so, would be included in the overall costs. Different classes of units may apply in a portfolio and are subject to different fees and charges. A fund of funds is a portfolio that invests in portfolios of collective investment schemes, which levy their own charges, which could result in a higher fee structure for these portfolios. A Feeder Fund is a portfolio that, apart from assets in liquid form, consists solely of participatory interests in a single portfolio of a collective investment scheme. Forward pricing is used. Fluctuations or movements in exchange rates may cause the value of any underlying international investments to go up and down. CIS prices are calculated on a net asset basis, which is the total value of all the assets in the portfolio including any income accruals and less any permissible deductions (Brokerage, STT, VAT, Auditor's fees, Bank Charges, Trustee and Custodian fees and the annual Management fee) from the portfolio divided by the number of participatory interests (units) in issue. The Fund's Total Expense Ratio (TER) reflects the percentage of the average Net Asset Value of the portfolio that was incurred as charges, levies and fees related to the management of the portfolio. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TER's. During the phase in period TER's do not include information gathered over a full year. Maestro is a member of the Association of Savings and Investments.